

Segmentation and Positioning

Problem 1: Pricing Dispute

Susan being the VP of Sales, is focusing on increasing the sales, which is why she is supporting the price of \$150.

Frederic being the CFO, is looking at keeping the finance at a safe side. Looking at the demand curve, \$200 is a balanced figure in view of long term finance.

Problem 2: Incorporating Manufacturing Accurately

I decide to go with \$150 per item, as it is the value which combined with the corresponding demand estimation, gives the highest net profit [see table]. A positive net profit is a necessary rule of thumb for a functioning startup.

Problem 3: Double Checking

Smart = Basic = \$150

Gross profitability increased by \$15M.

Problem 4: Marketing Impact

CAC for smart line = 0.02

CAC for basic line = 0.03

Problem 5: Economics

I plan for both the product lines. For each of them, I fix a price of \$200 and plan to roll out 150k pieces each year. This way I can fully utilize the factory capacity and also maximise the net profits at \$23M.

	Susan's Price	Frederic's Price	Big Boss's Price	Smart Only	Basic Only	Both Products
Units (Kunits)	242.10	177.10	242.10	150.00	150.00	300.00
ASP (\$)	\$150.00	\$200.00	\$150.00	\$200.00	\$200.00	\$200.00
Revenue (\$K)	\$36,315.00	\$35,420.00	\$36,315.00	\$30,000.00	\$30,000.00	\$60,000.00
COGS (\$K)	\$16,947.00	\$12,397.00	\$7,500.00	\$8,250.00	\$7,800.00	\$16,050.00
Gross Profit (\$K)	\$19,368.00	\$23,023.00	\$28,815.00	\$21,750.00	\$22,200.00	\$43,950.00
Sales (\$K)	\$3,931.50	\$3,842.00	\$3,931.50	\$3,300.00	\$3,300.00	\$6,300.00
Marketing (\$K)	\$2,000.00	\$3,000.00	\$2,000.00	\$3,000.00	\$2,000.00	\$5,000.00
R&D (\$K)	\$7,500.00	\$7,500.00	\$7,500.00	\$7,500.00	\$7,500.00	\$7,500.00
G&A (\$K)	\$2,200.00	\$2,200.00	\$2,200.00	\$2,200.00	\$2,200.00	\$2,200.00
Net Profit (\$K)	\$3,736.50	\$6,481.00	\$13,183.50	\$5,750.00	\$7,200.00	\$22,950.00