

The Fast & The Furious

Your client has found a new method to transport people from India to the USA in just 30 minutes. Decide how to price this service.

CASE TYPE
Unconventional

COMPANY NAME
Bain & Co.

DIFFICULTY LEVEL

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Pricing the New Age Era of Travel

Case Type
Unconventional

Company Name
Bain & Co.

Round
Partner

Difficulty Level



Problem Statement

Your client has found a new method to transport people from India to the USA in just 30 minutes. Decide how to price this service.

Alright. I'd like to get a better understanding of the service. Does the client offer any other services?

No, the client has just decided to enter the transport industry.

Will the machine operate in other countries as well? And how much is the capacity of this machine?

The company currently operates only in India and is capable of transporting 15 people at once.

How much time does it take for the machine to complete a single round trip and recharge for another trip?

It takes the machine 1 hour and 30 minutes to make 1 round trip from Delhi to Washington DC. Recharging and maintenance of the machine take approximately 4 hours, thus the company can make 2 trips in a single day at most.

Alright. Now that the basic criteria has been laid down, how would you like me to approach this problem? Should I take a value-based approach, cost-based approach or a competitor-based approach?

Since this product is an innovative product, it currently has no competitors. You can proceed with a value-based approach.

Great! Proceeding with a value-based approach, is it safe to assume that this service would be availed by top executives or consultants of companies?

Yes, that is a safe assumption. Although, this can also be availed by the uber rich for travel, but you can take that as an exception.

Yes, taken into account. We can look at the willingness-to-pay of business executives by focussing on their opportunity cost of taking a normal flight. We can also assign a higher value to this product since its supply is inelastic in the market, and it is one-of-a-kind.

average billing cost for project managers and consultants and average incomes for business executives. Their alternative to availing this service would be taking a private jet or a first class airplane ticket, which average at around 10,000 USD for a single trip. Since they take multiple round trips in a month, their monthly expenditure would be approximately 100,000 USD. Transportation costs of an average person usually take up 1/10th or less of their monthly income. Moreover, flights are generally paid for by the employer, and business class flights reflect a higher salary of the employee. Thus, By taking a large multiple of this figure, we can calculate their monthly income, which can be 1 Million USD.

Thus, the opportunity cost of a business executive would be a major portion of their income, and for consultants/project managers, it would be the billing amount for a single meeting. Is this assumption correct?

Yes it is. You can proceed.

So for a single ticket, given the cost of 1 trip for a first class ticket is around 10k USD, incorporating that with the opportunity cost, I think a fair price would be around 50k USD. The client can also look into a leasing pricing model or a subscription-based model for companies that need to avail this machine frequently.

Great, we can close the case now.



HERE'S A TIP!

While calculating the pricing of a good or a service, always keep in a mind that sticking with a value based pricing would give us an upper limit to the price of the commodity. It is mostly upto the person's assumption on how high would a customer, given their status, lifestyle, purchasing power and income segment would be able to pay or get value added into their life.

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CASE FLOW

CASE FACTS

- 1 A new method to transport people from India to the USA in just 30 minutes. Decide how to price this service
- 2 It takes the machine 1 hour and 30 minutes to make 1 round trip from Delhi to Washington DC. Recharging and maintenance of the machine take approximately 4 hours, thus the company can make 2 trips in a single day at most.
- 3 The client currently has no competitors.
- 4 The service can be availed by top executives, consultants of companies and also by the uber rich.

