

Fitness Finances

Your client is a health tech startup that manufactures special wearable devices like smartwatches or shoulder pads which measure the fitness of an individual. The company caters to the age group of 25-45 years. The price of one watch is \$150. Calculate the annual revenue in the target market having 40 health-tech startups and the profit per unit.

CASE TYPE

Market Entry

COMPANY NAME

LEK Capability Network

DIFFICULTY LEVEL

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Fitness Finances

Can a Healthcare company tap into Smart Watches?

Case Type

Market Size Case

Company Name

LEK Capability Network

Round

Partner

Difficulty Level



Problem Statement

Your client is a health tech startup that manufactures special wearable devices like smartwatches or shoulder pads which measure the fitness of an individual. The company caters to the age group of 25-45 years. The price of one watch is \$150. Calculate the annual revenue in the target market having 40 health-tech startups and the profit per unit.

I have some clarifying questions. What is the target market for our product?

The target market encompasses the entirety of the United States.

Great. Also, are these smartwatches similar to the smartwatches manufactured by Apple?

Yes, you can compare the product with the Apple smartwatches and assume the price range of Apple to be \$200-\$250.

Perfect, thanks a lot, that's all the information I needed. I would like to take 5 minutes to prepare my approach.

Sure.

Okay, so I will start by estimating the target market. The US population is 300 million, which can further be broken down into high-income group, middle-income group, and lower-income group. Since the US is a developed economy, I would take the high-income group as 20%, middle-income as 40%, and lower income as 40%.

Fair enough.

Proceeding further, I will factor only the high and middle-income groups as the smartwatches are a status symbol and are cheaper than Apple smartwatches. Out of 180 million high-income people, I would subcategorize them into age groups of 0 to 25, 25 to 45, and 45+.

On what basis would you be dividing them?

In the US economy, due to the presence of more middle-aged employees, I am assuming 40% of people in the age bracket of 25 to 45, which is our target market. Due to the lower price of our devices, I am assuming that 4 people out of every 10 in the target market would be buying our watches. Is that a reasonable assumption to make?

Yes it is. Please carry on

So our market share comes out to be 28.8 million, which I will round off to 30 million for simplicity. To calculate the revenue, we can simply multiply 30 million by \$150, and thus our annual revenue comes out to be \$4.5 billion.

Perfect. Please proceed with estimating the profit per unit.

Before that, I would like to ask, what are the various costs per watch?

What would be the various costs involved in manufacturing a watch according to you?

Yeah, so we have manufacturing costs, warranty costs, advertising, and R&D costs.

Great. You can assume the cost per watch to be \$80.

Alright, we can calculate the profit per watch to be $\$150 - \$80 = \$70$ per watch.

Perfect. You have incorporated all the factors necessary, great job. We can end this round here.



HERE'S A TIP!

The candidate's thoughtful consideration of the product's positioning relative to competitors, such as Apple's smartwatches, and its impact on market penetration makes the case stand out. By factoring in the price sensitivity of the target demographic and adjusting assumptions accordingly, they show an understanding of market dynamics and consumer behavior, setting their analysis apart from others.

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CASE FLOW

CASE FACTS

- 1 The client is a **health tech startup** that manufactures wearable fitness devices for its clients. It wants to **venture into smart watches**
- 2 Target Market is **25-45 years** of age and the price of one watch is \$150. The client is based in the United States
- 3 The market has **40 other health tech startups**
- 4 The client wants to know the **revenue** that can be earned in the first year and the profit per unit

