



ATLANTIC COMPUTERS
& ELECTRONICS LTD

Atlantic Computers: A Bundle of Pricing Options

Presented by Team A6:

Daniel Josey

Delwyn Menezes

Janet Aiona

Jasmine Dennis

Tejaswini C



Overview

- Objective & Company Profile
- Competitors & Factors influencing Pricing
- Two-Step Savings & Pricing Alternatives
- Strategy 1: Status-Quo Pricing
- Strategy 2: Competition-based Pricing
- Strategy 3: Cost-plus Pricing
- Strategy 4: Value-in-use Pricing
- Review, Break-even Analysis & Recommendation
- Recommendation to Cadena's Salesforce
- Zink management's reaction to external threats



Objective:

- Develop a pricing strategy for Atlantic Computers called the 'Atlantic Bundle' consisting of the new Tronn server and the PESA (Performance Enhancing Server Accelerator) software

Company Profile:

- Largest player in the overall computer industry – competing for 30 years
- Manufacturer of high-end servers and high-tech products
- Jason Jowers responsible for the pricing of the Atlantic Bundle
- The Tronn was developed specifically for the emerging US market
- PESA would allow Tronn to perform upto four times faster
- Two main market segments – Traditional segment & Basic Server segment



Competitors:

- Ontario Computer, Inc. with Zink product line
- Claimed 50% market share in the basic server market
- Zink servers performed at approximately the same level as Atlantic's Tronn

Factors influencing pricing:

- Traditional focus on hardware; limited emphasis on software
- Software tools were historically provided for free (Matzer's belief)
- Long relied on standard approach (cost-plus pricing) in the industry
- Gains accrued by customers from PESA to be carefully considered
- Importance of conveying two-step savings to customers



Two-step Savings:

- First-order savings: purchase of fewer servers
- Second-order savings: Lower annual electricity charges, software licenses, labor costs

Pricing Options Alternatives:

Jowers had four routes to go about for pricing the Atlantic Bundle:

1. Status-quo pricing
2. Competition-based pricing
3. Cost-plus pricing
4. Value-in-use pricing

Strategy 1: Status-Quo Pricing

- Charge for hardware; Software free
- Established price of basic server = \$2,000
- Comparison was made between two Tronn servers loaded with PESA against 4 Ontario's Zink servers

$$\begin{aligned}\text{Price of Atlantic Bundle} &= \text{Price of Tronn} + \text{Free PESA software} \\ &= \mathbf{\$2,000}\end{aligned}$$

- Lowest price option; devalues the package
- Failed to capture the total value of the product
- Amount spent on R&D (\$2,000,000) had to be foregone

Strategy 2: Competition-based Pricing

- Charge based on competitors pricing
- Conservative model: Two Tronn equals Four Zinc servers (priced \$1,700 each)

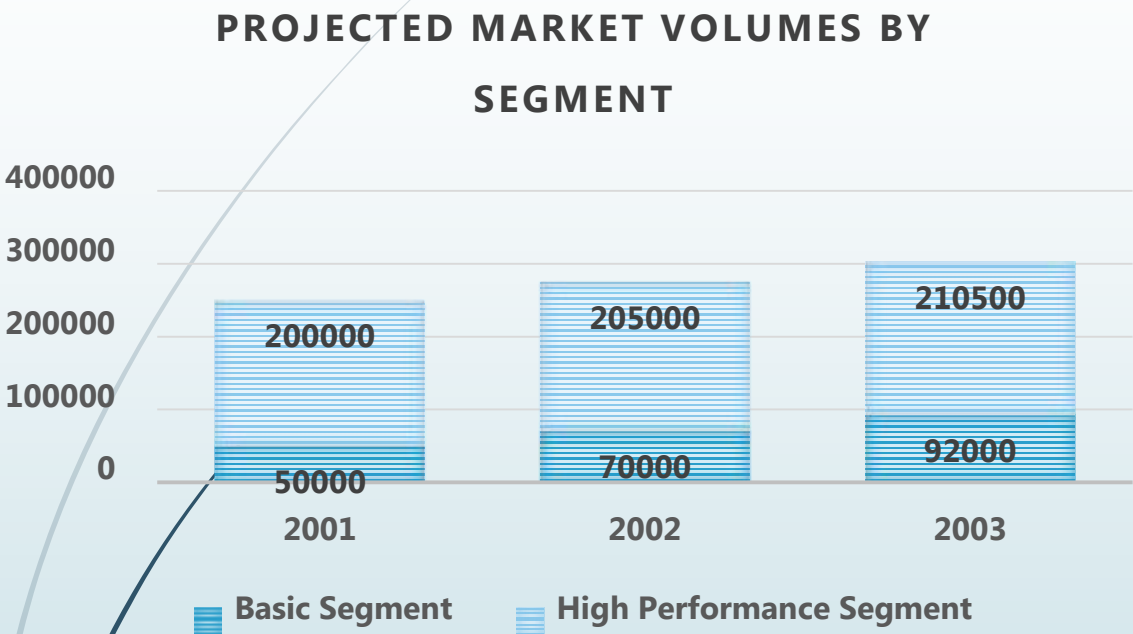
$$\begin{aligned}\text{Price of Atlantic Bundle} &= \text{Price of 2 Zinc Server} \\ &= \$1,700 * 2 \\ &= \mathbf{\$3,400}\end{aligned}$$

- Aggressive model: One Tronn equals Four Zinc servers (priced \$1,700 each)

$$\begin{aligned}\text{Price of Atlantic Bundle} &= \text{Price of 4 Zinc Server} \\ &= \$1,700 * 4 \\ &= \mathbf{\$6,800}\end{aligned}$$

- Factors in a portion of the costs associated with software development

Strategy 3: Cost-plus Pricing



Price of Atlantic Bundle = \$2,245

Cost of Atlantic Tronn Server	\$1,538
Cost of PESA per Server	$2,000,000/10,590 = \$189$
Total Cost of Atlantic Bundle	$1,538 + 189 = \$1,727$
30% Mark-up	$1,727 * 0.3 = \$518$
Final Price	$1,727 + 518 = \$2,245$

Year	2001	2002	2003	Totals
Market Volume (units)	50,000	70,000	92,000	
Market Share of Atlantic	4%	9%	14%	
Total Sales	2,000	6,300	12,880	21,180
Estimated PESA Sale (50%)	1,000	3,150	6,440	10,590

Strategy 4: Value-in-use Pricing

- Considering four Zink servers equal two Tronn servers and 50-50 savings sharing

Savings Information	Two Zink Servers	One Tronn Server
Electricity Savings	$250 * 2 = \$500$	\$250
Software License Savings	$750 * 2 = \$1,500$	\$750
Labor Costs Savings	$80,000/40 = 2,000 * 2 = \$4,000$	\$2,000
Cost of server	$1,700 * 2 = \$3,400$	\$2,000
Total	\$9,400	\$5,000

- Savings: $(9,400 - 5,000) = \$4,400$
- Profit Sharing: $50-50 = \$2,200$
- Price of Atlantic Bundle $= \$2,000 + \$2,200$
 $= \$4,200$

Review & Break-even Analysis:

- Pricing for all four alternatives and their respective break-even units and time:

	Price	Cost	Contribution	R&D Cost	Break-even (units)	Break-even (Year)
1. Status-Quo Pricing	2,000	1,538	462	2,000,000	4,329	2003
2. Competition-based Pricing	6,800	1,538	5,262	2,000,000	380	2001
3. Cost-plus Pricing	2,245	1,538	707	2,000,000	2,829	2002
4. Value-in-use Pricing	4,200	1,538	2,662	2,000,000	752	2001

Recommendation:

- Go with Strategy 4, Value-in-use Pricing: second highest revenue, second lowest BEP
- Provides better foundation for sales strategy
- Captures the essence: savings that the customer accrues from buying the product
- Offering Tronn at the price that is the same level of Zink (\$2,000)



Recommendations for Cadena's Sales Force

The sales force needs to be trained to sell products on the basis of the following points:

- Communicate on the savings/gains/value to the customer
- Performance increase in Tronn, especially with PESA software tool
- Emphasize on the lower acquisition and possession costs
- Ensure excellent after sales service for customers

Motivation for the salesforce:

- Business model intact: 70% salary and 30% commission
- Higher the revenue, higher is the commission per sale of a server

Reaction of Zink's management to the threat posed to Atlantic Bundle

Short Term:

- Zink's management might reduce the price of its server
- If so, Atlantic can charge the client according to the cost plus approach and show the savings (\$2,611) to them.

[Zink's price can fall up to their costs of \$1,214 countering Atlantic's cost of \$2,246. Since four servers are needed, the total cost for Zink equals $\$1,214 * 4 = \$4,856$. Therefore, savings = $\$(4,856 - 2,245) = \$2,611$]

Long Term:

- Zink's management may come up with an identical software
- Atlantic can provide the PESA software free in that case



Thank you!