

Csc case

Business



Cambridge Software Corporation, a small software company was trying to expand its revenue and profit by bringing out multiple versions of Modeler, a powerful, multi-module, Lotus 1-2-3 compatible modelling software product.

The key questions in front of the corporation were how many versions to come up with, which segments to target and how to price the different versions. There were three options available as far as the number of versions goes-the “ student” version, the “ commercial” version and the “ industrial” version.

A market research firm identified five different market segments for the product, namely large multidivisional corporations, corporate R&D and university laboratories, consultants and professional companies, small businesses and students. The firm also came up with estimates of size of each market segment and the fixed and variable cost that will be incurred while developing each segment. From these available data, this report tries to come up with a pricing and product differentiation strategy for Cambridge Software Corporation.

Data Analysis When the company offers a single version Here the fixed cost consists of the segment development cost as well as the product completion cost. The variable cost is the product of the number of units sold and the variable cost per unit. Profit is the difference between the revenue and the sum of fixed and variable cost. In case of the students segment, the company gets only 60% of the revenue because the rest is given to bookstores in the form of 40% commission.

So the total fixed cost comes out to be \$650000.

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Since the number of units sold is 40000 and the variable cost per unit is \$15, the total variable cost will be \$600000. Thus the profit of the company will be $(6000000 - 650000 - 600000)$ i. e. \$475000. Now if the company launches the "Students" version only, the maximum profit will be earned at a price of \$50.

Similarly, if the company goes for the "Commercial" or the "Industrial" version, the company should price them respectively at \$225 and \$600.

However, of the three best possible cases in each category, launching the "Industrial" version will give the company the maximum profit. So the company should launch the "Industrial" version at \$600 if it wants to stick to a single version only. When the company offers multiple versions Now to find the optimum product offering for the company, it may be noted that the company makes maximum profit in the single product category when it offers the "Industrial" version at \$600.

But the students and the small businesses segments get totally eliminated out of the profit measurement calculations in this case. The company can include these segments in the five following ways: Launching the "Students" version at \$50.

Launching the "Commercial" version at \$60. Launching the "Students" version at \$50 and the "Commercial" version at \$100 (to prevent the small businesses from buying the "Student" version at \$50). Launching the "Students" version at \$175. Launching the "Commercial" version at \$225.

Offering the “ Commercial” version at \$60 and the “ Student” version at (\$175-\$165) i. e.

\$10 makes no sense as all the consumers will buy the “ Student” version only at \$10 and the profit obtained will definitely be less than what the company will get if it offers the “ Student” version at \$50. The detailed analyses only for these two segments are shown in the following table:

Launching the “ Students” version at \$50 and the “ Industrial” version at \$450. Launching the “ Students” version at \$50 and the “ Industrial” version at \$1950.

Launching the “ Students” version at \$50 and the “ Industrial” version at \$2400. Launching the “ Commercial” version at \$60 and the “ Industrial” version at \$360.

Launching the “ Commercial” version at \$60 and the “ Industrial” version at \$1060. Launching the “ Commercial” version at \$60 and the “ Industrial” version at \$1360. Launching the “ Students” version at \$50, the “ Commercial” version at \$100 and the “ Industrial” version at \$400.

Launching the “ Students” version at \$50, the “ Commercial” version at \$100 and the “ Industrial” version at \$1100.