Optical distortion, inc – harvard business case

Business

1) – What characteristics of the ODI contacts are likely to make it appealing/unappealing to chicken farmers Characteristics of the product : new contact lenses for nonhuman application •depth perception reduced to about 12″ •visual acuity greatly reduced (astigmatism) •hydrophilic polymer : no irritation problem •slightly larger than the eye opening to keep it in place •red tint alters appetite of chickens and cannibalism tendencies •distortion built into the crown •inner eyelid (keeping the eye moist and clean) no affected (under the lens) +) Cannibalism reduced : Peck order removed •80% of chicken in 3% of farms with 10, 000 or more chickens : chicken are confined in groups •Hierarchical type of social organization (dominant vs submissive chickens) •Pecking behavior oCannibalism (loss to the farmer when a bird is killed) oFewer eggs produced : Submissive birds devote less time at the feeding through oPecking increases for the most productive chicken and when they are confined •Main visual cues for the peck order removed : cannibalism reduced +) A better process than debeaking : Less trauma, more eggs •Debeaking process oDoes not interfere with the peck order but reduces cannibalism (25% to 9%) oTrauma resulting in a temporary weight loss and retardation of egg production o7. 50$/hour for 220 birds •Lenses process oFlock mortality reduced to 4.

5% when contact lenses used instead of debeaking oNo trauma, no weight losses, no reduction in egg production o225 chickens per hour (+) Possibility to reduce the farmer’s feed cost, greater feeding efficiency •Debeaked chicken could eat only if feed ; 3/8″ deep Significant savings in feed if the depth of feed is reduced •Contact lenses enable a farmer to reduce the depth of the feed (+/-) The price : 20$ per box of 250 pairs : 0. 08$ per pair

(-) No possibility to reuse contact lenses •difficult to take out •melting point very close to the sterilization temperature 4) What pricing policy should ODI adopt at the launch of the new product ? Later ? What are the objective(s) of these pricing policies “ we will have to be a multiproduct, multimarket company which can provide service everywhere in the country” Short term pricing policy : Market skimming (Price High) sufficient demand •few competitors : “ our patent and license protection should hold off competition for at least 3 years. ” opatent issued on the lens in December 1969 olong-term license obtain from New World for the exclusive use of hydrophilic polymer for nonhuman application •Important initial expenses to be covered oLicensing : 50, 000$ (25, 000$/y, the first two years) oSupply of injection molds : 12, 000$ each ? annual capacity of 7. 2 million pair ? expected life of 15 million pair (2 years) oWarehouse : 196, 000$/year Salesperson : 40, 000$/year oTechnical representative : 35, 000$/year •Limited resources at the beginning but think big strategy very rapidly o” our assets are, after all, rather limited” oenter the market via a region-by-region rollout (first California) oSupport headquarters (184, 000$/year for 20 million pair) oBuild regional offices oAdvertising and promotional costs (100, 000$ / year) oInvest in R&D (250, 000$ / year) •Big margins expected : High price and Low cost oHigh perceived value of the farmer = capture the consumer surplus cannibalization reduced ? less trauma ? greater feeding efficiency oLow cost of contact lenses : 0. 032$ per pair (no economies of scale) “ we will have to be strong enough to fight them on their on terms” Long term pricing : Market penetration : Think big strategy •Entry of competitors after 3 years : oDissuade competitors from entering the market oGet market share

(highly price sensitive market) •Favorable cost structure after initial expenses recovered oeconomies of scale olearning curve