Atlantic computer solution essay

Business, Strategy

Atlantic Computer: A Bundle of Pricing Options * SK50911 ??? ??? ??? ???

Summary Atlantic computer's most important goal is to increase profitability by selling ' Tronn with PESA' packages to consumers who want to operate web sites or share files.

Among 4 price alternatives suggested in the case, the price based on value-in-use pricing analysis will be charged for ' Tronn with PESA' package. To achieve this goal, the company should overcome some impediments; one is that consumers are not accustomed to paying more money for the software tool such as PESA, and the other is that the company does not have sales structure for its new product. To overcome these problems, the company can make the new server product category and differentiate the package from other basic servers. Also, it can sell the product online to solve the problems occurred by lack of sales structure for selling basic server. Goal Atlantic computer's top priority is to increase profitability by selling ' Tronn with PESA' packages at a price based on value-in-use pricing to consumers who want to use basic servers for operating web servers and sharing files. The calculated price is $4, 200, which is more than twice the current price, 2, 000$. The company will gain much more profit by charging the value-in-use price for ' Tronn with PESA' package. Others might say that Atlantic computer should more focus on increasing its market share in the basic server market.

However, we are not insisting that the company give up the market share because it can provide not only ' Tronn with PESA' package for consumers whose purposes are operating web sites or sharing files, but also ' Tronn' server alone for the other consumers. Although the sales of ' Tronn' alone

may decrease if other competitors, especially Ontario's Zink, cut the price of their products, consumers who want to use the ' Tronn with PESA' package for their web sites and file sharing are large enough. # So the company's market share will not be small even if it more focuses on selling ' Tronn with PESA' package for those consumers. Moreover, if the company starts to compete in price with other competitors to gain more market share and cuts the price of ' Tronn' and ' Tronn with PESA' package, the profitability will be seriously damaged. For these reasons, Atlantic computer should more focus on increasing profitability than gaining a little more market share. Impediment There are two main impediments the company should overcome to achieve the goal. First, consumers as well as the staffs of the server and sales division think that the software tools such as PESA are provided for free.

This stereotype makes it hard to charge some additional price based on value-in-use pricing for ' Tronn with PESA' package. Although the package can save consumers' money, they would response negatively if they should pay for using PESA. So, it is important how the company changes the mind of consumers. Also, because the price of the package seems much more expensive than that of any other basic server products and most consumers are price-sensitive, they may not want to buy the package if the benefits of it are not properly informed. Second, as Atlantic computer newly enters the basic server market, the company does not have the effective sales structure for ' Tronn' and ' Tronn with PESA' package product. Although the company already has sales team, much more sales forces will be needed.

Also, the company should educate them on the benefits that ‘ Tronn with PESA’ package will provide, which costs the company lots of money and, as a result, damages the profitability. Some may worry that if other competitors such as Ontario’s Zink cut their price, the sales of Tronn and the package may be damaged. As stated above, however, the number of consumer who will benefit from purchasing ‘ Tronn with PESA’ package is large enough. The sales of ‘ Tronn’ server alone may decrease, but it is not significant for the company because the demands for the package are large enough to maintain market hare in the basic server market. Moreover, it is almost impossible that the competitors steal consumers who want to buy ‘ Tronn with PESA’ package by cutting their prices. # So the other companies’ price cut is not a significant problem. Solution To overcome consumers’ stereotype that the software tools such as PESA should be provided free and to charge additional price to PESA, we should make a new product category, called ‘ Specialized server’.

‘ Specialized server’ is named for the reason that the Tronn with PESA is very effective when used especially for operating web server or sharing files. By creating a wholly new product category(but which is not new actually), the Atlantic computer company can make the consumers think in the way that the package is one single product, not the server and the software tool. Also, the package’s name should be changed such as ‘ Tronn special’ For example, LED TV is not that different from LCD TV, but by creating the name LED TV and putting it into new product category, consumers started to think that those two products are different. In this way, we could erase out the stereotype from the consumers who would buy the specialized server.

Moreover, by escaping from the current basic server market, the product can evade the criticism that it is too expensive when compared to the Zink. Consumers will adopt this price in no hesitation because they don't have proper concept of standard price in this new product category. Furthermore, as a new sales structure, selling the product online will be a good decision. It is the cheapest way to make a new distribution channel, and supposing that the main customers of this server are the companies who want to operate web sites or share files, online sale can well reflect their characteristics. However, some may argue that the cost-saving effect of Tronn with PESA compared to Zink cannot be advertised properly if we sell it online.

It can be a good alternative to utilize the existing sales force to do face-to-face advertising limitingly to the big companies which want to operate their web sites or share files, to explain fully the product's cost-saving benefits. Considering that the companies which got into the business later tend to benchmark the superior companies and the exchange of information in these fields is remarkably fast, this strategy will work. Annotation Price analysis 1.

Status-quo pricing : $2, 000 for ' Tronn', none for ' PESA' 2. Competition pricing :$6, 800 (1 ' Tronn with PESA' = 4 ' Zink'). $3, 400 (1 ' Tronn with PESA' = 2 ' Zink') 3. Cost-plus pricing : $2, 245 for ' Tronn with PESA' Total sales : 2, 000 + 6, 300 + 12, 880 = 21, 180 PESA attached units : 21, 180/2 = 10, 590 PESA development cost per unit : $2, 000, 000/10, 590 = $189 Cost per Tronn : $1, 538 Total cost of ' Tronn with PESA' = $1, 727 30% markup : $2, 245 4. Value-in-use pricing : $4, 200 for ' Tronn with PESA'Assumption : 1 ' Tronn with PESA' = 2 ' Zink's 2 Zinks' total consumer

cost : 2 * { $1, 700(Zink server) + $250(Electricity annual cost) + $750(Cost of application software licenses) + $2, 000(Labor.

$80, 000/40) } = $9, 400 1 ‘ Tronn with PESA’s total consumer cost : $2, 000(Tronn server) + $250(Electricity annual cost) + $750(Cost of application software licenses) + $2, 000(Labor. $80, 000/40) = $5, 000 Cost savings : $9, 400 – $5, 000 = $4, 400 Price for PESA : $4, 400/2 (50-50 sharings) = $2, 200 ‘ Tronn’ + ‘ PESA’ : $2, 000 + $2, 200 = $4, 200