

Odi case

Business



Optical Distortions (ODI) is a start up with limited resources and a product that can change the egg production business. Its product, contact lenses for chickens, would reduce the vision of the hen and achieve two desirable results in the behavior of the chicken. These behaviors include reduction in cannibalism and reduction in amount of food required for chicken. And as a further result, the reduction in cannibalism rate removed the need to debeak the birds, which adds further economic value to the farmers.

These benefits far outstrip the costs of the contact lenses themselves.

And for ODI, there are definitely profits to be had if the products can be marketed well before the competitors can enter the market in a few years. Therefore, ODI should introduce their product according to my analysis below. The issue ODI is facing is that it currently has no revenue flow. And to stay competitive in the industry, ODI is estimating it will have large expenses coming up quickly to grow quickly enough to stay viable. Therefore, ODI must capitalize as soon as possible.

Also, on the consumer front, the product is completely unknown to its customers.

It will face a slightly uphill battle to convince potential customers that its product is better than the other more “conventional” methods provided by other vendors in the poultry egg production industry. On the competitor side, ODI has little breathing room. It expects that the competitors can be kept out of the market for at most two to three years thanks to patents and licenses that ODI currently holds. And ODI believes that competitors will likely try to

enter the market as soon as possible because of the potential impact that the lenses hold on the egg production industry.

Thankfully, ODI's collaborator, New World, has entered into an exclusive contract with ODI on the non-human use of hydrophilic polymer.

Given the general market information, we need more detailed understanding of the current market to determine a strategy for ODI. 1. How big is the market for ODI chicken lenses? First, we must determine the market size of the ODI's contact lenses. According to information provided by Garrison, that ODI can only profitably sell to a farm if that farm had at least 10,000 chickens in its flock. As our first target market, California, we must determine the number of farms and chickens in farms with more than 10,000 chickens. We are shown the distribution of farms in Exhibit 3.

However, we are only shown break outs of farms with 20,000 more chickens. We can still use this information, because farms with just over 10,000 chickens is barely profitable, so we can concentrate on them later on in the process as ODI's product becomes more mature. Hence, there are 521 farms with 20,000 hens or more, with 39,929,680 million chickens. (Please note that this is approximately 86.4% of all chicken in California farms.

) The market size for ODI's lenses in California is fairly big at 39,929,680 potential chickens.

And nationwide, which will be the eventual target market for ODI, there are 197,970,487 chickens currently. And according exhibit 4, the trend in chicken farming shows that this market will continue to increase for two reasons. First, there is a net growth in the number of birds in flocks. Second, <https://assignbuster.com/odi-case/>

there is a trend for reduction of smaller farms and increase at the medium and large farms.

And since we are targeting only medium and large farms, we can expect the number of birds in this market to continue to increase. 2. Who are the potential customers for such a product? Why would they buy it?

Next, we need to identify potential customers for the product. The clear customers are farmers of the egg farms, we will call this the direct to consumer (DTC) market. The farmers would definitely buy the product if they are aware of the cost savings it provides.

For each 10,000 chicken, the farmer can expect to see savings of \$2,617.60 ignoring the additional costs imposed by the lenses (please see appendix 1 for the estimated savings calculations). If we sell the lenses at the 8 cents per pair, then we will be adding approximately \$800 to the cost of the farmer in costs. This means the farmer can see a net savings of \$1,817.60 by switching to the contact lenses over debeaking. In addition to these farms, perhaps, services firms that provide labor for debeaking may be also customers; this would be a business to business (B2B) market.

These firms may wish to diversify their offering if they see additional value for their end customers (the farmers). These firms will buy if debeaking becomes less popular due to our new contact lenses. Since their primary offering is labor, they will want the advantage of being the one stop shop. The one stop shop here means that the farmers will only have to deal with 1 contract as opposed to multiple.

This is an offering that the services firms will want to have when dealing the farmers, which means they will need to purchase our lenses. 3.

Would potential customers eagerly adopt or would they resist adopting this product? Why? Next, is to understand the early adopters versus the market laggards. I believe that the early adopters would be the large farms. They have the most to gain from purchasing the lenses. Additionally, since they have so many birds, they can run a test trial on 10, 000 or even 20, 000 birds for the first year and observe the results before rolling out the lenses to the rest of the birds.

This makes the switch a little easier on the farmers.

Since the product hasn't been on the market ever, I can imagine that there will be significant resistance at the start due to the lack of experience with the product. However, I would also like to acknowledge that there is a possibility that these large farms are likely to have existing contracts with other firms (for example for debeaking) that would make it hard to switch. Additionally, it may be more difficult to convince several decision makers to agree on the large farm to make the change happen.

On the other hand, the medium farms only have one decision maker and may be converted to using the contact lenses quickly. But due to their size and amount of savings, I can see reluctance to take on the risk of an "unproven" product.

The market laggards would definitely be the small farms and services firms. For small farms, it is just too much risk for the untested product. And services firm will not purchase until there is sufficient number of farms

switching from debeaking to contact lenses and it's starting to hurt their business. 4.

Given the financial constraints faced by the company, are the ODI lenses an economically viable product? We should now understand if the product is financially viable.

If we sell the lenses at 8 cents per pair, then must sell at least 13, 229, 167 pair of lenses to break even. This is due to costs of the \$586, 000 for the personnel and office for the regional office (see appendix 2 for the cost assumptions) and then the \$25, 000 licensing fee then must to New World, as well as the \$24, 000 for the two injection molds they would need. And their margins are 4. 8 cents per pair, so $\$635, 000 / \$0. 048$ gets use the 13. million pairs.

Please note that this number is approximately 33% of the potential market (39. 9 million) that we identified earlier. Since Garrison that 50% penetration is feasible, we would be quite profitable. Even if we add in the \$250, 000 R&D expense, then our require # of lenses is 18, 687, 500 lenses (thanks to the need for a third injection mold). However, even at this number of required lenses, this is approximately 46% of the market, and under the 50% share of market rate that ODI is forecasting. This means that we will remain profitable.

And as ODI expands to the nation, their costs rise to be about \$4. 63 million (see appendix 3), which would require 84, 645, 834 lenses to break even, well under the 50% mark for the 197, 970, 487 chickens in farms with 20, 000 chickens (42. 8%). Hence, the product should be profitable. 5.

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Would you recommend introduction of ODI chicken lenses? At this point I would recommend the introduction of ODI chicken lenses if the forecasts that we see in the case are accurate, because there is clearly benefits for both ODI and the customers. However, we need to explore the possibilities of alternatives. The only other feasible alternative is to license the product to larger agricultural supply firms.

The benefit of licensing is that ODI would dramatically reduce its costs and recognize income right away. And they would not have to convince individual farms. All they have to do is pitch the product to corporate executives.

However, they do face the issue that the large agricultural supply firm would likely kick ODI out as soon as the patent protection runs out. And without the on the ground presence, ODI would lose all revenue sources in three years. Therefore, this approach is extremely dangerous compared to actually selling the lenses themselves, which according to our analysis will be profitable.

Therefore, ODI should introduce the lenses on its own. 6. If introduced, how should ODI segment the market? In which markets should ODI concentrate its effort and why? Now that we believe that ODI should sell the chicken contact lenses, we need to understand how to market the product.

First, we need to segment the market into distinct, mutually exclusive, identifiable segments. The two segmentation metrics that immediately come to mind are Farm Flock Size and Cannibalization Rate of Strains at the Farm. Farm Flock Size will be broken into the 20, 000 to 49, 000, 50, 000 to 99, 000, and 100, 000 or more identified in Exhibit 3.

Cannibalization Rate of Strains at the Farm will be divided into High Cannibalization Rate, Medium Cannibalization Rate, and Low Cannibalization Rate. There are metrics that we can use to segment the farms, but we want to make sure that we do not put so many metrics that there are only a few farms in each segment.

The idea is to have large, identifiable, distinct, and stable segments. Here, Farm Flock Size and Cannibalization Rates make good metrics because not only do they divide the similar farms into the same bucket and different farms into distinct buckets, but they also measure the value of presented to the farmers.

Flock size because larger size represent more potential for savings for farmers and more potential for earning for ODI. And high cannibalization rate also represent potential for savings for farms due to less hens lost to cannibalization and more likely ease of sale for ODI since the farmers have more incentives to try the lenses. And given these segments, ODI should focus on the large farms with high cannibalization rates (please see appendix 4 for targeting sequence).

This group will have the highest market potential and be the most receptive to the product. 7. How should chicken lenses be marketed?

Finally, we need to see how to actually implement the marketing plan. Our marketing plan will have the following components. One, sales force at the regional offices will be talking directly with the customers to convince them that there is value in the product.

And two, headquarters will be responsible for advertising in industry related publications and attending trade shows to promote the product. As part of the messaging, we will advise our customers that the contact lenses as a product to substitute debeaking to reduce cannibalization rates with extra benefits.

The benefits are three fold, reduction of cannibalization rates to ~4.5%, reduction in trauma from debeaking (~50,769 eggs per 10,000 chickens), and finally, savings in chicken feed (14.235 tons per 10,000 chickens per year).

We want to concentrate on the fact that our product is more effective than debeaking at reducing cannibalization and has additional beneficial effects that far outweighs the costs of the lenses itself. And according to Garrison, because the customers are independent-minded type of men who would react unfavorably if they felt cheated, we cannot have a low introductory rate that may upset the customer base. This also means that these customers are not likely to be the type to jump on the bandwagon and we will need to make sure our sales representatives reach each of these farms. This would mean that even favorable word of mouth will not contribute significantly to our sales due to the characteristics of the customers. Our sales force should not only explain the properties of our lenses, but also do demonstrations to let the farmers see for themselves.

And we must have our sales forces reach out frequently to the customers to reinforce the message throughout the year, so when we get to the few weeks where the new hens are bought, we can convince the farmer to try

the ODI lenses on their farm. Additionally, at the trade shows, we would also demonstrate the difference between hens wearing our lenses versus hens that do not wear the lenses. This would serve to introduce the product to new potential customers. We should use the trade shows also as a CRM opportunity; we should also collect contact information for our sales representatives to follow up on.

This type of reinforced messaging will be effective in convincing customers to switch.

And after we've brought the innovators and early adopters on board, we need to ensure customer satisfaction for these influential groups. Bad word of mouth is generally stickier than good word of mouth, and could be damaging to our brand even if the customers are generally independent-minded. And to achieve good customer satisfaction, we need to address customer issues as they emerge. So by the time we get to the Early Majority and the Late Majority, we can address any concerns that they have with the product.

We will use the following positioning statement until ODI diversify into other products: " For farmers in egg production who have more than 10, 000 chickens in their flock, Optical Distortion, Inc. (ODI) is a specialty agricultural supplier that provides contact lenses for chickens intended to reduce food required and reduce cannibalization rate.

Unlike other agricultural suppliers offering to debeak the birds, ODI provides a solution that results superior reduction in cannibalization rates, reduction in food wasted and required, and reduction in losses of production resulting

from traumas associated with debeaking. Appendix 1: | | | | Saving Opportunities for 10, 000 chicken| # of Chicken Affected| Value Per Chicken| Value| Information from the case| Reduction in Canalbalism (4. 5% additional survive)| 450 | \$0. 66 | \$297. 00 | Exhibit 5 - 22 dozen per year @ \$0.

03 per dozen per hen| Reduction of Trauma| 10, 000 | \$0. 01 | \$126. 92 | Exhibit 5 - 22 dozen per year -> 22/52 dozen per week @ \$0. 03 per dozen per hen| Savings in Food| 10, 000 | \$0. 22 | \$2, 193.

67 | 0. 78 lbs per 100 birds per day @ \$158 per ton of feed| Appendix 2:

Cost for Regional Offices| # of Item| Value Per Item| Value| Office and Warehouse¹| 1| \$196, 000 | \$196, 000 | Sales Representatives²| 8| \$40, 000 | \$320, 000 | Tech Representatives³| 2| \$35, 000 | \$70, 000 | Total| | | \$586, 000 | 1. Office and Warehouse price from Table B. 2. Sales Representatives based on capacity of 80 farms, and the assumption that each sales will only cover farms of one particular size present in Exhibit 3 (20, 000 to 49, 000, 50, 000 to 99, 000, and 100, 000 or more). 3.

Tech Representatives based on ratio of 1 tech representative per 5 sales representatives.

Appendix 3: Estimated National Costs| Units| Cost per Unit| Costs| Comments/Assumptions| Regional Offices| 5| \$586, 000| \$2, 930, 000| Assumed that regional offices costs are similar to California| Headquarter Costs| 1| \$614, 000| \$614, 000| Estimated cost at 60 million pairs| Advertising| 1| \$100, 000| \$100, 000| Monthly advertising for 1 year in 8 leading industry publications| New World License| 1| \$25, 000| \$25, 000|

\$50, 000 over 2 years| Injection Molds| 12| \$12, 000| \$144, 000| \$12, 000 per mold, which produces 7. million a year| R&D Costs| 1| \$250, 000| \$250, 000| Required for diversifying the company| Total| | | \$4, 063, 000 | |

Appendix 4: | | Farm Flock Size| | | 20, 000 to 49, 000| 50, 000 to 99, 000| 100, 000 or more| Cannibalization Rate| Low| 4| 4| 3| | Medium| 4| 3| 2| | High| 3| 2| 1| First target group 1, then followed by group 2, group 3, and group 4. ————— [1]. In the analysis, I am assuming that 1kg ? 2 lbs and 1 ton ? 2, 000 lbs.