

Kone case study

Education



KONE is an elevator company with a new and innovative product to entering the market. This company is faced with the problem of what they want to charge and how they are going to position this newest product without cannibalizing their existing product lines. Another problem the company faces is how and to whom they should market this new elevator application. The company can rule out marketing to the high rise gearless traction market because their technology doesn't apply to this market, as of now. Although they are not able to market to this group the benefits of gearless traction can be used in comparison to the geared and hydraulic elevator systems. One problem that was learned from the preliminary markets was that customers worried that KONE would be able to price gauge them since they were the only ones with this sort of technology. The existing products offer the customer a number of options. Depending on who is making the buying decision they can base the purchase on up-front costs, lifetime savings, or quality of the equipment.

Strengths:

No machine room that creates greater architectural freedom and more usable revenue-generating space

Compare to geared technology: controlled speed, ride comfort, lower maintenance

Cost savings: energy efficient, less expensive electrical wiring and fused, and no oil is used

Lower overall construction time

Weaknesses:

only can be used on 8 to 13 person elevator used for 12 floors or less (if machine room is to be omitted)

Positioning of this product is very important. They could market it in-between the hydraulic and the geared traction or they could position it as top of the line. If they were to position the ecodisc just above the hydraulic elevator the customer would receive all the benefits listed. I think that they should keep the hydraulic as their low-end model. The reasoning behind this is that why give the customer all the added benefits of the ecodisc for a low-end price. If the product is to be positioned at this level believethat they would cannibalize their existing geared traction line. Why wouldn't a customer upgrade to the ecodisc from the hydraulic? They would stand to gain the most value of the purchase. This would only be defeating the purpose of the new technology. With the ecodisc being positioned above the gear traction the person in the market for a new elevator has one more option to consider depending on their needs. If they just want something to put in the building at the lowest price they have the option of the hydraulic elevator. Also, if this is the option they are choosing why would you recommend the ecodisc as an alternative.

They are just looking for the cheapest alternative, not the added benefits that the ecodisc can provide. Even though the German market consists of 60% hydraulic elevators I don't think ecodisc is the next best alternative from the companies standpoint. This number could be attributed to the fact that the general contractor made the final elevator decision 50% of the time and they may have been looking for the cheapest option. You also have to

consider that 40% of the customers are in the market for geared traction. The interesting thing to note is that about 26% of these are of the more expensive PU type. As of now only 2% of KONE's German sales come from this more expensive elevator. (See table 1) This shows that not everyone is looking for the cheapest alternative or they may have design issues that KONE would be able to eliminate. Positioning the ecodisc as their top of line product seems to be where they should focus their attention. Besides that, like we talk about in class you really don't want to be in the middle. Consumers usually want a product at the bottom or at the top. If this option is used it would also eliminate the concern of cannibalizing their existing product line because it gives the customer choices.

Table 1

Concerning pricing the company seems to be in the best position at showing the overall benefits of installing and running the ecodisc. They can approach this in a number of ways. They could show the construction company the money saved by not building the machine room. Also, they could appeal to the architect by giving them more creative freedom in designing a building without having the limitation of including a machine room. The next alternative would be to appeal to the property developer who is looking to resale the property. They would be interested in passing on value to the person that would be buying the building. With this being said I believe that the same approach could be used for both the property owners and the property developers. I think that KONE should market the ecodisc as an alternative to the existing geared traction elevators. Even though this is a smaller market I believe that some people will always be in the market for

the lowest price alternative and why sell themselves short by offering it as an alternative to hydraulic systems. If the customer wants to upgrade to the next best alternative they are able to buy the geared traction. If they were to position it in the middle they would lose the sales of the geared traction.

If you price the geared traction higher you would completely lose this market. I mean why would someone buy a more expensive system when they can get all the benefits of the ecodisc for a lower price (quality, over-all costs, and lifetime costs). I believe this is why they did so well in the Netherlands. They offered ecodisc as a substitute to the hydraulic system. The ecodisc sales in the Netherlands show that the positioning and the pricing could have been better. This would also eliminate the worry that customers have regarding price gauging. If they are worried they still have other options and KONE will be able to supply the alternative. Regarding who to market to I believe they should market to the property developer that is looking to sell, the owner, and the architect. As you can see from Exhibit 1 this group seems to benefit from the ecodisc the most. This seems to be the best approach because these groups of people stand to gain the most benefit from the installation of the ecodisc. The reason I have not chosen the construction company is because the savings don't seem to outweigh the benefits. I don't see them pushing to put in a better elevator to save 5% of construction costs. Also the learning points showed that the construction company wasn't passing on the saving but instead charging a surcharge to customer. From this we learned that KONE could no longer show them the cost savings because this priced the product even higher.

Exhibit 1

With all this being said I would price the product higher than existing geared traction elevators to give more options depending on who was making the purchase. One advantage KONE has is that they are in the evoked set for elevator companies and 96% of purchases were customer initiated in the German market. They could use this to their advantage by presenting their product to people that are really interested. They don't have to go out there and market themselves as a company but rather show the customer the features and benefits of each particular product they offer. Also, this would give them the opportunity to up sell the new technology from the previous alternatives. This would also help to overcome the sales people shortage that they seem to have in the German offices. The company would be able to focus more time and energy on what is important to the customer. One of the benefits I would focus on is the lifetime cost savings because this group is looking for a better alternative than the geared traction. One promotion I would consider would be to have energy companies offer rebates to the customer for a specific amount of time. Just like we do here in the US with energy saving appliances. First of all I would be appealing to the groups looking for overall costs and I would also be creating a pull strategy by these people.

This would enable me to by-pass the construction companies who don't really see the cost savings. Another benefit to this approach is that I could focus on the overall benefits rather than the up-front costs. I would use the strategy that was used in the Netherlands by contacting clients and then presenting the material face to face. This seemed to be effective and

questions could be answered right away. I would also continue to use the marketing kit. This has all the benefits in one convenient package. Some of the launch options I would use are the direct mail (to invite customers to presentations) and make use of the 25 architectural journals. Not only would this help to bring in business but it would also show that the product is in the market place. Even if someone were not in the market right now, when he or she was ready the ecodisc would come to mind.

The case briefly talks about modernization of existing equipment. If this consisted of replacing old and worn out equipment I think this could be an attractive market. You could market this to the building owner in a way that would seem appealing to him. Especially, since most of the cost savings are in the yearly up keep. These are owners had nothing to do with the up front cost and when it came to replacing old elevator equipment they are going to take into account the overall costs of running the machine. Also, when pricing the disc, KONE can now just take into account the disc price. They will not have to include the shaft and elevator since they are already in place. This could be a benefit to the building owner so they don't have to come up with a large up-front cost. Another benefit to owner would be the added space without the machine room.

This is to propose Kone Aufzug to launch the new MonoSpace system as a strategic dominant of the low-rise residential elevator market. Considering recent trend of decreasing profit at Kone, we are going to market MonoSpace as many as possible with truly competitive price setting and appealing the technological advantages in order to benefit Kone. We do not expect increasing trend in constructing buildings equipped elevators, therefore we

focus on profits not market share. We project the MonoSpace sells 98% of the low-rise residential, and 80% of all Kone Aufzug sales in 1997.

The successful MonoSpace launch in Germany is extremely important for us and for Kone, because Germany is the largest in the European market which attains the largest proportions in Kone business. The MonoSpace's technological advantages accompanied by low cost would enable us to win the race in the market and also we can surely make profitable service contract by selling the MonoSpace because of the unique technology which no other companies can not offer services on it.

Learn also which statement correctly compares the two businesses?

The test market done in Netherlands, France, and UK suggests that MonoSpace would sell well if MonoSpace is priced slightly above current PT or PU, and PH is not much less expensive than the MonoSpace. According to our sales data in Germany where PH is dominant because of its relatively inexpensive price setting, customers are really cost conscious and price elasticity is high. If we set the price of the MonoSpace higher, customers would purchase PH as they do now. Therefore, we are going to set the positioning as any customer in low-rise residential market except for extremely initial cost conscious customers by the market penetration price setting. With the price of DM70, 000, there is no reason for purchasing PT considering many advantages of the MonoSpace above PT, and considering substantial cost reduction in energy consumption (8, 580DM in 6years) and specification advantages, we assume 98% of low-rise residential market customers purchase the MonoSpace and we expect the MonoSpace to

counteractant to the market declination and project it would sell at least 1,400 units which is the number we sold in 1995.

Since we project large number of the MonoSpace units will be sold in German market because of the innovative technologies and competitive price, we are going to take large scale of launch events. We recognize this is the time to get brand awareness and contracts with this technologically advanced MonoSpace. Almost all decision making on what kind of elevator customer purchase is done by the general contractors or architects whom we are going to focus on. Our launch events consist of almost all kinds of options we have.

With those plans, we project we can sell at a profit of DM138,000 by launching MonoSpace in Germany market, even though we assume we might have to discount price down to DM65,500 due to the bidding competitions, competitors' response of discounting prices of their units, or recent price dropping trend.