

Atlantic computer: a bundle of pricing options assignment

[Business](#)



MARKETING CASE STUDY-4 Atlantic Computer: A bundle of Pricing Options

Group 3 MBA Class of 2014 Alma Graduate School PRESENTATION OUTLINE

Introduction 0 Overview 0 Issues 0 Analysis 0 Recommendations 0 Strategic

Implications INTRODUCTION Atlantic Computer has developed a new Tronn

server and PESA software tool known as Atlantic Bundle and needs the right

market price strategy for this product. 0 The challenge is to attract

customers and outcompete direct and main competitors in terms of prices,

performance efficiency, reliability and quality. The main purpose and focus of

this report is to provide solution to the above challenge by coming up with

the right pricing strategy. 0 A detailed quantitative, qualitative and other

factors such as competition and customer demand has been analyzed in this

report and recommendations have been proposed. OVERVIEW The Tronn

server has been developed specifically to meet an emerging U. S market

place opportunity of Basic Server users.

Tronn computer is to be sold with the specific PESA software to boost

performance 0 The basic market segment was dominated by the main

competitor, Ontario which claimed a revenue market share of with its

product line, Zink Atlantic Company current policy is to give software to

customers for free upon purchase of servers 0 However now a pricing

strategy needs to be chosen charge only for the hardware and give the PESA

software tool for free 0 charge a price equal to what the customer would pay

for four Ontario Zink servers 0 charge a price based on cost-plus approach

for PESA 0 charge a price based on value-in-use pricing.

ISSUES Product and Bundle Current product of Altantic is the Radia, which is

a leading product in the high performance servers market. Atlantic has

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developed a new server called Tronn and a Performance Enhancing Server Accelerator, PESA, which will enhance the Tronn server's speed by 4 times its normal speed. The company aims to determine a pricing strategy for the 'Atlantic bundle' which is Tronn server plus PESA tool.

Competition Atlantic's main competitor in the basic server market segment, Ontario's Zink, performs at approximately the same level as Atlantic's Tronn without PESA. Also, Ontario's business model enabled the company to drive out non-value added cost which allowed it to compete fiercely on price. Other competitors in the basic server market composed of many small scale vendors.

QUANTITATIVE ANALYSIS Price Models Model 1: Status Quo based on software with hardware 0 1 2' Competitive pricing based on Zink's price folded 4 times 0 Model-3: Cost-plus based on the COGS for hardware and software R spread over 3 years 0 Model-4: Value in use approach based on sharing profit with customer Break-Even Point 0 For model-1 : 3rd Year, but selling 4, 329 units would be tough 0 For model-2: 1st year, but price of \$6800 is too high 0 For model-3: 2nd year, with an attractive price of \$2, 244 giving 4 times performance than the nearest competitor priced at \$1700 0 For model-4: 1st year, but a price of 3, 500 would need justification and investment on advertisement and brochure QUALITATIVE ANALYSIS Market Research 2 markets segments: High Performance and Basic Server Atlantic captured 20% revenue market share in the High Performance segment Basic segment demand about 50, 000 units, growth rate of 36% through 2003 High Performance demand 200, 000 units, growth rate 3% annually Target

Segment Target Basic Server Users for the Tronn The targeted segment use the server for simple tasks like file sharing and web servers Business targeted will be Small and Medium Size Enterprises Consumer behavior Consumers dedicate their basic servers to one application 0 Key buying criteria for consumers were minimizing initial purchase costs and possession costs 0 Atlantic needed to convey 2 order savings: The purchase of the Tronn would save consumers time because they would purchase fewer servers that work faster Purchase of the Tronn would save consumers money in terms of lower annual electricity charges, software license fees and labor costs

PRICING OPTIONS-KEY FACTS Satus-Quo + Likely to sell and increase mkt share (very low price) + In line with free s/w tradition (sales) - Still more expensive than Zink Profit too low vs. s/w dev.

Cost - Customer will not realize the added value of s/w - 3rd year BEP 0 Risk on long term / perception Competitive (Ontario Zink) + Half-year BEP - Very high sale price - No advantage over competitors but space reduction 0 Unlikely to sell Value-in-use + 1st year BEP - High sale price - Why share with customers? - Basic segment not really sensitive to long term ????

Savings???? marketing and pricing strategy (price rises but you will save money...) 0 Hard to sell Cost-plus + Likely to sell (low price) + Yet includes s/w dev cost + Acceptable early 2nd year BEP Best choice

RECOMMENDATIONS AND STRATEGY Cost-plus pricing is our recommendation sale price : \$2, 244. 0 (Tronn Bastc 2000, ontano Zink 1700) Key messages for Tronn Server 0 High-performance PESA software included 0 value perception 0 Save up to 4x space & utilities 0 No annual s/w support fees, no hidden costs 0 Option : Market PESA brand as such 0

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awareness Tronn Server Pro edition 0 24x7 support included 0 Premium price 0 Targeted at mission critical applications in SME Strategic option : challenge the competition 0 Become industry standard with aggressive marketing/promotions and partnership with application editors year 2-3 Introduce value model without s/w 0 drop price (also techn. advances) 0 match Ontario's likely lowered prices Software has become a 'must-have' 0 charge it 0 increase price (mitigate elasticity loss with value model) Attract customers with growing computation power needs (later purchase of s/w), extension of server's lifespan STRATEGIC IMPLICATIONS Customers Reduction of cost to customers compared to purchasing 4 separate servers. Long term benefits of the Atlantic Bundle to customers include savings on electricity costs, software license fees and labour costs Internal Team Tendency for the sales force of Atlantic company to over-elaborate on the Justification of the price of the Atlantic Bundle will be minimized with the cost-plus pricing strategy. The sales force will only focus on the cost to customers. to focus on the 'big picture' which is the reduction in By entering the basic server market with a comparatively lower price, Atlantic company will have the chance to compete strongly with its main competitor, Ontario. Ontario might respond by also reducing its price which might create a price war but Atlantic will still have the advantage of a higher speed server if the Atlantic Bundle is sold.