

# Case 5A

## Type: Pricing



**ConQuest**

Consulting & Strategy Club of IIM Shillong



**180Degrees**  
CONSULTING  
JMC

# Problem Statement:

**Client is a Korean conglomerate and wants to launch a new fertilizer in the US market. Monetize the fertilizer.**

SCRIPT KEY	
Interviewer	
Interviewee/Candidate	

<p><b>Client is a Korean conglomerate and wants to launch a new fertilizer in the US market. Monetize the fertilizer.</b></p>	<p><b>Okay. Does the client plan to set up a manufacturing plant in the United States or import the product? How are they planning to sell to the customers?</b></p>
<p><b>Okay, can you tell me more about the client? What is the main business of the client? Where does the client currently operate?</b></p>	<p>That will depend on the revenues we are expected to generate, you can ignore that for now. They plan to sell it through retail chains across US.</p>
<p>The client manufactures chemicals, fertilizers, and other petroleum products. They currently operate in the European market.</p>	<p><b>Okay. To price the fertilizer, we cannot use competition-based pricing since there is no competition, and cost-based pricing also cannot be used since we don't know about the cost details, hence, I think that value-based pricing will be the best way to monetize this fertilizer. You mentioned that it accelerates the growth of vegetables. By how much time gets reduce?</b></p>
<p><b>Since the client operates in the European market, why are they targeting the US market?</b></p>	<p>The time gets reduced by 20%.</p>
<p>Fertilizers is not a big market in Europe due to lesser income of farmers, hence for higher profits the clients want to launch it in US directly.</p>	<p><b>How much time does the normal cycle of apples take to grow?</b></p>
<p><b>What is the new fertilizer? Is it different from the fertilizers people generally use in the US?</b></p>	<p>It takes 90 days.</p>
<p>Yes, it accelerates the growth of vegetables.</p>	<p><b>Okay. This means that a farmer can grow 4 cycles in a year, taking 360 days. Reducing time by 20% means the new cycle will be completed in <math>0.8 \times 90 = 72</math> days, and the farmer can now grow 5 cycles in a year. What is the price of the fertilizer that they currently use?</b></p>
<p><b>Does it work on all kinds of vegetables or any specific types of vegetables?</b></p>	<p>There is only one type of fertilizer in the market, which costs \$60/kg.</p>
<p>It has been tested successfully on tomatoes; hence the client wants to launch it only for tomatoes as of now.</p>	<p><b>How much quantity do they generally require?</b></p>
<p><b>Does the client have a patent for this product? Does any similar market already exist in US?</b></p> <p>Yes, the client has a patent. No such market exists.</p>	

5 kg of fertilizer is required for 1 acre of land.

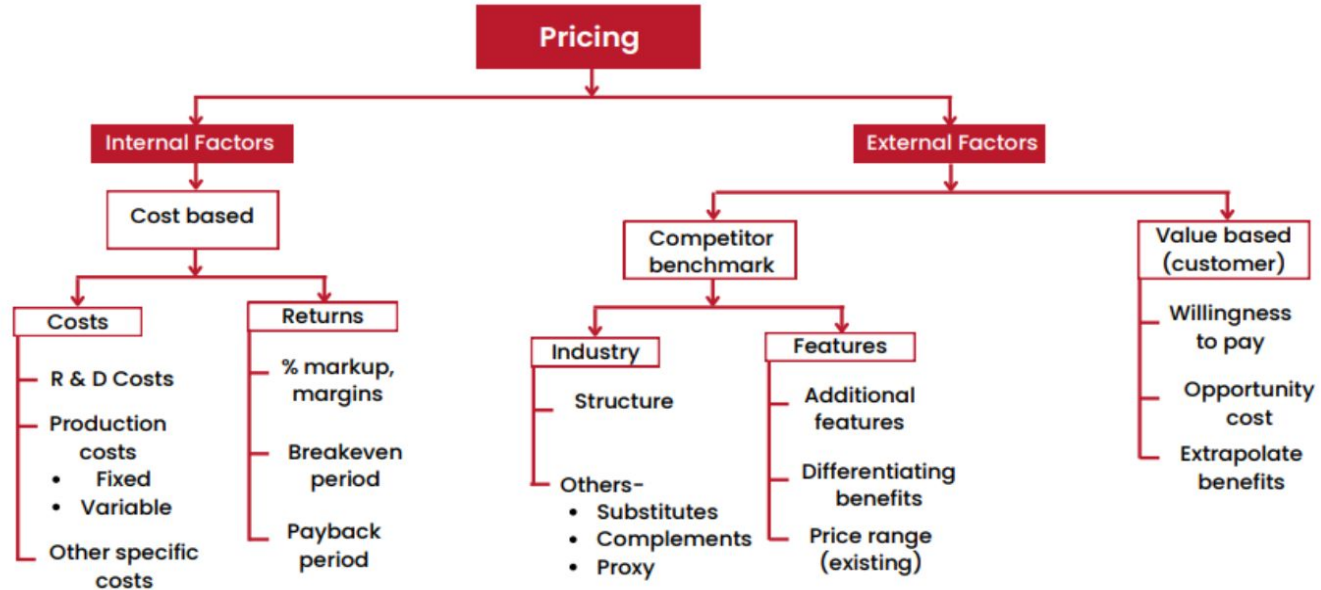
Okay. Now considering that we price the new fertilizer at \$60/kg, we can say that the customers spend \$60 for 0.2-acre land per cycle, and an additional \$60 for the 5th cycle. In addition, they would be making an additional revenue from the 5th cycle. Added profit would be \*profit per cycle\* per 0.2 acre, from 1 kg fertilizer, per year. We can add a premium to the base price of \$60 depending on this value, it should be lower than the value (profit per cycle)/5, since for the new fertilizer the customer will be paying this amount every cycle.

**That looks good, thank you.**

# PRICING FRAMEWORK

## Various components in price (Selling Price)

- Manufacturing cost -
  1. Direct
  2. Overhead
  3. Profits
- Distributor margins
- retailer margins



## Initial Questions

- Get a basic understanding of the company's product/services for which the pricing strategy is to be made
- Understand the expense company is incurring from raw material to end product for the customer
- Understand the target segment for the particular product/services to incorporate value based pricing
- Understand the brand value of the company & market propositioning

## Recommendations

- Based on the company's target revenue & profits, give an estimate price
- Understand the objective eg. market penetration, promotional, inventory clearance, etc.
- Make sure not to dilute the company's brand value or value proposition
- Margins can be given based on Industry standards

# QUALITATIVE INFORMATION

## Case Background:

Client is a Korean conglomerate and wants to launch a new fertilizer in the US market. Monetize the fertilizer.

## Case Facts:

1. Client manufactures fertilizers & other petroleum products
2. Objective is higher profits
3. Fertilizer accelerates the growth of vegetables
4. Launch only for tomatoes
5. Product is patented
6. No competition

## CLARIFYING ANSWERS TO BE PROVIDED ONLY IF ASKED BY INTERVIEWEE

Interviewee	Interviewer
What is the main business of client and where does the client currently operate the operate?	The client manufactures chemicals, fertilizers, and other petroleum products. They currently operate in the European market.
Why is the client targeting US market? (Objective)	Fertilizers is not a big market in Europe due to lesser income of farmers, hence for higher profits the clients want to launch it in US directly.
How is new fertilizer different from the one people generally use in US?	It accelerates growth of vegetables
Does it work on all kind of vegetables or any specific type of vegetables?	It has been tested successfully on tomatoes; hence the client wants to launch it only for tomatoes as of now.
Does the client have a patent for this product? Does any similar market already exist in US?	Yes, the client has a patent. No such market exists.



**ConQuest**

Consulting & Strategy Club of IIM Shillong

© ConQuest, Consulting & strategy Club, IIM Shillong. All rights reserved.