

Case 4B

Type: Pricing



Problem Statement:

**Your client is a Korean conglomerate, and wants to launch a new fertilizer in the US market.
Price the fertilizer.**

SCRIPT KEY	
Interviewee/Candidate	
Interviewer	

<p>Your client is a Korean conglomerate, and wants to launch a new fertilizer in the US market. Monetize the fertilizer.</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>Okay, can you tell me more about the client? What is the main business of the client? Where does the client currently operate?</p>	<p>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 fruits. By how much does time get reduced?</p>
<p>The client manufactures chemicals, fertilizers, and other petroleum products. They currently operate in the Asian market.</p>	<p>The time gets reduced by 20%.</p>
<p>Since the client operates in the Asian market, why are they targeting the US market?</p>	<p>How much time does the normal cycle of apples take to grow?</p>
<p>Fertilizers is not a big market in Asia due to low income of farmers, hence for high profits the clients want to launch it in US directly.</p>	<p>It takes 90 days.</p>
<p>What is the new fertilizer? Is it different from the fertilizers people generally use in US?</p>	<p>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 complete in $0.8 \times 90 = 72$ days, and the farmer can now grow 5 cycles in a year. What is the price of the fertilizer that they currently use?</p>
<p>Yes, it accelerates the growth of fruits.</p>	<p>There is only one type of fertilizer in the market, which costs \$40/kg.</p>
<p>Does it work on all kinds of fruits or any specific types of fruits?</p>	<p>How much quantity do they generally require?</p>
<p>It has been tested successfully on apples, hence the client wants to launch it only for apples as of now.</p>	<p>5kg of fertilizer is required for 1 acre of land.</p>
<p>Does the client have a patent for this product? Does any similar market already exist in US?</p>	<p>Okay. Now considering that we price the new fertilizer at \$40/kg, we can say that the customers spend \$40 for 0.2 acre land per cycle, and an additional \$40 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 \$40 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.</p>
<p>Yes, the client has a patent. No such market exists.Okay.</p>	
<p>Okay. Does the client plan to set up a manufacturing plant in US or import the product? How are they planning to sell to the customers?</p>	<p>That looks good, thank you.</p>

PRICING CASE STRUCTURE

Your client is a Korean conglomerate, and wants to launch a new fertilizer in the US market. Price the fertilizer.

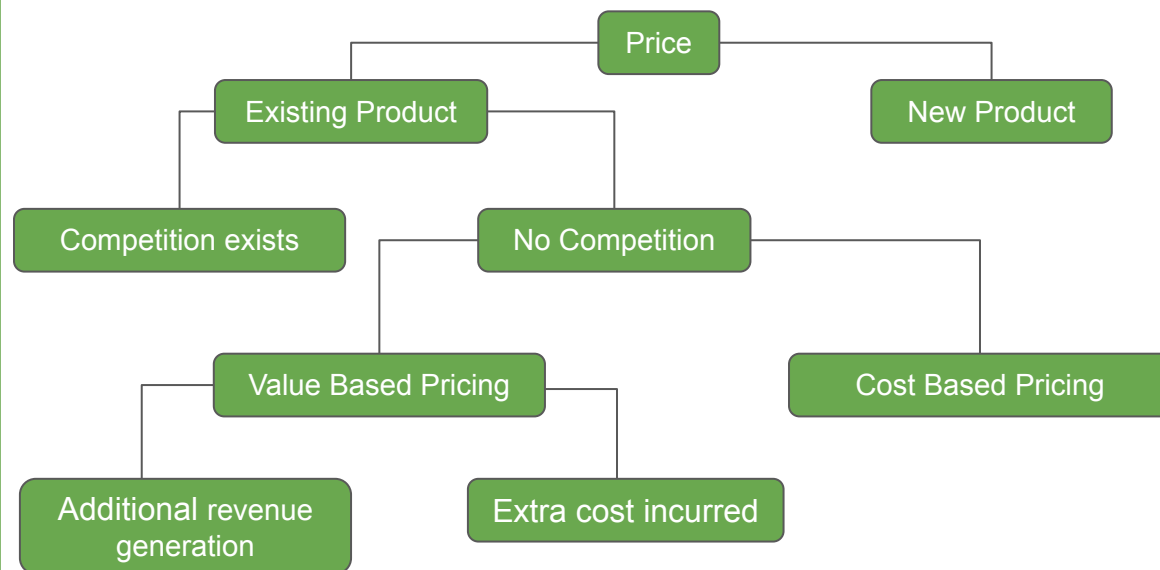
QUALITATIVE INFORMATION

Case background:

A Korean conglomerate wants to launch a new fertiliser in the US market and wants to decide a price for the same.

Case facts:

- Manufactures chemicals, fertilisers and other petroleum products
- Currently operating in the Asian market
- Product accelerates the growth of fruits, particularly apples
- Fertilisers is not a big market in Asia due to low income farmers
- Patented product and no other competition
- Reduces growth time of fruits by 20%



TIP

For the questions: Pricing can be determined with the help of three approaches being Competition, Cost and Value. Do we have any information on these three?

SUGGESTIONS

There is no competition in the market for the product and thus competition-based method cannot be used. There is also no information on cost so cost based pricing can also not be used. This leaves us with Value based pricing.