

# Case 4B

## Type: Pricing



# PROBLEM STATEMENT

**Your client is a toothbrush manufacturer. They have recently come up with a toothbrush which can last forever. The client has hired you to suggest a price for this toothbrush.**

SCRIPT KEY	
Interviewee/Candidate	
Interviewer	

<p>Your client is a toothbrush manufacturer. They have recently come up with a toothbrush which can last forever. The client has hired you to suggest a price for this toothbrush.</p>	<p><b>Sure that makes sense.</b></p>
<p>Ok, to begin with, I would like to ask a few question regarding the product. Could you please tell me a more about the product functionality and features?</p>	<p>Is there a fixed margin that the client is looking for the product?</p>
<p><b>So, it looks like a normal toothbrush only, but it can last the entire lifetime of a person. Its used as the same way as a regular toothbrush.</b></p>	<p><b>They would ideally like a 50% margin over revenue.</b></p>
<p>What is the cost associated with manufacturing such a product?</p>	<p>Ahh, ok. Since the cost to produce the brush is Rs.50, the brush can be priced at Rs. 100, to give a margin of 50% on revenue. This price looks very low for such a novel product.</p>
<p><b>The company spent 10 million dollars in R&amp;D. Now it takes around Rs.50 to manufacture this brush.</b></p>	<p><b>Ok, sounds good.</b></p>
<p>Let me move on to value based pricing. I would like to calculate this using the value i.e. lifetime functionality the product gives over normal toothbrushes.</p>	<p>How does the company plan to distribute this product? Is there any geography in mind to launch this product?</p>
<p><b>Go ahead.</b></p>	<p>Considering an average age of a person to be 70 years, and if we ignore infant and old age period, we can assume that a person uses a toothbrush for 60 years and current toothbrushes are typically changed every 2 -3 months.</p>
<p>Initially we plan to sell via retail grocery stores and on OTC medical shops. We plan to make it available in major Indian cities.</p>	<p>That's a fair assumption. You can assume 2 months and go ahead.</p>
<p>Are there any existing similar products currently in the market?</p>	<p>This would mean that a person uses around <math>6 \times 60 = 360</math> toothbrushes in their lifetime. If we assume a price of Rs 50 per toothbrush, the ideal value of our product is <math>360 \times 50 = \text{Rs } 18000</math>.</p>
<p><b>No there exists no such product which can last for a lifetime.</b></p>	<p>Ok. What do you think are the factors that will change this price?</p>
<p>Does the company plan to recover its R&amp;D cost through its pricing model?</p>	<p>I would like to split the factors in two. Factors that will reduce the price and others that will increase the price.</p>
<p><b>No you can assume the R&amp;D cost to be sunk cost.</b></p>	<p>Since there are no current competitors, I would like to ignore the competitor based pricing. I would like to proceed with cost based and value based pricing.</p>

**Sure sounds good. What will the factors be?**

I think the factors that will increase this value are inflation, time value of money, convenience of one time buying and the factors that will reduce the price would be fear of loss, boredom of single product for entire life.

**Awesome. We can close the case here.**

## PRICING CASE STRUCTURE

Client is a toothbrush manufacturer. They have come up with a toothbrush which can last forever. The client has hired you to suggest a price for this toothbrush.

### **QUALITATIVE INFORMATION**

#### **Case background:**

A toothbrush manufacturer has come up with a toothbrush which can last forever. They want us to suggest a price for it.

#### **Case facts:**

- The toothbrush looks like and functions like a normal one and can last the entire lifetime of a person.
- To be sold via retail grocery stores and on OTC medical shops.
- To be made available in major Indian cities.
- No other such product exists; no current competitors.
- Assume that current toothbrushes are changed every 2 months.

### **QUANTITATIVE INFORMATION & SOLUTION**

#### **Case facts:**

- The company spent 10 million dollars in R&D.
  - It takes around Rs.50 to manufacture the brush.
  - Assume the R&D cost to be sunk cost.
  - The client would ideally like a 50% margin over revenue.
  - Cost to produce the brush = Rs 50
- Brush can be priced at Rs. 100 (gives a margin of 50% on revenue)
- Assume that the average age of a person is 70 years
- Ignoring infant and old age period, assume that a person uses a toothbrush for 60 years
- A person uses around  $6 \times 60 = 360$  toothbrushes in their lifetime (change it every 2 months)
- Assume a price of Rs 50 per toothbrush, the ideal value of the product is  $360 \times 50 = \text{Rs } 18000$

**Factors that will affect the price suggested-** 1) Increase in price- inflation, time value of money, convenience of one time buying; 2) Decrease in price- fear of loss, boredom of single product for entire life.

