

HBR CASE NOTES FORMAT

PAGE 1

Case Title: Atlantic Computer: A Bundle of Pricing Options

Team Number:

Date:

Team Member 1 Name	Contribution – Problem Statement, Situation Analysis, SWOT Analysis (20%)
Team Member 2 Name	Contribution – Alternatives (20%)
Team Member 3 Name	Contribution – Recommendation, Cost-Benefit Analysis, Revenue/Profit forecasts, editing (20%)
Team Member 4 Name	Contribution – Alternatives (20%)
Team Member 5 Name	Contribution – Points of Discussion, outline of all sections (20%)

Case Evaluation: This case study was:

	1	2	3	4	5	
Boring					x	Interesting
Irrelevant					x	Relevant
Not Engaging					x	Engaging
Not Challenging					x	Challenging
Difficult to understand					x	Easy to understand
Not an effective learning tool					x	An effective learning tool
Inconsistent with learning objectives					x	Consistent with learning objectives

Rate the overall quality of the case study as a learning tool on a scale of 1 to 10 where 1 is lowest quality and 10 is highest quality. out of 10.

PAGE 2

Commented [p1]: SCORE: 20 on 25

Overall, there is room for improvement.

- Please show calculations for the 4 alternatives given in the case.
- Please explain: What is the impact of prices on topline / sales numbers?
- Please explain: What is the impact of pricing on salesforce, customers, and competition?
- Please explain: How will Atlantic implement this strategy?

• Score Breakup: 17 for analysis + 3 for calculations = 20

Points of Discussion

Situation:

- The “Atlantic Bundle” was developed to meet an emerging U.S. marketplace opportunity
- The “Atlantic Bundle” combines the new Tronn server with the PESA (Performance Enhancing Server Accelerator) software tool (promising a 2x – 4x increase in basic server tasks).
- The customers in the web-server and file-sharing application segments are considered to be the ones that would benefit most from the PESA tool
- Jason Jowers, product manager, is developing the pricing strategy together with a management team – Chris Matzer, Harry Fowler, Emily Jones, and Jairo Cadena. Jowers must decide a pricing strategy for the upcoming SME trade show.
- Atlantic Computer, Inc. captures a 20% revenue market share in the High Performance Servers segment
- Ontario Computer, Inc., a firm concentrated on the low-end server market, is Atlantic Computer’s main competitor in the Basic Server market. Ontario claims a 50% revenue market share with its Zink product line.
- The low-end basic server market is growing with a 36% compound annual growth rate through 2003.

Problem:

- Atlantic Computer must select a pricing strategy for their “Atlantic Bundle” before the SME trade show.
- Jowers needs to consider customer segments (like which group is going to benefit most from this bundle) if he decides to break the conventional industry pricing.

Alternatives:

In an attempt to establish a target market and value the benefits of the PESA and Tronn basic server, the management team at Atlantic Computer has developed the following pricing alternatives:

- 1) By convention and industry practice, only sell the Tronn server and give the PESA free of charge.
- 2) Price one Atlantic Bundle four times as expensive as one Ontario Zink basic server
- 3) Charge PESA based on software tool’s development costs
- 4) Price the Atlantic Bundle (Tronn + PESA) based on the value-in-use.

Additionally, we’ve presented three alternatives within our case analysis:

- 1) Charge based on product/service quality leadership
- 2) Charge with the objective of market share capitalization (setting prices generally low)
- 3) Charge to cover the development cost with a set profit margin

Recommendations:

Charge based on product/service quality leadership pricing (recommended)

Strategies

- a. Price Skimming (high to low)
- b. Status-quo: we’re not selling the software separately
- c. Charge a price based on **value-in-use pricing** (recommended)

INTRODUCTION

Atlantic Computer, Inc., once the largest player in the overall computer industry, has been competing in the overall server market for 30 years – by providing large enterprise customers with high-end performance servers, called Radia. Focusing on customer intimacy and product differentiation, Atlantic Computer's server division has a good reputation for selling high-quality products with responsive post-sales assistance. Yielded by the Internet and the proliferation of applications in the late 1990s, there is an emerging need for low-end, basic server systems. The low-end basic servers market is estimated to expand with about 36% compound annual growth rate through 2003.

In response to the projected growth of the basic server market, Atlantic Computer, Inc., has decided to introduce a new server model called the "Tronn" in an approach to downward the division's product line. Its main competitor is Ontario Computer, Inc., a firm concentrated on the basic server market with Zink product line claiming half of the total revenue market share. Jason Jowers, the product manager of the "Atlantic Bundle" is developing ~~the~~ a pricing strategy together with several colleagues – Chris Matzer, head of the server division; Harry Fowler, director of new product marketing; Emily Jones, director of the division's R&D team, and Jeiro Cadena, director of sales.

Developed to meet an emerging U.S. marketplace opportunity, the "Atlantic Bundle" combines the new Tronn server and the PESA (Performance Enhancing Server Accelerator) software tool, which was specifically designed to allow the Tronn server to perform up to 4 times faster than its standard speed – making frequently requested information more accessible. There is one main market segment that "Atlantic Bundle" is targeting: Basic Servers. Based on the customer segments chart, the customers in the web-server and file-sharing application segments are considered to be the ones that would benefit most from the PESA tool. The effects of first and second-order savings from purchasing the "Atlantic Bundle" are clearly eminent. However, it is a lot more complicated to convey those positive effects to prospective customers who are unpredictable when leveraging between short- and long-term investments.

SITUATION ANALYSIS

Atlantic Computers Inc. is close to launching an innovative project called the "Atlantic Bundle". The Atlantic Bundle is made up of a new server called Tronn and the PESA (Performance Enhancing Server Accelerator) software tool, which is specifically designed to make frequently requested information more accessible. Tronn + PESA package is equivalent to four basic servers – Tronn's performance speed can be increased up to four times if used in conjunction with the PESA software tool. These features give Atlantic a technological advantage against the less efficient competitors.

The person in charge of this project is Jason Jowers. At this point Jowers is in responsibility of developing the best pricing strategy together with a management team – Chris Matzer, head of the server division; Harry Fowler, director of new product marketing; and Emily Jones, director of the division's R&D team, and Jairo Cadena, direct of sales. Jowers ~~must~~ is concerned to have this pricing strategy finalized before the upcoming Small and Medium-Size Enterprise Systems Solutions Trade Show (SME) in which he would work alongside Jairo Cadena.

Atlantic Computer, Inc., once the largest player in the overall computer industry, captures 20% revenue market share in the High Performance Servers segment. Its main competitor in the low-end basic servers market is Ontario Computer, Inc., a firm concentrated on the low-end server market who claims 50% revenue market share with its Zink product line. The Internet had yielded a market for low-end system. And the low-end basic servers market is growing with around 36% compound annual growth rate through 2003.

- A variety of factors are being considered and evaluated to select the best pricing strategy, including customer reaction, competitors' follow-up actions, and the Server Division's traditional focus on hardware.
- The customers in the web-server and file-sharing application segments are considered to be the ones that would benefit most from the PESA tool.
- The customer profiles from different companies interested in the SME trade show proposal display different criteria based on the complexity of their firm's mission (i.e. file sharing, human genome mapping).
- Customers are hard to predict when leveraging between short- and long-term investments.
- Chris Matzer, on the conservative side, wants to market the "Atlantic Bundle" to the emerging, low-end basic servers market that has been dominated by Ontario. Emily Jones and Harry Fowler agree with him.
- Jowers and Matzer hold differentiated opinions on whether to give PESA software tool away through the bundle. The Server Division of Atlantic Computer, Inc., has been providing customers with small software management tools for free to win deals. Matzer advocates pricing the Tronn server at \$2,000 by following conventional cost-plus pricing analysis approach.
- Jowers is also considering Cadena's perspectives on the pricing structure though his views are clearly tinted given his sales channel director nature
- It is crucial for Jowers to contemplate how to successfully convey the first- and second-order savings effects of buying the Tronn server to prospective customers in conjunction with the PESA as opposed to buying four basic servers.

Commented [p2]: Could this entire section be presented more systematically by using the 5C framework? Think about it...

PROBLEM STATEMENT

A pricing strategy must be chosen in order to launch the “Atlantic Bundle” to the market, putting aside the different opinions from Jowers and Matzer in order to reach a consensus amongst the divisions that are involved in this innovative product.

ALTERNATIVES

Alternative 1: Value-based pricing strategy

The first alternative is to charge for Tronn and PESA using a value-based pricing strategy. The pricing tactics for Atlantic with this strategy are:

- i. Price Skimming: lowering the price with time
- ii. Status-quo: bundling the software and hardware
- iii. Value-in-use: Charge a price based on value-in-use calculation.

Pros:

- By a price skimming tactic, Atlantic can reach a high-end consumer market and maintain their brand name as it is known for high-quality products. By this means, the company can attract not only innovators and early adopters, but also early and late majorities as it lowers the price later, according to Everett Roger’s Diffusion of Innovation Model.
- By bundling Tronn and PESA, Atlantic keeps the industry standards and maintains what the consumers expect.
- Charging a value-based price for the product emphasizes the technological value of the product, which differentiates Tronn and PESA from products by other companies.

Cons:

- Setting the price high up-front can potentially shun away price-sensitive customers.

Pricing Objective:	Introductory Price:
Product/service Quality Leadership	Atlantic Bundle (Tronn+PESA) - \$4538
Pricing Tactics:	Competitive Advantage:
Value-in-use Pricing	Signaling High Quality
Price Skimming	Low-risk of a Price War w/ Ontario Computer Inc.
Status-Quo – Bundling	Consistent Branding Strategy across Product lines

Table 1 - Alternative 1: Pricing Strategy

Alternative 2: Competitive pricing strategy

The second alternative is to charge with the objective of market share capitalization. The product price is set close to the price of the major competitor’s.

Pros:

- By providing a higher-quality product at the same price compared with the competitor’s, Atlantic will be able to gain a significant market share upon its initial entrance into the new market segment.
- Atlantic can thereby obtain consumers from both high-end and low-end markets.

Commented [p3]: Please clarify: Giving the software FREE?

Commented [p4]: GOOD!

Commented [p5]: Please clarify: Giving the PESA FREE?

Commented [p6]: And helps the company gain more by not leaving money on the table.

Commented [p7]: How did you get this number? Please provide the reference from the case.

Cons:

- A low price will offer a small profit margin, and thus it will take a longer time for the company to cover the development cost.
- A low price can raise doubt in consumers regarding the quality of the product. Besides, it may hurt the high-end branding of Atlantic.

Pricing Objective: Market Share Capitalization	Introductory Price: Atlantic Bundle (Tronn+PESA) - \$1799
Pricing Tactics: Penetration Pricing Value-in-use Pricing Status-Quo – Bundling	Competitive Advantage: Entice Customers High market-share potential

Table 2 - Alternative 2: Pricing Strategy

Commented [p8]: How did you arrive at this number?

Commented [p9]: How is value-in-use pricing being applied?

Alternative 3: Cost-based pricing strategy

The third alternative is to charge for the product based on the cost of its development. Since PESA is the major innovation in the product, the pricing of the product will be based on the cost of PESA.

Pros:

- The pricing strategy enables the company to manage its return of investment.

Cons:

- Since the strategy only considers the cost of development of the product, it leaves out any possible influence from the market. As a result, the price may not meet the expectation of the market.
- The non-market-driven pricing strategy may result in an unclear positioning of the product. As a consequence, there may be possible cannibalism between Atlantic's several product lines.

Pricing Objective: Survival	Introductory Price: Atlantic Bundle (Tronn+PESA) - \$2000
Pricing Tactics: Cost-based Pricing Status-Quo – Bundling	Competitive Advantage: Easier to calculate ROI, profit margin, BEP

Table 3 - Alternative 3: Pricing Strategy

Commented [p10]: Why? They do not have any other basic server. Their high end and basic servers are not substitutes.

Commented [p11]: Please provide a reference for this number.

RECOMMENDATION

We strongly recommend Mr. Jason Jowers to price the Atlantic Bundle with the objective of having the best Product/Service Quality and Leadership. Tactically, we recommend Mr. Jowers to utilize value-in-use pricing, price skimming, and bundling to achieve this objective. Below we listed our reasoning and the factors our recommendation was founded from.

Justification for the Pricing Strategy

1) Atlantic Computer's server division is "known for providing top-notch, highly reliable products, and [has] a reputation for providing high quality, responsive post-sales assistance." By following this recommendation Atlantic Computer will be able to leverage their current brand reputation to sell Atlantic Bundles at high, value driven prices.

2) Ontario Computer's business model "is not to be the leading innovator in product technology", thus Atlantic Computer will be able to capitalize on their "overarching strategy based on... product differentiation" and quality. Pricing with the objective of having (or being perceived as having) the best Product/Service Quality allows them to best compete with Ontario without getting into a price war.

3) The basic server industry currently lacks a higher-end, highly benefit/value driven product in the marketplace. Therefore Atlantic Computer should fill that void with the Atlantic Bundle.

Justification for the Pricing Tactics

- 1) Value-in-use pricing, coupled with price skimming is known to signal high quality to customers
- 2) Setting prices relatively high is also known to signal high quality
- 3) Using the cost-benefit analysis below to communicate the value of the Atlantic Bundle easily demonstrates why customers will save money buying with Atlantic versus Ontario Computer. Customers will save approximately \$24,000 in electricity, software licensing, and labor costs over a period of 3+ years. Their ROI will be about 260%.
- 4) Additionally, Atlantic Computer stands to benefit the most by pricing the Atlantic Bundle at this rate. See tables 12 – 16 in the appendix.

Commented [p12]: There are no Tables provided after Table 12 (SWOT).

Plan B:

As an alternative to our recommendation, Atlantic Computer can also price the Atlantic bundle with the objective of market share capitalization. Using this pricing objective requires Atlantic to set the price of the Atlantic Bundle close to the price of Ontario Computer's Zink server. By following this strategy, Atlantic will be able to do the following:

- 1) Gain a significant market share upon its initial entrance into the new market segment.
- 2) Obtain customers from both high-end and low-end markets.

APPENDIX

Commented [p13]: How did you arrive at these numbers?
Can you share the calculations and formulas?

Cost Benefit Analysis - Customer Savings over Zink Basic Server					
	2001	2002	2003	2004	Total
Benefits					
Reduction in Electricity Costs	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00	\$ 2,000.00
Reduction in Software Licenses	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 6,000.00
Reduction Labor Costs	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 16,000.00
Total Benefits	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 24,000.00
Costs					
Atlantic Bundle	\$ (9,076.00)	\$ -	\$ -	\$ -	\$ (9,076.00)
Total Costs	\$ (9,076.00)	\$ -	\$ -	\$ -	\$ (9,076.00)
Net Benefits	\$ (3,076.00)	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 14,924.00
Cumulative Cash Flow	\$ (3,076.00)	\$ 2,924.00	\$ 8,924.00	\$ 14,924.00	
ROI	264%				
BEP (years)	1.5				

Table 4 - Cost-Benefit Analysis for Alternative 1 (2 Atlantic Bundles vs. 4 Zink Servers)

Notes:

- Savings from buying 2 Atlantic Bundles vs. 4 Zink Servers
- Assumed a 50-50 sharing of the savings gain for 1 year (pg 6)
- The price of the Atlantic Bundle was calculated by adding the cost per server with 50% of the savings generated from one year.

Cost Benefit Analysis - Customer Savings over Zink Basic Server					
	2001	2002	2003	2004	Total
Benefits					
Reduction in Electricity Costs	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00	\$ 2,000.00
Reduction in Software Licenses	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 6,000.00
Reduction Labor Costs	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 16,000.00
Total Benefits	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 24,000.00
Costs					
Atlantic Bundle	\$ (3,598.00)	\$ -	\$ -	\$ -	\$ (3,598.00)
Total Costs	\$ (3,598.00)	\$ -	\$ -	\$ -	\$ (3,598.00)
Net Benefits	\$ 2,402.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 20,402.00
Cumulative Cash Flow	\$ 2,402.00	\$ 8,402.00	\$ 14,402.00	\$ 20,402.00	
ROI	667%				
BEP (years)	0.6				

Commented [p14]: Why do you need this for
Competition-based pricing?

Table 5 - Cost-Benefit Analysis for Alternative 2 (2 Atlantic Bundles vs. 4 Zink Servers)

Notes:

- Savings from buying 2 Atlantic Bundles vs. 4 Zink Servers
- The price of the Atlantic Bundle was calculated by adding \$100 to the price Ontario Computer charges for the Zink server.

Cost Benefit Analysis - Customer Savings over Zink Basic Server					
	2001	2002	2003	2004	Total
Benefits					
Reduction in Electricity Costs	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00	\$ 2,000.00
Reduction in Software License	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 6,000.00
Reduction Labor Costs	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 16,000.00
Total Benefits	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 24,000.00
Costs					
Atlantic Bundle	\$ (4,000.00)	\$ -	\$ -	\$ -	\$ (4,000.00)
Total Costs	\$ (4,000.00)	\$ -	\$ -	\$ -	\$ (4,000.00)
Net Benefits	\$ 2,000.00	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00	\$ 20,000.00
Cumulative Cash Flow	\$ 2,000.00	\$ 8,000.00	\$ 14,000.00	\$ 20,000.00	
ROI	600%				
BEP (years)	0.7				

Table 6 - Cost-Benefit Analysis for Alternative 3 (2 Atlantic Bundle vs. 4 Zink)

Notes:

- Savings from buying 2 Atlantic Bundles vs. 4 Zink Servers
- Used the price per Tronn server given on page 9 of the text

Projected Revenue - Alternative 1 (Product/Service Quality)					
Year	Units	Costs	Price per Unit	Revenue	Profit
2001	2,000	\$ 3,742,666.67	\$ 4,538.00	\$ 9,076,000.00	\$ 5,333,333.33
2002	6,300	\$ 10,356,066.67	\$ 4,538.00	\$ 28,589,400.00	\$ 18,233,333.33
2003	12,880	\$ 20,476,106.67	\$ 4,538.00	\$ 58,449,440.00	\$ 37,973,333.33
Total Expected Revenue	\$ 96,114,840.00				
Total Expected Profit	\$ 61,540,000.00				

Table 7 - Projected Revenue/Profit for Alternative 1 / Recommendation

Projected Revenue - Alternative 2 (Competitive Pricing)					
Year	Units	Costs	Price per Unit	Revenue	Profit
2001	2,000	\$ 3,742,666.67	\$ 1,799.00	\$ 3,598,000.00	\$ (144,666.67)
2002	6,300	\$ 10,356,066.67	\$ 1,799.00	\$ 11,333,700.00	\$ 977,633.33
2003	12,880	\$ 20,476,106.67	\$ 1,799.00	\$ 23,171,120.00	\$ 2,695,013.33
Total Expected Revenue	\$ 38,102,820.00				
Total Expected Profit	\$ 3,527,980.00				

Table 8 - Projected Revenue/Profit for Alternative 2

Projected Revenue - Alternative 3 (Cost-plus Pricing)					
Year	Units	Costs	Price per Unit	Revenue	Profit
2001	2,000	\$ 3,742,666.67	\$ 2,000.00	\$ 4,000,000.00	\$ 257,333.33
2002	6,300	\$ 10,356,066.67	\$ 2,000.00	\$ 12,600,000.00	\$ 2,243,933.33
2003	12,880	\$ 20,476,106.67	\$ 2,000.00	\$ 25,760,000.00	\$ 5,283,893.33
Total Expected Revenue	\$ 42,360,000.00				
Total Expected Profit	\$ 7,785,160.00				

Table 9 - Projected Revenue/Profit for Alternative 3

Commented [p15]: Why do you need this for Cost-Plus Pricing?

Commented [p16]: How did you arrive at this price point - \$4538?

Commented [p17]: Why \$1799?

Commented [p18]: Why is the price \$2000 in this case?

Projected Basic Server Market Volumes		
Year	Units	Sales
2001	50,000	4%
2002	70,000	9%
2003	92,000	14%

Note: Assuming that they sell everything they make (from pg 6-7)

Table 10 - Projected Basic Server Market Volumes and Atlantic Bundle Sales

Recommended Pricing Strategy			
Strategy	Price	Manufacturing Costs	Dev Costs (per year)
Product/service Quality	4,538	1538	666,667
Competitive Pricing	1,799	1538	666,667
Cost-based Pricing	2,000	1538	666,667

Table 11 - Recommended Pricing per Strategy

Notes:

- The price of the Atlantic Bundle was calculated by adding the cost per server with 50% of the savings generated from one year. We assumed a 50-50 sharing of the savings gain for 1 year, when calculating the price of the Atlantic Computer (pg 6)
- The manufacturing and development costs were found on page 9
- The development costs were amortized over 3 years.

S	W
-Product Innovation -Performance Speed -Cost/Savings -Reliability	-Lack of experience in low end basic servers -Internal disagreements
O	T
-The market is increasing at a high rate -Increasing Demand -Rise of web servers	-Uneducated Costumers -Competition -New Entrants

Table 12 - SWOT Analysis of Atlantic Computer

Commented [SP19]: The case provides a lot of information for a more detailed SWOT analysis.