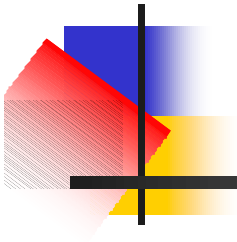


# BUS 671 Global Marketing Management



Interactive Computer Systems Corp.

Kathy Chung (02463211G)

Thomas Wu (02715615G)

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# Background

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- September 1990
- Interactive Computer Systems Corp. (“ICS”)
  - Multinational manufacturer of computer systems and equipment
  - US based, subsidiaries in many countries, manufacturing facilities in 5 locations outside the US
  - Multi-domestic approach to marketing management
- Model 2000 programmable multiplex communications interface (“M2000”)
  - Designed and produced in Frankfurt
  - Small volume, specialized product with cost plus pricing



# Pricing Issues

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- M2000 sells at US\$3,900 in Germany but only US\$3,000 in the US
  - Pricing based on cost plus allocated fixed costs plus expected profit margin of 15%
  - US cost plus calculation allocated transportation costs and import duties to general overhead instead of the product
  - Properly calculated cost plus price should be US\$3,550 in the US
- Internal conflicts
  - “Parallel import” by European customers
    - US takes sales of German subsidiary
    - German subsidiary shoulder cost of warranty and after-sales services



# Profit Analysis For M2000

	<u>Profit Analysis</u> <u>At Existing Price</u>	<u>Profit Analysis</u> <u>At Revised Price</u>	<u>Profit Analysis</u> <u>At Existing Price</u> <u>but Revised Cost</u> <sup>2</sup>
US List Price	\$ 3,000	\$ 3,550	\$ 3,000
Direct cost(s)	<u>1,500</u>	<u>1,775</u> <sup>1</sup>	<u>1,775</u> <sup>1</sup>
Contribution margin	1,500	1,775	1,225
Contribution margin %	50%	50%	41%
Allocated fixed costs (35%)	<u>1,050</u>	<u>1,243</u>	<u>1,243</u>
PBT	\$ 450	\$ 532	(\$ 19)
PBT %	15%	15%	(1%)

The transportation cost of US\$200 and import duties of US\$75 are added to the manufacturing cost of US\$1,500. They are included as part of the direct costs (rather than as part of the allocated fixed costs).

This profit analysis compares the current actual selling price of M2000 to the re-calculated cost base.



# Pertinent Issues

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- ICS should take these issues into account
  - Cost allocation
    - Current cost allocation under-price M2000 in the US
  - Different market condition
    - US more competitive and higher price performance ratio
    - Europe prices higher due to higher cost of doing business
  - Parallel import
  - Performance evaluation
  - Capacity of existing facilities and expansion possibility



# Pricing Strategy Considerations

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- Global vs localized pricing
  - Global pricing
  - Localized pricing
- Product homogeneity vs differentiation
  - M2000 is a homogenous product
  - Differentiation strategy
- Performance evaluation criteria
  - Reward coordinating and facilitating activities
  - Shift focus to improving ICS profitability and customer service level



# Global Pricing Strategies

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- **Alternative 1.** Increase the US price to US\$3,900 to match its price in Europe. No other action.
- **Alternative 2.** Price M2000 between US\$3,550 and US\$3,900 globally. No other action.



# Localized Pricing Strategies

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- **Alternative 3.** Keep status Quo: Europe at US\$3,900 and US at US\$3,000. No other action.
- **Alternative 4.** Europe at US\$3,900 and US at US\$3,600. Use product differentiation to support price difference.
- **Alternative 5.** Price M2000 locally allowing varied markup. No product differentiation. Performance evaluation considers coordination/facilitation efforts.
- **Alternative 6.** Price M2000 locally allowing varied markup. Use product differentiation to support price difference. Performance evaluation considers coordination/facilitation efforts.





# Summary of Alternatives

	GLOBAL PRICING		LOCALIZED PRICING			
	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative 5	Alternative 6
<b>Price:</b>						
US (US\$)	3,900	3,600 <sup>1</sup>	3,000	3,600	3,300 <sup>2</sup>	3,300 <sup>2</sup>
Germany (US\$)	3,900	3,600 <sup>1</sup>	3,900	3,900	3,800 <sup>2</sup>	3,800 <sup>2</sup>
<b>Performance Evaluation</b>	15% PBT	15% PBT	15% PBT	15% PBT	PBT +coordination & facilitation effort s	PBT +coordination & facilitation efforts
<b>Product Differentiation<sup>4</sup></b>	None	None	None	Yes	None	Yes
<b>Advantages</b>	<ul style="list-style-type: none"> <li>Higher profit per unit in the US</li> <li>No parallel import</li> </ul>	<ul style="list-style-type: none"> <li>Higher profit per unit in the US</li> <li>Higher European demand</li> <li>No parallel import</li> <li>Direct costs of US taken into account</li> <li>Performance evaluation that can motivate specialist</li> </ul>	<ul style="list-style-type: none"> <li>Increased US sales</li> <li>Subsidiaries' own preferred pricing</li> </ul>	<ul style="list-style-type: none"> <li>US price taking into account direct costs</li> <li>Both US and European subsidiaries meet target PBT</li> <li>Parallel imports unlikely</li> </ul>	<ul style="list-style-type: none"> <li>Optimal pricing based on local demand condition</li> <li>Increased European sales</li> <li>Lower profit per unit will not affect performance evaluation</li> <li>Differentiation reduce parallel import</li> </ul>	<ul style="list-style-type: none"> <li>Optimal pricing based on local demand condition</li> <li>Increased European sales</li> <li>Lower profit per unit will not affect performance evaluation</li> <li>Differentiation reduce parallel import</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>Lost competitiveness in US</li> <li>Lost US sales with no compensation in European sales</li> <li>Profitability biased against US</li> <li>Not optimal pricing based on local demand</li> </ul>	<ul style="list-style-type: none"> <li>Lost sales in the US</li> <li>Not optimal pricing based on local demand</li> <li>European subsidiaries unable to meet PBT</li> <li>Profitability biased against European subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>Direct costs not properly treated</li> <li>US unable to meet target PBT</li> <li>Severe parallel import problem</li> <li>European subsidiaries lost sales to US</li> <li>US selling at a loss</li> </ul>	<ul style="list-style-type: none"> <li>Increased cost from product differentiation</li> <li>Lower US competitiveness and sales</li> </ul>	<ul style="list-style-type: none"> <li>Accuracy of local price calculation</li> <li>Lost US sales as price increased</li> <li>Parallel imports more likely</li> </ul>	<ul style="list-style-type: none"> <li>Accuracy of local price calculation</li> <li>Lost US sales as price increased</li> <li>Increased cost from product differentiation</li> </ul>
<ol style="list-style-type: none"> <li>Assumed. ICS can price M2000 between US\$3,550 and US\$3,900. The final global price should maximize the overall profitability of ICS.</li> <li>Assumed. In view of the more competitive market, a price \$3,300 is set for the U.S. The price of \$3,800 is set for European subsidiaries assuming that it has been set higher because of the required 15% PBT.</li> <li>Include coordinating and facilitating activities in performance evaluation to reduce internal conflicts and redirect focus on overall corporate financial and service performance.</li> <li>Differentiation strategy refers to various product features, promotions and advertisements, distribution methods, different warranty duration and terms, distinct levels of after-sales service packages and other inherent feature or service factor distinctions that ICS can apply to differentiate M2000 sold from different geographical locations.</li> </ol>						

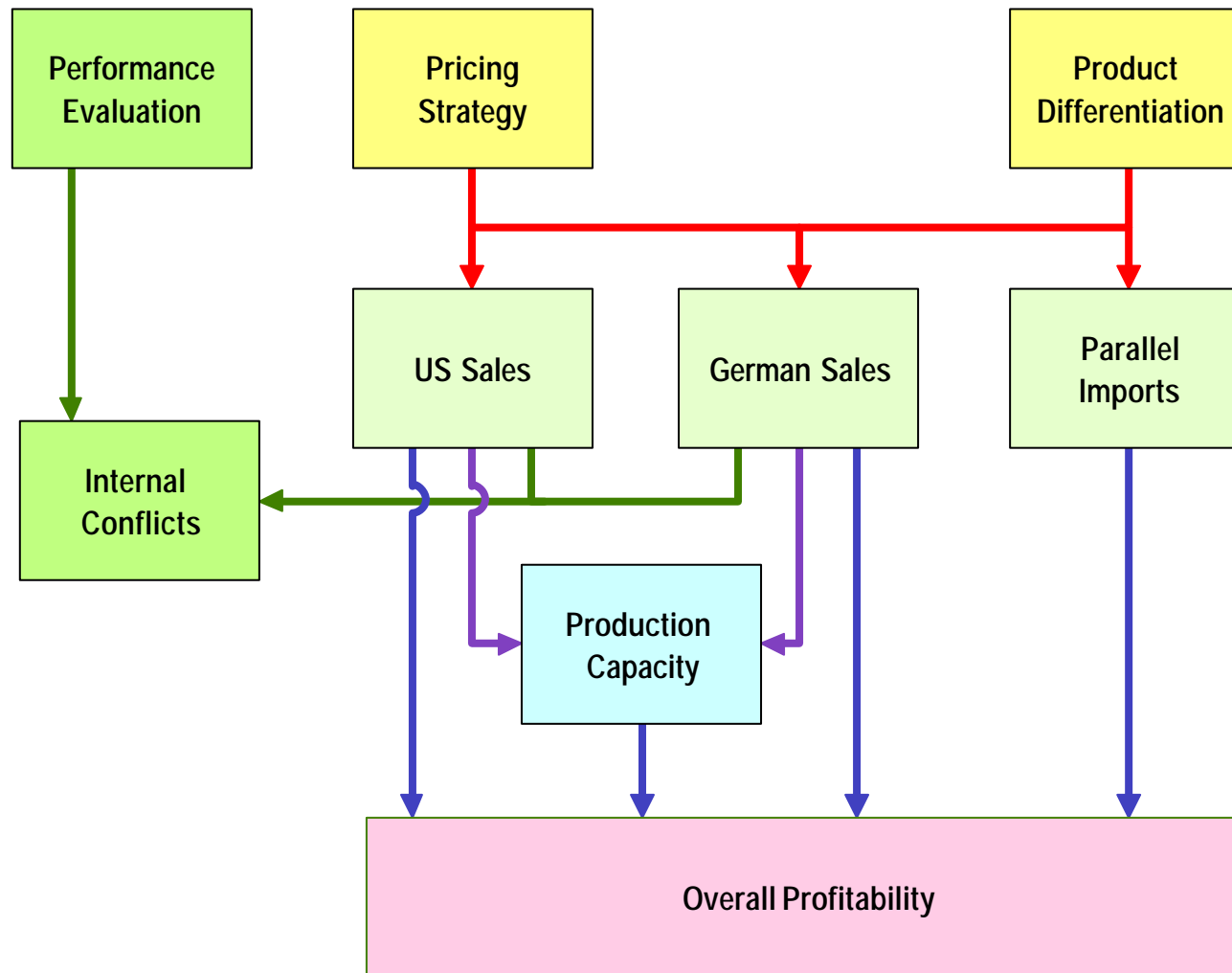


# Scoring Factors

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- The alternatives are ranked using the following scoring factors derived from the pertinent issues
  - US sales and customer goodwill
  - European sales and customer goodwill
  - Parallel imports
  - Internal conflict
  - Utilization of production capacity
  - Overall profitability

# Pertinent Issues To Ranking Factors





# Ranking

	GLOBAL PRICING		LOCALIZED PRICING			
	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative 5	Alternative 6
<b>Price:</b>						
US (US\$)	3,900	3,600	3,000	3,600	3,300	3,300
Germany (US\$)	3,900	3,600	3,900	3,900	3,800	3,800
<b>Performance Evaluation</b>	15% PBT	15% PBT	15% PBT	15% PBT	PBT +coordination & facilitation efforts	PBT +coordination & facilitation efforts
<b>Product Differentiation</b>	None	None	None	Yes	None	Yes
<b>Scoring Factor</b>	<b>Point</b>	<b>Point</b>	<b>Point</b>	<b>Point</b>	<b>Point</b>	<b>Point</b>
• US sales and customer goodwill	-5	1	5	1	4	4
• European sales and customer goodwill	1	5	-5	3	2	4
• Parallel imports	5	5	-5	-1	-4	-2
• Internal conflict	-3	-2	-4	1	3	5
• Utilization of production capacity	-3	1	3	-1	4	4
• Overall profitability	-3	1	-1	2	4	3
<b>Total Points</b>	<b>-8</b>	<b>11</b>	<b>-7</b>	<b>5</b>	<b>13</b>	<b>18</b>



# Recommendation

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- Short term for M2000
  - Implement localized pricing
  - Supplement with product differentiation
  - Modify performance evaluation criteria
  
- Long term for ICS
  - Consider a market approach to pricing for each location
  - Global supply chain optimization
  - Transfer pricing
  - Performance evaluation