Racquetball Racket

Question 1

What do we *know*?

- variable cost of our ball and Woodrow's ball
- plant costs
- history of number of players, price, sales
- focus group results

What can we *assume*?

- Woodrow will not change price
- focus group estimates are accurate about the total market
- no new competitors will emerge
- our price, once set, will not change
- costs will not change over time

What could the results *look like*?

- estimate of profit (NPV)
- scenarios under which we could make a profit
- estimate of profits if Woodrow retaliates
- strategy for pricing over time
- estimate of the risks of investing

What *information* can be brought to bear?

- history of related products, such as tennis balls
- information on competition between an established player and new rival with a cost advantage

What can we *ask the client*?

- how important is the ball business to Woodrow?
- is Woodrow likely to retaliate?
- how price sensitive are players currently?
- would players compare prices on a relative or absolute basis?

Similar situations or problems?

- entry of new competitor with a cost advantage

Question 2

Problem statements: *In what ways could we….?*

- ensure profitable production of the new ball?
- best negotiate a partnership with Woodrow?
- drive Woodrow from the ball business?
- develop our production process for sale to other makers of balls

Question 3

Decisions

- enter market or not
- price of our ball
- units of production each year

Objectives

- maximize profit

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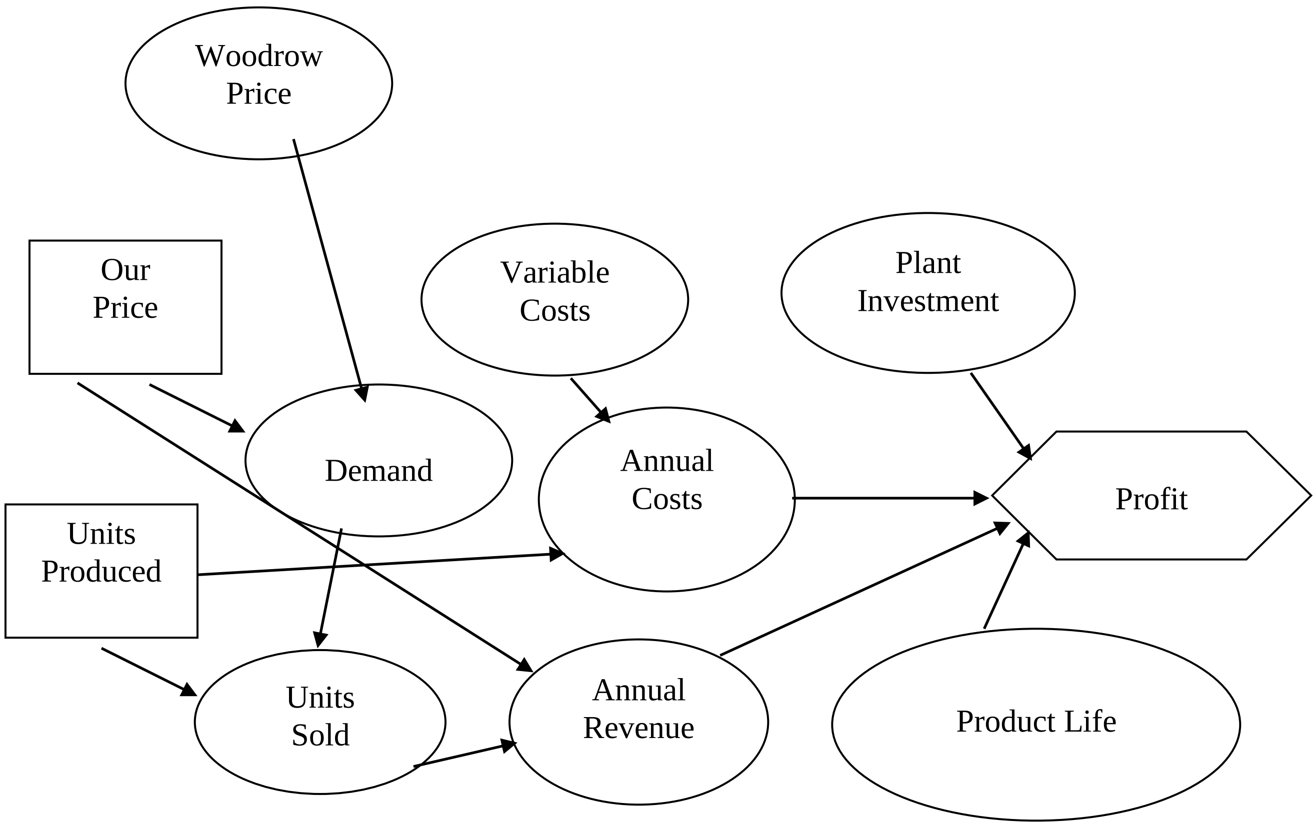
Constraints

NA

Question 4



Question 5

Ways to simplify

ignore competitive reaction

assume zero price elasticity

Question 6

Modules

total players

our market share

balls/player/year

annual contribution

NPV

Question 7

Key relationships

- market share
- number of players
- Woodrow price response

Question 8

Parameters

- various parameters in market share relationship
- initial number of players
- Woodrow’s price
- growth rate in players
- variable costs
- plant costs

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