Case

Transform Printers is one of the strong players in the printers' market of India. With the boom in computers market in the early 2000s, Mr. Sailesh Mahadevi, a Computer Science Engineer from IIT_, thought of starting a company providing excellent quality printers. So, in 2002, Transform Printers was inaugurated in Delhi. TP has maintained the pace with ever-changing technology in this printing industry. With time many new players have emerged. This lead to increase in the competition in the market.

TP has always beat the competition by the quality of its products. Because of which they have always charged a premium price for their printers. However, the time does not remain constant. With the changing time, all the major players have acquired competitive technology for high-quality printing. Quality is no longer a competitive advantage for TP. As a result, TP has to lose a major chunk of its market share to its competitors. However, the down times did not end there; the competitors went further harshly. They have revised the prices of products. It was not a mere revision, but a major reduction in the prices of printers. The demand of printers behaves nonlinear relation with the change in prices. With the 1% change in prices the demand changes by 2%. Hence, the reduction of prices by competitors has led to a jump in demand for their products.

Current demand for printers is 5000 units at price of $75. The average cost incurred in producing a printer is approximate $59. The cost incurred in production is almost same for all the manufacturers. ***What is the best price to charge for a printer to maximize the profits?***

The competitors have reduced the price of a printer to $55, which is far better than the price of TP printers. Mr. Mahadevi is unable to understand how the competitors can cover up the costs of production for printers. How have they kept the price less than the cost incurred in producing a printer? Are they incurring the losses to increase the demand for their products?

To find answers to above questions, Mr. Mahadevi called up a meeting of the management team and discussed all the concerns. They decided to analyze the competitors' products and business and meet again after finding some of the possible sources of funding. In next meeting, it came to light that almost all the competitors are not in the business of manufacturing printers only. Most of them manufacture and offer printer cartridges as complementary products. On further analysis,

they found that the average lifetime of TP printers is three years while the mean lifetime of a cartridge is six months. It implies that during the time frame of a printer the customer has to buy more than one cartridge. The production set up for cartridges do not require much effort and cost because the resources used are almost similar to those needed for manufacturing printers. The average cost of producing a cartridge is $4 only. It is sold at $16 per unit in the market. As the earnings per unit are significant for cartridges, so, Mr. Mahadevi is thinking of producing cartridges as well. Can this be an option for fighting the competitors in printers' market? Check feasibility of this option?

Is there any way for Mr. Mahadevi to reduce the prices of printers but still earn profits, to compete with the rivals in the market? What can be the best price for maximizing the profit?