SENEM ACET COSKUN - MKT 9703 – SPRING 2007

ODI LENS CASE

The ODI Lens, Inc. has a new invention, which- in fact- is the first alternative product to replace debeaking, a process being frequently used by farmers as a way to overcome the chicken cannibalism. The lens they have invented has great advantages to farmers and it is also practical to use; however, the market they want to sell the product doesn't exist yet. Farmers, their potential customers, are resistant to adopt new technologies, and they also don't want to spend one more penny to any kind of extra cost. Moreover, chicken farmers in the US form a heterogeneous customer profile with the same profit maximization goal in mind but different cost saving efforts and product preferences. ODI Lens has to convince farmers not only to buy their product but also to leave their traditional way of cannibalism prevention method: debeaking. In order to do this, they actually have to emphasize the cost savings at fisrt. A farmer doing debeaking process has a cost of $11.040 per bird. The lens, on the other hand, has the potential of reducing a farmer's feed cost because a bird with full beak and the lenses can't see well enough to be fussy and doesn't drool in food as debeaked birds do. Moreover, since the mortality rate will fall by the lens insertion, there will be no allocation for replacing dead birds and the farmer will save more. The total savings for a farmer will be $0.255 per bird annually (Exh-1). For a farmer with 1,000,000 chickens, this increase in profit per bird means a huge increase in overall profit by $255,000 per year. Besides, since the cost of lens insertion process almost equals to debeaking process, it is not necessary to hire new labor force. Training the existing crew, which probably will be supplied by the sales representatives of the ODI lens, is enough to be capable of lens insertion. From the perspective of economy, assuming that this simple cost analysis is enough to convince farmers to switch to lens system and also assuming that there will be no other competitors in the market for at least the first 3 years with existing patent protection, everything seems easy and doable. However, company must be quick to collect cash because they have neither enough money nor an investor support. So they need to develop the market as fast as they can and they must have an aggressive marketing plan to do this. California has the largest share in chicken farms in Pacific region. In 1969, the total number

of chickens in California was about 46M with a 12% overall share. It is estimated that while the growth rate of total chicken number in U.S shows a declining pattern between 1969 - 1974 and slightly changes between 1974-1979, the number of chickens in California have an inclining trend during the same periods (Exh-2a/2b). Based on these calculations, it is appropriate to say that California is a good market as an initial distribution point. Two counties in southern California have 21M of 55M chickens in all California, by making a 38% regional share. This means that the first focus in the region must be southern California. Except California, there is no major state with a significant number of chickens in pacific region. However, South Atlantic, having the largest number of chickens in entire U.S, seems to be the next possible market on the way of national distribution after the regional success is guaranteed (Exh-3). Poultry industry has been evolved through success examples. If there is one well-known farmer doing something new and saving money with that, it is very likely for others to do the same thing. ODI lens is an innovation and with being an 'innovation', it is also uncommon for a typical, family operated, small farm. These farms usually operate at either break even or at a small profit. Farmers, who have a small scale egg production, do not intend to pay for an extra cost unless they are willing to contract their production to a larger producer. Hence, small farms are definitely out of target segment for ODI lenses. A medium farm, which is operated more professionally compared to a small farm, has more potential to consider cost cutting innovations. The owner of a medium farm has both business and agricultural skills, which -in fact-is better to understand the ODI lens advantages in both perspectives. Since the farmer is also the owner of the company, he has the managerial power to deal with large corporate suppliers. And this makes it easy for ODI lens sales representatives to contact directly to the owner of a medium farm. Furthermore, the cost saving -and consequently the profit increasing- advantage of ODI lens will be more obvious in a medium farm when compared to its overall cash flow. A total of 381 medium farms with 11M total chicken capacity is estimated for year 1974 by using growth rate analogy. There is only slightly change in number of medium farms until 1979 (Exh-4). Therefore, medium farms have the potential to be the first target segment for ODI lenses in the short run. On the other hand, a large farm with a minimum 50,000 birds flock size capacity may be considered as a small manufacturing firm. The administration of such farm is complex and layered.

However, the farm is likely to have a declining average production cost due to its cost saving efforts like converting waste into fertilizer as a by-product, growing its own pullet…etc. So they operate at the economies of scale. Innovation means a lot for this kind of companies, especially when it has a cost cutting benefit. ODI lens seems a perfect match for a large firm with its promising innovation technology; however, the product needs to be matured and trained before intending to hunt a big fish. If the product fails to prove to be efficient and feasible for a large firm, then it is likely to lose other farms, which have intention to follow the big brothers. That's why; it is risky to target "very" large farms but there are plenty of others, who want to be a large farm one day. Besides, large farms prefer professional and experienced suppliers with efficient supply capacity. The overall chicken capacity of large farms in 1974 is estimated as 36M with 239 operating farms (Exh-4). ODI, Inc. needs to collect cash before ordering this amount of lenses in order to cover its increasing costs with increasing capacity. Large firms, with a great sales opportunity, are the potential long run markets for ODI lenses. ODI lens is the first product in its category and sooner or later it will prove its efficiency. To be able to achieve this, it needs to do extensive and repeated field trials and construct a strong database as a proof to farmers. It's not enough to solely tell the farmers how much money they will save with using their product. Testing the product is required for not only convincing the farmers but also attracting the prospective investors. As an aggressive marketing plan, the short term target will be set as the most efficient medium farms and may be the "want-to-be-efficient" large farms. Not the farm but the chicken numbers are being targeted in this marketing strategy. It's better to sell as much as they can before others come into the business. Targeting the medium size farms and setting the initial sales goal as 3,000,000 pairs for the first 6 months, company is actually targeting 30% penetration. Assuming that the sales will increase more than 50% to 5,000,000 pairs by the end of 1975, company is setting a penetration goal of 50% among medium size farms. Southern California is the starting point with having the most chicken capacity and overall California will be covered as regional distribution goal. After proving to be the efficient and successful product, company will be the nationwide distributor of the product in the long run. The maximum price a farmer is willing to pay is assumed as $0.255, which is the amount he will save by switching to lens (Exh-1). On the other hand, since the variable cost for one pair of lens is $0.035, company

has to set a price between these ceiling and floor prices (Exh-5). The initial price may be increased after introduction by adding extra specifications but it shouldn't be set high and then reduced. Since the chicken farmers, even the big ones, are an independent-minded people, this market skimming pricing strategy may cause them to react unfavorably if they get the idea of they have been taken. Differential pricing can be considered as another option. Setting price high for large farms and keeping it lower for medium farms makes the product cost more reasonable for farmers, however, since the elasticity of demand for the product is not known, it would be better to keep the price constant for all markets initially. Setting the price as $0.18 seems accurate. The product is new and there is no reference point for customers to compare. Since this price is below the amount which a farmer wants to pay, it also has the advantage of marketing the product as "affordable" while getting fast profit on that. So, the initial price for the product is $0.18 with a 3,000,000 pair sales goal for the first 6 months. This means that the company will sell under break even during first moths of introduction (Exh-6). Targeting all 381 medium size farms in California means that the company needs to hire at least 5 sales persons (80 farms/sales person) and 1 technical representative (5 sales person / 1 technical representative). Initially having 2 regional offices brings less office expenditure making the overall initial fixed cost $627,000. A headquarter during the start-up is not necessary. Money should be spent as low as possible. The cost of one pair lens is $0.035, including the injection mold and boxing (Exh-5). The first step for a successful marketing plan must be collect as much data as possible. To do this, sales representatives should try to convince farmers to conduct field trainings with their flocks. Hard working sales reps should also train farmer labors for installation of lenses. The big motivation must be a happy and satisfied farmer, keeping into mind that one such farmer has great potential to influence others. Let aside the inadequate budget for advertising and trend show sponsorships, these activities do not prove enough for a farmer to buy the lenses, either. Hence for the start-up, company should stay away from advertising and sponsorships. Conducting trials in universities may have an advantage providing an academic support for the innovation. First 12-18 months are critical and company must resist economic losses as it forecasts to sell under break even volume (Exh-7). By the year 1975, if it sales more than its break even point it will begin to earn profit. From 1974 to 1976 company may cover all southern California region and spread

through a nationwide distribution by year 1977. Until 1980, ODI Lens, Inc. must have a brand awareness and be pioneered in lens industry, which means before other big companies jump on the market with more efficient product offerings. Assuming that the product has proved to be cost effective and reliable for all sizes of farmers either by trials or successful farmer experiences and saying that this is an optimistic scenario, product doesn't need to be promoted anymore, that is, it is now self-selling product. Instead of selling the product through representatives, farmers will make orders for this 'must have' product. At that point sales representatives may be used as technical support service for customer satisfaction. All calculations for growth rate, penetration and sales forecast are based on the given historical information in the case and there are plenty of uncertainties. For instance the demand elasticity of chicken farmers for a possible plastic lens is not known so we can not apply a differentiated price base for different sizes of farms. Moreover, the egg demand of consumers is an uncertainty and we assumed that farmers operate at higher than break even. What if consumers believe that egg is not healthy and it should not be consumed too much? Besides, there is no information on the taxes farmers pay and ODI Lens, Inc. has to pay.