HANSEN BATHROOMS (A)

Hansen Bathrooms is a producer of baths, washbasins, toilets and bidets. The company has been in the bath-room market for over 50 years and while sales have never been spectacular, the company has managed to withstand the impact of several economic recessions by prudent cash flow management Experts in the industry describe Hansen as a traditional, reliable producer that tends to follow market trends rather than lead.

As a response to changing times, Hansen recruited a 30-year-old marketing director, Rob Vincent, and a 25-year-old assistant, Susan Clements. Rob's responsibilities include making suggestions for new bathroom designs, advertising and promotion, and formulating pricing strategies, although the final decisions (except for day-to-day issues) are taken by the board of directors, which is headed by Karl Hansen, the son of the founder of the company.

Table C24.1 Rob Vincent's calculations

Per bathroom (washbasin, toilet and bath)	**£**
Direct materials	40
Direct labour	40
Total direct cost	
Fixed cost (150% of direct labour)	
Total cost	
Profit mark-up (20% of total cost)	
Basic price to retailers (BPR)	
Allowance for promotional costs (10% of BPR)	
Allowance for retailer discounts (20% of BPR)	
List price to retailers (LPR)	
Retailer profit mark-up (100% of LPR)	
Recommended price to consumers	

Rob Vincent and Susan Clements have been in post for nearly two years and, at times, have found the work frustrating because of the board's tendency towards conservatism. However, an exciting development rekindled their enthusiasm. A technologist at the company had developed a special coating that could be applied to all bathroom items (baths, toilets, washbasins and tiles). The coating contained an agent that dispersed the usual grime and grease that accumulated in baths and washbasins, etc. Susan Clements commissioned a market research study which showed that people cleaned their bathroom fittings on average once every two weeks and it was one of the most unpopular household chores. The new coating made this unnecessary. Product trials with a prototype bathroom incorporating the new coating showed that cleaning could easily be extended to once every three months. Respondents in the test were delighted with the reduction in workload. Hansen sought and obtained a patent for the new coating.

Rob felt sure that the board would approve the launch of a new bathroom range using the new coating and was pondering what price to charge. As a starting point Rob set about using Hansen's tried and tested pricing formula. This produced the calculations shown in Table C24.1. The discount would be given to the retailer for the range knowledge and advertising support.

Rob felt very pleased. The price to consumers was very competitive with the prices charged by other bathroom suppliers (for example, the main two competitors charged £450 and £465). After the usual consumer discount, the Hansen bathroom would sell for £328. 'I wish all my marketing decisions were this easy,' thought Rob. However, before making a final decision he thought he ought to consult Susan.

Questions

Use Google Form link for uploading your answers. Answer Sheet Upload Form:
https://forms.gle/Jv6AyaQyFekMDdkp6

1. What was the pricing method used by Rob?
   a. Cost-orientated pricing
   b. Competitor-orientated pricing
   c. Perceived- value pricing
   d. Minimum price
2. What type of discounts for retailor will the company offer?
   a. quantity discounts
   b. functional discount (retailer assumes part of the manufacturer’s marketing functions)
   c. promotion discount
   d. cash payment premium
3. What circumstances in pricing a new product might support skimming pricing?
   a. Enough prospective customers are willing to buy the product immediately at the high initial price to make these sales profitable;
   b. The high initial price will not attract competitors;

c. Lowering the price has only a minor effect on increasing the sales volume and reducing the unit costs;
d. Customers interpret the high price as signifying high quality.
e. All of the above

4. What circumstances in pricing a new product might support penetration pricing?
    a. Many segments of the market are price sensitive;
    b. A low initial price discourages competitors from entering the market;
    c. Unit production and marketing costs fall dramatically as production volumes increase.
    d. A firm using penetration pricing may maintain the initial price for a time to gain profit lost from its low introductory level.
    e. All of the above
5. What price should be charged for a new product? (use information from the table). The answer lies in the range:
    a. under £300.
    b. between £300.00 and £350.
    c. between £350 and £400.
    d. between £400 and £450.
    e. over £450.
6. If you were Susan, would you agree or disagree with Rob Vincent's proposal?
7. What other factors should be taken into account?
8. What alternative strategies exist, if any?
9. The following data are available for the new product:
    - materials cost per unit: £40
    - labor per unit: £40
    - production overhead: £14,500,000
    - advertising and promotion: £2,900,000

    Marketing research has estimated the following demand functions for the first year, where Q represents demand in tens of thousands and P represents price: Q = 1030 – 1.1 P
    A penetration strategy is proposed at a price of £328. What will be the profit or loss for the first year?
    a. Loss of more than £1,000,000
    b. Loss of less than £1,000,000
    c. Profit of less than £50,000,000
    d. Profit between £50,000,000 and £150,000,000
    e. Profit greater than £150,000,000
10. The following data are available for the new product:
    - materials cost per unit: £40
    - labor per unit: £40
    - production overhead: £14,500,000
    - advertising and promotion: £2,900,000

    Marketing research has estimated the following demand functions for the first year, where Q represents demand in tens of thousands and P represents price: Q = 1030 – 1.1 P
    A skimming strategy is proposed at a price of £480. What will be the profit or loss for the first year?
    a. Loss of more than £1,000,000
    b. Loss of less than £1,000,000
    c. Profit of less than £50,000,000
    d. Profit between £50,000,000 and £150,000,000
    e. Profit greater than £150,000,000
11. If the average price Rob charges for the new bathroom range is £328, what is the break-even point quantity? (use the data of costs from previous query)
    a. under 1,000 units
    b. between 10, 000 and 100,000 units
    c. between 100, 000 and 1,000,000 units
    d. between 1,000,000 and 10,000,000 units
    e. none of the above
12. If the average price Rob charges for the new bathroom range is £480, what is the break-even point quantity? (use the data of costs from previous query)
    a. under 1,000 units
    b. between 10, 000 and 100,000 units
    c. between 100, 000 and 1,000,000 units
    d. between 1,000,000 and 10,000,000 units
    e. none of the above
13. Calculate the consumer discount as percent rate of the Recommended price to consumers. Use the calculations from question № 5.
    a. 25 %
    b. 20 %
    c. 35 %
    d. 15 %
    e. 10 %

Source: Adapted from Roger A. Kerin, Steven W. *Marketing: the Core, Sixth edition* (Published by McGraw-Hill Education, NY. Copyright © 2016 by McGraw-Hill Education) by Lukina A.V., associate professor of marketing department, Plekhanov Russian University of Economics.