
MKTG - 201 Marketing Management
Fall 2011

Individual Assignment #1
Due: October 12, 12:00 noon at CASE 169

This is an individual assignment. University rules and policies on academic honesty will be strictly enforced. Cheating, plagiarism, collusion or any other form of dishonesty will not be tolerated.

- 1- I expect this assignment to be completed without examining others' work.
- 2- No group activity is *authorized* for this individual assignment. Unauthorized help from another person or having someone else write one's paper or assignment is collusion.

1. DOMINIC PIZZA (60 points)

In October 1998, Dominic Pizza's franchise head-quartered in New York was considering going after corporate accounts. The manager of the franchise, Mr. Pep R. Roni, was very excited by the idea because corporate customers would provide him with a more stable business.

Mr. Roni decided to offer 20% discount to get corporate customers for regular pizza delivery. The delis in town had been offering a similar discount to the corporate accounts, which is how they built their business. Dominic Pizza is best known for its super-deluxe pizza, and this will be used to evaluate the viability of the project. The standard price for this pizza is \$12.50 for regular delivery (before any discounts). Ingredients cost on average \$5.00 per pizza.

Mr. Roni believes that he would have to hire an additional cook and four delivery people. The cook would get a salary of \$20,000 per year, and each delivery person would get a fixed salary of \$10,000 per year and commission of \$1.00 for each pizza delivered. Additional kitchen space and equipment would be rented at an annual expense of \$30,000. Finally, a promotional campaign would have to be run at an estimated annual cost of \$10,000. Based on his experience and informal market research, Mr. Roni thinks that the city has 2500 promising corporate accounts, and each successfully wooed new client would purchase, on an average, two pizzas per business day.

Mr. Roni likes the concept very much, but is not sure if he should pursue this opportunity. He fears that the revenues from this opportunity may not cover his additional costs.

- a) Calculate the variable cost (7.5 points)
- b) Calculate the contribution per unit (7.5 points)
- c) Calculate the fixed costs (7.5 points)
- d) Calculate Break-Even Quantity (20 points)
- e) Evaluate the market potential, and make a recommendation to Mr. Roni (17.5 points)

2. FEDERAL EXPRESS (40 points)

FedEx has 210 business customers in the financial services industry. These 210 customers ship a total of 26080 Courier Packs (CP) per year. The CP price is \$15. FedEx has a margin of 65%. FedEx's retention rate of customers in this industry is 92%. On average customers stay with FedEx for 3 years. The cost of acquiring a new customer is \$750 and is incurred in the year prior to when the customer signs up for FedEx services.

- a) On average, how many CP does a FedEx customer ship every year? (5 points)
- b) What is the lifetime value of a customer in the financial services industry for FedEx? (35 points)
Assume that the discount rate is 0 for payoffs over time; ie. no discounting.