AC Cameras—Market Segment Performance
Explanations, Suggestions, and Tips

You will find it valuable to examine the information on this page every year and use the information to take corrective actions in the upcoming decision round.

What is on This Page

This page contains comprehensive revenue-cost-profit information regarding the sale of your company’s cameras in each of the four geographic regions of the world market in the most recently completed year. There are data groupings for “Regular” AC Camera Sales, (starting in Year 9) camera sales made under Special ACC Contracts, and all AC Camera Operations.

Regular AC Camera Sales

The important thing to look for in this first data grouping is the cross-regional differences in the operating profit margins—the percentages are likely to be significantly lower in one or two regions than in the others. Typically, the regions with small operating profit margins are also the regions where total operating profit and operating profit per camera sold are also lowest. It is in these underperforming regions where corrective actions to boost profitability are most needed.

Once you have identified the underperforming regions that most need management attention in the upcoming year, you must then proceed to determine the reasons for the underperformance.

- Was it due to weak demand for your company’s cameras, perhaps because your company was badly (and unexpectedly?) out-competed by rivals in this region or regions? See the data for this region or regions in the Competitive Intelligence Report.
- Was it partly due to sales lost due to stockouts (because your company failed to assemble enough units to meet buyer demand in this region or regions)?
- Was it due to production costs and/or marketing costs that were higher than those of rivals in this region or regions? (See the benchmarking data on page 6 of the Camera and Drone Journal.)
- Was it due to charging a price that was too low (which “squeezed” profit margins) or too high (which resulted in unexpectedly lower sales and market share)? See the data for this region or regions in the Competitive Intelligence Report.
- Was it partly due to having fewer retailers in the region than many/most rivals? See the data for this region or regions in the Competitive Intelligence Report.
- Was it partly due to spending too little on various marketing efforts relative to the expenditures of rival companies? See the data for this region or regions in the Competitive Intelligence Report.
- Was it partly due to large unfavorable exchange rate adjustments that reduced the net revenue received on cameras sold.
- Was it due to having to pay import duties on cameras shipped to Europe-Africa, the Asia-Pacific, and/or Latin America?
- Was it partly due to other reasons you can confidently identify based on your analysis of the situation?

As indicated above, answering these questions cannot be done just by looking at the other information on this page. You will almost certainly have to examine (1) the data for this region or regions in the Competitive Intelligence Report and (2) the benchmarking data on page 6 of the Camera and Drone Journal.
Only if you identify the real reasons for the underperformance are you prepared to take the appropriate corrective actions. Just guessing at things to do that might work is never a sound approach to managing a business that competes against rivals intent on taking sales and market share away from your company whenever you give them the opening to do so.

There are a number of corrective actions to consider:

- **Explore ways to reduce production/assembly costs (without having much, if any, adverse effect on the camera P/Q rating).** Possible candidates include components costs, costs for extra performance features and product enhancements, product R&D, and labor costs for assembly. But achieving cost savings all across aspects of camera operations merit consideration.

- **Change the average wholesale price to camera retailers.** Raising prices may be wise if the added revenues from a higher price will more than compensate for a reduction in unit sales. Lower prices are called for if gains in volume will help spread fixed costs out over a greater number of units sold. The primary costs which are fixed (fixed in the sense that they do not vary directly as unit sales go up or down in a given year) include depreciation costs, advertising costs, new product R&D, and administrative expenses. When fixed costs are sufficiently large, spreading them across a greater volume of sales can result in meaningfully lower costs per camera sold.

- **Change sales promotion efforts,** perhaps increasing/decreasing the annual number of weekly sales promotions and/or reducing the size of the promotional discount to realize higher net revenues per unit or perhaps increasing the size of the discount to realize greater sales volume.

- **Attract more camera retailers to stock your company’s brand of cameras.** To attract more retailers in a given geographic region in future decision rounds, your company will most likely have to undertake actions that make it more attractive to retailers in any given region to stock your company’s camera brand via some combination of the following: (1) grow your company’s market share in the region and/or (2) improve your company’s P/Q ratings in comparison to the industry average and/or (3) increase your company’s expenditures for retailer support relative to the regional average and/or (4) increase the number of weekly sales promotions your company has annually in the region relative to the regional average and/or (5) increasing the size of your company’s promotional discount relative to the regional average during weekly sales promotions.

- **Change advertising expenditures.** “Very high” advertising costs per camera sold usually signal either overspending on ads (driving up unit costs per camera) or relatively low sales volume (when a sizeable advertising budget is spread over a small number of cameras sold, then “high” advertising costs per camera sold squeeze profit margins).

- **Consider changes in other competitive effort measures**—number of models, the P/Q rating—that may hold potential for either lower costs or greater unit sales not only in the underperforming region(s) but also elsewhere.

Good clues for what moves to make can often be gotten from careful analysis of the Competitive Intelligence Report for the underperforming region(s).

**Special ACC Contracts**

As you will discover in Year 9, companies in the industry have an opportunity to bid for contracts from large camera retailers in each region to supply them with action cameras at discount prices. Winning such contracts will boost a company’s unit sales in a region by 10%. This section reports the results of such bidding, indicating whether your company won or lost the bidding contest in each region and, if your company was a winning bidder, what the impact was in terms of units assembled, revenue gains, costs, contribution margin, and increased profits.
It is important to understand the meaning and importance of the term “contribution margin.” When you win a contract to supply cameras at a discounted price, the profitability of the contract hinges on:

- The *incremental revenues* that the company will receive—these are shown in the “Incremental Revs-Costs-Margin” section.

- The *incremental costs* the company will incur to assemble and deliver the cameras to the retailer under the contract. These incremental costs include the cost of components/features, the labor costs to assemble the cameras being supplied under the contract, an allowance for warranty claims, and the delivery costs (shipping costs and import duties). The company’s accounting methodology is to allocate all other camera-related costs the company incurs to the company’s “regular” camera business—this is because the company has no assurance that it will win any contracts whatsoever and thus all costs that do not vary directly with the number of cameras sold (such as depreciation, administrative expenses, product R&D, PAT training, and marketing expenditures) should be allocated to the company’s “regular” camera business of selling action cameras at regular prices to action camera retailers across the world.

- The *contribution margin*—defined as incremental revenues minus incremental costs—determines the profitability of the special contracts. In other words, the only added costs a company incurs in fulfilling the contract bids it may win to supply 10% additional cameras are the *variable costs* associated with assembling, delivering, and handling warranty claims on these extra sales of action cameras (all costs associated with handling warranty claims on the cameras supplied under special order contracts are included in the entry for “warranty claim allowance.”)

*As long as the revenues the company receives from winning special contracts in a region exceed the incremental costs, the contract is profitable—the bigger the contribution margin (incremental revenues minus incremental costs), the bigger the boost to the company’s operating profits in the region.*

**All AC Camera Operations**

This section merely combines the operating results of the first and second data groupings to provide an overall view of the performance of your company’s action camera business region-by-region and worldwide.