Stanford eCorner

Setting Prices, Evaluating Opportunities

Jensen Huang, *NVIDIA*

April 08, 2009

Video URL: http://ecorner.stanford.edu/videos/2225/Setting-Prices-Evaluating-Opportunities

The market doesn't set the price, says Jensen Huang, Co-founder of NVIDIA. The competition does. And the function of an effective manager is to decide how to allocate resources for the best return, and if its pursuit is worthwhile for the enterprise. Be mindful of your best resources - engineering talent, the limited hours in a day - and evaluate accordingly.

Transcript

The economics of it, of building anything, ultimately comes down to the amount of competition you have. You don't set the price, the competition sets the price. The market doesn't set the price, the competition does. And so if your competitor wishes to build PlayStation 3 as much as you do, then the economics will be challenging. And so there you just need to decide, is it an economic decision for you? For example, there are rumors that we were not enthusiastic in building some of the game consoles and we were more enthusiastic in building other game consoles. It came down to this for me, I think you have to realize what is the finite resource, what is the scarce resource that you have as a manager? The function of a manager is to allocate resources properly for the best return. And so if you think about our resources, our resource is the finite number of extraordinary engineers and how much time they have in a day to pursue whatever opportunities that are out there. Now if the number of opportunities that are out there is less than my supply of engineers, so therefore demand exceeds is less than my supply, then obviously I'm very enthusiastic about it. But if it's the other way around, then the opportunity to build a game console at terrible economics or any project at terrible economics is simply not worth it. And so I look at it irrespective of competition.

The competition sets the price, but then if I get to decide whether I want to engage in that project or not. You are in charge of your own company as the CEO, right? And so we decide whether it's economic and once you decide then, you know, is it what it is. So you have to be thoughtful about what is your critical resource. Do you have more of it or less of it than the market demands? Do you have more opportunity or less opportunity than your resource can support? And what's the appropriate return of that investment thinking about not just your cost but more importantly your opportunity cost. And so we look at it from that perspective every single time.