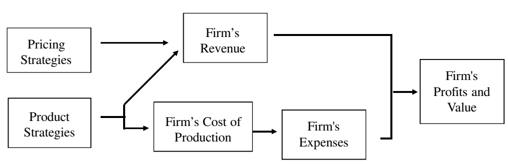
Chapter 12

Creating and Pricing Products

Learning Objectives

❶ Identify factors that affect a target market.
❷ Identify steps to create new products.
❸ Explain methods for product differentiation.
❹ Identify main phases of product life cycle.
❺ Identify factors influencing pricing decisions.

Product and Pricing Strategy



Classifications of Products

❶ Convenience products
– Widely available, purchased frequently, easily accessible
❷ Shopping products
– Consumers shop around to compare prices and quality, not purchased frequently
❸ Specialty products
– Special effort to purchase, decision to purchase based on personal preference

Product Line

A set of related products or services offered by a single firm.

<u>COCA-COLA</u>

- 1886 COCA-COLA
- 1960 FANTA
- 1961 SPRITE
- 1963 TAB
- 1966 FRESCA
- 1972 MR. PIBB
- 1974 SUGAR-FREE SPRITE

1982 DIET COKE
1992 "NEW" COKE, RENAMED COKE II NESTEA
1994 FRUITOPIA
1995 BARQ'S
1997 SURGE CITRA
Not inclusive

Source: Coca-Cola Web Site march 2000

Product Mix

- The assortment of products offered by a firm.

Product Mix

Target Markets

- A group of individuals or organizations with similar traits who may purchase a particular product.

☑ Two types of target markets:

❶ Consumer

❷ Industrial

Factors Affecting Target Markets

- Demographics
- Geography
- Economic factors
- Social values

Marketing Research

Accumulation and analysis of data to make marketing decisions.

Purpose:
- Identify consumer needs.
- Understand consumer perception.
- Test new product ideas.

Investment:
- Firms invest funds in research and development (R&D).
- Manufacturing firms tend to invest more money than service firms.

Research and Design

Purpose:
- Develop and test new products.
- Improve existing products.
- Patent: Allows exclusive rights to production and sale of specific product.

Steps to Create a New Product

① Develop product idea.

② Assess feasibility of idea.

③ Design and test product.

④ Distribute and promote product.

⑤ Post-audit product.

Product Differentiation

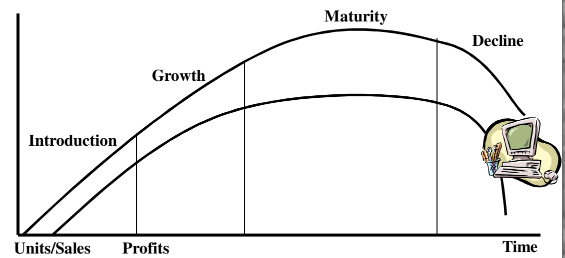
- *Efforts to distinguish a product from competitive products so that it is more desirable.*

Products are differentiated by:
- Unique design.
- Unique packaging.
- Unique branding.

Classification of Brands

- Producer: represent the manufacture of products.
- Store: represents the retail store where the product is being sold. **Arizona Jean Co.® Sports Cap Sold at JC Penney**
- Generic: products are not branded and simply describe the product.

Product Life Cycle



PRICE

Value that is placed on a product.

Factors which determine price:

- Cost of production.
- Supply of inventory.
- Competitor's prices.

Strategies:

- Penetration
- Defensive
- Predatory
- Prestige

Pricing Example

- Hot dog vendor in New York City
  - Rent hot dog cooker for $4000 a year (a fixed cost that doesn't depend on volume of hot dogs sold)
  - Cost for hot dogs, buns, ketchup, etc. are $.60 per hot dog (variable costs that depend on volume of hot dogs)
  - Other vendors charge $2.00 each, you charge $1.80
  - Forecast that you can sell 20,000 hot dogs if you have a competitive price
  - Identify the break-even quantity

Pricing Example

Quantity (Q)	Fixed Cost	Variable Cost (Q × $.60)	Total Cost	Total Revenue (Q × $1.80)	Profits
1,000	$4,000	$600	$4,600	$1,800	−$2,800
3,000	4,000	1,800	5,800	5,400	−400
4,000	4,000	2,400	6,400	7,200	800
7,000	4,000	4,200	8,200	12,600	4,400
10,000	4,000	6,000	10,000	18,000	8,000
15,000	4,000	9,000	13,000	27,000	14,000
20,000	4,000	12,000	16,000	36,000	20,000
25,000	4,000	15,000	19,000	45,000	26,000
30,000	4,000	18,000	22,000	54,000	32,000

Pricing Example

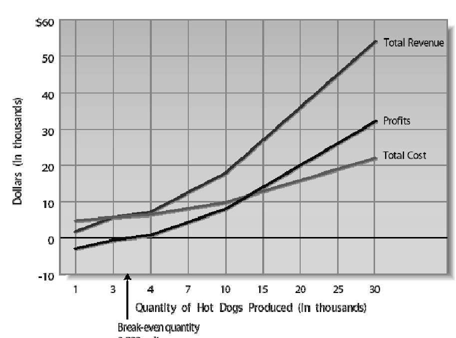


Exhibit 12.6b

Breakeven Quantity Example

$$\text{BEQ} = \frac{\text{Fixed Costs}}{\text{Price - Variable Costs Per Unit}}$$

$$\text{BEQ} = \frac{\$4{,}000}{\$1.80 - .60}$$

$$\text{BEQ} = 3{,}334 \text{ hot dogs}$$