Chapter 12
Creating and Pricing Products

Learning Objectives

1. Identify factors that affect a target market.
2. Identify steps to create new products.
3. Explain methods for product differentiation.
4. Identify main phases of product life cycle.
5. Identify factors influencing pricing decisions.

Product and Pricing Strategy

Firm’s Expenses

Firm’s Revenue

Firm’s Cost of Production

Firm’s Profits and Value

Classifications of Products

1. Convenience products
   - Widely available, purchased frequently, easily accessible
2. Shopping products
   - Consumers shop around to compare prices and quality, not purchased frequently
3. 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.

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

Source: Coca-Cola Web Site March 2003

Product Mix

• The assortment of products offered by a firm.
### Target Markets
- A group of individuals or organizations with similar traits who may purchase a particular product.
- Two types of target markets:
  1. Consumer
  2. 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

- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

**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 $0.60 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

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<th>Variable Cost (Q × $0.60)</th>
<th>Total Cost</th>
<th>Total Revenue (Q × $1.80)</th>
<th>Profits</th>
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Breakeven Quantity Example

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

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

\[
\text{BEQ} = 3,334 \text{ hot dogs}
\]