

Foundations of Business



PRIDE • HUGHES • KAPOOR • 2E

Chapter 12

Creating and Pricing Products That Satisfy Customers

Learning Objectives

1. Explain what a product is and how products are classified.
2. Discuss the product life cycle and how it leads to new product development.
3. Define *product line* and *product mix* and distinguish between the two.
4. Identify the methods available for changing a product mix.
5. Explain the uses and importance of branding, packaging, and labeling.
6. Describe the economic basis of pricing and the means by which sellers can control prices and buyers' perceptions of prices.
7. Identify the major pricing objectives used by businesses.
8. Examine the three major pricing methods that firms employ.
9. Explain the different strategies available to companies for setting prices.
10. Describe three major types of pricing associated with business products.

Product

...everything one receives in an exchange, including all tangible and intangible attributes and expected benefits; it may be a good, service, or idea.



Product

- **Good:** a real, physical thing that we can touch
- **Service:** the result of applying human or mechanical effort to a person or thing, a change we pay others to make for us
- **Idea:** philosophies, lessons, concepts, or advice



Product Classification Determines

- Distribution
- Promotion
- Pricing

HOT DEAL OF THE WEEK

PCs that make the grade

NO INTEREST STOREWIDE
PURCHASES TOTALING \$499 & UP
IF PAID IN FULL WITHIN
18 MONTHS
ALSO AT BESTBUY.COM

NEW 4GB Laptop
BEST BUY EXCLUSIVE
Intel® Pentium® Dual Core Processor
Windows Vista Home Premium with free
Windows 7 upgrade*, 4GB memory, 250GB hard
drive, Lightscribe disc labeling technology, up to
3 hours battery life, webcam, microphone and 15.6"
16:9 widescreen* (HP 640-458DX) SKU: 9415046
Limited quantities. Limit 1 per household. No rainchecks.

399.99 +

Simple math:
Add a printer to the
laptop and save \$40
HP D1530 Color Printer
SKU: 8800675 Reg. Price \$69.99

429.98
GET BOTH FOR ONLY
After Package Savings

DELL YOURS IS HERE
Intel® Pentium® E5200
Monitor
Windows upgrade
(NXT110/1)
\$179.99 Del.

*\$399.99 Laptop + \$69.99 Printer = \$469.98 - \$40 Package Savings = \$429.98

“The buyer’s use of the product determines the classification of an item.”

Consumer Product

...a product purchased to satisfy personal and family needs.



Consumer Product Classifications

- **Convenience**

Inexpensive, frequently purchased item; buyers exert minimal effort

- **Shopping**

Buyers willing to expend considerable effort planning/making purchase

- **Specialty**

Possesses one or more unique characteristics; significant group of buyers willing to expend considerable purchasing effort



Business Product

...a product bought for resale, for making other products, or for use in a firm's operations.

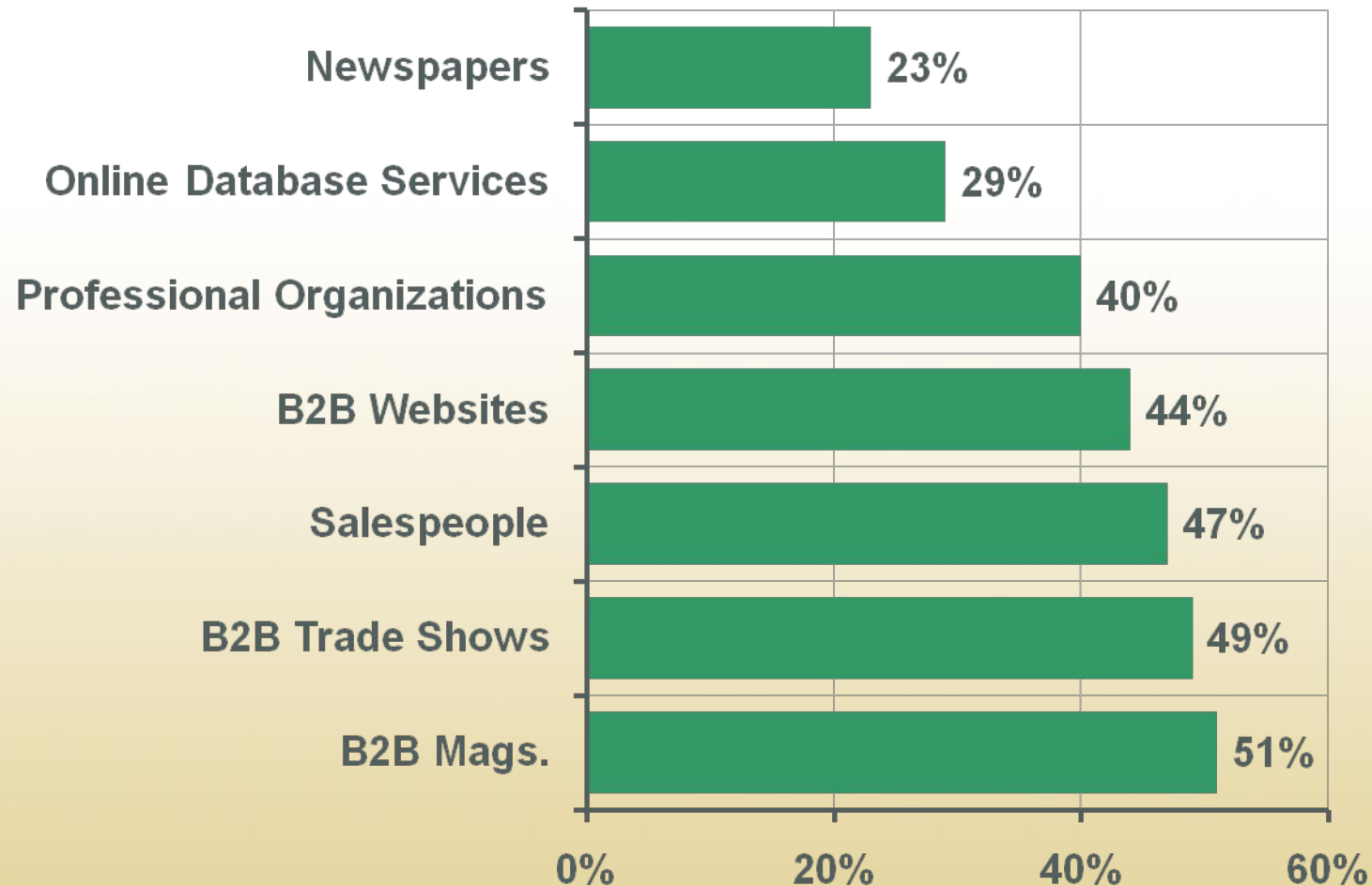


Business Product Classifications

- **Raw material:** becomes part of physical product
- **Major equipment:** tools/machines used in production
- **Accessory equipment:** standardized equipment used in production or office activities
- **Component:** part of physical product either as finished item or with little processing before assembly
- **Process material:** directly in production of another product; not readily identifiable in finished product
- **Supply:** facilitates production/operations, does not become part of finished product
- **Business service:** intangible product used in operations



Percentage of Executives Who Rate Source “Somewhat” or “Extremely” Influential in B2B Purchasing Decisions



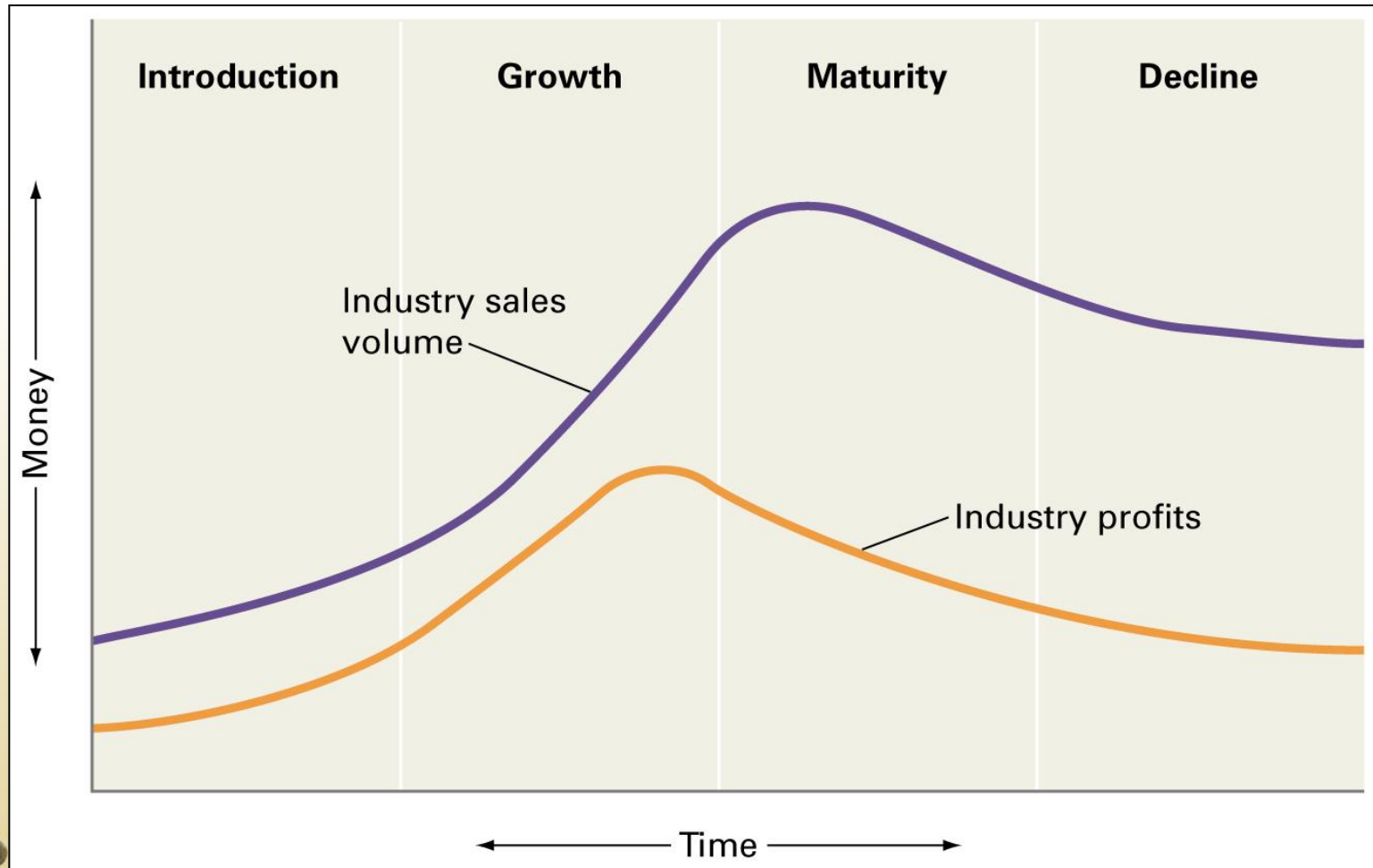
Source: “Attendance Required,” *The B-to-B Media Handbook*, p. 22.

Product Life Cycle

...a series of stages in which a product's sales revenue and profit increase, reach a peak, and then decline.

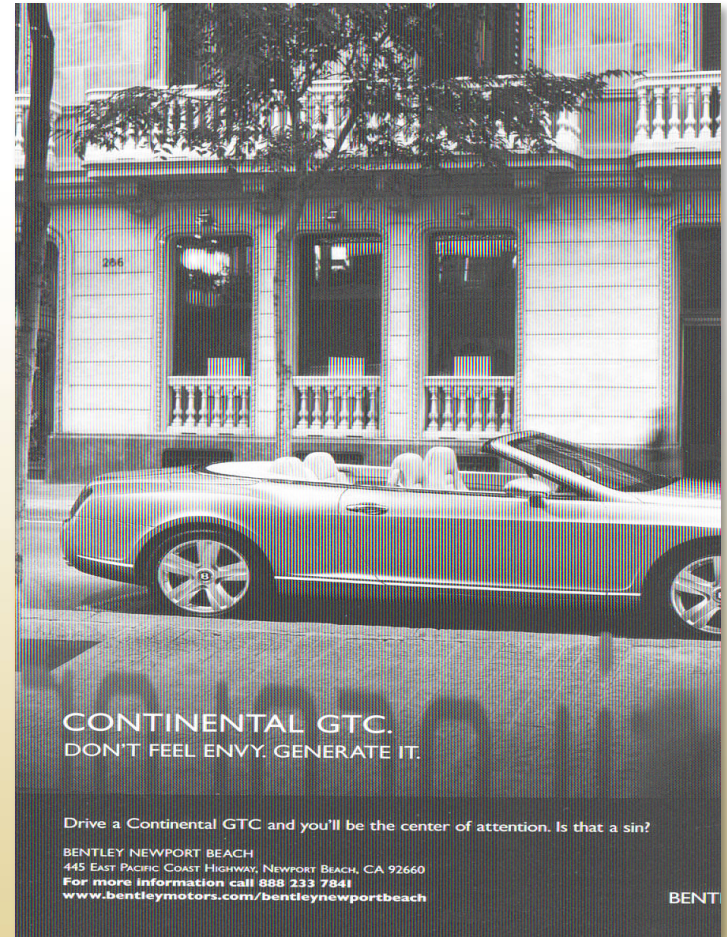


Figure 12.1: Product Life Cycle



Stages of Product Life Cycle

- **Introduction**
 - Sales: gradual rise
 - Profit: low or loss
- **Growth**
 - Sales: rapid increase
 - Profit: per-unit drop
- **Maturity**
 - Sales: peak and decline of curve
 - Profit: decline
- **Decline**
 - Sales: sharp drop
 - Profit: continued fall



Product Line

...a group of similar products that differ only in relatively minor characteristics.



Product Mix

...all the products a firm offers for sale.



Dimensions of Product Mix

- **Depth**
- **Width**
- **Ways to improve**
 - Change existing product
 - Delete a product
 - Develop a new product



Product Modification

...the process of changing one or more of a product's characteristics.



Effectiveness of Product Modification

- Product must be modifiable
- Existing customers must perceive modification made
- Modification makes product more consistent with customers' desires



Types of Modification

- **Quality:** dependability and durability
- **Functionality:** versatility, effectiveness, convenience, or safety
- **Aesthetic:** sensory appeal of product—taste, texture, sound, smell, or visual characteristics



Line Extensions

...development of a new product that is closely related to one or more products in the existing product line but designed specifically to meet somewhat different customer needs.

More common than new products



Product Deletion

...the elimination of one or more products from a product line.



New Product Categories

- ❑ **Imitations:** similar to and competitive with existing products of other firms
- ❑ **Adaptations:** variations of existing products intended for an established market
- ❑ **Innovations:** entirely new products



Figure 12.2: Phases of New Product Development

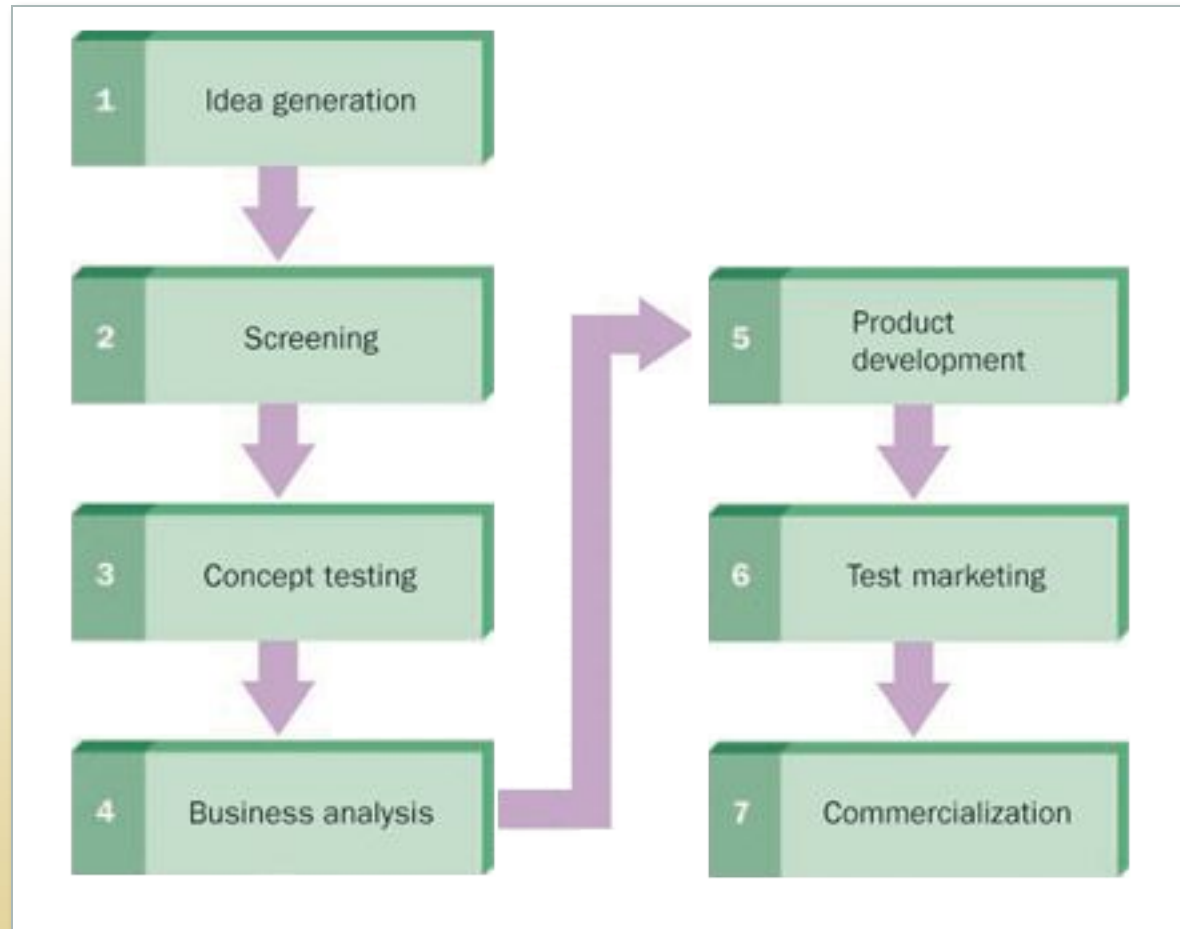


Table 12.1: Examples of Product Failures

Company	Product
Gillette	For Oily Hair shampoo
3M	Floptical storage disk
IncrEdibles Breakaway Foods	Push n' Eat
General Mills	Betty Crocker MicroRave Singles
Adams (Pfizer)	Body Smarts nutritional bars
Anheuser-Busch	Companies Bud Dry and Michelob Dry beer
Coca-Cola	Surge Citrus drink
Heinz	Ketchup Salsa
Noxema	Noxema Skin Fitness

Sources: www.newproductworks.com, accessed January 23, 2006; Robert M. McMath, "Copycat Cupcakes Don't Cut It," *American Demographics*, January 1997, p. 60; Eric Berggren and Thomas Nacher, "Why Good Ideas Go Bust," *Management Review*, February 2000, pp. 32–36.



Brand

...a name, term, symbol, design,
or any combination of these that
identifies a seller's products as distinct
from those of other sellers.



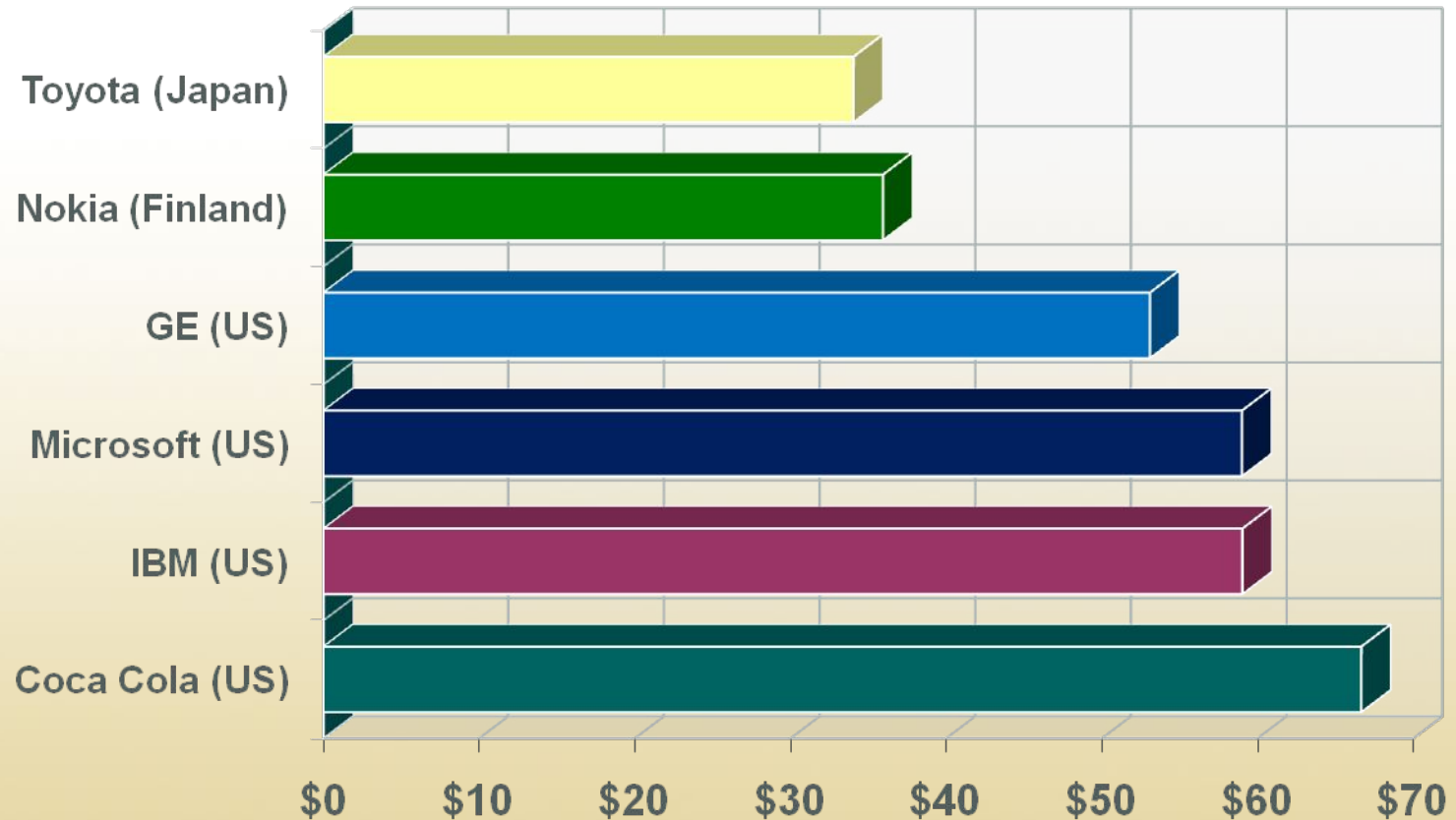
Brand Name

...the part of a brand that can be spoken.



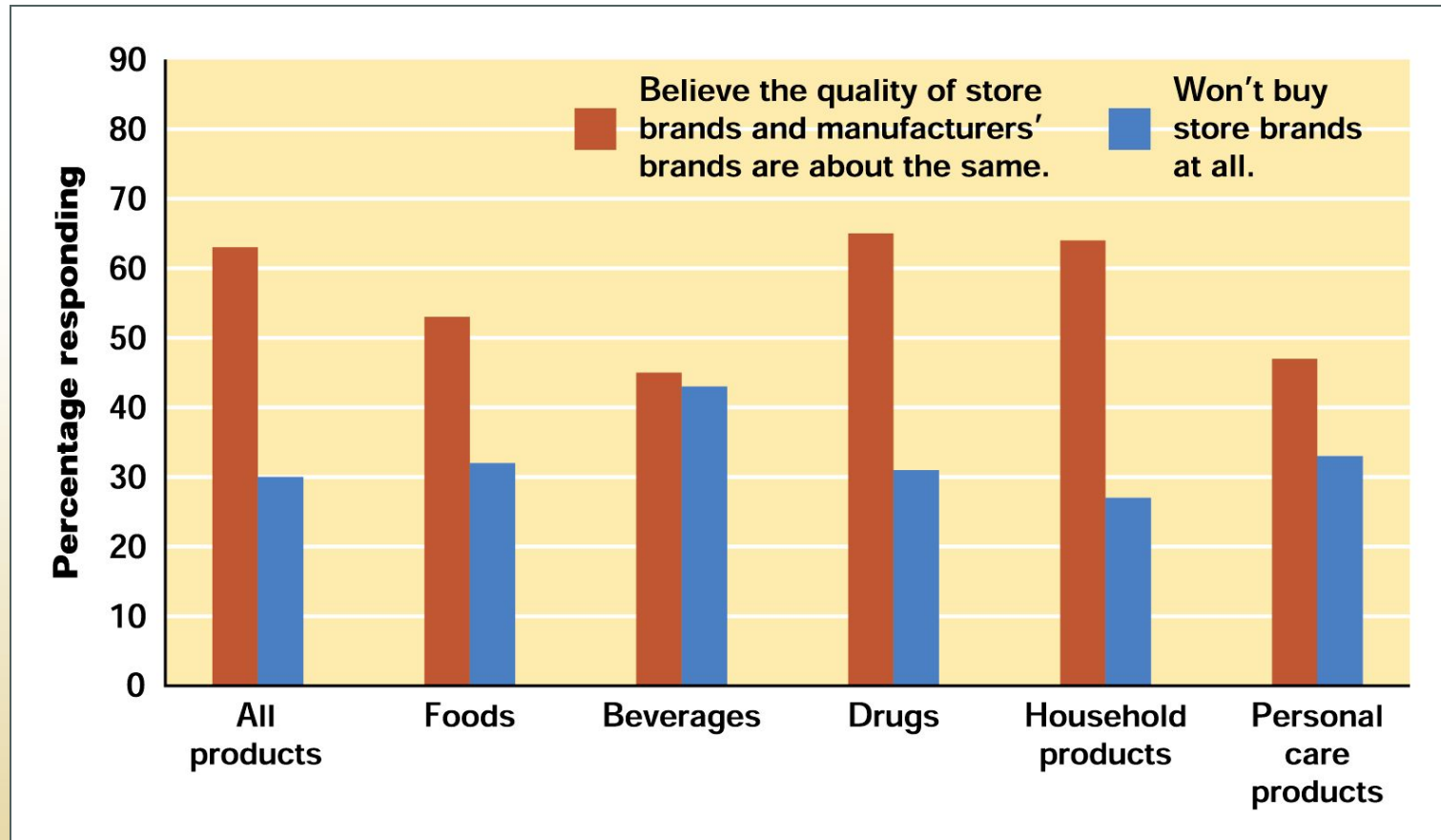


Market Value of Best Global Brands 2008 (in \$ millions)



Source: Best Global Brands 2008, Interbrand/BusinessWeek, September 18, 2008,
http://images.businessweek.com/ss/08/09/0918_best_brands/index.htm?technology+slideshows

Consumers' Perceptions of Store and Manufacturers' Brands



Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 13th ed. Copyright © 2006 by Houghton Mifflin Company, Adapted by permission. Data from "Store Brands at the Turning Point," Consumer Research Network.

Brand Mark

...the part of a brand that is a symbol or distinctive design.



Trademark

...a brand name or brand mark that is registered with the U.S. Patent and Trademark Office.

[United States Patent and Trademark Office Home Page](#)



Trade Name

...the complete and legal name of an organization.



Types of Brands

- ❑ **Manufacturer/Producer**

Owned by a manufacturer

- ❑ **Store/Private**

Owned by individual wholesaler or retailer

- ❑ **Generic Product/Brand**

Product with no brand



Benefits of Branding

- **Brand Loyalty:** customer favorable toward specific brand
 - Brand Recognition
 - Brand Preference
 - Brand Insistence
- **Brand Equity:** marketing/financial value associated with brand's strength



Choosing and Protecting a Brand

- Easy to say, spell, recall
- Suggests product's uses, special characteristics, and major benefits
- Distinctive enough to set it apart
- ✓ Protect it through registration®.
- ✓ Generic terms cannot be legally protected.



Branding Strategies

- **Individual Branding**
Different brand for each of firm's products
- **Family Branding**
Same brand for all or most of firm's products
- **Brand Extension**
Using an existing brand to brand new product in different product category

Packaging

...all the activities involved in developing and providing a container with graphics for a product.



Packaging Functions

- Protects Product
- Adds Consumer Convenience
- Promotes Product

Design Considerations

- Cost
- Single/multiple units
- Family packaging: consistency
- Needs of intermediary
- Environmental responsibility





Criticisms of Packaging

- **Functional problems**
 - Difficulty opening, breakage, inconvenience
- **Safety**
 - Tampering, sharp edges, breakable glass, health hazards of plastic and aerosol containers
- **Deception**
 - Shape, design, colors may alter appearance of size; confusing size designations
- **Cost**
 - Packaging costs being passed on to consumers



Labeling

...the presentation of information on a product or its package.



Federal Regulations on Labeling

■ **Garments**

Manufacturer, country, fabric content, cleaning instructions

■ **Food**

- Ingredients
- Servings per container
- Serving size
- Calories per serving
- Calories from fat
- Amounts of specific ingredients
- Nutritional food: nutrition labeling

■ **Nonedible items**

Safety precautions and instructions



Express Warranty

...a written explanation of the responsibilities of the producer in the event that a product is found to be defective or otherwise unsatisfactory.

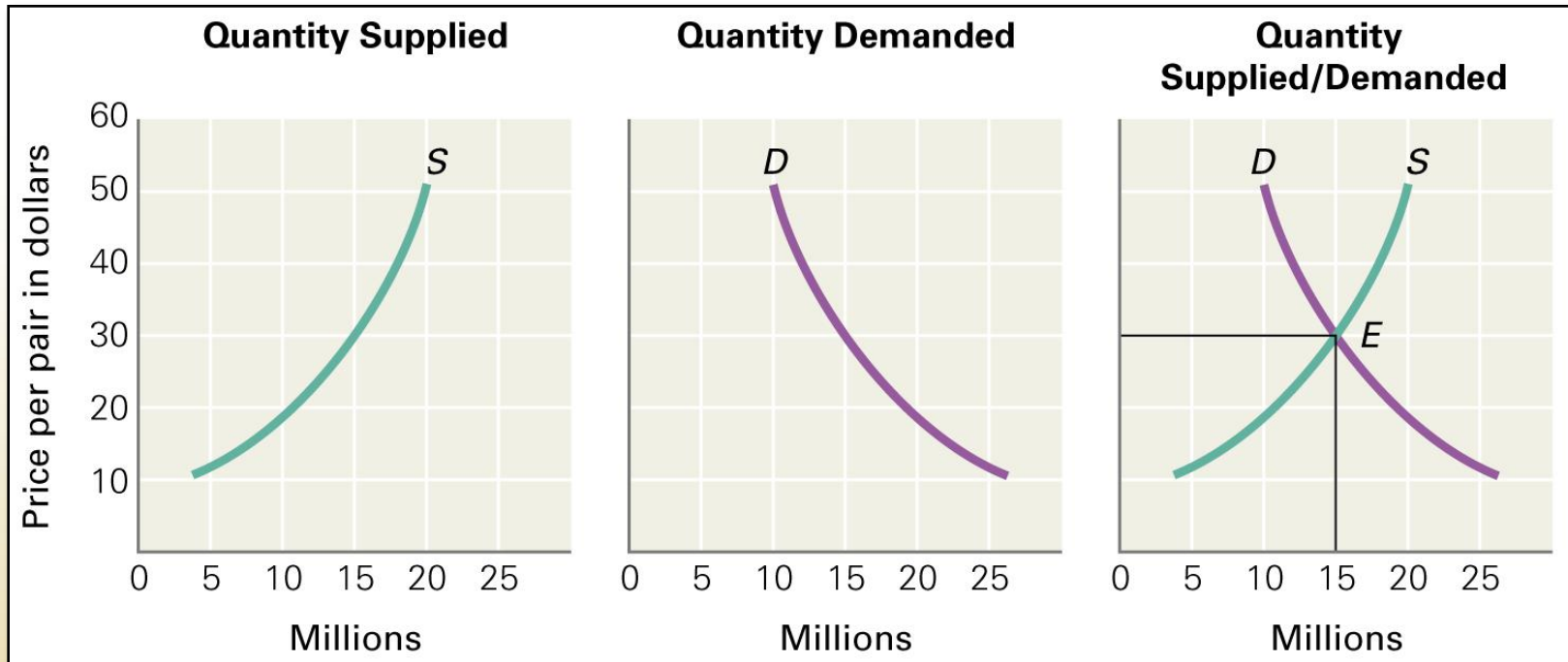


Pricing

...the amount of money a seller is willing to accept in exchange for a product at a given time and under given circumstances.



Figure 12.3: Supply and Demand Curves



Price Competition

...an emphasis on setting a price equal to or lower than competitors' prices to gain sales or market share.

www.mysimon.com

Price comparison shopping



Nonprice Competition

...competition based on factors
other than price.

Product Differentiation: the process of
developing and promoting differences between
one's product and all similar products



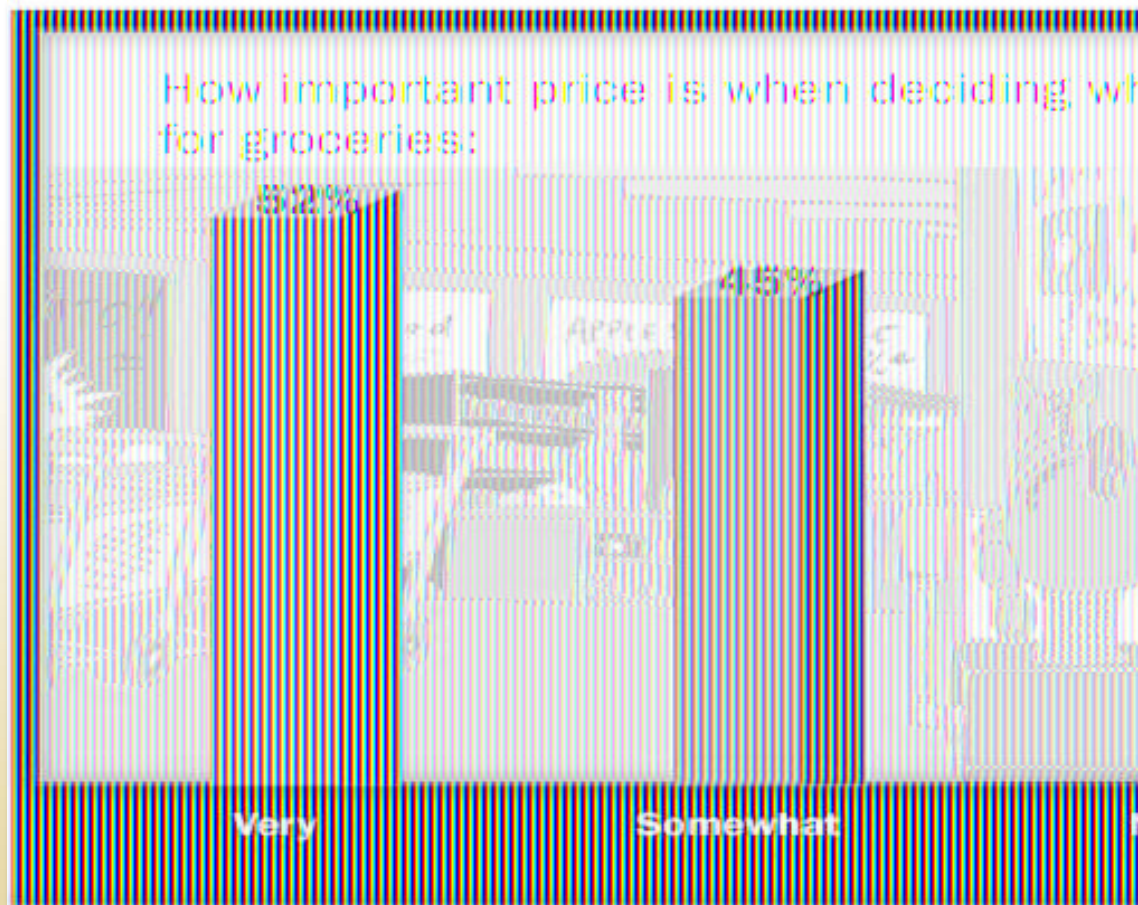
Buyers' Perceptions of Price

- Price Sensitivity
- Acceptance of Ranges
- Relation to Competing Products
- Quality



Spotlight

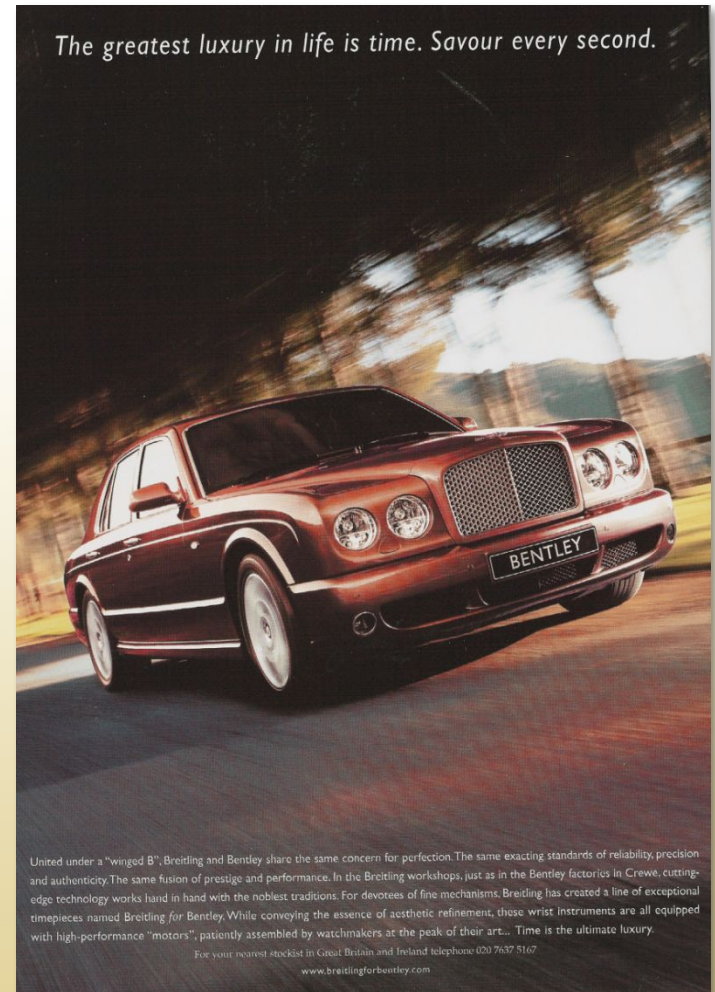
Grocery Shopping



Source: 2009 National Grocers Association—SupermarketGuru Consumer Panel Survey, November 2008–January 2009.

Pricing Objectives

- **Survival**
- **Profit Maximization**
- **Target ROI**
- **Market-Share Goals**
- **Status Quo Pricing**



Factors Affecting Price Setting

- Market determines price
- Costs and expected sales used only to set *price floor*

2009 Waterways of the Czars
Up to 2-FOR-1 CRUISE & AIR!
Hurry—offer expires August 18, 2009.

VIKING RIVER CRUISES
Exploring the World in Comfort®

RUSSIA

St. Petersburg

LAKE LADOGA

SVIR RIVER

Kizhi

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Mandrogny

NEVA RIVER

VOLGA-BALTIC WATERWAY

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RYBINSK RESERVOIR

VOLGA RIVER

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To book, see your travel agent or call Viking at 1-877-668-4546

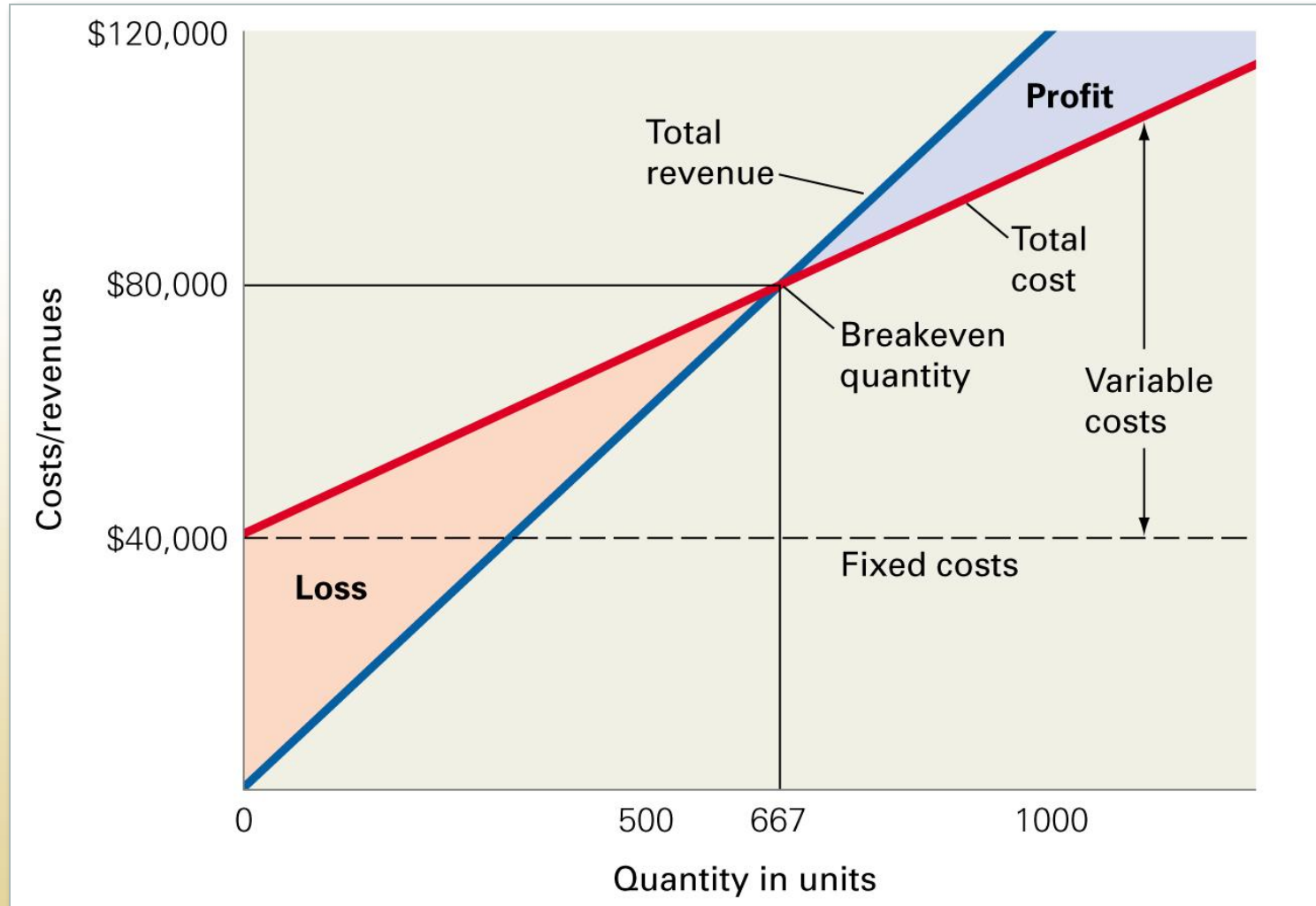
The advertisement features a map of Russia showing the cruise route from St. Petersburg to Moscow. Key locations include Lake Ladoga, Lake Onega, Kizhi, Mandrogny, Goritzky, Rybinsk Reservoir, Uglich, Yaroslavl, and Moscow. The route follows the Neva River, Volga-Baltic Waterway, Volga River, and Moscow Canal. A small inset photo shows a smiling couple embracing. The Viking River Cruises logo is in the top right corner.

Cost-Based Pricing

- **Markup:** amount seller adds to costs
- **Breakeven Quantity:** number of units that must be sold for total revenue to equal total cost
- **Total Revenue:** total amount received from sales of product
- **Total Cost = Fixed + Variable**
 - Fixed: incurred no matter how many produced/sold
 - Variable: depends on number of units produced



Figure 12.4: Breakeven Analysis



Other Pricing Strategies

■ Demand-Based

- High price when demand is strong
- Low price when demand is weak
- Price differentiation

■ Competition-Based

Costs and revenue secondary to competitors' prices



New Product Pricing Strategies

- **Price Skimming**

Charge highest possible price during introduction stage

- **Penetration Pricing**

Setting low price for new product to build market share



Differential Pricing

Charging different prices to different buyers for same quality and quantity

- **Negotiated** Final price comes from bargaining
- **Secondary Market**
One price for primary target market and different price for another market
- **Periodic Discounting**
Temporary price reduction on patterned/systematic basis
- **Random Discounting**
Temporary price reduction on unsystematic basis

Psychological Pricing

- **Odd-Number:** use odd numbers just below whole-dollar amounts
- **Multiple-Unit:** single price for 2+ units
- **Reference:** price at moderate level and positioning it near a more expensive model
- **Bundle:** package 2+ products and selling for single price
- **EDLP:** consistently low price
- **Customary:** based on tradition



Product-Line Pricing

- **Captive**
Basic product priced low, price on item required to operate it is high
- **Premium**
Highest-quality/most-versatile higher than other models in product line
- **Price Lining**
Selling goods only at predetermined prices that reflect definite price breaks

Promotional Pricing

- **Price Leaders**

Below usual markup, near or below cost

- **Special-Event**

Price cutting linked to holiday, season, or event

- **Comparison Discounting**

Set at specific level and compare with higher price



Pricing Business Products

- **Geographic**

- FOB Origin
- FOB Destination

- **Transfer**

- **Discounting**

- Trade
- Quantity
- Cash
- Seasonal
- Allowance



Using the Internet

- The U.S. government gateways to consumer information about products, safety, pricing, fraud, and many other issues of interest are available through a variety of online publications and links.

www.pueblo.gsa.gov

www.consumer.gov





Chapter Quiz

1. All of the following are characteristics of the growth stage of the product life cycle *except*
 - a) a rapid increase in sales.
 - b) the introduction of competing products.
 - c) decreased unit prices but overall increase in total profits.
 - d) the introduction of modified versions of its products by the original firm.
 - e) a decline in the number of competing firms.





Chapter Quiz

2. If Samsonite decided to use better zippers on its luggage that would make the luggage more durable, it would be making _____ modifications.
- a) aesthetic
 - b) functional
 - c) texture
 - d) quality
 - e) market





Chapter Quiz

3. The Nike “swoosh” is a
- a) brand.
 - b) generic symbol.
 - c) label.
 - d) brand mark.
 - e) Universal Product Code.





Chapter Quiz

4. In setting prices, managers should consider the _____ of people in the target market.
- a) demographics
 - b) ages
 - c) price sensitivity
 - d) philosophy
 - e) occupations





Chapter Quiz

5. The pricing strategy that requires the buyer to pay the greatest portion of the delivery costs is called
- a) railhead pricing.
 - b) parcel post.
 - c) express delivery cost.
 - d) FOB origin pricing.
 - e) C.O.D. pricing.

