

Developing and Pricing Products

chapter # 12

Introduction

- **In this chapter we**
 - identify important classifications of products
 - discuss the activities involved in developing new products
 - examine setting prices that appeal to each target audience.

learning objectives

- 1. Explain the definition of a product as a value package and classify goods and services.*
- 2. Describe the new product development process.*
- 3. Describe the stages of the product life cycle (PLC) and methods for extending a product's life.*
- 4. Identify the various pricing objectives that govern pricing decisions, and describe the price-setting tools used in making these decisions.*

learning objectives

- 5. Discuss pricing strategies that can be used for different competitive situations and identify the pricing tactics that can be used for setting prices.*

The Value Package

- **Product Features**

- tangible and intangible qualities that a company builds into its products

- **Value Package**

- a product is marketed as a bundle of value-adding attributes, including a reasonable cost

Classifying Goods and Services

- **Consumer**

- person who purchases products for personal use

- **Industrial Buyer**

- a company or other organization that buys products for use in producing other products (goods or services)

Classifying Goods and Services

(cont.)

- **Convenience Goods**

- inexpensive physical goods that are consumed rapidly and regularly

- **Convenience Services**

- inexpensive services that are consumed rapidly and regularly

Classifying Goods and Services

(cont.)

- **Shopping Goods**

- moderately expensive, infrequently purchased physical goods

- **Shopping Services**

- moderately expensive, infrequently purchased services

Classifying Goods and Services *(cont.)*

- **Specialty Goods**

- expensive, rarely purchased physical goods

- **Specialty Services**

- expensive, rarely purchased services

Classifying Organizational Products

- **Production Items**

- goods or services that are used in the conversion (production) process to make other products

- **Expense Items**

- industrial products purchased and consumed within a year by firms producing other products

- **Capital Items**

- expensive, long-lasting, infrequently purchased industrial products, such as a building, or industrial services, such as a long-term agreement for data warehousing services

Categories of Consumer Products

table 12.1 Categories of Consumer Products

Category	Description	Examples
Convenience goods and services	<ul style="list-style-type: none">• Consumed rapidly and regularly• Inexpensive• Purchased often and with little input of time and effort	<ul style="list-style-type: none">• Milk• Newspaper• Fast food
Shopping goods and services	<ul style="list-style-type: none">• Purchased less often• More expensive• Consumers may shop around and compare products based on style, performance, color, price, and other criteria.	<ul style="list-style-type: none">• Television set• Tires• Hotel reservation
Specialty goods and services	<ul style="list-style-type: none">• Purchased infrequently• Expensive• Consumer decides on a precise product and will not accept substitutions and spends a good deal of time choosing the "perfect" item.	<ul style="list-style-type: none">• Luxury jewelry• Wedding gown• Healthcare insurance

The Product Mix

- **Product Mix**

- the group of products that a firm makes available for sale

- **Product Line**

- group of products that are closely related because they function in a similar manner or are sold to the same customer group who will use them in similar ways

Organizational Products

table 12.2 Organizational Products

Category	Description	Examples
Production Items	<ul style="list-style-type: none">• Goods or services used directly in the production process	<ul style="list-style-type: none">• Loads of tea processed into tea bags• Information processing for real-time production• Jet fuel used by airline services
Expense Items	<ul style="list-style-type: none">• Goods or services that are consumed within a year by firms producing other goods or supplying other services	<ul style="list-style-type: none">• Oil and electricity for machines• Building maintenance• Legal services
Capital Items	<ul style="list-style-type: none">• Permanent (expensive and long-lasting) goods and services• Life expectancy of more than a year• Purchased infrequently so transactions often involve decisions by high-level managers	<ul style="list-style-type: none">• Buildings (offices, factories)• Fixed equipment (water towers, baking ovens)• Accessory equipment (information systems, airplanes)• Financial advisory services

Developing New Products

- **Speed To Market**
 - strategy of introducing new products to respond quickly to customer or market changes

The Seven-Step Development Process

1. Product ideas

- typically come from consumers, the sales force, R&D departments, suppliers, or engineering personnel

2. Screening

- eliminate ideas that do not mesh with the firm's abilities or objectives

3. Concept testing

- companies use market research to get consumers' input about benefits and prices

The Seven-Step Development Process

(cont.)

4. Business analysis

- marketers compare production costs and benefits

5. Prototype development

- engineering, R&D, or design groups produce a prototype.

6. Product testing and test marketing

- test the product to see if it meets performance requirements.

The Seven-Step Development Process

(cont.)

7. Commercialization

- the company begins full scale production and marketing

Variations in the Process for Services

- ***Service ideas***

- includes defining the *service value package*, identifying the tangible and intangible features that characterize the service, and stating service specifications

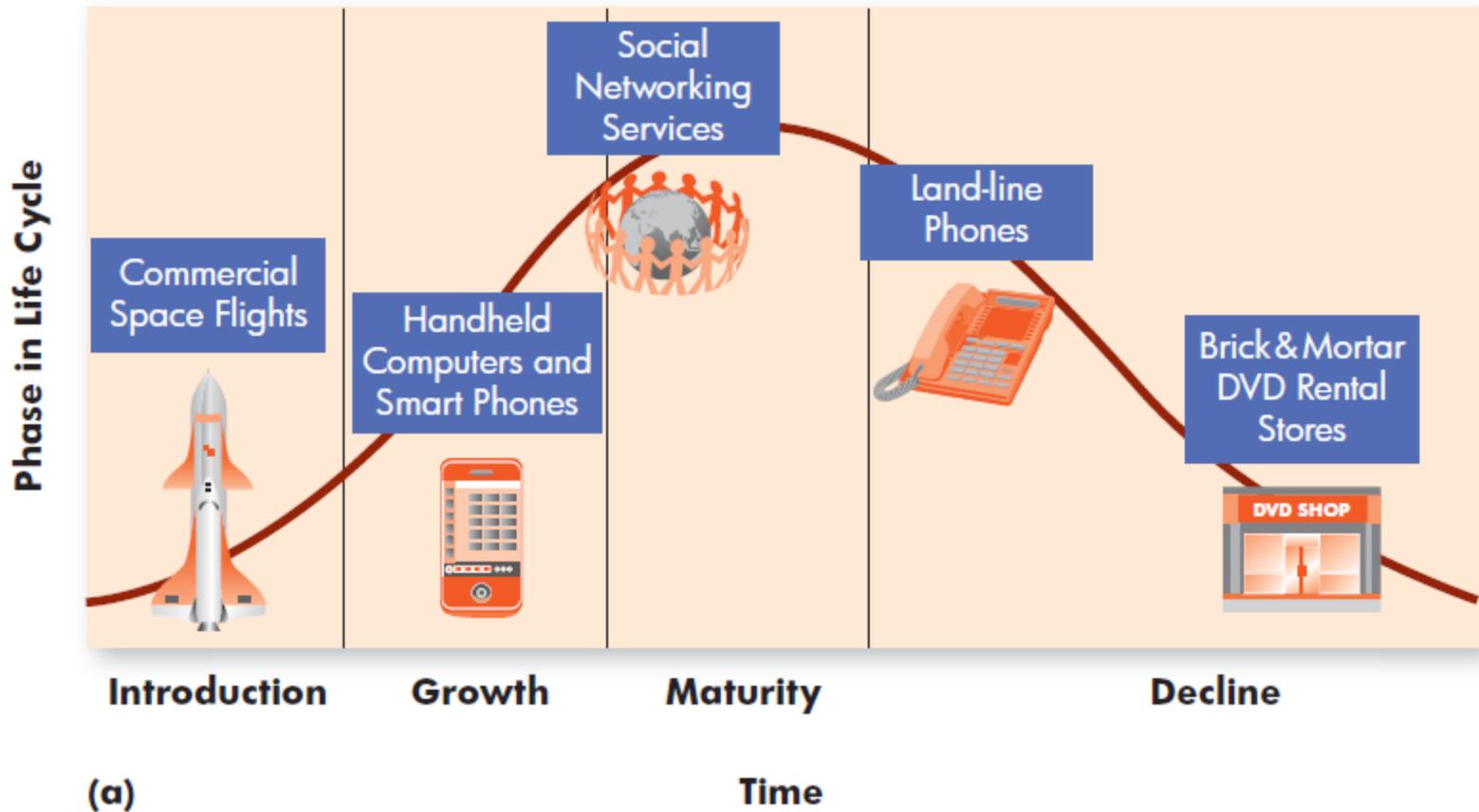
- ***Service process design***

1. Process selection
2. Worker requirements
3. Facility requirements

Product Life Cycle

- **Product Life Cycle (Plc)**
 - series of stages in a product's commercial life
- **Stages in the PLC**
 - **Introduction**
 - **Growth**
 - **Maturity**
 - **Decline**

Four Phases of the PLC



Profits in the PLC

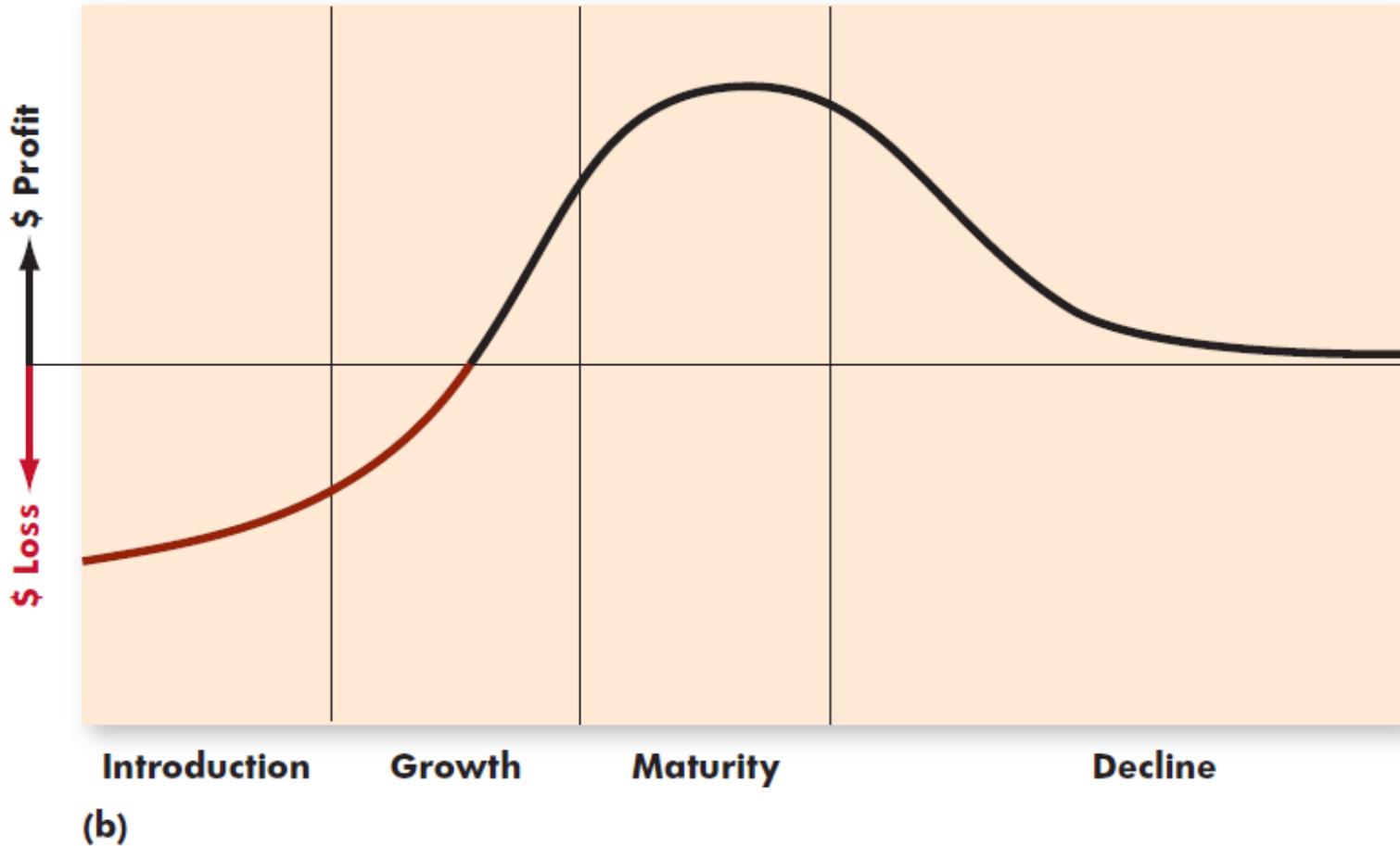


FIGURE 12.1 Products in the Life Cycle: (a) Phases and (b) Profit (or Loss)

Extending Product Life

- **Product Extension**

- marketing an existing product globally instead of just domestically

- **Product Adaptation**

- modifying an existing product for greater appeal in different countries

- **Reintroduction**

- reviving obsolete or older products for new markets

Identifying Products

- **Branding**

- process of using symbols to communicate the qualities of a product made by a particular producer

- **Brand Awareness**

- extent to which a brand name comes to mind when a consumer considers a particular product category

World's 10 Most Valuable Brands

table 12.3 World's 10 Most Valuable Brands

Rank	Brand	2012 Brand Value (\$billions)
1	Coca-Cola	\$77.8
2	Apple	\$76.6
3	IBM	\$75.5
4	Google	\$69.7
5	Microsoft	\$57.9
6	GE	\$43.7
7	McDonald's	\$40.1
8	Intel	\$39.4
9	Samsung	\$32.9
10	Toyota	\$30.3

Identifying Products (cont.)

- **Product Placement**

- promotional tactic for brand exposure in which characters in television, film, music, magazines, or video games use a real product with its brand visible to viewers

- **National Brands**

- brand-name product produced by, widely distributed by, and carrying the name of a manufacturer

Identifying Products (cont.)

- **Licensed Brands**

- brand-name product for whose name the seller has purchased the right from an organization or individual

- **Private Brand (or Private Label)**

- brand-name product that a wholesaler or retailer has commissioned from a manufacturer

- **Packaging**

- physical container in which a product is sold, advertised, or protected

Pricing to Meet Business Objectives

- **Pricing**

- process of determining what a company will receive in exchange for its products

- **Pricing Objectives**

- the goals that sellers hope to achieve in pricing products for sale
 - profit-maximizing, market share

Pricing to Meet Business Objectives

(cont.)

- **Profit-Maximizing Objectives**

- the seller's pricing decision is critical for determining the firm's revenue, which is the result of the selling price times the number of units sold

$$\text{Revenue} = \text{Selling price} \times \text{Units sold}$$

Pricing to Meet Business Objectives

(cont.)

- **Market Share (or Market Penetration)**
 - company's percentage of the total industry sales for a specific product type

Pricing to Meet Business Objectives

(cont.)

- **Cost-Oriented Pricing**

- pricing that considers the firm's desire to make a profit and its need to cover production costs

$$\text{Selling price} = \text{Seller's costs} + \text{Profit}$$

Pricing to Meet Business Objectives

(cont.)

- **Markup**

- amount added to an item's purchase cost to sell it at a profit

$$\text{Markup percentage} = \frac{\text{Markup}}{\text{Sales price}} \times 100\%$$

Breakeven Analysis: Cost-Volume-Profit Relationships

- **Variable Cost**

- cost that changes with the quantity of a product produced and sold

- **Fixed Cost**

- cost that is incurred regardless of the quantity of a product produced and sold

- **Breakeven Analysis**

- for a particular selling price, assessment of the seller's costs versus revenues at various sales volume

Breakeven Analysis: Cost-Volume-Profit Relationships

- **Breakeven Point**

- sales volume at which the seller's total revenue from sales equals total costs (variable and fixed) with neither profit nor loss

$$\text{Breakeven point (in units)} = \frac{\text{Total Fixed Cost}}{\text{Price} - \text{Variable Cost}}$$

$$\text{Profit} = \text{Total Revenue} - \left(\begin{array}{l} \text{Total} \\ \text{Fixed} \\ \text{Cost} \end{array} + \begin{array}{l} \text{Total} \\ \text{Variable} \\ \text{Cost} \end{array} \right)$$

Breakeven Analysis

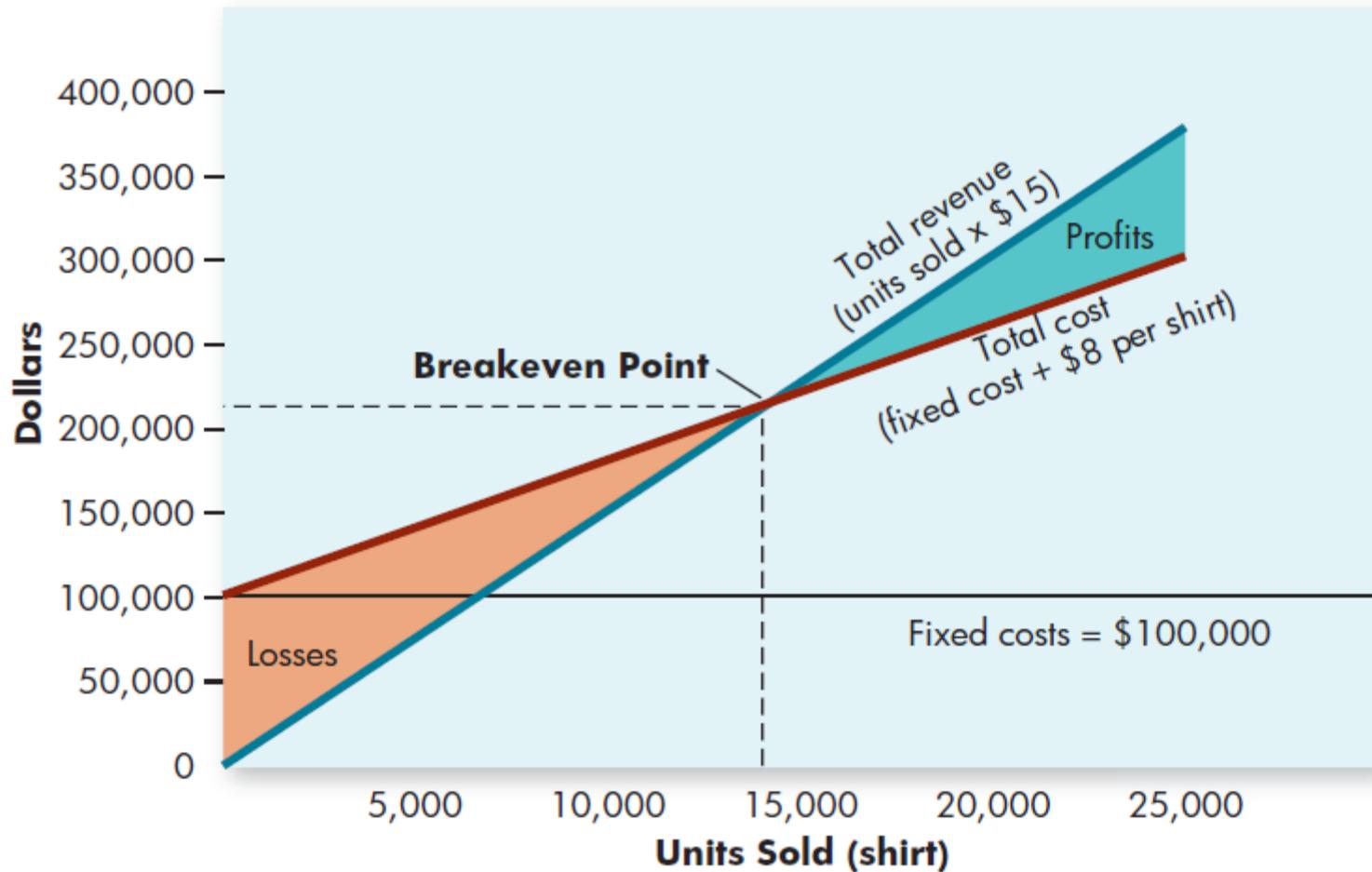


FIGURE 12.2 Breakeven Analysis

Pricing Existing Products – Three Options

1. Pricing above prevailing market prices for similar products to take advantage of the common assumption that higher price means higher quality
2. Pricing below market prices while offering a product of comparable quality to higher-priced competitors
3. Pricing at or near market prices

Pricing New Products

- **Price Skimming**

- setting an initially high price to cover new product costs and generate a profit

- **Penetration Pricing**

- setting an initially low price to establish a new product in the market

Pricing Tactics

- **Bundling Strategy**

- grouping several products together to be sold as a single unit at a reduced price, rather than individually

- **Price Lining**

- setting a limited number of prices for certain categories of products

Pricing Tactics (cont.)

- **Psychological Pricing**

- pricing tactic that takes advantage of the fact that consumers do not always respond rationally to stated prices

- **Odd-Even Pricing**

- psychological pricing tactic based on the premise that customers prefer prices not stated in even dollar amounts

- **Discount**

- price reduction offered as an incentive to purchase

Applying What You've Learned

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Applying What You've Learned (cont.)

- 4. Identify** the various pricing objectives that govern pricing decisions, and describe the price-setting tools used in making these decisions.
- 5. Discuss** pricing strategies that can be used for different competitive situations and identify the pricing tactics that can be used for setting prices.



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