Creating and Pricing Products that Satisfy Customers

13

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Learning Objectives

What you will be able to do once you complete this chapter:

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.

FYI

inside business

Did You Know?

By its tenth anniversary, Threadless was ringing up more than $30 million in annual sales and attracting 300 new T-shirt designs every day.

Customers Design the Products at Threadless

Loyal customers are also loyal designers at Threadless, a fast-growing T-shirt company based in Chicago. The idea for Threadless grew out of Jake Nickell's hobby of creating digital designs for T-shirts. In 2000, after one of his designs won a contest, 20-year-old Nickell teamed up with his friend Jacob DeHart to start a new business. Their unique marketing twist was that the T-shirts they sold would feature digital designs submitted and selected by customers through online voting.

The first contest, which offered a grand prize of two free T-shirts, drew dozens of entries. Threadless printed and sold 24 copies each of the five top vote getters. Soon the company began paying $100 for each winning design, an amount it gradually raised above $2,000. By 2002, Threadless had 10,000 customers voting on designs and was selling $100,000 worth of T-shirts. By 2010, annual sales had skyrocketed beyond $30 million, and customers were submitting 300 designs per *day*.

Threadless starts a new design competition every Monday. It encourages designers to show off their best work and stir up voter excitement by using social media such as Facebook and Twitter. The designs that receive the best scores are moved into production. Several weeks later, the new T-shirts appear for sale on the Threadless home page, and designers jump back into the process to promote their winning work. This constant stream of new designs and new T-shirts brings customers back again and again to vote and to buy.

By marketing only designs that customers approve with their votes, Threadless keeps costs down and profit margins high. Sooner or later, all of its T-shirts sell out, and customers can vote to have sold-out designs reprinted. Although Threadless operates two small outlet stores as well as its Web site, its products aren't widely available, which only enhances the value that customers perceive in its products.

To accommodate its increasingly international customer base, Threadless translates its Web content into French, German, and Spanish. Already, overseas sales account for 40 percent of Threadless's revenue. Watch for more growth as Threadless expands into shirts with hoods, art prints, and other products featuring designs created by loyal—and talented—customers.[1]

A **product**, like a Threadless T-shirt, is everything one receives in an exchange, including all tangible and intangible attributes and expected benefits. An Apple iPod purchase, for example, includes not only the iPod itself but also earphones, instructions, and a warranty. A car includes a warranty, an owner's manual, and perhaps free emergency road service for a year. Some of the intangibles that may go with an automobile include the status associated with ownership and the memories generated from past rides. Developing and managing products effectively are crucial to an organization's ability to maintain successful marketing mixes.

A product may be a good, a service, or an idea. A *good* is a real, physical thing that we can touch, such as a Classic Sport football. A *service* is the result of applying human or mechanical effort to a person or thing. Basically, a *service* is a change we pay others to make for us. A real estate agent's services result in a change in the ownership of real property. A barber's services result in a change in your appearance. An *idea* may take the form of philosophies, lessons, concepts, or advice. Often ideas are included with a good or service. Thus, we might buy a book (a good) that provides ideas on how to lose weight. Alternatively, we might join Weight Watchers for ideas on how to lose weight and for help (services) in doing so.

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

We look first in this chapter at products. We examine product classifications and describe the four stages, or life-cycles, through which every product moves. Next, we illustrate how firms manage products effectively by modifying or deleting existing products and by developing new products. We also discuss branding, packaging, and labeling of products. Then our focus shifts to pricing. We explain competitive factors that influence sellers' pricing decisions and also explore buyers' perceptions of prices. After considering organizational objectives that can be accomplished through pricing, we outline several methods for setting prices. Finally, we describe pricing strategies by which sellers can reach target markets successfully.

Classification of Products

1

Explain what a product is and how products are classified.

Different classes of products are directed at particular target markets. A product's classification largely determines what kinds of distribution, promotion, and pricing are appropriate in marketing the product.

Products can be grouped into two general categories: consumer and business (also called *business-to-business* or *industrial products*). A product purchased to satisfy personal and family needs is a **consumer product**. A product bought for resale, for making other products, or for use in a firm's operations is a **business product**. The buyer's use of the product determines the classification of an item. Note that a single item can be both a consumer and a business product. A broom is a consumer product if you use it in your home. However, the same broom is a business product if you use it in the maintenance of your business. After a product is classified as a consumer or business product, it can be categorized further as a particular type of consumer or business product.

consumer product a product purchased to satisfy personal and family needs

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

convenience product a relatively inexpensive, frequently purchased item for which buyers want to exert only minimal effort

shopping product an item for which buyers are willing to expend considerable effort on planning and making the purchase

specialty product an item that possesses one or more unique characteristics for which a significant group of buyers is willing to expend considerable purchasing effort

Consumer Product Classifications

The traditional and most widely accepted system of classifying consumer products consists of three categories: convenience, shopping, and specialty products. These groupings are based primarily on characteristics of buyers' purchasing behavior.

A **convenience product** is a relatively inexpensive, frequently purchased item for which buyers want to exert only minimal effort. Examples include bread, gasoline, newspapers, soft drinks, and chewing gum. The buyer spends little time in planning the purchase of a convenience item or in comparing available brands or sellers.

A **shopping product** is an item for which buyers are willing to expend considerable effort on planning and making the purchase. Buyers allocate ample time for comparing stores and brands with respect to prices, product features, qualities, services, and perhaps warranties. Appliances, upholstered furniture, men's suits, bicycles, and cellular phones are examples of shopping products. These products are expected to last for a fairly long time and thus are purchased less frequently than convenience items.

A **specialty product** possesses one or more unique characteristics for which a group of buyers is willing to expend considerable purchasing effort. Buyers actually plan the purchase of a specialty product; they know exactly what they want and will not accept a substitute. In searching for specialty products, purchasers do not compare alternatives. Examples include unique sports cars, a specific type of antique dining table, a rare imported beer, or perhaps special handcrafted stereo speakers.

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Specialty products. Most cars are classified as shopping products. However, a few automobiles, such as the Bentley, are extremely expensive, have distinctive styling and amenities, and are distributed exclusively through just a few dealers. These distinctive vehicles are specialty products.

Component parts. Tires and tire rims are component parts used in the production of vehicles.

One problem with this approach to classification is that buyers may behave differently when purchasing a specific type of product. Thus, a single product can fit into more than one category. To minimize this problem, marketers think in terms of how buyers are most likely to behave when purchasing a specific item.

Business Product Classifications

Based on their characteristics and intended uses, business products can be classified into the following categories: raw materials, major equipment, accessory equipment, component parts, process materials, supplies, and services.

A **raw material** is a basic material that actually becomes part of a physical product. It usually comes from mines, forests, oceans, or recycled solid wastes. Raw materials are usually bought and sold according to grades and specifications.

Major equipment includes large tools and machines used for production purposes. Examples of major equipment are lathes, cranes, and stamping machines. Some major equipment is custom-made for a particular organization, but other items are standardized products that perform one or several tasks for many types of organizations.

Accessory equipment is standardized equipment used in a firm's production or office activities. Examples include hand tools, fax machines, fractional horsepower motors, and calculators. Compared with major equipment, accessory items are usually much less expensive and are purchased routinely with less negotiation.

A **component part** becomes part of a physical product and is either a finished item ready for assembly or a product that needs little processing before assembly. Although it becomes part of a larger product, a component part can often be identified easily. Clocks, tires, computer chips, and switches are examples of component parts.

A **process material** is used directly in the production of another product. Unlike a component part, however, a process material is not readily identifiable in the finished product. Like component parts, process materials are purchased according to industry standards or to the specifications of the individual purchaser. Examples include industrial glue and food preservatives.

A **supply** facilitates production and operations but does not become part of a finished product. Paper, pencils, oils, and cleaning agents are examples.

A **business service** is an intangible product that an organization uses in its operations. Examples include financial, legal, online, janitorial, and marketing research services. Purchasers must decide whether to provide their own services internally or to hire them from outside the organization.

raw material a basic material that actually becomes part of a physical product; usually comes from mines, forests, oceans, or recycled solid wastes

major equipment large tools and machines used for production purposes

accessory equipment standardized equipment used in a firm's production or office activities

component part an item that becomes part of a physical product and is either a finished item ready for assembly or a product that needs little processing before assembly

process material a material that is used directly in the production of another product but is not readily identifiable in the finished product

supply an item that facilitates production and operations but does not become part of a finished product

business service an intangible product that an organization uses in its operations

2

Discuss the product life-cycle and how it leads to new-product development.

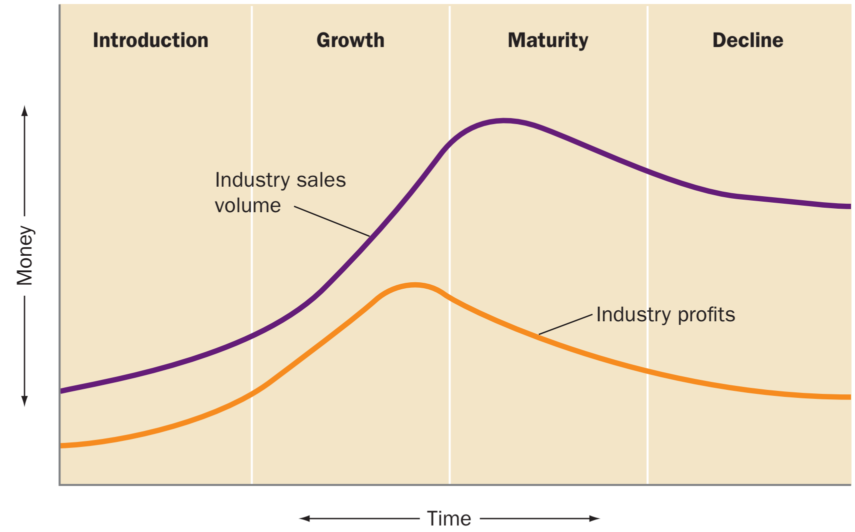
The Product Life-Cycle

In a way, products are like people. They are born, they live, and they die. Every product progresses through a **product life-cycle**, a series of stages in which a product's sales revenue and profit increase, reach a peak, and then decline. A firm must be able to launch, modify, and delete products from its offering of products in response to changes in product life-cycles. Otherwise, the firm's profits will disappear, and the firm will fail. Depending on the product, life-cycle stages will vary in length. In this section, we discuss the stages of the life-cycle and how marketers can use this information.

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

Figure 13.1 Product Life-Cycle

The graph shows sales volume and profits during the life-cycle of a product.



Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies,* 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

Stages of the Product Life-Cycle

Generally, the product life-cycle is assumed to be composed of four stages—introduction, growth, maturity, and decline—as shown in Figure 13.1. Some products progress through these stages rapidly, in a few weeks or months. Others may take years to go through each stage. The Rubik's Cube had a relatively short life-cycle. In contrast, Parker Brothers' Monopoly game, which was introduced over 70 years ago, is still going strong.

Introduction In the *introduction stage,* customer awareness and acceptance of the product are low. Sales rise gradually as a result of promotion and distribution activities; initially, however, high development and marketing costs result in low profit or even in a loss. There are relatively few competitors. The price is sometimes high, and purchasers are primarily people who want to be "the first" to own the new product. The marketing challenge at this stage is to make potential customers aware of the product's existence and its features, benefits, and uses. Apple, for example, recently introduced the iPad, a highly portable tablet computer. The iPad was described as revolutionary by many—combining the touch screen and features of an iPod Touch with the hard drive space of a Mac computer. In addition, the product can function as an e-reader, able to display electronic books. Apple created a new iBooks application for their iPad, where customers can purchase and download books from a large electronic library. With the release of the iPad, Apple further improved their market penetration in the personal computer market while also entering the e-reader market. The product's starting price of $499, although high compared to its e-reader market competitors, reflected the iPad's impressive additional features. The product's

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Product life-cycle. The iPad is currently in the introduction stage of the product life-cycle, but as more competitors release similar products, it will move into the growth stage.

introduction was a success, with Apple selling its one-millionth iPad just 28 days after the product was introduced to the market.[2]

A new product is seldom an immediate success. Marketers must watch early buying patterns carefully and be prepared to modify the new product promptly if necessary. The product should be priced to attract the particular market segment that has the greatest desire and ability to buy the product. Plans for distribution and promotion should suit the targeted market segment. As with the product itself, the initial price, distribution channels, and promotional efforts may need to be adjusted quickly to maintain sales growth during the introduction stage.

Growth In the *growth stage,* sales increase rapidly as the product becomes well-known. Other firms have probably begun to market competing products. The competition and lower unit costs (owing to mass production) result in a lower price, which reduces the profit per unit. Note that industry profits reach a peak and begin to decline during this stage. To meet the needs of the growing market, the originating firm offers modified versions of its product and expands its distribution. For example, the 3M Company, the maker of Post-it Notes, has developed a variety of sizes, colors, and designs.

Management's goal in the growth stage is to stabilize and strengthen the product's position by encouraging brand loyalty. To beat the competition, the company may further improve the product or expand the product line to appeal to additional market segments. Apple, for example, has introduced several variations of its wildly popular iPod MP3 player. The iPod Shuffle is the smallest and most affordable version, whereas the iPod Nano offers song, photo, and video support in a thin, lightweight version that has a built-in video camera. The iPod Classic provides up to 160 GB of hard drive space, the most of any of the versions. The iPod Touch has a large, vibrant touch screen and an additional Wi-Fi connection that can use GPS technology and download applications. Apple has expanded its iTunes Music Store to include downloadable versions of popular TV shows that can be purchased per episode or as an entire season, exclusive music video downloads, and movies that can be purchased or rented online. Apple greatly expanded its product mix with the release of the iPhone, a combination iPod Touch and cell phone. Continuous product innovation and service expansion have helped to expand Apple's market penetration in the competitive MP3 player market.[3]

Management also may compete by lowering prices if increased production efficiency has resulted in savings for the company. As the product becomes more widely accepted, marketers may be able to broaden the network of distributors. Marketers can also emphasize customer service and prompt credit for defective products. During this period, promotional efforts attempt to build brand loyalty among customers.

Maturity Sales are still increasing at the beginning of the *maturity stage,* but the rate of increase has slowed. Later in this stage, the sales curve peaks and begins to decline. Industry profits decline throughout this stage. Product lines are simplified, markets are segmented more carefully, and price competition increases. The increased competition forces weaker competitors to leave the industry. Refinements and extensions of the original product continue to appear on the market.

During a product's maturity stage, its market share may be strengthened by redesigned packaging or style changes. In addition, consumers may be encouraged to use the product more often or in new ways. Pricing strategies are flexible during this stage. Markdowns and price incentives are not uncommon, although price increases may work to offset production and distribution costs. Marketers may offer incentives and assistance of various kinds to dealers to encourage them to support mature products, especially in the face of competition from private-label brands. New promotional efforts and aggressive personal selling may be necessary during this period of intense competition.

Decline During the *decline stage,* sales volume decreases sharply. Profits continue to fall. The number of competing firms declines, and the only survivors in the marketplace are firms that specialize in marketing the product. Production and marketing costs become the most important determinant of profit.

When a product adds to the success of the overall product line, the company may retain it; otherwise, management must determine when to eliminate the product. A product usually declines because of technological advances or environmental factors or because consumers have switched to competing brands. Therefore, few changes are made in the product itself during this stage. Instead, management may raise the price to cover costs, reprice to maintain market share, or lower the price to reduce inventory. Similarly, management will narrow distribution of the declining product to the most profitable existing markets. During this period, the company probably will not spend heavily on promotion, although it may use some advertising and sales incentives to slow the product's decline. The company may choose to eliminate less-profitable versions of the product from the product line or may decide to drop the product entirely. General Motors (GM), for example, recently had to discontinue its Hummer brand. The company originally tried to sell the brand to a Chinese manufacturer, but the deal fell through, and GM had to begin phasing out Hummer vehicles. Although the brand had several loyal customers, GM claimed declining sales, the recession, and increased customer value of sustainability as reasons for the discontinuation. The CEO of GM himself acknowledged that the brand had developed a negative stigma as being a gas-guzzling icon of wealth and didn't think the brand could be salvaged.[4]

Using the Product Life-Cycle

Marketers should be aware of the life-cycle stage of each product for which they are responsible. Moreover, they should try to estimate how long the product is expected to remain in that stage. Both must be taken into account in making decisions about the marketing strategy for a product. If a product is expected to remain in the maturity stage for a long time, a replacement product might be introduced later in the maturity stage. If the maturity stage is expected to be short, however, a new product should be introduced much earlier. In some cases, a firm may be willing to take the chance of speeding up the decline of existing products. In other situations, a company will attempt to extend a product's life-cycle. For example, General Mills has extended the life of Bisquick baking mix (launched in the mid-1930s) by improving the product's formulation significantly and creating and promoting a variety of uses.

Product Line and Product Mix

3

Define *product line* and *product mix* and distinguish between the two.

A **product line** is a group of similar products that differ only in relatively minor characteristics. Generally, the products within a product line are related to each other in the way they are produced, marketed, or used. Procter & Gamble, for example, manufactures and markets several shampoos, including Prell, Head & Shoulders, and Ivory.

Many organizations tend to introduce new products within existing product lines. This permits them to apply the experience and knowledge they have acquired to the production and marketing of new products. Other firms develop entirely new product lines.

An organization's **product mix** consists of all the products the firm offers for sale. For example, Procter & Gamble, which acquired Gillette, has over 85 brands that fall into one of three product line categories: beauty and grooming, health and well-being, and household care.[5] Two "dimensions" are often applied to a firm's product mix. The *width* of the mix is the number of product lines it contains. The *depth* of the mix is the average number of individual products within each line. These are general measures; we speak of a *broad* or a *narrow* mix rather than a mix of exactly three or five product lines. Some organizations provide broad product mixes to be competitive.

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

product mix all the products a firm offers for sale

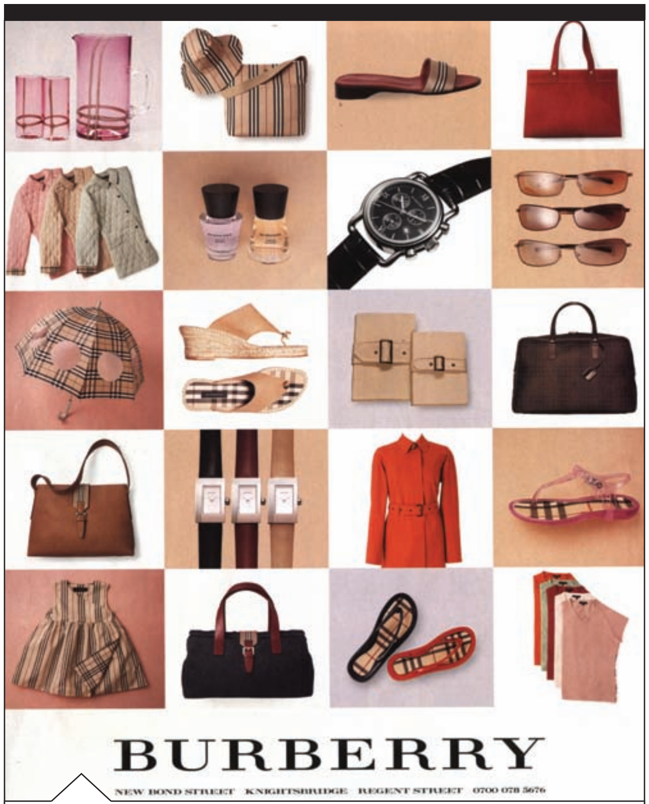
4

Identify the methods available for changing a product mix.

Managing the Product Mix

To provide products that satisfy people in a firm's target market or markets and that also achieve the organization's objectives, a marketer must develop, adjust, and maintain an effective product mix. Seldom can the same product mix be effective for long. Because customers' product preferences and attitudes change, their desire for a product may diminish or grow. In some cases, a firm needs to alter its product mix to adapt to competition. A marketer may have to eliminate a product from the mix because one or more competitors dominate that product's specific market segment. Similarly, an organization may have to introduce a new product or modify an existing one to compete more effectively. A marketer may also expand the firm's product mix to take advantage of excess marketing and production capacity. For example, both Coca-Cola and Pepsi have expanded their lines by adding to their existing brands and acquiring new brands as well. In response to the increasing popularity of energy drinks, Coca-Cola acquired the Full Throttle brand, whereas Pepsi acquired AMP. In an effort to seem more health conscious, both companies came out with new sugar-free or zero-calorie soda products, along with more juice brands. Coca-Cola contains brands such as Minute Maid, Simply Orange, and FUZE, whereas Pepsi contains Tropicana, Ocean Spray, Dole, and SoBe. For tea and coffee brands, Coca-Cola has Nestea and Caribou Iced Coffee, whereas Pepsi has partnerships with Lipton and Starbucks. Both companies are also involved in the fast-growing sports drink category, with Coca-Cola's POWERADE and Pepsi's Gatorade and Propel among the top competitors. Coca-Cola even has a brand in the alcohol category: BACARDI Mixers.[6] For whatever reason a product mix is altered, the product mix must be managed to bring about improvements in the mix. There are three major ways to improve a product mix: change an existing product, delete a product, or develop a new product.

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



Product lines. Burberry produces several product lines including shoes, handbags, sunglasses, watches, and apparel.

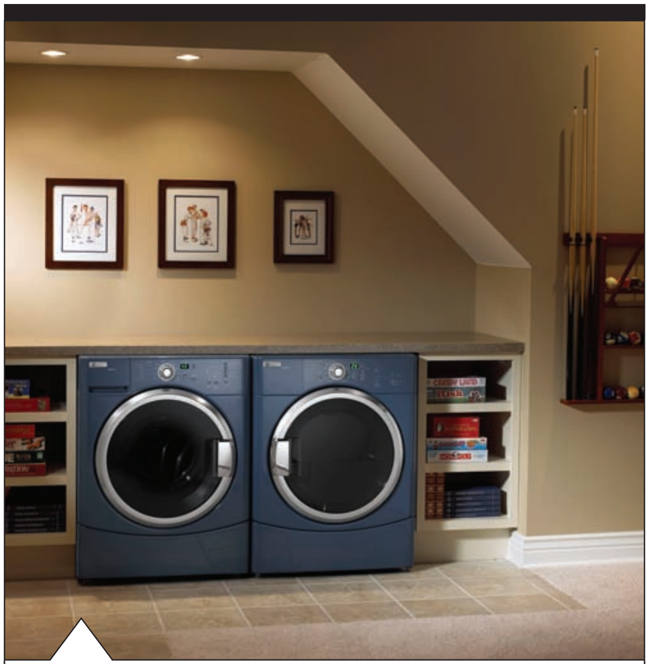
Image courtesy of The Advertising Archives

Managing Existing Products

A product mix can be changed by deriving additional products from existing ones. This can be accomplished through product modifications and by line extensions.

Product Modifications **Product modification** refers to changing one or more of a product's characteristics. For this approach to be effective, several conditions must be met. First, the product must be modifiable. Second, existing customers must be able to perceive that a modification has been made, assuming that the modified item is still directed at the same target market. Third, the modification should make the product more consistent with customers' desires so that it provides greater satisfaction. For example, Energizer increased its product's durability by using better materials—a larger cathode and anode interface—that make batteries last longer.

Existing products can be altered in three primary ways: in quality, function, and aesthetics. *Quality modifications* are changes that relate to a product's dependability and durability and are usually achieved by alterations in the materials or production process. *Functional modifications* affect a product's versatility, effectiveness, convenience, or safety; they usually require redesign of the product. Typical product categories that have undergone extensive functional modifications include home appliances, office and farm equipment, and consumer electronics. *Aesthetic modifications* are directed at changing the sensory appeal of a product by altering its taste, texture, sound, smell, or visual characteristics. Because a buyer's purchasing decision is affected by how a product looks, smells, tastes, feels, or sounds, an aesthetic modification may have a definite impact on purchases. Through aesthetic modifications, a firm can differentiate its product from competing brands and perhaps gain a sizable market share if customers find the modified product more appealing.



Product modification. Consider how laundry equipment has been modified many times to improve its quality, improve and add features, and make it more attractive.

© AP Images/PRNewsFoto/Whirlpool Corporation

Line Extensions A **line extension** is the development of a product closely related to one or more products in the existing product line but designed specifically to meet somewhat different customer needs. For example, Nabisco extended its cookie line to include Reduced Fat Oreos and Double Stuf Oreos.

Many of the so-called new products introduced each year are in fact line extensions. Line extensions are more common than new products because they are a less-expensive, lower-risk alternative for increasing sales. A line extension may focus on a different market segment or be an attempt to increase sales within the same market segment by more precisely satisfying the needs of people in that segment. Line extensions are also used to take market share from competitors.

Deleting Products

To maintain an effective product mix, an organization often has to eliminate some products. This is called **product deletion**. A weak product costs a firm time, money, and resources that could be used to modify other products or develop new ones. In addition, when a weak product generates an unfavorable image among customers, the negative image may rub off on other products sold by the firm.

Most organizations find it difficult to delete a product. Some firms drop weak products only after they have become severe financial burdens. A better approach is to conduct some form of systematic review of the product's impact on the overall effectiveness of a firm's product mix. Such a review should analyze a product's contribution to a company's sales for a given period. It should include estimates of future sales, costs, and profits associated with the product and a consideration of whether changes in the marketing strategy could improve the product's performance.

A product-deletion program can definitely improve a firm's performance. Condé Nast, for example, recently discontinued its *Gourmet* magazine. The magazine, which had been around since 1940, was experiencing declining ad sales and suffering from the move to digital media. However, Condé Nast plans to continue the brand in book publishing and television programming as well as online.[7]

Developing New Products

Developing and introducing new products frequently is time-consuming, expensive, and risky. Thousands of new products are introduced annually. Depending on how we define it, the failure rate for new products ranges between 60 and 75 percent. Although developing new products is risky, failing to introduce new products can be just as hazardous. Successful new products bring a number of benefits to an organization, including survival, profits, a sustainable competitive advantage, and a favorable public image. Consider the numerous ways that the producers of the products in Table 13.1 have benefited.

New products are generally grouped into three categories on the basis of their degree of similarity to existing products. *Imitations* are products designed to be similar to—and to compete with—existing products of other firms. Examples are the various brands of whitening toothpastes that were developed to compete with Rembrandt. *Adaptations*

line extension 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

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

Table 13.1	Top Ten New Products of the Decade	
Rank	**Product Name**	**Year Introduced**
1	iPod	2001
2	Wii	2006
3	Axe	2002
4	$5 Footlong	2008
5	Activia	2006
6	Mini Cooper	2002
7	Crest Whitestrips	2000
8	Guitar Hero	2005
9	Toyota Prius	2000
10	7 For All Mankind	2000

Source: *Advertising Age*, December 14, 2008, 16.

are variations of existing products that are intended for an established market. Product refinements and extensions are the adaptations considered most often, although imitative products may also include some refinement and extension. *Innovations* are entirely new products. They may give rise to a new industry or revolutionize an existing one. The introduction of digital music, for example, has brought major changes to the recording industry. Innovative products take considerable time, effort, and money to develop. They are therefore less common than adaptations and imitations. As shown in Figure 13.2, the process of developing a new product consists of seven phases.

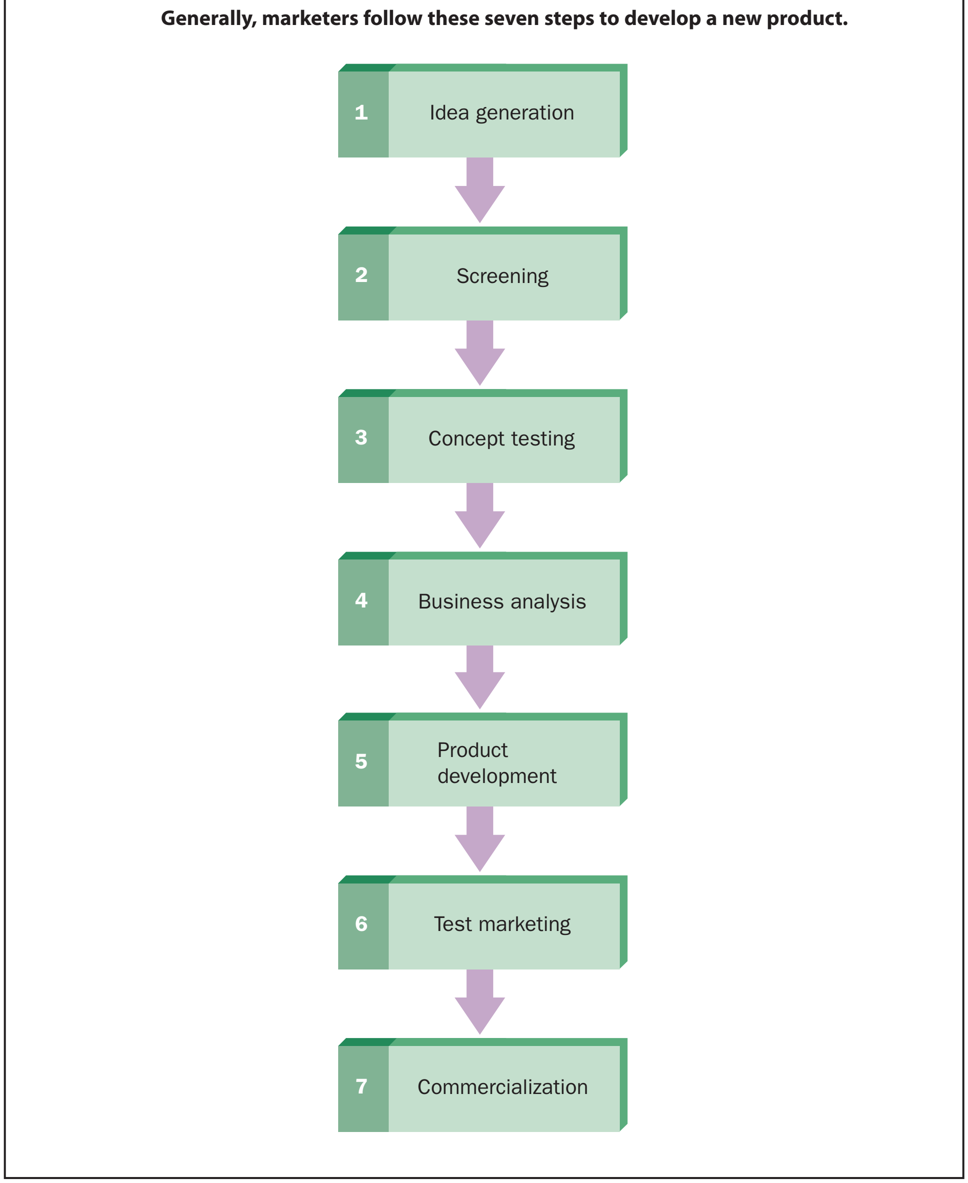
New-product development. New-product ideas can come from numerous sources, including a company's own scientists, such as this scientist at Procter & Gamble.

Idea Generation Idea generation involves looking for product ideas that will help a firm to achieve its objectives. Although some organizations get their ideas almost by chance, firms trying to maximize product-mix effectiveness usually develop systematic approaches for generating new-product ideas. Ideas may come from managers, researchers, engineers, competitors, advertising agencies, management consultants, private research organizations, customers, salespersons, or top executives. For example, Fahrenheit 212 serves as an "idea factory" that provides ready-to-go product ideas, including market potential analysis, to its clients, which include Procter & Gamble, Coca-Cola, Hershey, Samsung, Starbucks, Capital One Financial, General Mills, Nestlé, Clorox, and Adidas.[8]

Screening During screening, ideas that do not match organizational resources and objectives are rejected. In this phase, a firm's managers consider whether the organization has personnel with the expertise to develop and market the proposed product. Management may reject a good idea because the company lacks the necessary skills and abilities. The largest number of product ideas are rejected during the screening phase.

Concept Testing Concept testing is a phase in which a product idea is presented to a small sample of potential buyers through a written or oral description (and

Figure 13.2 Phases of New-Product Development



Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies,* 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

perhaps a few drawings) to determine their attitudes and initial buying intentions regarding the product. For a single product idea, an organization can test one or several concepts of the same product. Concept testing is a low-cost means for an organization to determine consumers' initial reactions to a product idea before investing considerable resources in product research and development (R&D). Product development personnel can use the results of concept testing to improve product attributes and product benefits that are most important to potential customers. The types of questions asked vary considerably depending on the type of product idea being tested. The following are typical questions:

- Which benefits of the proposed product are especially attractive to you?
- Which features are of little or no interest to you?
- What are the primary advantages of the proposed product over the one you currently use?
- If this product were available at an appropriate price, how often would you buy it?
- How could this proposed product be improved?

Business Analysis Business analysis provides tentative ideas about a potential product's financial performance, including its probable profitability. During this stage, the firm considers how the new product, if it were introduced, would affect the firm's sales, costs, and profits. Marketing personnel usually work up preliminary sales and cost projections at this point, with the help of R&D and production managers.

Product Development In the product development phase, the company must find out first if it is technically feasible to produce the product and then if the product can be made at costs low enough to justify a reasonable price. If a product idea makes it to this point, it is transformed into a working model, or *prototype*. For example, Aptera, a California-based vehicle manufacturer, recently developed a prototype electric vehicle called the 2e. The 2e is an innovative three-wheeled, two-seat vehicle that uses an electric motor with phosphate-based lithium-ion batteries. The 2e is expected to operate at about 200 MPG and travel about 100 miles on a single charge.[9] Often, this step is time-consuming and expensive for the organization. If a product successfully moves through this step, then it is ready for test marketing.

Test Marketing Test marketing is the limited introduction of a product in several towns or cities chosen to be representative of the intended target market. Its aim is to determine buyers' probable reactions. The product is left in the test markets long enough to give buyers a chance to repurchase the product if they are so inclined. Marketers can experiment with advertising, pricing, and packaging in different test areas and can measure the extent of brand awareness, brand switching, and repeat purchases that result from alterations in the marketing mix.

Commercialization During commercialization, plans for full-scale manufacturing and marketing must be refined and completed, and budgets for the project must be prepared. In the early part of the commercialization phase, marketing management analyzes the results of test marketing to find out what changes in the marketing mix are needed before the product is introduced. The results of test marketing may tell the marketers, for example, to change one or more of the product's physical attributes, to modify the distribution plans to include more retail outlets, to alter promotional efforts, or to change the product's price. Products are usually not introduced nationwide overnight. Most new products are marketed in stages, beginning in selected geographic areas and expanding into adjacent areas over a period of time.

Why Do Products Fail?

Despite this rigorous process for developing product ideas, most new products end up as failures. In fact, many well-known companies have produced market failures (see Table 13.2).

Table 13.2 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
General Motors	Corp. Cadillac Allante luxury sedan
Anheuser-Busch	Bud Dry and Michelob Dry beer
Coca-Cola	Surge Citrus drink
Heinz	Ketchup Salsa
Noxema	Noxema Skin Fitness

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

Why does a new product fail? Mainly because the product and its marketing program are not planned and tested as completely as they should be. For example, to save on development costs, a firm may market-test its product but not its entire marketing mix. Alternatively, a firm may market a new product before all the "bugs" have been worked out. Or, when problems show up in the testing stage, a firm may try to recover its product development costs by pushing ahead with full-scale marketing anyway. Finally, some firms try to market new products with inadequate financing.

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

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

Branding, Packaging, and Labeling

5

Explain the uses and importance of branding, packaging, and labeling.

Three important features of a product (particularly a consumer product) are its brand, package, and label. These features may be used to associate a product with a successful product line or to distinguish it from existing products. They may be designed to attract customers at the point of sale or to provide information to potential purchasers. Because the brand, package, and label are very real parts of the product, they deserve careful attention during product planning.

trademark a brand name or brand mark that is registered with the U.S. Patent and Trademark Office and thus is legally protected from use by anyone except its owner

trade name the complete and legal name of an organization

manufacturer (or producer) brand a brand that is owned by a manufacturer

store (or private) brand a brand that is owned by an individual wholesaler or retailer

What Is a Brand?

A **brand** is a name, term, symbol, design, or any combination of these that identifies a seller's products and distinguishes it from other sellers' products. A **brand name** is the part of a brand that can be spoken. It may include letters, words, numbers, or pronounceable symbols, such as the ampersand in *Procter & Gamble*. A **brand mark**, on the other hand, is the part of a brand that is a symbol or distinctive design, such as the Nike "swoosh." A **trademark** is a brand name or brand mark that is registered with the U.S. Patent and Trademark Office and thus is legally protected from use by anyone except its owner. A **trade name** is the complete and legal name of an organization, such as Pizza Hut or Cengage Learning (the publisher of this text).

Types of Brands

Brands are often classified according to who owns them: manufacturers or stores. A **manufacturer** (or **producer**) **brand**, as the name implies, is a brand that is owned by a manufacturer. Many foods (Frosted Flakes), major appliances (Whirlpool), gasolines (Exxon), automobiles (Honda), and clothing (Levi's) are sold as manufacturers' brands. Some consumers prefer manufacturer brands because they are usually nationally known, offer consistent quality, and are widely available.

A **store** (or **private**) **brand** is a brand that is owned by an individual wholesaler or retailer. Among the better-known store brands are Kenmore and Craftsman, both owned by Sears, Roebuck. Owners of store brands claim that they can offer lower prices, earn greater profits, and improve customer loyalty with their own brands. Some companies that manufacture private brands also produce their own manufacturer brands. They often find such operations profitable because they can use excess capacity and at the same time avoid most marketing costs. Many private-branded grocery products are produced by companies that specialize in making private-label products. About 25 percent of products sold in supermarkets are private-branded items.[10]

Consumer confidence is the most important element in the success of a branded product, whether the brand is owned by a producer or by a retailer. Because branding identifies each product completely, customers can easily repurchase products that provide satisfaction, performance, and quality. Moreover, they can just as easily avoid or ignore products that do not. In supermarkets, the products most likely to keep their shelf space are the brands with large market shares and strong customer loyalty.

Private brand. A number of supermarkets, like Kroger, develop numerous private-branded products.

© AP Images/ PR NewsFoto/Kroger Co.

A **generic product** (sometimes called a **generic brand**) is a product with no brand at all. Its plain package carries only the name of the product—applesauce, peanut butter, potato chips, or whatever. Generic products, available in supermarkets since 1977, sometimes are made by the major producers that manufacture name brands. Even though generic brands may have accounted for as much as 10 percent of all grocery sales several years ago, they currently represent less than one-half of 1 percent.

Benefits of Branding

Both buyers and sellers benefit from branding. Because brands are easily recognizable, they reduce the amount of time buyers must spend shopping; buyers can quickly identify the brands they prefer. Choosing particular brands, such as Tommy Hilfiger, Polo, Nautica, and Nike, can be a way of expressing oneself. When buyers are unable to evaluate a product's characteristics, brands can help them to judge the quality of the product. For example, most buyers are not able to judge the quality of stereo components but may be guided by a well-respected brand name. Brands can symbolize a certain quality level to a customer, allowing that perception of quality to represent the actual quality of the item. Brands thus help to reduce a buyer's perceived risk of purchase. Finally, customers may receive a psychological reward that comes from owning a brand that symbolizes status. The Lexus brand is an example.

Because buyers are already familiar with a firm's existing brands, branding helps a firm to introduce a new product that carries the same brand name. Branding aids sellers in their promotional efforts because promotion of each branded product indirectly promotes other products of the same brand. H.J. Heinz, for example, markets many products with the Heinz brand name, such as ketchup, vinegar, vegetarian beans, gravies, barbecue sauce, and steak sauce. Promotion of one Heinz product indirectly promotes the others.

One chief benefit of branding is the creation of **brand loyalty**, the extent to which a customer is favorable toward buying a specific brand. The stronger the brand loyalty, the greater is the likelihood that buyers will consistently choose the brand. For example, Toyota is expected to survive as a company, despite the massive recalls affecting several million vehicles, because of its historically high perceived brand quality. Even though this is a huge mark against the brand, the company is relying on its loyalists and previously perceived brand quality to survive.[11] There are three levels of brand loyalty: recognition, preference, and insistence. *Brand recognition* is the level of loyalty at which customers are aware that the brand exists and will purchase it if their preferred brands are unavailable or if they are unfamiliar with available brands. This is the weakest form of brand loyalty. *Brand preference* is the level of brand loyalty at which a customer prefers one brand over competing brands. However, if the preferred brand is unavailable, the customer is willing to substitute another brand. *Brand insistence* is the strongest level of brand loyalty. Brand-insistent customers strongly prefer a specific brand and will not buy substitutes. Brand insistence is the least common type of brand loyalty. Partly owing to marketers' increased dependence on discounted prices, coupons, and other short-term promotions, and partly because of the enormous array of new products with similar characteristics, brand loyalty in general seems to be declining.

Brand equity is the marketing and financial value associated with a brand's strength in a market. Although difficult to measure, brand equity represents the value of a brand to an organization. The top ten most highly valued brands in the world are shown in Table 13.3. The four major factors that contribute to brand equity are brand awareness, brand associations, perceived brand quality, and brand loyalty. Brand awareness leads to brand familiarity, and buyers are more likely to select a familiar

generic product (or brand) a product with no brand at all

brand loyalty extent to which a customer is favorable toward buying a specific brand

brand equity marketing and financial value associated with a brand's strength in a market

Table 13.3 Top Ten Most Valuable Brands in the World

Brand	Brand Value (in billion $)
Coca-Cola	68.7
IBM	60.2
Microsoft	56.6
GE	47.8
Nokia	34.9
McDonald's	32.3
Google	32.0
Toyota	31.3
Intel	30.6
Disney	28.4

Source: "Best Global Brands," *Interbrand*, http://www.interbrand.com/best_global_brands.aspx (accessed October 15, 2009).

Career
SUCCESS

Building Your Personal Brand

What does your personal brand stand for? This is a key issue as you begin or continue your career. To stand out in the minds of employers and stand for positive qualities such as professionalism, think about the brand image you want to communicate. You're not a generic product—you're a unique individual with specific credentials, educational accomplishments, and work experiences that make you valuable as an employee. Your personal interests and your professional connections are also important aspects of your brand.

Here are tips for building your personal brand to enhance your job search:

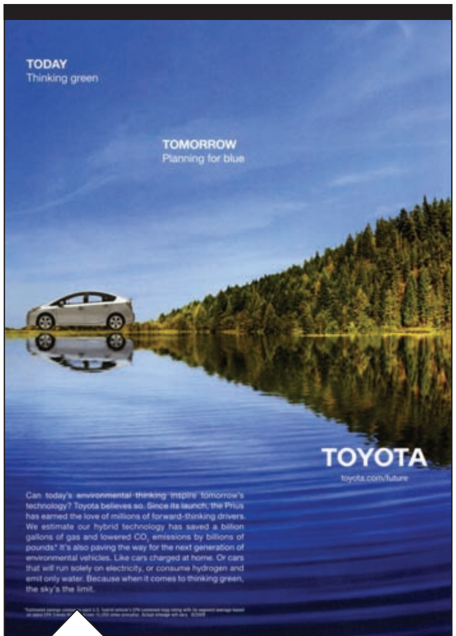
- *Polish your résumé.* This is often the first contact a potential employer will have with your brand, so be sure you highlight your strengths.
- *Pay attention to appearance.* What you wear to an interview or a job fair is part of your packaging.
- *Plan your introduction.* When a recruiter says, "Tell me about yourself," be prepared to use this as an opportunity to communicate your brand identity.
- *Build your brand online.* Remember that "any information you have on the Internet shapes your personal brand, whether it's on a blog, Facebook, MySpace, [or] articles about you," says the director of Stanford University's Career Development Center. Build your brand with links to professional Web sites and comments on industry doings, while protecting your brand by deleting inappropriate photos and messages.

© iStockphotos.com/nicole waring

Sources: Stephanie Weber, "As Personal Branding Rises, a Search for Balance," *Stanford Daily (Stanford, CA)*, May 12, 2010, http://www.stanforddaily.com; Jerry S. Wilson, "Transitioning Your Personal Brand," *BusinessWeek,* April 27, 2010, http://www.businessweek.com; Andrea Mora, "Tips for Creating Your Own Professional Brand," *Daily Aztec (San Diego, CA)*, April 29, 2010, http://www.thedailyaztec.com.

brand than an unfamiliar one. The associations linked to a brand can connect a personality type or lifestyle with a particular brand. For example, customers associate Michelin tires with protecting family members; a De Beers diamond with a loving, long-lasting relationship ("A Diamond Is Forever"); and Dr Pepper with a unique taste. When consumers are unable to judge for themselves the quality of a product, they may rely on their perception of the quality of the product's brand. Finally, brand loyalty is a valued element of brand equity because it reduces both a brand's vulnerability to competitors and the need to spend tremendous resources to attract new customers; it also provides brand visibility and encourages retailers to carry the brand. Companies have much work to do in establishing new brands to compete with well-known brands. For example, Coca-Cola decided that it would be a better business decision to buy the established brand Glaceau than to create a new brand of its own. The company acquired Glaceau, which included the Vitaminwater and Smartwater brands, to strengthen Coca-Cola's water and energy drink product line.[12]

Marketing on the Internet is sometimes best done in collaboration with a better-known Web brand. For instance, Tire Rack, Razor Gator, Audible.com, and Shutterfly all rely on partnerships with Internet retail giant Amazon to increase their sales. Amazon provides special sections on its Web site to promote its partners and their products. As with its own products, Amazon gives users the ability to post online



Building brand equity. Toyota is attempting to build brand equity by promoting favorable brand associations.

Image courtesy of The Advertising Archives reviews of its partners' products or to add them to an Amazon "wish list" that can be saved or e-mailed to friends. Amazon even labels its partners as "Amazon Trusted" when customers browse their sites, giving even these well-known real-world companies credibility in the online marketplace.[13]

Choosing and Protecting a Brand

A number of issues should be considered when selecting a brand name. The name should be easy for customers to say, spell, and recall. Short, one-syllable names such as *Tide* often satisfy this requirement. Letters and numbers are used to create such brands as Volvo's S60 sedan or RIM's BlackBerry 8100. Words, numbers, and letters are combined to yield brand names such as Motorola's RAZR V3 phone or BMW's Z4 Roadster. The brand name should suggest, in a positive way, the product's uses, special characteristics, and major benefits and should be distinctive enough to set it apart from competing brands. Choosing the right brand name has become a challenge because many obvious product names already have been used.

It is important that a firm select a brand that can be protected through registration, reserving it for exclusive use by that firm. Some brands, because of their designs, are infringed on more easily than others. Although registration protects trademarks domestically for ten years and can be renewed indefinitely, a firm should develop a system for ensuring that its trademarks will be renewed as needed. To protect its exclusive right to the brand, the company must ensure that the selected brand will not be considered an infringement on any existing brand already registered with the U.S. Patent and Trademark Office. This task may be complicated by the fact that infringement is determined by the courts, which base their decisions on whether a brand causes consumers to be confused, mistaken, or deceived about the source of the product. McDonald's is one company that aggressively protects its trademarks against infringement; it has brought charges against a number of companies with *Mc* names because it fears that the use of the prefix will give consumers the impression that these companies are associated with or owned by McDonald's.

A firm must guard against having its brand name become a generic term that refers to a general product category. Generic terms cannot be legally protected as exclusive brand names. For example, names such as *yo-yo, aspirin, escalator,* and *thermos*—all exclusively brand names at one time—eventually were declared generic terms that refer to product categories. As such, they can no longer be protected. To ensure that a brand name does not become a generic term, the firm should spell the name with a capital letter and use it as an adjective to modify the name of the general product class, as in Jell-O Brand Gelatin. An organization can deal directly with this problem by advertising that its brand is a trademark and should not be used generically. Firms also can use the registered trademark symbol ® to indicate that the brand is trademarked.

Branding Strategies

The basic branding decision for any firm is whether to brand its products. A producer may market its products under its own brands, private brands, or both. A retail store may carry only producer brands, its own brands, or both. Once either type of firm decides to brand, it chooses one of two branding strategies: individual branding or family branding.

Individual branding is the strategy in which a firm uses a different brand for each of its products. For example, Procter & Gamble uses individual branding for its line of bar soaps, which includes Ivory, Camay, Zest, Safeguard, Coast, and Olay. Individual branding offers two major advantages. A problem with one product will not affect the good name of the firm's other products, and the different brands can be directed toward different market

individual branding the strategy in which a firm uses a different brand for each of its products segments. For example, Marriott's Fairfield Inns are directed toward budget-minded travelers, whereas Marriott Hotels are aimed toward upscale customers.

Family branding is the strategy in which a firm uses the same brand for all or most of its products. Sony, Dell, IBM, and Xerox use family branding for their entire product mixes. A major advantage of family branding is that the promotion of any one item that carries the family brand tends to help all other products with the same brand name. In addition, a new product has a head start when its brand name is already known and accepted by customers.

Brand Extensions

A **brand extension** occurs when an organization uses one of its existing brands to brand a new product in a different product category. For example, Procter & Gamble employed a brand extension when it named a new product Ivory Body Wash. A brand extension should not be confused with a line extension. A *line extension* refers to using an existing brand on a new product in the same product category, such as a new flavor or new sizes. For example, when the makers of Tylenol introduced Extra Strength Tylenol PM, the new product was a line extension because it was in the same product category. One thing marketers must be careful of, however, is extending a brand too many times or extending too far outside the original product category, which may weaken the brand. For example, Kellogg's extended its brand name to a line of hip-hop street clothing that was later named one of the worst brand extensions that year.[14]

family branding the strategy in which a firm uses the same brand for all or most of its products

brand extension using an existing brand to brand a new product in a different product category

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

Packaging

Packaging consists of all the activities involved in developing and providing a container with graphics for a product. The package is a vital part of the product. It can make the product more versatile, safer, or easier to use. Through its shape, appearance, and printed message, a package can influence purchasing decisions.

Packaging Functions

Effective packaging means more than simply putting products in containers and covering them with wrappers. The basic function of packaging materials is to protect the product and maintain its functional form. Fluids such as milk, orange juice, and hair spray need packages that preserve and protect them; the packaging should prevent damage that could affect the product's usefulness and increase costs. Because product tampering has become a problem for marketers of many types of goods, several packaging techniques have been developed to counter this danger. Some packages are also designed to foil shoplifting.

Another function of packaging is to offer consumer convenience. For example, small, aseptic packages—individual-serving boxes or plastic bags that contain liquids and do not require refrigeration—appeal strongly to children and to young adults with active lifestyles. The size or shape of a package may relate to the product's storage, convenience of use, or replacement rate. Small, single-serving cans of vegetables, for instance, may prevent waste and make storage easier. A third function of packaging is to promote a product by communicating its features, uses, benefits, and image. Sometimes a firm develops a reusable package to make its product more desirable. For example, the Cool Whip package doubles as a food-storage container.

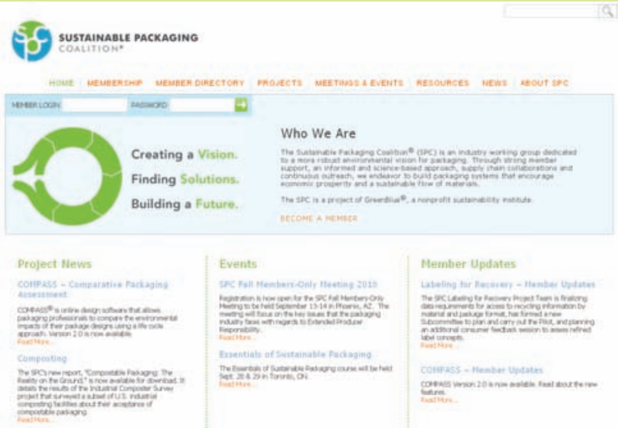
Package design. Parent's Choice Baby Food, made by PBM Products, employs reusable plastic tubs that are designed to be sturdy, spill less, and keep its contents fresh longer.

© PR NewsFoto/PBM Products,LLC

Sustaining the Planet

Sustainable Packaging Coalition

The Sustainable Packaging Coalition, an industry group, provides guidelines and benchmarks for designing product packages that are easy on the environment and can be reused, recycled, or composted. Take a look: http://www.sustainablepackaging.org/.



© The Sustainable Packaging Coalition is a project of GreenBlue.

Package Design Considerations Many factors must be weighed when developing packages. Obviously, one major consideration is cost. Although a number of packaging materials, processes, and designs are available, some are rather expensive. Although U.S. buyers have shown a willingness to pay more for improved packaging, there are limits.

Marketers also must decide whether to package the product in single or multiple units. Multiple-unit packaging can increase demand by increasing the amount of the product available at the point of consumption (in the home, for example). However, multiple-unit packaging does not work for infrequently used products because buyers do not like to tie up their dollars in an excess supply or to store those products for a long time. However, multiple-unit packaging can make storage and handling easier (as in the case of six-packs used for soft drinks); it can also facilitate special price offers, such as two-for-one sales. In addition, multiple-unit packaging may increase consumer acceptance of a product by encouraging the buyer to try it several times. On the other hand, customers may hesitate to try the product at all if they do not have the option to buy just one.

Marketers should consider how much consistency is desirable among an organization's package designs. To promote an overall company image, a firm may decide that all packages must be similar or include one major element of the design. This approach, called *family packaging,* is sometimes used only for lines of products, as with Campbell's soups, Weight Watchers entrées, and Planters nuts. The best policy is sometimes no consistency, especially if a firm's products are unrelated or aimed at vastly different target markets.

Packages also play an important promotional role. Through verbal and nonverbal symbols, the package can inform potential buyers about the product's content, uses, features, advantages, and hazards. Firms can create desirable images and associations by choosing particular colors, designs, shapes, and textures. Many cosmetics manufacturers, for example, design their packages to create impressions of richness, luxury, and exclusiveness. The package performs another promotional function when it is designed to be safer or more convenient to use, especially if such features help to stimulate demand.

Packaging also must meet the needs of intermediaries. Wholesalers and retailers consider whether a package facilitates transportation, handling, and storage. Resellers may refuse to carry certain products if their packages are cumbersome.

Finally, firms must consider the issue of environmental responsibility when developing packages. Companies must balance consumers' desires for convenience against the need to preserve the environment. About one-half of all garbage consists of discarded plastic packaging, such as plastic soft drink bottles and carryout bags. Plastic packaging material is not biodegradable, and paper necessitates destruction of valuable forest lands. Consequently, many companies are exploring packaging alternatives and recycling more materials. Last year, Naked Juice became the first beverage with national distribution to produce its packaging completely from recycled plastic.[15]

Labeling

Labeling is the presentation of information on a product or its package. The *label* is the part that contains the information. This information may include the brand name and mark, the registered trademark symbol ®, the package size and contents, product claims, directions for use and safety precautions, a list of ingredients, the name and address of the manufacturer, and the Universal Product Code (UPC) symbol, which is used for automated checkout and inventory control.

A number of federal regulations specify information that *must* be included in the labeling for certain products. For example,

- Garments must be labeled with the name of the manufacturer, country of manufacture, fabric content, and cleaning instructions.
- Food labels must contain the most common term for ingredients.
- Any food product for which a nutritional claim is made must have nutrition labeling that follows a standard format.
- Food product labels must state the number of servings per container, the serving size, the number of calories per serving, the number of calories derived from fat, and the amounts of specific nutrients.
- Non-edible items such as shampoos and detergents must carry safety precautions as well as instructions for their use.

Such regulations are aimed at protecting customers from both misleading product claims and the improper (and thus unsafe) use of products. A product that has come under fire in 2010 is the printer cartridge. Consumers are pushing for more disclosure on labels about the amount of ink in each cartridge. Currently, it is difficult for consumers to compare offerings and prices without knowing the amount of ink contained in each cartridge. Companies have responded by saying ink does not fall under the Fair Packaging and Labeling Act. This dispute is currently under review.[16]

Labels also may carry the details of written or express warranties. An **express warranty** is a written explanation of the producer's responsibilities in the event that a product is found to be defective or otherwise unsatisfactory. As a result of consumer discontent (along with some federal legislation), firms have begun to simplify the wording of warranties and to extend their duration. The L.L.Bean warranty states, "Our products are guaranteed to give 100 percent satis-faction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish."

Pricing Products

6

Describe the economic basis of pricing and the means by which sellers can control prices and buyers' perceptions of prices.

A product is a set of attributes and benefits that has been carefully designed to satisfy its market while earning a profit for its seller. No matter how well a product is designed, however, it cannot help an organization to achieve its goals if it is priced incorrectly. Few people will purchase a product with too high a price, and a product with too low a price will earn little or no profit. Somewhere between too high and too low there is a "proper," effective price for each product. Let's take a closer look at how businesses go about determining a product's right price.

The Meaning and Use of Price

The **price** of a product is the amount of money a seller is willing to accept in exchange for the product at a given time and under given circumstances. At times, the price results from negotiations between buyer and seller. In many business situations, however, the price is fixed by the seller. Suppose that a seller sets a price of $10 for a particular product. In essence, the seller is saying, "Anyone who wants this product can have it here and now in exchange for $10."

labeling the presentation of information on a product or its package

express warranty a written explanation of the producer's responsibilities in the event that a product is found to be defective or otherwise unsatisfactory

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

Price competition. Price competition is common among general merchandise retailers such as supermarkets and discount stores.

© AP Images/Ted S. Warren

Each interested buyer then makes a personal judgment regarding the product's utility, often in terms of some dollar value. A particular person who feels that he or she will get at least $10 worth of want satisfaction (or value) from the product is likely to buy it. If that person can get more want satisfaction by spending $10 in some other way, however, he or she will not buy the product.

Price thus serves the function of *allocator*. First, it allocates goods and services among those who are willing and able to buy them. (As we noted in Chapter 1, the answer to the economic question "For whom to produce?" depends primarily on prices.) Second, price allocates financial resources (sales revenue) among producers according to how well they satisfy customers' needs. Third, price helps customers to allocate their own financial resources among various want-satisfying products.

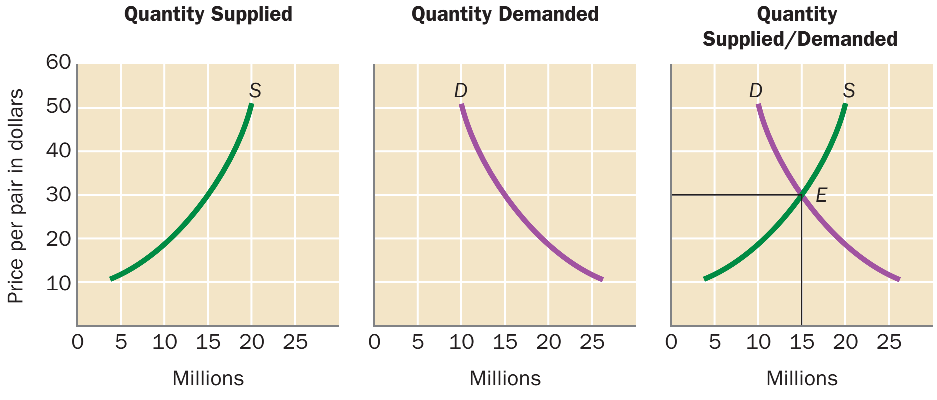
Supply and Demand Affects Prices

In Chapter 1, we defined the **supply** of a product as the quantity of the product that producers are willing to sell at each of various prices. We can draw a graph of the supply relationship for a particular product, say, jeans (see the left graph in Figure 13.3). Note that the quantity supplied by producers *increases* as the price increases along this *supply curve*.

As defined in Chapter 1, the **demand** for a product is the quantity that buyers are willing to purchase at each of various prices. We can also draw a graph of the demand relationship (see the center graph in Figure 13.3). Note that the quantity demanded by purchasers *increases* as the price decreases along the *demand curve*. The buyers and sellers of a product interact in the marketplace. We can show this interaction by superimposing the supply curve onto the demand curve for our product, as shown in the right graph in Figure 13.3. The two curves intersect at point *E*, which represents a quantity of 15 million pairs of jeans and a price of $30 per pair. Point *E* is on the *supply curve;* thus, producers are willing to supply 15 million pairs at $30 each. Point *E* is also on the demand curve; thus, buyers are

Figure 13.3 Supply and Demand Curves

Supply curve (*left*): The upward slope means that producers will supply more jeans at higher prices. Demand curve (*center*): The downward slope (to the right) means that buyers will purchase fewer jeans at higher prices. Supply and demand curves together (*right*): Point *E* indicates equilibrium in quantity and price for both sellers and buyers.



supply the quantity of a product that producers are willing to sell at each of various prices

demand the quantity of a product that buyers are willing to purchase at each of various prices willing to purchase 15 million pairs at $30 each. Point *E* represents *equilibrium*. If 15 million pairs are produced and priced at $30, they all will be sold. In addition, everyone who is willing to pay $30 will be able to buy a pair of jeans.

Price and Non-Price Competition

Before a product's price can be set, an organization must determine the basis on which it will compete—whether on price alone or some combination of factors. The choice influences pricing decisions as well as other marketing-mix variables.

Price competition occurs when a seller emphasizes a product's low price and sets a price that equals or beats competitors' prices. To use this approach most effectively, a seller must have the flexibility to change prices often and must do so rapidly and aggressively whenever competitors change their prices. Price competition allows a marketer to set prices based on demand for the product or in response to changes in the firm's finances. Competitors can do likewise, however, which is a major drawback of price competition. They, too, can quickly match or outdo an organization's price cuts. In addition, if circumstances force a seller to raise prices, competing firms may be able to maintain their lower prices. For example, when increasing numbers of coffee sellers entered the market, competition increased. Starbucks needed to counter the widespread perception that it was the home of the $4 cup of coffee, especially during the economic downturn. In order to compete with McDonald's inexpensive coffee, Starbucks cut its coffee prices and started selling discounted breakfast foods for $3.95, including coffee.[17]

The Internet makes price comparison relatively easy for users. This ease of price comparison helps to drive competition. Examples of Web sites where customers can compare prices include http://mysimon.com, http://pricescan.com, http://bizrate.com, http://pricegrabber.com, http://pricecomparison.com, http://shopping.yahoo.com, http://nextag.com, and http://froogle.google.com.

Non-price competition is competition based on factors other than price. It is used most effectively when a seller can make its product stand out from the competition by distinctive product quality, customer service, promotion, packaging, or other features. Buyers must be able to perceive these distinguishing characteristics and consider them desirable. Once customers have chosen a brand for non-price reasons, they may not be attracted as easily to competing firms and brands. In this way, a seller can build customer loyalty to its brand. A method of non-price competition, **product differentiation**, is the process of developing and promoting differences between one's product and all similar products. Apple, for example, is known for producing products that demand a premium price because of the capabilities and service that comes with its products. One writer went as far as to say that Linux will not be able to compete with the Apple iPad because it lacks the "magic" that Apple products have. It is difficult to define and therefore imitate Apple's magic; it is a combination of several qualities including the appearance of its products, ease of use, and product integration.[18]

Buyers' Perceptions of Price

In setting prices, managers should consider the price sensitivity of people in the target market. How important is price to them? Is it always "very important?" Members of one market segment may be more influenced by price than members of another. For a particular product, the price may be a bigger factor to some buyers than to others. For example, buyers may be more sensitive to price when purchasing gasoline than when purchasing running shoes.

Buyers will accept different ranges of prices for different products; that is, they will tolerate a narrow range for certain items and a wider range for others. Consider the wide range of prices that consumers pay for soft drinks—from 15 cents per ounce at the movies down to 1.5 cents per ounce on sale at the grocery store. Management should be aware of these limits of acceptability and the products to which they apply. The firm also should take note of buyers' perceptions of a given product in relation to competing products. A premium price may be appropriate if a

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

non-price 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 product is considered superior to others in its category or if the product has inspired strong brand loyalty. On the other hand, if buyers have even a hint of a negative view of a product, a lower price may be necessary.

Sometimes buyers relate price to quality. They may consider a higher price to be an indicator of higher quality. Managers involved in pricing decisions should determine whether this outlook is widespread in the target market. If it is, a higher price may improve the image of a product and, in turn, make the product more desirable.

7

Identify the major pricing objectives used by businesses.

Pricing Objectives

Before setting prices for a firm's products, management must decide what it expects to accomplish through pricing. That is, management must set pricing objectives that are in line with both organizational and marketing objectives. Of course, one objective of pricing is to make a profit, but this may not be a firm's primary objective. One or more of the following factors may be just as important.

Survival

A firm may have to price its products to survive—either as an organization or as a player in a particular market. This usually means that the firm will cut its price to attract customers, even if it then must operate at a loss. Obviously, such a goal hardly can be pursued on a long-term basis, for consistent losses would cause the business to fail. Even Abercrombie and Fitch (A&F) had to resort to price reductions on its luxury priced clothing to stay in business during the recent economic downturn. Last year, A&F's first quarter result was a loss of almost $27 million, compared to the previous year's income of over $62 million. This drastic difference forced the retailer to adjust prices to better complement customer's smaller budgets.[19]

Pricing objectives associated with product quality. Ikea's pricing objectives focus on value, or the product quality relative to the price.

Photo courtesy of Susan Van Etten

Profit Maximization

Many firms may state that their goal is to maximize profit, but this goal is impossible to define (and thus impossible to achieve). What, exactly, is the *maximum* profit? How does a firm know when it has been reached? Firms that wish to set profit goals should express them as either specific dollar amounts, or percentage increases, over previous profits.

Target Return on Investment

The *return on investment* (ROI) is the amount earned as a result of that investment. Some firms set an annual percentage ROI as their pricing goal. ConAgra, the company that produces Healthy Choice meals and a multitude of other products, has a target after-tax ROI of 20 percent.

Market-Share Goals

A firm's *market share* is its proportion of total industry sales. Some firms attempt, through pricing, to maintain or increase their market shares. Both U.S. cola giants try to gain market share through aggressive pricing and other marketing efforts.

Status-Quo Pricing

In pricing their products, some firms are guided by a desire to avoid "making waves," or to maintain the status quo. This is especially true in industries that depend on price stability. If such a firm can maintain its profit or market share simply by meeting the competition—charging about the same price as competitors for similar products—then it will do so.

8

Examine the three major pricing methods that firms employ.

Pricing Methods

Once a firm has developed its pricing objectives, it must select a pricing method to reach that goal. Two factors are important to every firm engaged in setting prices. The first is recognition that the market, and not the firm's costs, ultimately determines the price at which a product will sell. The second is awareness that costs and expected sales can be used only to establish some sort of *price floor,* the minimum price at which the firm can sell its product without incurring a loss. In this section, we look at three kinds of pricing methods: cost-based, demand-based, and competition-based pricing.

Cost-Based Pricing

Using the simplest method of pricing, *cost-based pricing,* the seller first determines the total cost of producing (or purchasing) one unit of the product. The seller then adds an amount to cover additional costs (such as insurance or interest) and profit. The amount that is added is called the **markup**. The total of the cost plus the markup is the product's selling price.

A firm's management can calculate markup as a percentage of its total costs. Suppose, for example, that the total cost of manufacturing and marketing 1,000 DVD players is $100,000, or $100 per unit. If the manufacturer wants a markup that is 20 percent above its costs, the selling price will be $100 plus 20 percent of $100, or $120 per unit.

Markup pricing is easy to apply, and it is used by many businesses (mostly retailers and wholesalers). However, it has two major flaws. The first is the difficulty of determining an effective markup percentage. If this percentage is too high, the product may be overpriced for its market; then too few units may be sold to return the total cost of producing and marketing the product. In contrast, if the markup percentage is too low, the seller is "giving away" profit it could have earned simply by assigning a higher price. In other words, the markup percentage needs to be set to account for the workings of the market, and that is very difficult to do.

The second problem with markup pricing is that it separates pricing from other business functions. The product is priced *after* production quantities are determined, *after* costs are incurred, and almost without regard for the market or the marketing mix. To be most effective, the various business functions should be integrated. *Each* should have an impact on all marketing decisions.

Cost-based pricing can also be facilitated through the use of breakeven analysis. For any product, the **breakeven quantity** is the number of units that must be sold for the total revenue (from all units sold) to equal the total cost (of all units sold). **Total revenue** is the total amount received from the sales of a product. We can estimate projected total revenue as the selling price multiplied by the number of units sold.

The costs involved in operating a business can be broadly classified as either fixed or variable costs. A **fixed cost** is a cost incurred no matter how many units of a product are produced or sold. Rent, for example, is a fixed cost; it remains the same whether 1 or 1,000 units are produced. A **variable cost** is a cost that depends on the number of units produced. The cost of fabricating parts for a stereo receiver is a variable cost. The more units produced, the more parts that will be needed, and thus the higher cost of fabricating parts. The **total cost** of producing a certain number of units is the sum of the fixed costs and the variable costs attributed to those units.

If we assume a particular selling price, we can find the breakeven quantity either graphically or by using a formula. Figure 13.4 graphs the total revenue earned and the total cost incurred by the sale of various quantities of a hypothetical product. With fixed costs of $40,000, variable costs of $60 per unit, and a selling price

markup the amount a seller adds to the cost of a product to determine its basic selling price

breakeven quantity the number of units that must be sold for the total revenue (from all units sold) to equal the total cost (of all units sold)

total revenue the total amount received from sales of a product

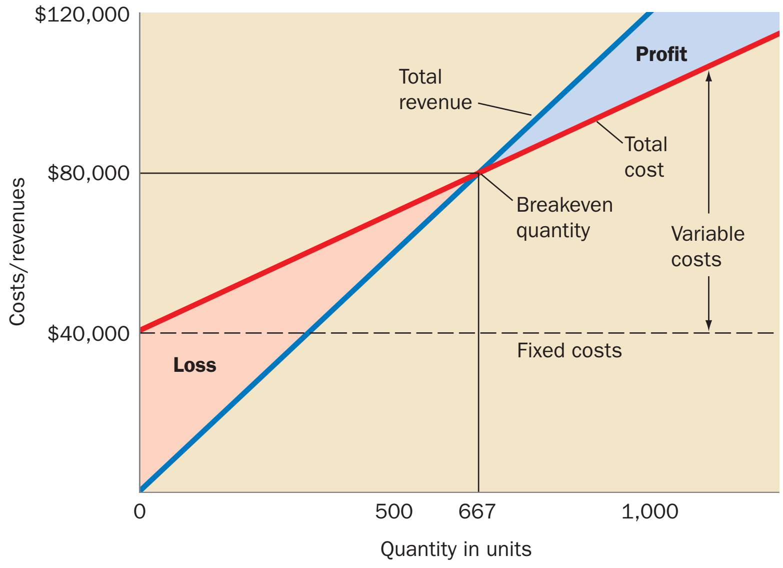
fixed cost a cost incurred no matter how many units of a product are produced or sold

variable cost a cost that depends on the number of units produced

total cost the sum of the fixed costs and the variable costs attributed to a product

Figure 13.4 Breakeven Analysis

Breakeven analysis answers the question: What is the lowest level of production and sales at which a company can break even on a particular product?



of $120, the breakeven quantity is 667 units. To find the breakeven quantity, first deduct the variable cost from the selling price to determine how much money the sale of one unit contributes to offsetting fixed costs. Then divide that contribution into the total fixed costs to arrive at the breakeven quantity. (The breakeven quantity in Figure 13.4 is the quantity represented by the intersection of the total revenue and total cost axes.) If the firm sells more than 667 units at $120 each, it will earn a profit. If it sells fewer units, it will suffer a loss.

Demand-Based Pricing

Rather than basing the price of a product on its cost, companies sometimes use a pricing method based on the level of demand for the product: *demand-based pricing*. This method results in a high price when product demand is strong and a low price when demand is weak. Some long-distance telephone companies use demand-based pricing. Buyers of new cars that are in high demand, such as the Chevrolet Camaro, Dodge Charger, Ford Mustang GT, and Toyota Prius, pay sticker prices plus a premium. To use this method, a marketer estimates the amount of a product that customers will demand at different prices and then chooses the price that generates the highest total revenue. Obviously, the effectiveness of this method depends on the firm's ability to estimate demand accurately.

A firm may favor a demand-based pricing method called *price differentiation* if it wants to use more than one price in the marketing of a specific product. Price differentiation can be based on such considerations as time of the purchase, type of customer, or type of distribution channel. For example, Florida hotel accommodations are more expensive in winter than in summer, a home owner pays more for air conditioner filters than does an apartment complex owner purchasing the same size filters in greater quantity, and Christmas tree ornaments usually

Demand-based pricing. Many airlines employ demand-based pricing. The price of an airline ticket will usually be higher when demand for that specific flight is higher.

© iStockphoto.com/Igor Marx

are cheaper on December 26 than on December 16. For price differentiation to work correctly, the company first must be able to segment a market on the basis of different strengths of demand. The company must then be able to keep the segments separate enough so that those who buy at lower prices cannot sell to buyers in segments that are charged a higher price. This isolation can be accomplished, for example, by selling to geographically separated segments.

Compared with cost-based pricing, demand-based pricing places a firm in a better position to attain higher profit levels, assuming that buyers value the product at levels sufficiently above the product's cost. To use demand-based pricing, however, management must be able to estimate demand at different price levels, which may be difficult to do accurately.

Competition-Based Pricing

In using *competition-based pricing,* an organization considers costs and revenue secondary to competitors' prices. The importance of this method increases if competing products are quite similar and the organization is serving markets in which price is the crucial variable of the marketing strategy. A firm that uses competition-based pricing may choose to be below competitors' prices, slightly above competitors' prices, or at the same level. The price that your bookstore paid to the publishing company of this text was determined using competition-based pricing. Competition-based pricing can help to attain a pricing objective to increase sales or market share. Competition-based pricing may also be combined with other cost approaches to arrive at profitable levels.

Pricing Strategies

9

Explain the different strategies available to companies for setting prices.

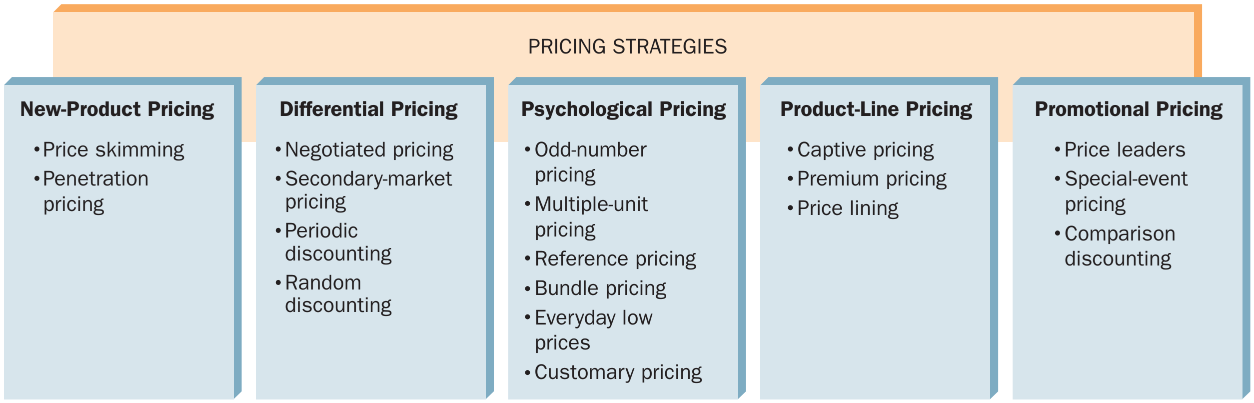
A *pricing strategy* is a course of action designed to achieve pricing objectives. Generally, pricing strategies help marketers to solve the practical problems of setting prices. The extent to which a business uses any of the following strategies depends on its pricing and marketing objectives, the markets for its products, the degree of product differentiation, the product's life-cycle stage, and other factors. Figure 13.5 contains a list of the major types of pricing strategies. We discuss these strategies in the remainder of this section.

New-Product Pricing

The two primary types of new-product pricing strategies are price skimming and penetration pricing. An organization can use either one, or even both, over a period of time.

Figure 13.5 Types of Pricing Strategies

Companies have a variety of pricing strategies available to them.



Price Skimming Some consumers are willing to pay a high price for an innovative product either because of its novelty or because of the prestige or status that ownership confers. **Price skimming** is the strategy of charging the highest possible price for a product during the introduction stage of its life-cycle. The seller essentially "skims the cream" off the market, which helps to recover the high costs of R&D more quickly. In addition, a skimming policy may hold down demand for the product, which is helpful if the firm's production capacity is limited during the introduction stage. The greatest disadvantage is that a skimming price may make the product appear lucrative to potential competitors, who then may attempt to enter that market.

Penetration Pricing At the opposite extreme, **penetration pricing** is the strategy of setting a low price for a new product. The main purpose of setting a low price is to build market share for the product quickly. The seller hopes that the building of a large market share quickly will discourage competitors from entering the market. If the low price stimulates sales, the firm also may be able to order longer production runs, which result in lower production costs per unit. A disadvantage of penetration pricing is that it places a firm in a less-flexible position. It is more difficult to raise prices significantly than it is to lower them.

Differential Pricing

An important issue in pricing decisions is whether to use a single price or different prices for the same product. A single price is easily understood by both employees and customers. Since many salespeople and customers do not like having to negotiate a price, having a single price reduces the chance of a marketer developing an adversarial relationship with a customer.

Differential pricing means charging different prices to different buyers for the same quality and quantity of product. For differential pricing to be effective, the market must consist of multiple segments with different price sensitivities. When this method is employed, caution should be used to avoid confusing or antagonizing customers. Differential pricing can occur in several ways, including negotiated pricing, secondary-market pricing, periodic discounting, and random discounting.

Negotiated Pricing **Negotiated pricing** occurs when the final price is established through bargaining between the seller and the customer. Negotiated pricing occurs in a number of industries and at all levels of distribution. Even when there is a predetermined stated price or a price list, manufacturers, wholesalers, and retailers still may negotiate to establish the final sales price. Consumers commonly negotiate prices for houses, cars, and used equipment.

Secondary-Market Pricing **Secondary-market pricing** means setting one price for the primary target market and a different price for another market. Often the price charged in the secondary market is lower. However, when the costs of serving a secondary market are higher than normal, secondary-market customers may have to pay a higher price. Examples of secondary markets include a geographically isolated domestic market, a market in a foreign country, and a segment willing to purchase a product during off-peak times (such as "early bird" diners at restaurants and off-peak users of cellular phones).

Periodic Discounting **Periodic discounting** is the temporary reduction of prices on a patterned or systematic basis. For example, many retailers have annual holiday sales, and some women's apparel stores have two seasonal sales each year—a winter sale in the last two weeks of January and a summer sale in the first two weeks of July.

price skimming the strategy of charging the highest possible price for a product during the introduction stage of its life-cycle

penetration pricing the strategy of setting a low price for a new product

negotiated pricing establishing a final price through bargaining

secondary-market pricing setting one price for the primary target market and a different price for another market

periodic discounting temporary reduction of prices on a patterned or systematic basis

From the marketer's point of view, a major problem with periodic discounting is that customers can predict when the reductions will occur and may delay their purchases until they can take advantage of the lower prices.

Random Discounting To alleviate the problem of customers' knowing when discounting will occur, some organizations employ **random discounting**. That is, they reduce their prices temporarily on a nonsystematic basis. When price reductions of a product occur randomly, current users of that brand are unlikely to predict when the reductions will occur; therefore, they will not delay their purchases in anticipation of buying the product at a lower price. Marketers also use random discounting to attract new customers.

random discounting temporary reduction of prices on an unsystematic basis

odd-number pricing the strategy of setting prices using odd numbers that are slightly below whole-dollar amounts

multiple-unit pricing the strategy of setting a single price for two or more units

reference pricing pricing a product at a moderate level and positioning it next to a more expensive model or brand

bundle pricing packaging together two or more complementary products and selling them for a single price

Psychological Pricing

Psychological pricing strategies encourage purchases based on emotional responses rather than on economically rational responses. These strategies are used primarily for consumer products rather than business products.

Odd-Number Pricing Many retailers believe that consumers respond more positively to odd-number prices such as $4.99 than to whole-dollar prices such as $5. **Odd-number pricing** is the strategy of setting prices using odd numbers that are slightly below whole-dollar amounts. Nine and five are the most popular ending figures for odd-number prices.

Sellers who use this strategy believe that odd-number prices increase sales. The strategy is not limited to low-priced items. Auto manufacturers may set the price of a car at $11,999 rather than $12,000. Odd-number pricing has been the subject of various psychological studies, but the results have been inconclusive.

Multiple-Unit Pricing Many retailers (and especially supermarkets) practice **multiple-unit pricing**, setting a single price for two or more units, such as two cans for 99 cents rather than 50 cents per can. Especially for frequently purchased products, this strategy can increase sales. Customers who see the single price and who expect eventually to use more than one unit of the product regularly purchase multiple units to save money.

Reference Pricing **Reference pricing** means pricing a product at a moderate level and positioning it next to a more expensive model or brand in the hope that the customer will use the higher price as a reference price (i.e., a comparison price). Because of the comparison, the customer is expected to view the moderate price favorably. When you go to Sears to buy a DVD recorder, a moderately priced DVD recorder may appear especially attractive because it offers most of the important attributes of the more expensive alternatives on display and at a lower price.

Bundle Pricing **Bundle pricing** is the packaging together of two or more products, usually of a complementary nature, to be sold for a single price. To be attractive to customers, the single price usually is considerably less than the sum of the prices of the individual products.

Bundle pricing. Bundle pricing is commonly used in food pricing. Food service providers combine numerous services and sell them for a single-bundle price.

© Terri Miller/E-Visual Communications, Inc.

Being able to buy the bundled combination of products in a single transaction may be of value to the customer as well. Bundle pricing is used commonly for banking and travel services, computers, and automobiles with option packages. Bundle pricing can help to increase customer satisfaction. By bundling slow-moving products with ones with a higher turnover, an organization can stimulate sales and increase its revenues. Selling products as a package rather than individually also may result in cost savings. As regulations in the telecommunications industry continue to evolve, many experts agree that telecom services will be provided together using bundled pricing in the near future. The new term *all-distance* has emerged; however, the bundling of services goes beyond just combined pricing for local and long-distance services. Verizon, for example, is offering the Verizon Triple Play plan that gives customers unlimited local, long-distance, wireless, high speed Internet, and DirectTV for a bundled price of about $85 per month.[20]

Everyday Low Prices (EDLPs) To reduce or eliminate the use of frequent short-term price reductions, some organizations use an approach referred to as **everyday low prices (EDLPs)**. When EDLPs are used, a marketer sets a low price for its products on a consistent basis rather than setting higher prices and frequently discounting them. EDLPs, though not deeply discounted, are set far enough below competitors' prices to make customers feel confident that they are receiving a fair price. EDLPs are employed by retailers such as Walmart and by manufacturers such as Procter & Gamble. A company that uses EDLPs benefits from reduced promotional costs, reduced losses from frequent markdowns, and more stability in its sales. A major problem with this approach is that customers have mixed responses to it. In some instances, customers simply do not believe that EDLPs are what they say they are but are instead a marketing gimmick.

Customary Pricing In **customary pricing**, certain goods are priced primarily on the basis of tradition. Examples of customary, or traditional, prices would be those set for candy bars and chewing gum.

Product-Line Pricing

Rather than considering products on an item-by-item basis when determining pricing strategies, some marketers employ product-line pricing. *Product-line pricing* means establishing and adjusting the prices of multiple products within a product line. Product-line pricing can provide marketers with flexibility in price setting. For example, marketers can set prices so that one product is quite profitable, whereas another increases market share by virtue of having a lower price than competing products.

When marketers employ product-line pricing, they have several strategies from which to choose. These include captive pricing, premium pricing, and price lining.

Captive Pricing When **captive pricing** is used, the basic product in a product line is priced low, but the price on the items required to operate or enhance it are set at a higher level. Some razors are relatively inexpensive, but the razor blade replacement cartridges are priced to be highly profitable for the manufacturer. It is estimated that if a person replaces the cartridges as suggested by the manufacturer, the annual cost to the consumer will exceed $50.

Premium Pricing **Premium pricing** occurs when the highest-quality product or the most-versatile version of similar products in a product line is given the highest price. Other products in the line are priced to appeal to price-sensitive shoppers or to those who seek product-specific features. Marketers that use premium pricing often

everyday low prices (EDLPs) setting a low price for products on a consistent basis

customary pricing pricing on the basis of tradition

captive pricing pricing the basic product in a product line low, but pricing related items at a higher level

premium pricing pricing the highest-quality or most-versatile products higher than other models in the product line

Entrepreneurial SUCCESS

New Day, New Deal

Small businesses are getting big attention on dozens of "deal-a-day" Web sites such as Groupon and Group Swoop. The idea is to promote one eye-catching local discount every day, with one important catch: The deal is valid only if a minimum number of consumers click to buy. The deal sites keep a commission on each sale, which entrepreneurs must factor into their pricing plans.

Small businesses see these daily-deal sites as a good way to introduce their products to a large number of new customers. Mission Minis, a San Francisco bakery specializing in tiny cupcakes, recently offered a half-price deal on Groupon. Although the owner set the minimum number of customers at 100, more than 3,000 consumers had clicked to buy by the end of the day. The unexpectedly strong response caught the bakery by surprise. Scrambling to keep up with demand, bakers had to buy additional ingredients twice a day for the first few weeks. Despite the higher costs and the strain on the workforce, the owner says the deal was worthwhile because many customers came back to buy cupcakes at full price.

Satisfying deal-a-day buyers today can lead to profits tomorrow. More than 80 percent of the customers who responded to a deal for MindBody Fitness in Washington, D.C., purchased additional services at regular prices. Endeavor Personal Concierge in Chicago found that 25 percent of its deal-a-day buyers turned into repeat customers, a good deal for all.

Sources: Angela Kilduff, "Collective Buys by Groupon and Others = Customers + More," *Mission Local (San Francisco)*, May 11, 2010, http://missionlocal.org; Kunur Patel, "Groupon Takes Coupons into the Social-Media Age," *Advertising Age,* December 21, 2009, http://www.adage.com.

realize a significant portion of their profits from premium-priced products. Examples of product categories in which premium pricing is common are small kitchen appliances, beer, ice cream, and television cable service.

Price Lining **Price lining** is the strategy of selling goods only at certain predetermined prices that reflect definite price breaks. For example, a shop may sell men's ties only at $22 and $37. This strategy is used widely in clothing and accessory stores. It eliminates minor price differences from the buying decision—both for customers and for managers who buy merchandise to sell in these stores.

Promotional Pricing

Price, as an ingredient in the marketing mix, often is coordinated with promotion. The two variables sometimes are so interrelated that the pricing policy is promotion oriented. Examples of promotional pricing include price leaders, special-event pricing, and comparison discounting.

Price Leaders Sometimes a firm prices a few products below the usual markup, near cost, or below cost, which results in prices known as **price leaders**. This type of pricing is used most often in supermarkets and restaurants to attract customers by giving them especially low prices on a few items. Management hopes that sales of regularly priced products will more than offset the reduced revenues from the price leaders.

Special-Event Pricing To increase sales volume, many organizations coordinate price with advertising or sales promotions for seasonal or special situations. **Special-event pricing** involves advertised sales or price cutting linked to a holiday, season, or event. If the pricing objective is survival, then special sales events may be designed to generate the necessary operating capital.

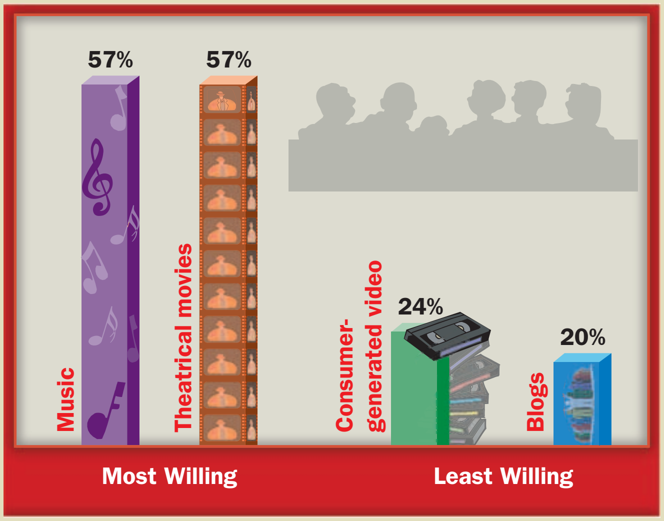
price lining the strategy of selling goods only at certain predetermined prices that reflect definite price breaks

price leaders products priced below the usual markup, near cost, or below cost

special-event pricing advertised sales or price cutting linked to a holiday, season, or event

SPOTLIGHT

Which Online Content Are People Willing to Pay for?



Source: Data from Nielsen survey of 27,548 consumers in 54 countries.

Comparison Discounting **comparison discounting** sets the price of a product at a specific level and simultaneously compares it with a higher price. The higher price may be the product's previous price, the price of a competing brand, the product's price at another retail outlet, or a manufacturer's suggested retail price. Customers may find comparative discounting informative, and it can have a significant impact on them. However, because this pricing strategy on occasion has led to deceptive pricing practices, the Federal Trade Commission has established guidelines for comparison discounting. If the higher price against which the comparison is made is the price formerly charged for the product, sellers must have made the previous price available to customers for a reasonable period of time. If sellers present the higher price as the one charged by other retailers in the same trade area, they must be able to demonstrate that this claim is true. When they present the higher price as the manufacturer's suggested retail price, then the higher price must be similar to the price at which a reasonable proportion of the product was sold. Some manufacturers' suggested retail prices are so high that very few products actually are sold at those prices. In such cases, it would be deceptive to use comparison discounting.

10

Describe three major types of pricing associated with business products.

Pricing Business Products

Many of the pricing issues discussed thus far in this chapter deal with pricing in general. However, setting prices for business products can be different from setting prices for consumer products owing to several factors such as size of purchases, transportation considerations, and geographic issues. We examine three types of pricing associated with business products: geographic pricing, transfer pricing, and discounting.

Geographic Pricing

Geographic pricing strategies deal with delivery costs. The pricing strategy that requires the buyer to pay the delivery costs is called *FOB origin pricing*. It stands for "free on board at the point of origin," which means that the price does not include freight charges, and thus the buyer must pay the transportation costs from the seller's warehouse to the buyer's place of business. *FOB destination* indicates that the price does include freight charges, and thus the seller pays these charges.

Transfer Pricing

When one unit in an organization sells a product to another unit, **transfer pricing** occurs. The price is determined by calculating the cost of the product. A transfer price can vary depending on the types of costs included in the calculations. The choice of the costs to include when calculating the transfer price depends on the company's management strategy and the nature of the units' interaction. An organization also must ensure that transfer pricing is fair to all units involved in the purchases.

comparison discounting setting a price at a specific level and comparing it with a higher price

transfer pricing prices charged in sales between an organization's units

Table 13.4 Discounts Used for Business Markets

Type	Reasons for Use	Examples
Trade (functional)	To attract and keep effective resellers by compensating them for performing certain functions, such as transportation, warehousing, selling, and providing credit.	A college bookstore pays about one-third less for a new textbook than the retail price a student pays.
Quantity	To encourage customers to buy large quantities when making purchases and, in the case of cumulative discounts, to encourage customer loyalty.	Numerous companies serving business markets allow a 2 percent discount if an account is paid within ten days.
Seasonal	To allow a marketer to use resources more efficiently by stimulating sales during off-peak periods.	Florida hotels provide companies holding national and regional sales meetings with deeply discounted accommodations during the summer months.
Allowance	In the case of a trade-in allowance, to assist the buyer in making the purchase and potentially earn a profit on the resale of used equipment; in the case of a promotional allowance, to ensure that dealers participate in advertising and sales support programs.	A farm equipment dealer takes a farmer's used tractor as a trade-in on a new one. Nabisco pays a promotional allowance to a supermarket for setting up and maintaining a large end-of-aisle display for a two-week period.

Source: William M. Pride and O. C. Ferrell, *Foundations of Marketing* (Mason, OH: South-Western/Cengage Learning, 2011), 279.

Discounting

A **discount** is a deduction from the price of an item. Producers and sellers offer a wide variety of discounts to their customers, including trade, quantity, cash, and seasonal discounts as well as allowances. *Trade discounts* are discounts from the list prices that are offered to marketing intermediaries, or middlemen. *Quantity discounts* are discounts given to customers who buy in large quantities. The seller's per-unit selling cost is lower for larger purchases. *Cash discounts* are discounts offered for prompt payment. A seller may offer a discount of "2/10, net 30," meaning that the buyer may take a 2 percent discount if the bill is paid within ten days and that the bill must be paid in full within 30 days. A *seasonal discount* is a price reduction to buyers who purchase out of season. This discount lets the seller maintain steadier production during the year. An *allowance* is a reduction in price to achieve a desired goal. Trade-in allowances, for example, are price reductions granted for turning in used equipment, like aircraft, when purchasing new equipment. Table 13.4 describes some of the reasons for using these discounting techniques as well as some examples.

discount a deduction from the price of an item

return to inside business

Threadless

"Why wouldn't you want to make the products that people want you to make?" asks Jake Nickell, co-founder of Threadless. That's exactly how the company manages its product mix. Customers submit and vote on new T-shirt designs, and then Threadless selects the highest-scoring designs for production. This compresses the new-product development process into a matter of weeks and prevents expensive product failures.

Threadless now sells 100,000 T-shirts every month featuring artwork created and approved by its customers. Customers are loyal because they know that their design ideas and their votes really count. Not long ago, Threadless began marketing iPhone cases designed by—of course—its customers. What will its customers/designers think of next?

Questions

1. Would you classify Threadless's T-shirts as convenience products, shopping products, or specialty products? Explain your answer.
2. How is the life-cycle of a sold-out T-shirt likely to be affected when customers vote for reprinting that design? What are the marketing implications for Threadless?

SUMMARY

Summary

1 Explain what a product is and how products are classified.

A product is everything one receives in an exchange, including all attributes and expected benefits. The product may be a manufactured item, a service, an idea, or some combination of these.

Products are classified according to their ultimate use. Classification affects a product's distribution, promotion, and pricing. Consumer products, which include convenience, shopping, and specialty products, are purchased to satisfy personal and family needs. Business products are purchased for resale, for making other products, or for use in a firm's operations. Business products can be classified as raw materials, major equipment, accessory equipment, component parts, process materials, supplies, and services.

2 Discuss the product life-cycle and how it leads to new-product development.

Every product moves through a series of four stages—introduction, growth, maturity, and decline—which together form the product life-cycle. As the product progresses through these stages, its sales and profitability increase, peak, and then decline. Marketers keep track of the life-cycle stage of products in order to estimate when a new product should be introduced to replace a declining one.

3 Define *product line* and *product mix* and distinguish between the two.

A product line is a group of similar products marketed by a firm. The products in a product line are related to each other in the way they are produced, marketed, and used. The firm's product mix includes all the products it offers for sale. The width of a mix is the number of product lines it contains. The depth of the mix is the average number of individual products within each line.

4 Identify the methods available for changing a product mix.

Customer satisfaction and organizational objectives require marketers to develop, adjust, and maintain an effective product mix. Marketers may improve a product mix by changing existing products, deleting products, and developing new products.

New products are developed through a series of seven steps. The first step, idea generation, involves the accumulation of a pool of possible product ideas. Screening, the second step, removes from consideration those product ideas that do not mesh with organizational goals or resources. Concept testing, the third step, is a phase in which a small sample of potential buyers is exposed to a proposed product through a written or oral description in order to determine their initial reaction and buying intentions. The fourth step, business analysis, generates information about the potential sales, costs, and profits. During the development step, the product idea is transformed into mock-ups and actual prototypes to determine if the product is technically feasible to build and can be produced at reasonable costs. Test marketing is an actual launch of the product in several selected cities. Finally, during commercialization, plans for full-scale production and marketing are refined and implemented. Most product failures result from inadequate product planning and development.

5 Explain the uses and importance of branding, packaging, and labeling.

A brand is a name, term, symbol, design, or any combination of these that identifies a seller's products as distinct from those of other sellers. Brands can be classified as manufacturer brands, store brands, or generic brands. A firm can choose between two branding strategies—individual branding or family branding. Branding strategies are used to associate (or *not* associate) particular products with existing products, producers, or intermediaries. Packaging protects goods, offers consumer convenience, and enhances marketing efforts by communicating product features, uses, benefits, and image. Labeling provides customers with product information, some of which is required by law.

6 Describe the economic basis of pricing and the means by which sellers can control prices and buyers' perceptions of prices.

Under the ideal conditions of pure competition, an individual seller has no control over the price of its products. Prices are determined by the workings of supply and demand. In our real economy, however, sellers do exert some control, primarily through product differentiation. Product differentiation is the process of developing and promoting differences between one's product and all similar products. Firms also attempt to gain some control over pricing through advertising. A few large sellers have considerable control over prices because each controls a large proportion of the total supply of the product. Firms must consider the relative importance of price to buyers in the target market before setting prices. Buyers' perceptions of prices are affected by the importance of the product to them, the range of prices they consider acceptable, their perceptions of competing products, and their association of quality with price.

7 Identify the major pricing objectives used by businesses.

Objectives of pricing include survival, profit maximization, target return on investment, achieving market goals, and maintaining the status quo. Firms sometimes have to price products to survive, which usually requires cutting prices to attract customers. ROI is the amount earned as a result of the investment in developing and marketing the product. The firm sets an annual percentage ROI as the pricing goal. Some firms use pricing to maintain or increase their market share. And in industries in which price stability is important, firms often price their products by charging about the same as competitors.

8 Examine the three major pricing methods that firms employ.

The three major pricing methods are cost-based pricing, demand-based pricing, and competition-based pricing. When cost-based pricing is employed, a proportion of the cost is added to the total cost to determine the selling price. When demand-based pricing is used, the price will be higher when demand is higher, and the price will be lower when demand is lower. A firm that uses competition-based pricing may choose to price below competitors' prices, at the same level as competitors' prices, or slightly above competitors' prices.

9 Explain the different strategies available to companies for setting prices.

Pricing strategies fall into five categories: new-product pricing, differential pricing, psychological pricing, product-line pricing, and promotional pricing. Price skimming and penetration pricing are two strategies used for pricing new products. Differential pricing can be accomplished through negotiated pricing, secondary-market pricing, periodic discounting, and random discounting. The types of psychological pricing strategies are odd-number pricing, multiple-unit pricing, reference pricing, bundle pricing, everyday low prices, and customary pricing. Product-line pricing can be achieved through captive pricing, premium pricing, and price lining. The major types of promotional pricing are price-leader pricing, special-event pricing, and comparison discounting.

10 Describe three major types of pricing associated with business products.

Setting prices for business products can be different from setting prices for consumer products as a result of several factors, such as size of purchases, transportation considerations, and geographic issues. The three types of pricing associated with the pricing of business products are geographic pricing, transfer pricing, and discounting.

Key Terms

You should now be able to define and give an example relevant to each of the following terms:

product (362)
consumer product (363)
business product (363)
convenience product (363)
shopping product (363)
specialty product (363)
raw material (364)
major equipment (364)
accessory equipment (364)
component part (364)
process material (364)
supply (364)
business service (364)
product life-cycle (364)
product line (367)
product mix (367)
product modification (368)
line extension (369)
product deletion (369)
brand (373)
brand name (373)
brand mark (373)
trademark (373)
trade name (373)
manufacturer (or producer) brand (373)
store (or private) brand (373)
generic product (or brand) (374)
brand loyalty (374)
brand equity (374)
individual branding (376)
family branding (377)
brand extension (377)
packaging (377)
labeling (379)
express warranty (379)
price (379)
supply (380)
demand (380)
price competition (381)
non-price competition (381)
product differentiation (381)
markup (383)
breakeven quantity (383)
total revenue (383)
fixed cost (383)
variable cost (383)
total cost (383)
price skimming (386)
penetration pricing (386)
negotiated pricing (386)
secondary-market pricing (386)
periodic discounting (386)
random discounting (387)
odd-number pricing (387)
multiple-unit pricing (387)
reference pricing (387)
bundle pricing (387)
everyday low prices (EDLPs) (388)
customary pricing (388)
captive pricing (388)
premium pricing (388)
price lining (389)
price leaders (389)
special-event pricing (389)
comparison discounting (390)
transfer pricing (390)
discount (391)

Review Questions

1. What does the purchaser of a product obtain besides the good, service, or idea itself?
2. What are the products of (a) a bank, (b) an insurance company, and (c) a university?
3. What major factor determines whether a product is a consumer or a business product?
4. Describe each of the classifications of business products.
5. What are the four stages of the product life-cycle? How can a firm determine which stage a particular product is in?
6. What is the difference between a product line and a product mix? Give an example of each.
7. Under what conditions does product modification work best?
8. Why do products have to be deleted from a product mix?
9. Why must firms introduce new products?
10. Briefly describe the seven new-product development stages.
11. What is the difference between manufacturer brands and store brands? Between family branding and individual branding?
12. What is the difference between a line extension and a brand extension?
13. How can packaging be used to enhance marketing activities?
14. For what purposes is labeling used?
15. What is the primary function of prices in our economy?
16. Compare and contrast the characteristics of price and non-price competition.
17. How might buyers' perceptions of price influence pricing decisions?
18. List and briefly describe the five major pricing objectives.
19. What are the differences among markup pricing, pricing by breakeven analysis, and competition-based pricing?
20. In what way is demand-based pricing more realistic than markup pricing?
21. Why would a firm use competition-based pricing?
22. What are the five major categories of pricing strategies? Give at least two examples of specific strategies that fall into each category.
23. Identify and describe the main types of discounts that are used in the pricing of business products.

Discussion Questions

1. Why is it important to understand how products are classified?
2. What factors might determine how long a product remains in each stage of the product life-cycle? What can a firm do to prolong each stage?
3. Some firms do not delete products until they become financially threatening. What problems may result from relying on this practice?
4. Which steps in the evolution of new products are most important? Which are least important? Defend your choices.
5. Do branding, packaging, and labeling really benefit consumers? Explain.
6. To what extent can a firm control its prices in our market economy? What factors limit such control?
7. Under what conditions would a firm be most likely to use non-price competition?
8. Can a firm have more than one pricing objective? Can it use more than one of the pricing methods discussed in this chapter? Explain.
9. What are the major disadvantages of price skimming?
10. What is an "effective" price?
11. Under what conditions would a business most likely decide to employ one of the differential pricing strategies?
12. For what types of products are psychological pricing strategies most likely to be used?

Video Case 13.1

From Artistic Roots, Blu Dot Styles Marketing Strategy

When a trio of college friends with backgrounds in art and architecture started moving into their first apartments in the late 1990s, they were frustrated to find that when it came to furniture, they couldn't afford what they liked and didn't like what they could afford. Happily for many future furniture shoppers, however, this frustration led the three to found Blu Dot, a Minneapolis-based furniture design and manufacturing company that has flourished and grown.

Blu Dot specializes in the creation of furniture that is attractive, high quality, and affordable. Its modern, streamlined pieces use off-the-shelf materials and simple manufacturing processes that keep the company's costs and prices down. The company also contracts with suppliers that make industrial rather than consumer products, because they use more efficient and cost-effective processes and technology. These strategies, plus designs that pack flat and are easy to ship, allow the firm to combine what Maurice Blanks, one of the founders, describes as the affordability of the low end of the market and the craftsmanship of the high end. Anyone can design a $600 or $700 coffee table, Blu Dot believes. It's the $99 one the company is aiming for that's more of a challenge.

The company sells seven product lines—tables, storage, accessories, desks, beds, seating, and shelving. Its pricing strategy for each of these is straightforward. Managers add their fixed and variable costs, plus the markup they believe they'll need to keep the business functioning. They then usually look at what competitors are doing with similar products and try to identify three or four different pieces of pricing information to help them settle on a profitable price. The company also uses some creative pricing strategies to make its margins. For instance, one coffee table in a set might have a higher markup, whereas another has a slightly lower one for more price-conscious customers. Overall, then, the target margins are often met.

Blu Dot thinks of its total product offering as consisting of three interdependent elements: the core product, its supplemental features, and its symbolic or experiential value. Although some customers are attracted by the design aspects of the products, others are more concerned with value. That's one reason the company recently introduced a separate brand, called +oo ("too"), and priced it slightly below the original Blu Dot line. These items have been marketed through Urban Outfitters, and Blu Dot has adjusted the prices over time after seeing how sales progressed. Co-founder John Christakos likens Blu Dot's pricing practice to cooking, in that both are processes that allow for fine-tuning as events develop.

In an interesting recent promotion that flirted with the price of zero, Blu Dot celebrated the opening of its new store in New York's hip SoHo district by leaving 25 brand-new units of its iconic "Real Good Chair," normally priced at $129, on various street corners in the city. Most of the chairs were equipped with GPS devices that allowed the company's marketing agency to trace the chairs to those who "rescued" them and brought them home. The company's Web site proclaims that all the chairs found good homes, and those "scavengers" who agreed to chat with the firm about its products received a second free chair in thanks.[21]

Questions

1. What challenges does Blu Dot face in selling consumer products (as opposed to business products)?
2. Do you think the product life-cycle is an important marketing concept in developing and managing Blu Dot products? Why or why not?
3. Describe the product mix and the role different product lines play in Blu Dot's marketing strategy.

Case 13.2

Apple iPhone Pricing Dials Up Customer Demand

Days before the first Apple iPhones went on sale, thousands of buyers lined up outside Apple stores, eager to try the new cell phone's large, user-friendly touch-screen and multimedia capabilities. Like Apple's iconic iPod media player, instantly identifiable because of its sleek case and white ear buds, the stylish iPhone became a must-have status symbol for tech-savvy consumers across the United States. However, despite a major promotional campaign, widespread media coverage, many rave reviews, and a fast-growing customer base, the iPhone became the focus of criticism and controversy within two months of its release.

Apple has traditionally set high prices for its new products. One purpose of pricing in this way is to reinforce the brand's high-end positioning and special cachet. Another is to start recouping development costs and build profits from the very start of each product's life. This pricing strategy has worked with the company's Macintosh computers, iPods, and iPads, allowing Apple to increase both revenues and profits year after year.

The iPhone was initially priced at $599, not including the cost of monthly phone service through an exclusive deal with AT&T. Two months later, in a break from its usual pattern, Apple abruptly slashed the iPhone's price by $200. Although electronic products often drop in price over time, they rarely sell for so much less so soon after introduction. This time, Apple had its eye on the year-end holidays, believing that setting a more affordable price during the fall would put the iPhone within reach of a larger number of gift-giving buyers. The company also saw an opportunity to achieve its objective of selling 10 million iPhones worldwide within 18 months of the product's launch (which it did).

Apple's pricing decision provoked angry protests from customers who protested that they had overpaid for a cutting-edge product that was going mainstream more quickly than expected. With Apple on the spot, CEO Steve Jobs quickly conceded that customers had a point. "Our early customers trusted us, and we must live up to that trust with our actions in moments like these," he said in a statement posted on Apple's Web site. To avoid alienating early buyers, the company offered a $100 Apple store credit to each customer who had purchased an iPhone before the price cut. Although this policy also drew criticism—because the credit had no value except toward the purchase of something from Apple—the pricing controversy lost steam after a few weeks.

Intense competition from multinational rivals such as Nokia, Samsung, and Research in Motion (maker of Blackberry) has been a major influence on smart-phone pricing. As Apple launches new iPhone models with more features and more power, it sets prices that are considerably lower than when the product was originally introduced years ago. The lower-priced iPhones have become enormously successful, sparking excitement and prompting long lines at Apple stores worldwide. During one recent three-month period, Apple sold more than 8 million iPhones, thanks to particularly strong demand in Asia and Europe. Just as the iPod attracted many first-time Apple buyers, the iPhone's unique appeal and new, more affordable price tag have brought in new customers and given loyal customers another reason to buy from Apple.

The buzz from the iPhone, the iPad, and other products has also boosted demand for Apple's line of Macintosh computers and allowed the company to gain significant market share in that industry. Higher sales of Apple's entire product mix have also resulted in record-setting company profits and helped the company expand into new markets. Just as important, all these innovations have polished the Apple brand and added to its trend-setting image—which, in turn, allows the company to charge premium prices when it launches new products.[22]

Questions

1. What was Apple's primary pricing objective when it introduced the iPhone? What was its primary objective in cutting the product's price just two months after introduction?
2. How much weight does Apple appear to have given to its evaluation of competitive pricing?
3. Do you agree with Apple's decision to switch away from price skimming after the iPhone's introduction? Defend your answer.

Building Skills for Career Success

1 JOURNALING FOR SUCCESS

Discovery statement: This chapter explained the importance of product branding.

Assignment

1. Thinking about the brands of products that you use, to which brand are you the most loyal? Explain the functional benefits of this brand.
2. Beyond the functional benefits, what does this brand mean to you?
3. Under what set of circumstances would you be willing to change to another competing brand?
4. Discuss how you first began to use this brand.

2 EXPLORING THE INTERNET

The Internet has quickly taken comparison shopping to a new level. Several Web sites such as http://bizrate.com, http://pricescan.com, and http://mysimon.com have emerged boasting that they can find the consumer the best deal on any product. From computers to watches, these sites offer unbiased price and product information to compare virtually any product. Users may read reviews about products as well as provide their own input from personal experience. Some of these sites also offer special promotions and incentives in exchange for user information. Visit the text Web site for updates to this exercise.

Assignment

1. Search all three of the Web sites listed above for the same product.
2. Did you notice any significant differences between the sites and the information they provide?
3. What percentage of searches do you think lead to purchases as opposed to browsing? Explain your answer.
4. Which site are you most likely to use on a regular basis? Why?
5. In what ways do these Web sites contribute to price competition?

3 DEVELOPING CRITICAL-THINKING SKILLS

A feature is a characteristic of a product or service that enables it to perform its function. Benefits are the results a person receives from using a product or service. For example, a toothpaste's stain-removing formula is a feature; the benefit to the user is whiter teeth. Although features are valuable and enhance a product, benefits motivate people to buy. The customer is more interested in how the product can help (the benefits) than in the details of the product (the features).

Assignment

1. Choose a product and identify its features and benefits.
2. Divide a sheet of paper into two columns. In one column, list the features of the product. In the other column, list the benefits each feature yields to the buyer.
3. Prepare a statement that would motivate you to buy this product.

4 BUILDING TEAM SKILLS

In his book, *The Post-Industrial Society,* Peter Drucker wrote:

> *Society, community, and family are all conserving institutions. They try to maintain stability and to prevent, or at least slow down, change. But the organization of the post-capitalist society of organizations is a destabilizer. Because its function is to put knowledge to work—on tools, processes, and products; on work; on knowledge itself—it must be organized for constant change. It must be organized for innovation.*
>
> *New product development is important in this process of systematically abandoning the past and building a future. Current customers can be sources of ideas for new products and services and ways of improving existing ones.*

Assignment

1. Working in teams of five to seven, brainstorm ideas for new products or services for your college.
2. Construct questions to ask currently enrolled students (your customers). Sample questions might include:
   a. Why did you choose this college?
   b. How can this college be improved?
   c. What products or services do you wish were available?
3. Conduct the survey and review the results.
4. Prepare a list of improvements and/or new products or services for your college.

5 RESEARCHING DIFFERENT CAREERS

Standard & Poor's Industry Surveys, designed for investors, provides insight into various industries and the companies that compete within those industries. The "Basic Analysis" section gives overviews of industry trends and issues. The other sections define some basic industry terms, report the latest revenues and earnings of more than 1,000 companies, and occasionally list major reference books and trade associations.

Assignment

1. Identify an industry in which you might like to work.
2. Find the industry in *Standard & Poor's.* (*Note: Standard & Poor's* uses broad categories of industry. For example, an apparel or home-furnishings store would be included under "Retail" or "Textiles.")
3. Identify the following:
   a. Trends and issues in the industry
   b. Opportunities and/or problems that might arise in the industry in the next five years
   c. Major competitors within the industry (These companies are your potential employers.)
4. Prepare a report of your findings.