Product and Pricing Strategies (Product and Price)

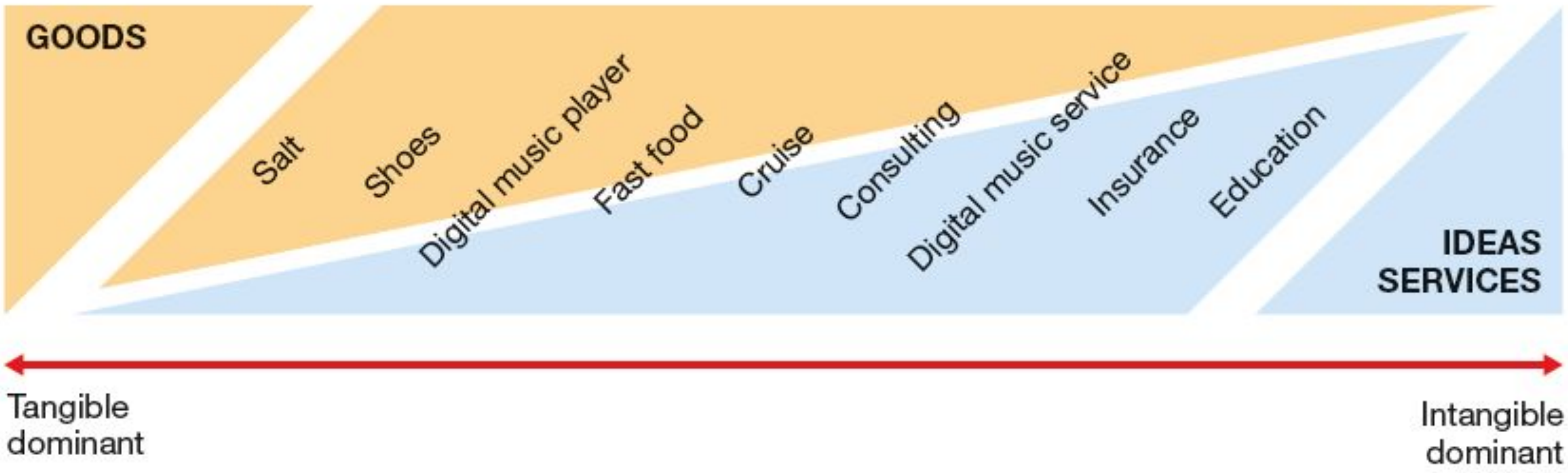
BA291

Learning Objectives

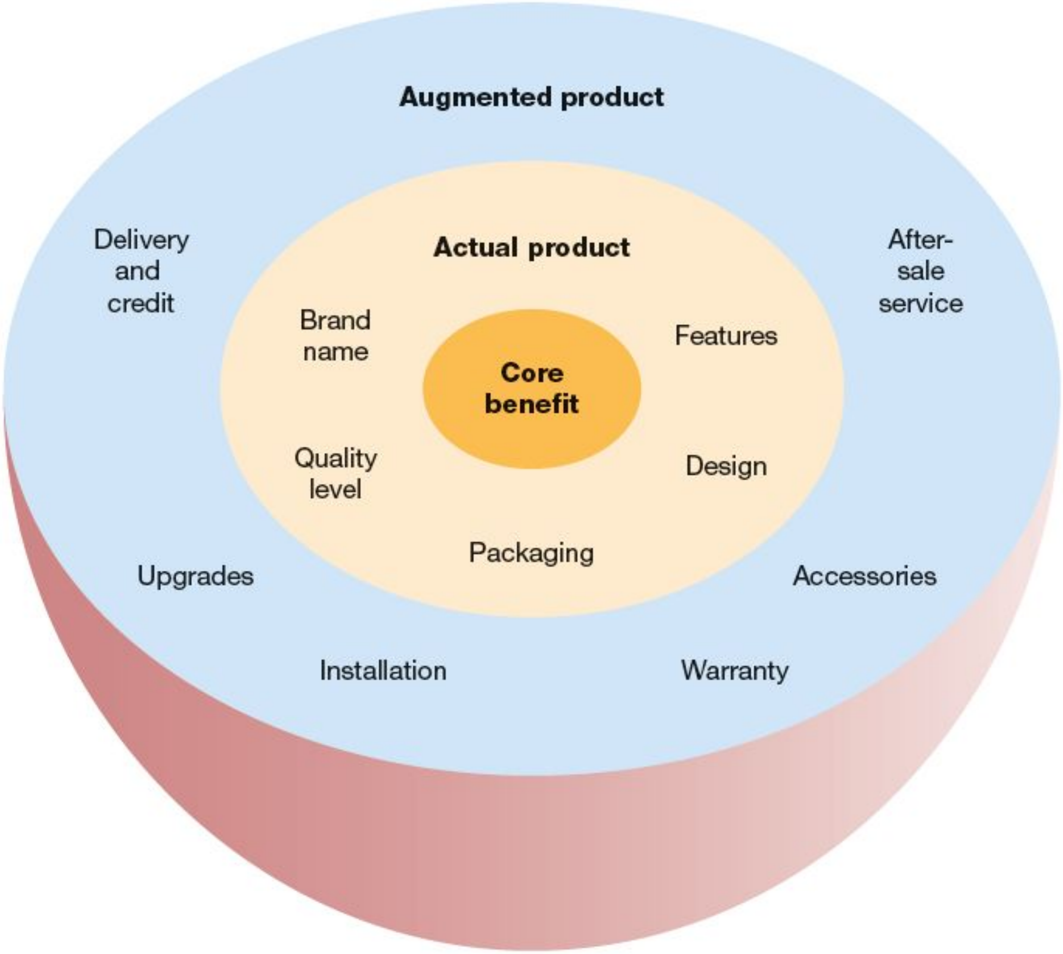
1. Identify the main types of consumer and organizational products and describe the four stages in the life cycle of a product
2. Describe six stages in the product development process
3. Define *brand* and explain the concepts of brand equity and brand loyalty
4. Identify four ways of expanding a product line and discuss two risks that product-line extensions pose
5. List the factors that influence pricing decisions and explain break-even analysis
6. Identify nine common pricing methods

Product Continuum

Products contain both tangible and intangible components; predominantly tangible products are categorized as goods, whereas predominantly intangible products are categorized as services.



Augmenting the Basic Product



Product decisions also involve how much or how little to augment the core product with additional goods and services.

Consumer Products

Convenience Products

Everyday goods and services that people buy frequently, usually without much conscious planning



Shopping Products

Fairly important goods and services that people buy less frequently with more planning and comparison


Specialty Products

Particular brands that the buyer especially wants and will seek out, regardless of location or price




Unsought products

Table 8.1 | Marketing Considerations for Consumer Products

	Type of Consumer Product			
Marketing Considerations	**Convenience**	**Shopping**	**Specialty**	**Unsought**
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

Industrial and Commercial Products

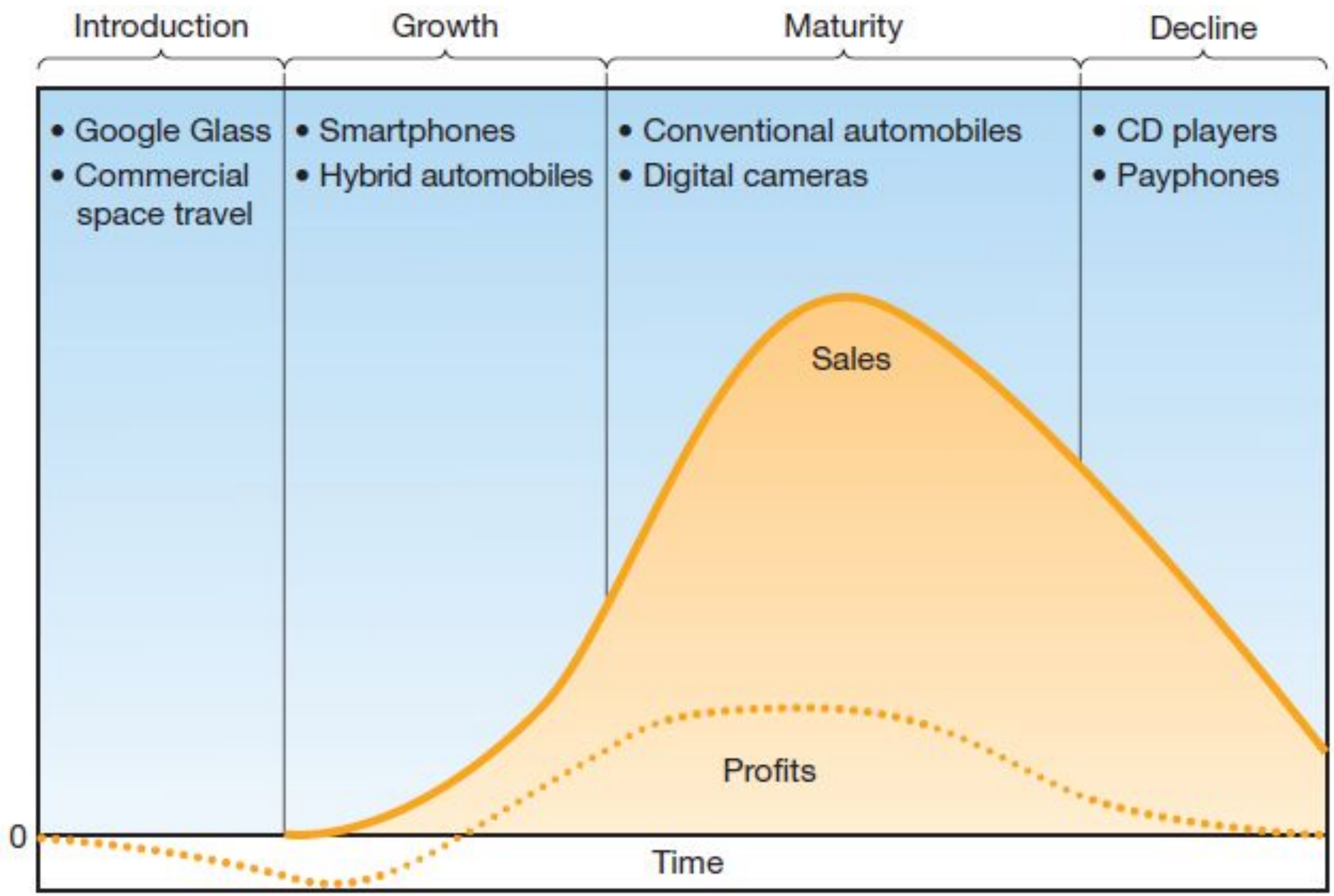
Expense Items
Inexpensive generally use within a year of purchase

Capital Items
More expensive organizational products with a longer useful life, ranging from office and plant equipment to entire factories

Raw materials	Components	Supplies
Installations	Equipment	Business services

The Product Life Cycle

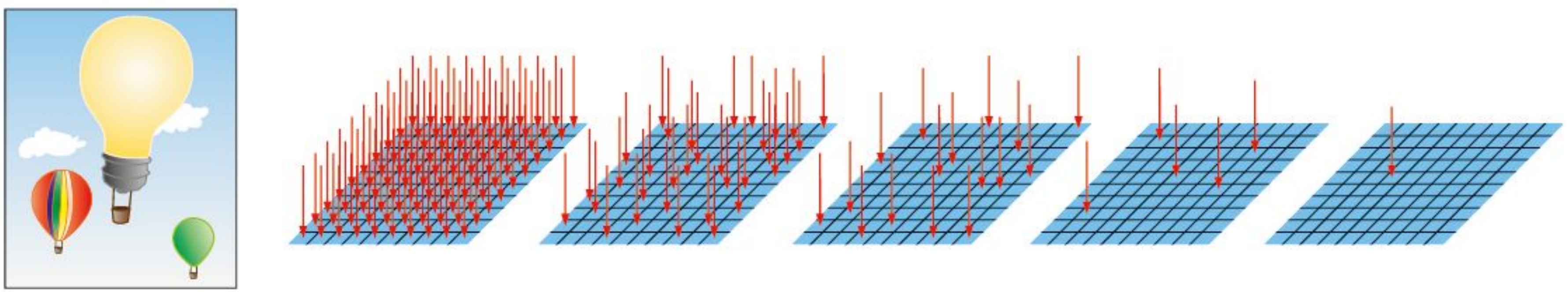
Four stages through which a product progresses: introduction, growth, maturity, and decline



The New-Product Development Process

A formal process of generating, selecting, developing, and commercializing product ideas

Idea generation	Idea screening	Business analysis	Prototyping	Test marketing	Commercialization



Brainstorm product concepts that could satisfy unmet market needs or enhance the company's product portfolio	Subject those ideas to *feasibility* or *concept testing* to identify those with the best chance of turning into successful products	Subject those ideas to a *business-case analysis* based on estimates of production costs, sales volumes, and selling price	Develop functioning "pre-release" versions that can be used by target customers to check for design flaws, market appeal, and so on	Release a finished or nearly finished *(beta)* version to selected customers or market segments and measure customer reaction	Fine-tune the product design and the rest of the marketing mix and then officially launch the product and push sales in all target markets

Product Identities

Brand
A name, term, sign, symbol, design, or combination of those used to identify the products of a firm and to differentiate them from competing products

Brand Equity
The value that a company has built up in a brand

Brand Loyalty
The degree to which customers continue to purchase a specific brand

Brand Name Selection

Brand Names
The portion of brands that can be expressed orally, including letters, words, or numbers

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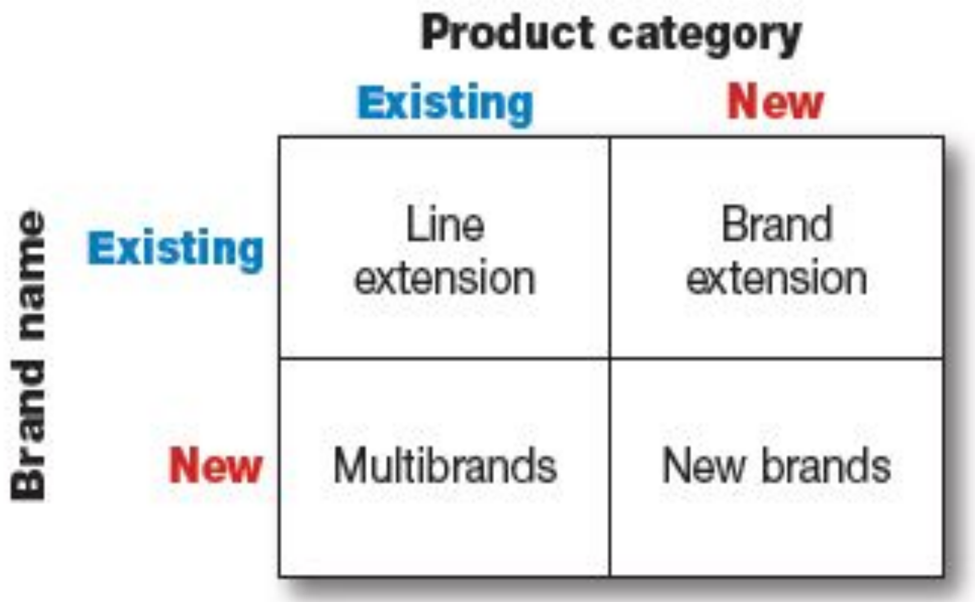
Brand Marks
The portion of brands that cannot be expressed verbally

Brand Ownership

National Brands
Brands owned by manufacturers and distributed nationally

Private Brands
Brands that carry the label of a retailer or a wholesaler rather than a manufacturer

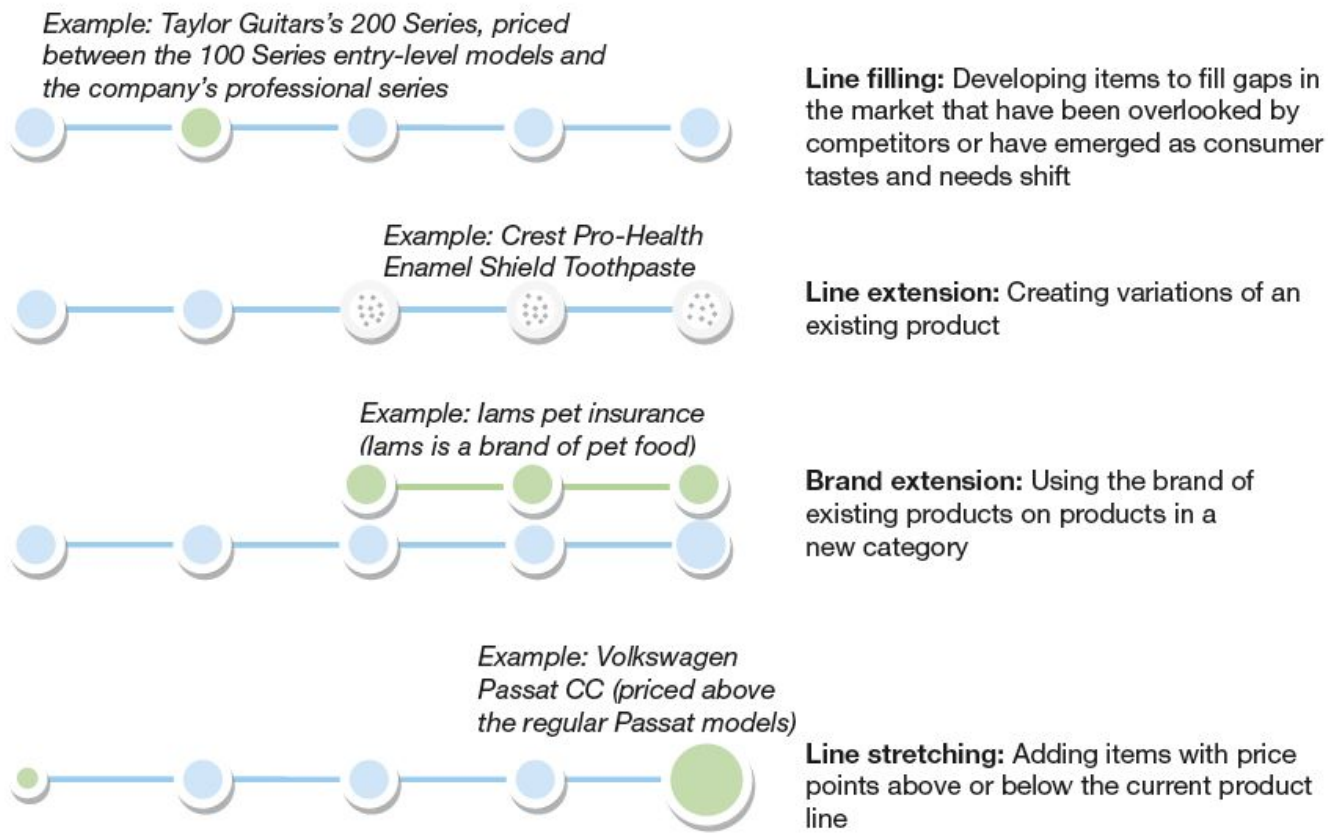
Brand Development Strategies



Product-Line and Product-Mix Strategies

Product Line
A series of related products offered by a firm

Product Mix
The complete portfolio of products that a company offers for sale



PRICING

Strategic Considerations in Pricing

- Marketing objectives
- Government regulations
- Customer perceptions
- Market demand
- Competition

Cost Structure

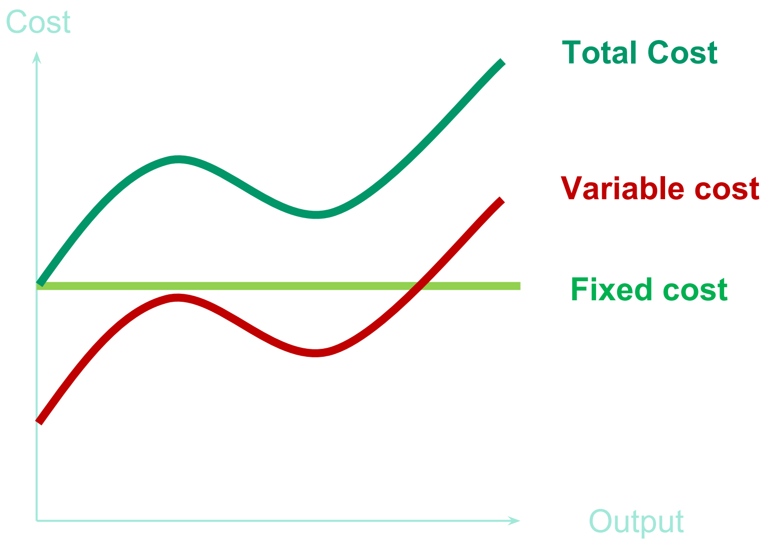
Fixed Costs
Business costs that remain constant regardless of the number of units produced

“Fixed”

Variable Costs
Business costs that increase with the number of units produced

“Vary”

Total cost = variable cost + fixed cost



Break-Even Analysis

Break-Even Analysis
A method of calculating the minimum volume of sales needed at a given price to cover all costs

Break-Even Point
Sales volume at a given price that will cover all of a company's costs i.e. the point where profit = zeo

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price} - \text{Variable costs per unit}}$$

Pricing Methods

Cost-Based Pricing: A method of setting prices based on production and marketing costs, rather than conditions in the marketplace

Value-Based Pricing: A method of setting prices based on customer perceptions of value

Optimal Pricing: A computer-based pricing method that creates a demand curve for every product to help managers select a price that meets specific marketing objectives

Skim Pricing: Charging a high price for a new product during the introductory stage and lowering the price late

Penetration Pricing: Introducing a new product at a low price in hopes of building sales volume quickly

Loss-Leader Pricing: Selling one product at a loss as a way to entice customers to consider other products

Auction Pricing: The seller doesn’t set a firm price but allows buyers to competitively bid on the products being sold

Participative Pricing: Allowing customers to pay the amount they think a product is worth

Free-mium Pricing: A hybrid pricing strategy of offering some products for free while charging for others, or offering a product for free to some customers while charging others for it

Price Adjustment Tactics

Discounts
Temporary price reductions to stimulate sales or lower prices to encourage certain behaviors such as paying with cash.

Bundling
Offering several products for a single price that is presumably lower than the total of the products' individual prices.

Dynamic pricing
Continually adjusting prices to reflect changes in supply and demand.