

# DEVELOPING AND Pricing Goods and Services

# 14

## LEARNING goals

After you have read and studied this chapter, you should be able to

- 1 Describe a total product offer.
- 2 Identify the various kinds of consumer and industrial goods.
- 3 Summarize the functions of packaging.
- 4 Contrast *brand*, *brand name*, and *trademark*, and show the value of brand equity.
- 5 Explain the steps in the new-product development process.
- 6 Describe the product life cycle.
- 7 Identify various pricing objectives and strategies.



**W**hen General Motors (GM) faced bankruptcy in 2009, the government invested \$50 billion in the company. That means that U.S. citizens now have an ownership interest in the carmaker. With our money on the line, we certainly have an interest in what the company plans to do to regain profitability. Many of the most important decisions will involve developing new products that consumers will want to buy. The new GM senior vice president of global product development is Mary Barra. Barra was already GM's highest-ranking woman, having served as vice president for global human resources. She has also been vice president for global manufacturing engineering and manager of an assembly plant in Detroit.

Barra earned her undergraduate degree in electrical engineering at Kettering University and her MBA at Stanford. The GM chairman and CEO said that Barra will bring a fresh perspective to the critically important job of managing global vehicle programs for GM. She will focus on the customer in the areas of global design, vehicle and power train engineering, program management, and quality with the goal of delivering the world's best vehicles. With more than 36,000 members, her team will also manage global strategic product alliances. GM is working to gain market share in highly competitive segments like small fuel-efficient cars, and it plans to expand its lineup of plug-in hybrids beyond the Chevy Volt.

Barra doesn't emphasize her status as the first female to head product development for an American automaker. But, "If it encourages more young girls in junior high to stick with math and science, that's great," she said. "We need more women in engineering in general." Perhaps there are women in college today who will be inspired by Barra's success.

Barra faces a substantial task: figuring out how to cut the time it takes to design, engineer, and build new vehicles while turning out cars and trucks that respond to consumer needs from all nations. GM's new-vehicle development process was slowed leading up to the company's bankruptcy reorganization and is now entering a period in which few new models will be introduced. About 12 percent of GM's U.S. vehicle sales in 2011 was from "new" or heavily redesigned vehicles. That number is expected to rise to 30 percent in 2012. The automaker's sales rose 7 percent in 2010 (from a year earlier) despite removing eight brands from its lineup.

Developing and pricing goods and services will be a major goal of firms around the world as they begin to dig themselves out of the financial problems they are now facing. This chapter will introduce you to the many facets of new product development in both goods and services. You will also learn about packaging, branding, and the other elements of a total product offer. It will be interesting to follow the auto industry as it introduces new electric cars, the new, smaller, fuel-efficient cars, and the like. With people like Mary Barra leading the charge, we would expect the U.S. auto industry to be right up with the global leaders in the coming years.

Sources: Sharon Terlep, "GM Product Chief's Job: New Cars Fast," *The Wall Street Journal*, January 21, 2011; LinkedIn profile accessed March 2011; and "GM Appoints Mary Barra to Lead Global Product Development," *GM News*, accessed March 2011.

## profile

### Getting to Know

X

Mary Barra

GM Senior Vice President





NAME THAT

company

*It's no secret that the airline industry is extremely competitive and many airlines have cut basic services like free baggage and food. In order to set itself apart from its competitors, this company takes a different path by offering door-to-door limousine service and in-flight massages. What is the name of this company? (Find the answer in the chapter.)*

## LEARNING goal 1

Describe a total product offer.

## PRODUCT DEVELOPMENT AND THE TOTAL PRODUCT OFFER

### value

Good quality at a fair price. When consumers calculate the value of a product, they look at the benefits and then subtract the cost to see if the benefits exceed the costs.

Global managers will be challenging U.S. managers with new products at low prices.<sup>1</sup> The best way to compete is to design and promote better products, meaning products that customers perceive to have the best **value**—good quality at a fair price.<sup>2</sup> You may have noticed that many restaurants were pushing “value meals” when the economy slowed from 2008 to 2011. Have you tried, for example, the new, smaller Blizzard from Dairy Queen?<sup>3</sup>

One of the American Marketing Association's definitions of marketing says it's “a set of processes for creating, communicating, and delivering *value* to customers.” When consumers calculate the value of a product, they look at the benefits and then subtract the cost (price) to see whether the benefits exceed the costs, including the cost of driving to the store (or shipping fees if they buy the product online). Note that L.L. Bean eliminated shipping charges. That lowers the cost for consumers and makes their products more desirable (valuable).<sup>4</sup>

Whether consumers perceive a product as the best value depends on many factors, including the benefits they seek and the service they receive. To satisfy consumers, marketers must learn to listen better and constantly adapt to changing market demands. For example, traditional phone companies must now compete with Voice over Internet Protocol (VoIP)—a system that allows people to make very inexpensive phone calls through the Internet. And U.S. automobile companies must adapt to foreign producers by offering more competitive cars, or face extinction.<sup>5</sup>

Marketers have learned that adapting products to new competition and new markets is an ongoing need. We're sure you've noticed menu changes at your local fast-food restaurant over time. An organization can't do a one-time survey of consumer wants and needs, design a group of products to meet those needs, put them in the stores, and then just relax. It must constantly monitor changing consumer wants and needs, and adapt products, policies, and services accordingly. Did you know that McDonald's sells as much chicken as beef



these days?<sup>6</sup> Some is being sold as a Chicken Biscuit for breakfast. Those double cheeseburgers fast-food restaurants were serving for \$1.00 turned out to be a money loser, even though they were popular with consumers. You can't give consumers too good a deal or you can go out of business.

McDonald's and other restaurants are constantly trying new ideas. It added smoothies and oatmeal with fruit.<sup>7</sup> In Kokomo, Indiana, McDonald's tried waiter service and a more varied menu. In New York, it offered McDonuts to compete with Krispy Kreme. In Atlanta and other cities, McDonald's had computer stations linked to the Internet. In Hawaii, it tried a Spam breakfast platter, and in Columbus, Ohio, a mega-McDonald's had a karaoke booth. McDonald's has a McCafé in Chicago's Loop that sells premium coffee, pastries, and wrapped sandwiches. It has more than 300 such cafés in other countries and most McDonald's in the United States are putting in something similar. Watch out Starbucks. Some McDonald's even have digital-media kiosks that allow customers to burn custom CDs from a catalog of 70,000 songs, print digital photos, and download ringtones for mobile phones.

What was Starbucks' answer to the new challenges from McDonald's, Dunkin' Donuts, Target, and others? It began offering more food products. Oatmeal has become a huge success at Starbucks as well. The new menu also includes fruit smoothies and more—like regular coffee at lower prices.

All fast-food organizations must constantly monitor all sources of information for new-product ideas. McDonald's isn't alone in that. Look at those baguettes and cream cheese croissants at 7-Eleven—they're right next to the cappuccino machine. KFC put in a line of chicken sandwiches. Burger King tried an X-treme Double Cheeseburger. Wendy's is trying a major coffee program in Mississippi, including iced coffee, and introducing a whole new lineup of other products.

Offerings may differ in various locations according to the wants of the local community. In Iowa pork tenderloin is big, but in Oklahoma City it's tortilla scramblers. Globally, companies must adapt to local tastes. At Bob's Big Boy in Thailand, you can get Tropical Shrimp; at Carl's Junior in Mexico, you can order the Machaca Burrito; and at Shakey's Pizza in the Philippines, you can get Cali Shandy, a Filipino beer. Product development, then, is a key activity in any modern business, anywhere in the world.

You can imagine what could happen when your product loses some of its appeal. Zippo lighters, for example, may lose some market as people turn away from smoking. Zippo, therefore, tried offering products such as key holders, tape measures and belt buckles. They are no longer being sold, but Zippo has recently introduced a new men's fragrance and a clothing line that includes hoodies, ball caps and jeans.<sup>8</sup>

## Distributed Product Development

The increase in outsourcing and alliance building has resulted in innovation efforts that often require using multiple organizations separated by cultural, geographic and legal boundaries. **Distributed product development** is the



*How would you like a beer or glass of wine with your Big Mac? You can get both at this McDonald's in Paris. Notice how the restaurant's architecture fits the style of the city. The same is true of the food in McDonald's other restaurants outside the United States. In Europe, the menus and interior designs are frequently adapted to fit the tastes and cultural preferences of each country.*

### **distributed product development**

Handing off various parts of your innovation process—often to companies in other countries.

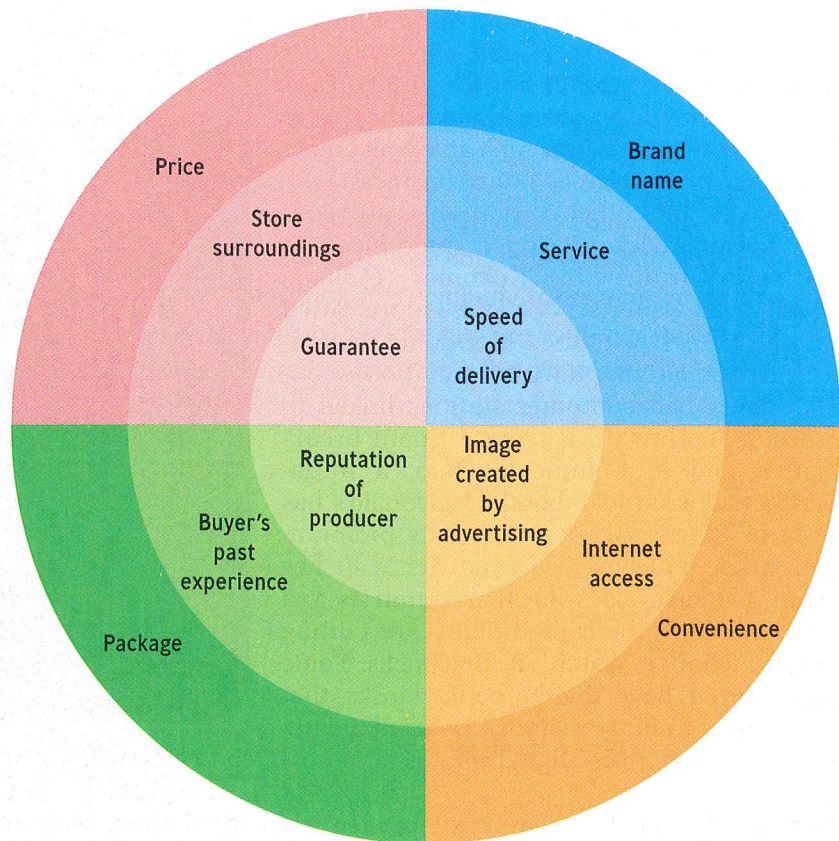


figure 14.1

POTENTIAL COMPONENTS OF  
A TOTAL PRODUCT OFFER**total product offer**

Everything that consumers evaluate when deciding whether to buy something; also called a value package.

*Apple's iPhone offers a range of features and functions, including the ability to make video calls, take photos, check e-mail, browse websites, get directions, tell time, keep a shopping list, record appointments in your calendar, download songs, sync with your other devices, and even make and receive phone calls. The product will likely continue to evolve and improve. What would you like Apple to add to the iPhone's total product offer?*



term used to describe handing off various parts of your innovation process—often to companies in other countries. It is difficult enough to coordinate processes within a firm; it becomes substantially more difficult when trying to coordinate multifirm processes.<sup>9</sup> Great care must be taken to establish goals and procedures and standards before any such commitment is made.<sup>10</sup> One company that has collaborated with many other firms to make innovative products is 3M Company. It has developed some 55,000 products from Scotch tape to Thinsulate, and many of those products are embedded in other products such as the iPhone.<sup>11</sup>

## Developing a Total Product Offer

From a strategic marketing viewpoint, a product is more than just the physical good or service. A **total product offer** consists of everything consumers evaluate when deciding whether to buy something. Thus, the basic product or service may be a washing machine, an insurance policy, or a beer, but the total product offer includes some or all the *value* enhancers in Figure 14.1. You may hear some people call the basic product the “core product” and the total product offer the “augmented product.” Can you see how sustainability can be part of the augmented product? The nearby Thinking Green box discusses quality and sustainability.

When people buy a product, they may evaluate and compare total product offers on many dimensions. Some are tangible (the product itself and its package); others are intangible (the producer's reputation







## Quality and Sustainability

One product that concerns consumers for both its health benefits and environmental aspects is fish. Trident Seafoods is one company that brings customers the freshest and healthiest fish possible and still assures sustainability by staying well within catch limits.

Trident Seafoods started with one boat. It focused on Alaska, fishing for salmon, pollock, crab, halibut and cod. Ignoring the cries that "It can't be done," Chuck Bundrant, the owner, decided to build a boat that both caught and processed crab. Despite that focus, the boat still catches salmon and bottom fish for diversity's sake. Bundrant and his partners now supply wild-caught salmon to warehouse giant Costco and have 40 vessels and 16 shore-based plants.

One focus of the firm is on quality. Quality control includes everything from temperature control to X-raying the fish for bones. Everything is carefully weighed to make sure that weights are honest and accurate.

Quality control goes hand in hand with sustainability. The company works with the North Pacific Fishery Management Council and the Marine Stewardship Council, which promote world sustainability practices. One part of its sustainability practices is to use all of the fish. That results in fish oil, fishmeal, and byproducts used in fertilizer and fishmeal. Bundrant says that none of what he does will amount to anything if there are no fish to catch.

Sources: Stephanie E. Ponder, "Success at Sea," *The Costco Connection*, February 2011; and Trident Seafoods Corporation, [tridentseafoods.com](http://tridentseafoods.com), accessed April 2011.

and the image created by advertising). A successful marketer must begin to think like a consumer and evaluate the total product offer as a collection of impressions created by all the factors listed in Figure 14.1. It is wise to talk with consumers to see which features and benefits are most important to them and which value enhancers they want or don't want in the final offering. Frito-Lay, for example, had to drop biodegradable bags because they were "too noisy."

What questions might you ask consumers when developing the total product offer for Very Vegetarian? (Recall the business idea we introduced in Chapter 13.) Remember, store surroundings are important in the restaurant business, as are the parking lot and the condition of bathrooms. When designing services, some have even suggested the importance of things like trust and feelings in general.<sup>12</sup>

Sometimes an organization can use low prices to create an attractive total product offer. For example, outlet stores offer brand-name goods for less. Shoppers like getting high-quality goods and low prices, but they must be careful. Outlets also carry lower-quality products with similar but not exactly the same features as goods carried in regular stores. Different consumers may want different total product offers, so a company must develop a variety of offerings.

## Product Lines and the Product Mix

Companies usually don't sell just one product. A **product line** is a group of products that are physically similar or intended for a similar market. They usually face similar competition. In one product line, there may be several competing brands. Notice, for example, Diet Coke, Diet Coke with Splenda, Coke Zero, Diet Coke with Lemon, Diet Coke with Lime, Diet Vanilla Coke, and Diet Cherry Coke. Makes it kind of hard to choose, doesn't it? Even Coke

### product line

A group of products that are physically similar or are intended for a similar market.



**product mix**

The combination of product lines offered by a manufacturer.

commercials have product managers who can't tell the difference between Coke and Coke Zero. Have you seen the new aluminum Coke bottle? It's recyclable, resealable, less costly to make than a plastic or glass bottle, and feels cooler to the touch. Both Coke and Pepsi have added water and sports drinks to their product lines to meet new consumer tastes.

Procter & Gamble (P&G) has many brands in its laundry detergent product line, including Tide, Era, Downy, and Bold. P&G's product lines together make up its **product mix**, the combination of all product lines offered by a manufacturer. Have you noticed that there are some 352 distinct types of toothpastes available in stores?<sup>13</sup> Do you think that is too many or not?

Service providers have product lines and product mixes as well. A bank or credit union may offer a variety of services from savings accounts, automated teller machines, and computer banking to money market funds, safety deposit boxes, car loans, mortgages, traveler's checks, online banking, and insurance. AT&T combines services (communications) with goods (phones) in its product mix, with special emphasis on wireless.

## LEARNING goal 2

Identify the various kinds of consumer and industrial goods.

**product differentiation**

The creation of real or perceived product differences.

**convenience goods and services**

Products that the consumer wants to purchase frequently and with a minimum of effort.

**shopping goods and services**

Those products that the consumer buys only after comparing value, quality, price, and style from a variety of sellers.

**specialty goods and services**

Consumer products with unique characteristics and brand identity. Because these products are perceived as having no reasonable substitute, the consumer puts forth a special effort to purchase them.

## PRODUCT DIFFERENTIATION

**Product differentiation** is the creation of real or perceived product differences. Actual product differences are sometimes quite small, so marketers must use a creative mix of pricing, advertising, and packaging (value enhancers) to create a unique, attractive image. Various bottled water companies, for example, have successfully attempted product differentiation. The companies made their bottled waters so attractive through pricing and promotion that now restaurant customers often order water by brand name.

There's no reason why you couldn't create a similar attractive image for Very Vegetarian, your vegetarian restaurant. Small businesses can often win market share with creative product differentiation. Yearbook photographer Charlie Clark competes by offering multiple clothing changes, backgrounds, and poses along with special allowances, discounts, and guarantees. His small business has the advantage of being more flexible in adapting to customer needs and wants, and he's able to offer attractive product options. Clark has been so successful that companies use him as a speaker at photography conventions. How could you respond creatively to the consumer wants of vegetarians?

## Marketing Different Classes of Consumer Goods and Services

One popular classification of consumer goods and services has four general categories—convenience, shopping, specialty, and unsought.

1. **Convenience goods and services** are products the consumer wants to purchase frequently and with a minimum of effort, like candy, gum,



milk, snacks, gas, and banking services. One store that sells mostly convenience goods is 7-Eleven. Location, brand awareness, and image are important for marketers of convenience goods and services. The Internet has taken convenience to a whole new level, especially for banks and other service companies. Companies that don't offer such services are likely to lose market share to those that do unless they offer outstanding service to customers who visit in person.

2. **Shopping goods and services** are products the consumer buys only after comparing value, quality, price, and style from a variety of sellers. Shopping goods and services are sold largely through *shopping centers* where consumers can make comparisons of products like clothes, shoes, appliances, and auto repair services. Target is one store that sells mostly shopping goods. Because many consumers carefully compare such products, marketers can emphasize price differences, quality differences, or some combination of the two. Think of how the Internet has helped you find the right shopping goods..
3. **Specialty goods and services** are consumer products with unique characteristics and brand identity. Because consumers perceive that specialty goods have no reasonable substitute, they put forth a special effort to purchase them. Examples include fine watches, expensive wine, fur coats, jewelry, imported chocolates, and services provided by medical specialists or business consultants.  
Specialty goods are often marketed through specialty magazines. Specialty skis may be sold through sports magazines and specialty foods through gourmet magazines. Again, the Internet helps buyers find specialty goods. In fact, some specialty goods can be sold exclusively on the Internet.
4. **Unsought goods and services** are products consumers are unaware of, haven't necessarily thought of buying, or suddenly find they need to solve an unexpected problem. They include emergency car-towing services, burial services, and insurance.

The marketing task varies according to the category of product; convenience goods are marketed differently from specialty goods. The best way to promote convenience goods is to make them readily available and create the proper image. Some combination of price, quality, and service is the best appeal for shopping goods. Specialty goods rely on reaching special market segments through advertising. Unsought goods such as life insurance often rely on personal selling. Car towing relies heavily on Yellow Pages advertising.

Whether a good or service falls into a particular class depends on the individual consumer. Coffee can be a shopping good for one consumer, while flavored gourmet roast is a specialty good for another. Some people shop around to compare different dry cleaners, so dry cleaning is a shopping service for them. Others go to the closest store, making it a convenience service. Marketers must carefully monitor their customer base to determine how consumers perceive their products.<sup>14</sup>



*Tap the "Gift a Drink" button on Pepsi's new Social Vending Machine, enter your info, choose a drink, record an optional video message, enter your friends' info, and instantly they'll receive a text message with a code to redeem their drink at another sociable machine. Do you think this new machine will be popular with your friends?*

#### **unsought goods and services**

Products that consumers are unaware of, haven't necessarily thought of buying, or find that they need to solve an unexpected problem.



## Marketing Industrial Goods and Services

Many goods could be classified as consumer goods or industrial goods, based on their uses. A computer kept at home for personal use is clearly a consumer good. But in a commercial setting, such as an accounting firm or manufacturing plant, the same computer is an industrial good.

### Industrial goods

Products used in the production of other products. Sometimes called business goods or B2B goods.

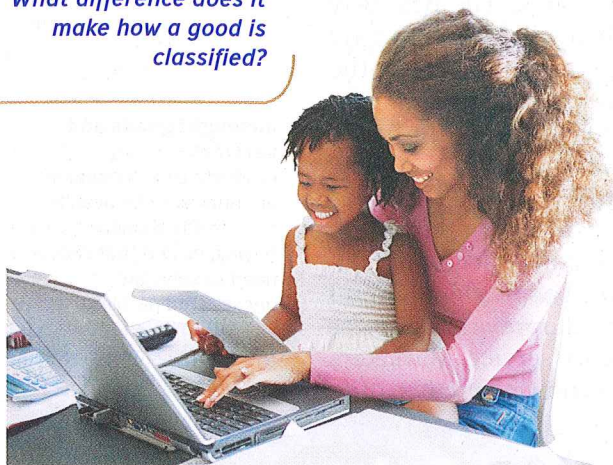
**Industrial goods** (sometimes called business goods or B2B goods) are products used in the production of other products. They are sold in the business-to-business (B2B) market. Some products can be both consumer and industrial goods. We've just mentioned how personal computers fit in both categories. As a consumer good, a computer might be sold through electronics stores like Best Buy or computer magazines. Most of the promotion would be advertising. As an industrial good, personal computers are more likely to be sold through salespeople or on the Internet. Advertising is less of a factor when selling industrial goods. Thus, you can see that classifying goods by user category helps marketers determine the proper marketing-mix strategy.

Figure 14.2 shows some categories of both consumer goods and industrial goods and services. *Installations* consist of major capital equipment such as new factories and heavy machinery. *Capital items* are expensive products that last a long time. A new factory building is both a capital item and an installation. *Accessory equipment* consists of capital items that are not quite as long-lasting or expensive as installations—like computers, copy machines, and various tools. Various categories of industrial goods are shown in the figure.

Many goods could be classified as consumer goods or industrial goods, based on their uses. For example, a computer that a person uses at home for personal use would clearly be a consumer good. But that same computer used in a commercial setting, such as a hospital, would be classified as an industrial good. What difference does it make how a good is classified?

### progress assessment

- What value enhancers may be included in a total product offer?
- What's the difference between a product line and a product mix?
- Name the four classes of consumer goods and services, and give examples of each.
- Describe three different types of industrial goods.





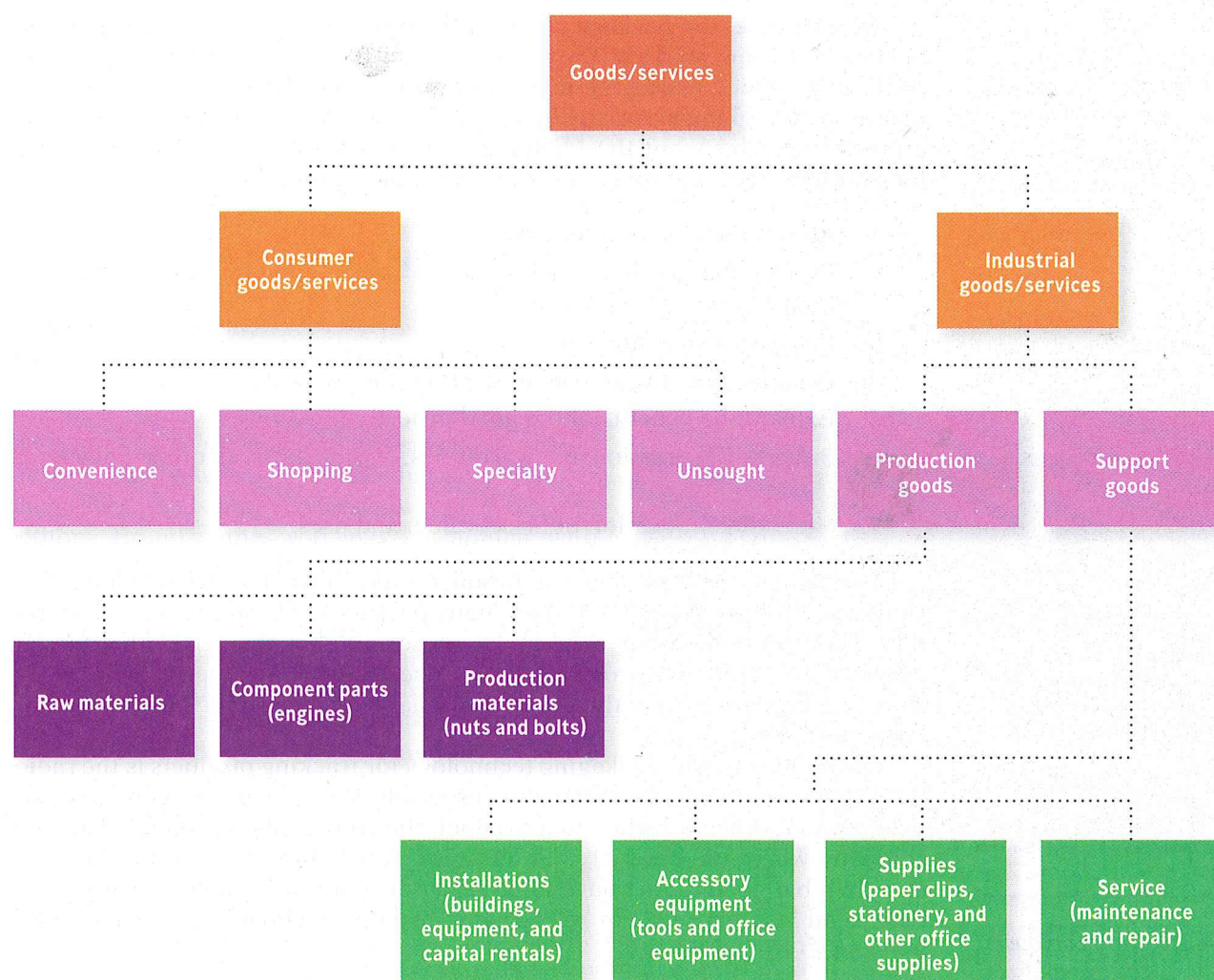


figure 14.2

**VARIOUS CATEGORIES OF  
CONSUMER AND INDUSTRIAL  
GOODS AND SERVICES**

### LEARNING goal 3

Summarize the functions of packaging.

## PACKAGING CHANGES THE PRODUCT

We've said that consumers evaluate many aspects of the total product offer, including the brand. It's surprising how important packaging can be in such evaluations. Many companies have used packaging to change and improve their basic product. We have squeezable ketchup bottles that stand upside down; square paint cans with screw tops and integrated handles; plastic bottles for motor oil that eliminate the need for funnels; toothpaste pumps; packaged dinners and other foods, like popcorn, that can be cooked in a microwave oven; single-use packets of spices; and so forth. Another interesting innovation is aromatic packaging. Arizona Beverage Company now has aromatic caps on its flavored iced teas.



In each case, the package changed the product in consumers' minds and opened large new markets. Do you sometimes have difficulty opening plastic packaging? Which packaging innovations do you like best? Can you see some market potential in developing better packaging? Packaging has even become a profession. Check out the Michigan State University School of Packaging, for example. Packages must perform the following functions:

1. Attract the buyer's attention.
2. Protect the goods inside, stand up under handling and storage, be tamperproof, and deter theft.
3. Be easy to open and use.
4. Describe and give information about the contents.
5. Explain the benefits of the good inside.
6. Provide information on warranties, warnings, and other consumer matters.
7. Give some indication of price, value, and uses.

#### **bundling**

Grouping two or more products together and pricing them as a unit.

*Even industrial products can benefit from innovative packaging. The new Heinz Dip & Squeeze ketchup package allows restaurant owners to offer their customers a choice of peeling off the lid for dipping or tearing off the top for squeezing. The new package contains 3 times the ketchup of traditional sachets and uses less packaging. Shaped like the iconic bottles, the packets reinforce the Heinz Ketchup brand.*

Packaging can also make a product more attractive to retailers. The Universal Product Codes (UPCs) on many packages help stores control inventory. They combine a bar code and a preset number that gives the retailer information about the product's price, size, color, and other attributes. In short, packaging changes the product by changing its visibility, usefulness, or attractiveness.

One relatively new packaging technology for tracking products is the radio frequency identification (RFID) chip, especially the ones made with nanoparticle powder. When attached to a product, the chip sends out signals telling a company where the product is at all times. RFID chips carry more information than bar codes, don't have to be read one at a time (whole pallets can be read in an instant), and can be read at a distance. Walmart has been a leader in using RFID technology.

## **The Growing Importance of Packaging**

Packaging has always been an important aspect of the product offer, but today it's carrying more of the promotional burden than in the past. Many products once sold by salespersons are now sold in self-service outlets, and the package has acquired more sales responsibility. The Fair Packaging and Labeling Act was passed to give consumers much more quantity and value information on product packaging.

Packaging may make use of a strategy called **bundling**, which combines goods and/or services for a single price. Virgin Airlines has bundled door-to-door limousine service and in-flight massages in its total product offer. Financial institutions are offering everything from financial advice to help in purchasing insurance, stocks, bonds, mutual funds, and more. When combining goods or services into one package, marketers must not include so much that the price gets too high. It's best to work with customers to develop value enhancers that meet their individual needs.<sup>15</sup>





## LEARNING goal 4

Contrast *brand*, *brand name*, and *trademark*, and show the value of brand equity.

## BRANDING AND BRAND EQUITY

A **brand** is a name, symbol, or design (or combination thereof) that identifies the goods or services of one seller or group of sellers and distinguishes them from the goods and services of competitors. The word *brand* includes practically all means of identifying a product. As we noted in Chapter 13, a *brand name* consists of a word, letter, or group of words or letters that differentiates one seller's goods and services from those of competitors. Brand names you may be familiar with include Red Bull, Sony, Del Monte, Campbell, Levi's, Google, Borden, Michelob, and of course many more. Brand names give products a distinction that tends to make them attractive to consumers. The Reaching Beyond Our Borders box on p. 388 discusses product names in more depth.

A **trademark** is a brand that has exclusive legal protection for both its brand name and its design. Trademarks like McDonald's golden arches are widely recognized and help represent the company's reputation and image. McDonald's might sue to prevent a company from selling, say, McDonnell hamburgers. Did you know there are Starbucks coffee shops in China? (Look closely at that name.)

People are often impressed by certain brand names, even though they say there's no difference between brands in a given product category. For example, even when people say that all aspirin is alike, if you put two aspirin bottles in front of them—one with the Anacin label and one with an unknown name—most choose the one with the well known brand name. Gasoline buyers often choose a brand name (e.g., Exxon) over price.

For the buyer, a brand name ensures quality, reduces search time, and adds prestige to purchases. For the seller, brand names facilitate new-product introductions, help promotional efforts, add to repeat purchases, and differentiate products so that prices can be set higher. What brand names do you prefer?

## Brand Categories

Several categories of brands are familiar to you. **Manufacturers' brands** represent manufacturers that distribute products nationally—Xerox, Kodak, Sony, and Dell, for example.

**Dealer (private-label) brands** are products that don't carry the manufacturer's name but carry a distributor or retailer's name instead. Kenmore and Diehard are dealer brands sold by Sears. These brands are also known as *house brands* or *distributor brands*.

Many manufacturers fear having their brand names become generic names. A *generic name* is the name for a whole product category. Did you know that aspirin and linoleum were once brand names? So were nylon, escalator,

### brand

A name, symbol, or design (or combination thereof) that identifies the goods or services of one seller or group of sellers and distinguishes them from the goods and services of competitors.

### trademark

A brand that has exclusive legal protection for both its brand name and its design.



*Whether its contained in a name like Cheerios, a symbol like Nike's swoosh, a design like Coca-Cola's logo, or a combination of those, a brand distinguishes one marketer's goods and services from everyone else's. How do familiar brands influence consumers' choices of products every day?*

### manufacturers' brands

The brand names of manufacturers that distribute products nationally.

### dealer (private-label) brands

Products that don't carry the manufacturer's name but carry a distributor or retailer's name instead.



## REACHING BEYOND our borders



### The Name Game

So, you've developed a product and you're ready to take it on the market. So what should you call it? America's favorite cookie, Oreo, is said to be a great name because the two O's nicely mirror the shape of the cookie itself. Could the name be part of the charm? Twitter has become the most-used word in the English language according to Global Language Monitor data. Think of the names that come to your mind when you think of American products: Coke, Pepsi, Häagen-Dazs (yes, an American product) and so on.

At one time, finding a name for a product was relatively simple. Now, with a couple hundred countries on the cyber-platform, choosing the right name is a global issue. For example, a Web development company in New Zealand chose the name hairyLemon. It has been estimated that at least a third of hairyLemon's business came from its name. Not all do-it-yourself names have been successful. For example, when Russian gas company Gazprom formed a joint venture with Nigeria's NNPC, the company was called NiGaz. Not a great name, we'd say.



Every once in a while, a successful name is created by accident. For example, the popular search engine was supposed to be called Googol (a scientific name for 1 followed by one hundred zeros). However, the founders made a typo when registering the domain name. The error resulted in a warm, catchy, human-sounding name.

In the marketing chapter, we chose the name Very Vegetarian for our new vegetarian restaurant. Have you come up with a better name? Would it help to brainstorm names with others? Would it be worthwhile to bring in an expert?

What if you wanted to build vegetarian restaurants at schools around the world? Would that make a difference? Can you see why names are critical to the long-run success of many firms?

Sources: Susan Purcell and Jay Jurisich, "Enter the Lexicon," *Bloomberg Businessweek*, October 25–October 31, 2010; and Igor International Naming and Branding Agency, [www.igorinternational.com](http://www.igorinternational.com), accessed April 2011.

#### generic goods

Nonbranded products that usually sell at a sizable discount compared to national or private-label brands.

#### knockoff brands

Illegal copies of national brand-name goods.

kerosene, and zipper. All those names became so popular, so identified with the product, that they lost their brand status and became generic. (Such issues are decided in the courts.) Their producers then had to come up with new names. The original Aspirin, for example, became Bayer aspirin. Companies working hard to protect their brand names today include Xerox and Rollerblade (in-line skates).

**Generic goods** are nonbranded products that usually sell at a sizable discount compared to national or private-label brands. They feature basic packaging and are backed with little or no advertising. Some are of poor quality, but many come close to the same quality as the national brand-name goods they copy. There are generic tissues, generic cigarettes, generic drugs, and so on. Consumers today are buying large amounts of generic products because their overall quality has improved so much in recent years. What has been your experience trying generic products?

**Knockoff brands** are illegal copies of national brand-name goods. If you see an expensive brand-name item such as a Polo shirt or a Rolex watch for



sale at a ridiculously low price, you can be pretty sure it's a knockoff. Often the brand name is just a little off, too, like Palo (Polo) or Bolex (Rolex). Look carefully. Zippo has taken to calling counterfeit copies "Rippos."<sup>16</sup>

## Generating Brand Equity and Loyalty

A major goal of marketers in the future will be to reestablish the notion of brand equity. **Brand equity** is the value of the brand name and associated symbols. Usually, a company cannot know the value of its brand until it sells it to another company. Brand names with high reported brand equity ratings include Reynolds Wrap aluminum foil and Ziploc food bags. What's the most valuable brand name today? It's Apple. Microsoft is not far behind.<sup>17</sup>

The core of brand equity is **brand loyalty**, the degree to which customers are satisfied, like the brand, and are committed to further purchases. A loyal group of customers represents substantial value to a firm, and that value can be calculated. One way manufacturers are trying to create more brand loyalty is by lowering the carbon footprint of their products.

In the past, companies tried to boost their short-term performance by offering coupons and price discounts to move goods quickly. This eroded consumers' commitment to brand names, especially of grocery products. Many consumers complain when companies drop brand names like Carnation Breakfast Bars or Flex shampoo.<sup>18</sup> Such complaints show the power of brand names.<sup>19</sup> Now companies realize the value of brand equity and are trying harder to measure the earning power of strong brand names.

**Brand awareness** refers to how quickly or easily a given brand name comes to mind when someone mentions a product category. Advertising helps build strong brand awareness. Established brands, such as Coca-Cola and Pepsi, are usually among the highest in brand awareness. Sponsorship of events, like football's Orange Bowl and NASCAR's Cup Series, helps improve brand awareness. Simply being there over and over also increases brand awareness. That's one way Google became such a popular brand..

Perceived quality is an important part of brand equity. A product that's perceived as having better quality than its competitors can be priced accordingly. The key to creating a perception of quality is to identify what consumers look for in a high-quality product, and then to use that information in every message the company sends out. Factors influencing the perception of quality include price, appearance, and reputation.

Consumers often develop *brand preference*—that is, they prefer one brand over another—because of such cues. When consumers reach the point of *brand insistence*, the product becomes a specialty good. For example, a consumer may insist on Goodyear tires for his or her car.

It's now so easy to copy a product's benefits that off-brand products can draw consumers away from brand-name goods. Brand-name manufacturers like Intel Corporation have to develop new products and new markets faster and promote their names better than ever before to hold off challenges from competitors.

## Creating Brand Associations

The name, symbol, and slogan a company uses can assist greatly in brand recognition for that company's products. **Brand association** is the linking of a brand to other favorable images, like famous product users, a popular celebrity, or a particular geographic area. Note, for example, how ads for Mercedes-Benz associate its company's cars with successful people who live luxurious lives. The person responsible for building brands is known as a brand manager or product manager. We'll discuss that position next.

### brand equity

The value of the brand name and associated symbols.

### brand loyalty

The degree to which customers are satisfied, like the brand, and are committed to further purchases.

### brand awareness

How quickly or easily a given brand name comes to mind when a product category is mentioned.

### brand association

The linking of a brand to other favorable images.



**brand manager**

A manager who has direct responsibility for one brand or one product line; called a *product manager* in some firms.

## Brand Management

A **brand manager** (known as a *product manager* in some firms) has direct responsibility for one brand or product line, and manages all the elements of its marketing mix: product, price, place, and promotion. Thus, you might think of the brand manager as the president of a one-product firm.

One reason many large consumer-product companies created this position was to have greater control over new-product development and product promotion. Some companies have brand-management *teams* to bolster the overall effort. In B2B companies, brand managers are often known as product managers.

### progress assessment

- What six functions does packaging now perform?
- What's the difference between a brand name and a trademark?
- Can you explain the difference between a manufacturer's brand, a dealer brand, and a generic brand?
- What are the key components of brand equity?

## LEARNING goal 5

Explain the steps in the new-product development process.

## THE NEW-PRODUCT DEVELOPMENT PROCESS

The odds a new product will fail are high.<sup>20</sup> Over 80 percent of products introduced in any year fail to reach their business objectives. Not delivering what is promised is a leading cause of new-product failure. Other causes include getting ready for marketing too late, poor positioning, too few differences from competitors, and poor packaging. Small firms especially may experience a low success rate unless they do proper product planning and new product development. As Figure 14.3 shows, new-product development for producers consists of six stages.

New products continue to pour into the market every year, and their profit potential looks tremendous. Think, for example, of the potential of home video conferencing, interactive TV, Wii games and products, smart phones, iPads, and other innovations.<sup>21</sup> Where do these ideas come from? How are they tested? What's the life span for an innovation? Let's look at these issues.

### Generating New-Product Ideas

It now takes about seven ideas to generate one commercial product. Most ideas for new industrial products come from employee suggestions rather than research and development. Research and development, nonetheless, is a major source of new products. Employees are a major source for new consumer-goods ideas. Firms should also listen to their suppliers for new-product ideas because suppliers are often exposed to new ideas. Present customers are also a good source for new product ideas.<sup>22</sup>



## Product Screening

**Product screening** reduces the number of new-product ideas a firm is working on at any one time so it can focus on the most promising. *Screening* applies criteria to determine whether the product fits well with present products, has good profit potential, and is marketable. The company may assign each of these factors a weight and compute a total score for each new product so that it can compare their potentials.

## Product Analysis

After product screening comes **product analysis**, or making cost estimates and sales forecasts to get a feeling for the profitability of new-product ideas. Products that don't meet the established criteria are withdrawn from consideration.

## Product Development and Testing

If a product passes the screening and analysis phase, the firm begins to develop it further, testing many different product concepts or alternatives. A firm that makes packaged meat products may develop the concept of a chicken dog—a hot dog made of chicken that tastes like an all-beef hot dog. It will develop a prototype, or sample, so that consumers can try the taste. The Spotlight on Small Business box on p. 392 discusses some new ideas for products.

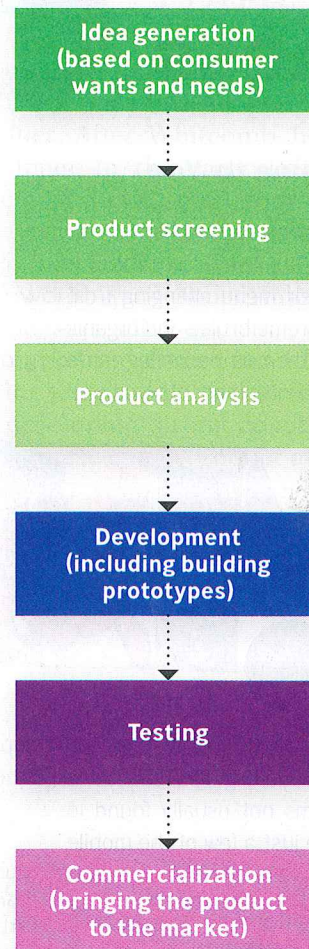


figure 14.3

### THE NEW-PRODUCT DEVELOPMENT PROCESS

Product development is a six-stage process. Which stage do you believe to be the most important?

#### product screening

A process designed to reduce the number of new-product ideas being worked on at any one time.

#### product analysis

Making cost estimates and sales forecasts to get a feeling for profitability of new-product ideas.



*Tom Szaky of TerraCycle makes new products such as plant food, planters, pencil cases, and tote bags from discarded products made by other companies. (To see his bags made from drink pouches and Oreo cookie wrappers, go to [www.terracycle.net](http://www.terracycle.net).) What products do you own that are made of recycled material?*



## SPOTLIGHT ON SMALL business



### Don't Come to Me; I'll Come to You

In many cities, street vendors hawking hot dogs and other traditional fare is part of Americana. They are American icons. But that icon is changing. Not only is their menu changing from greasy hot dogs and salty pretzels to crème brulee and organic drinks, but also how customers find them is becoming more high tech. Some vendors now use Twitter and other social media to reveal their current locations and build customer relationships.

There are some cities, like Chicago, where legislation restricts food trucks for health and sanitary reasons. But in cities like New York and Portland and Austin, you can find these mobile units selling hot dogs and, often, more gourmet offerings. French rotisserie Roli Roti in San Francisco, Vietnamese bahn mi at Nom Nom in L.A., and Gruyere grilled cheese in Austin are offering gourmet food items not usually found in standard street vendor carts. Here are just a few of the mobile units you can find online:

- Clover Food Truck in Boston/Cambridge offers a rotating menu of local organic materials.



- Sugar Philly Truck in Philadelphia offers crème brulee hot off the truck.
- Dim and Den Sum in Cleveland has some of the best food truck art in America.
- Koi Fusion PDX in Portland is one of the few mobile eateries in that town.

You may enjoy looking online for a mobile unit near you. Such exploring may give you an idea about how you may start your own small business on a truck. The possibilities seem endless. You should be able to put into practice all of the product concepts you learned in this chapter. Say, how about a vegetarian truck?

Sources: Leslie Robarge, "Gourmet Food Truck Smackdown," *Bloomberg Businessweek*, March 14–March 20, 2011; Matt Vilano, "The Secret Sauce Part II," *Entrepreneur*, April 2011; and Cloverfoodlab.com, DimandDenSum.com, accessed in April 2011.

#### concept testing

Taking a product idea to consumers to test their reactions.

*How do firms test services? American Airlines conducted a six-month trial of a new self-tagging system that allowed customers to print and put the tags on their own checked bags. What features and benefits was American Airlines probably testing for?*

**Concept testing** takes a product idea to consumers to test their reactions. Do they see the benefits of this new product? How frequently would they buy it? At what price? What features do they like and dislike? What changes in it would they make? The firm tests samples using different packaging, branding, and ingredients until a product emerges that's desirable from both production



and marketing perspectives. Some new hotels are being built to match the trendy W chain. They are said to have "hipness." Such innovations must be tried on consumers to see if they indeed recognize and appreciate the new "hip" design.<sup>23</sup> As you plan for Very Vegetarian, can you see the importance of concept testing for new vegetarian dishes?



## Commercialization

Even if a product tests well, it may take quite a while to achieve success in the market. Take the zipper, for example, the result of one of the longest development efforts on record for a consumer product. After Whitcomb Judson received the first patents for his clothing fastener in the early 1890s, it took more than 15 years to perfect the product—and even then consumers weren't interested. Judson's company suffered numerous financial setbacks, name changes, and relocations before settling in Meadville, Pennsylvania. Finally, the U.S. Navy started using zippers during World War I. Today, Talon Inc. is the leading U.S. maker of zippers, producing some 500 million of them a year.

The example of the zipper shows why the marketing effort must include **commercialization**, which includes (1) promoting the product to distributors and retailers to get wide distribution, and (2) developing strong advertising and sales campaigns to generate and maintain interest in the product among distributors and consumers. New products are now getting rapid exposure to global markets through commercialization on the Internet and social media. Websites enable consumers to view new products, ask questions, and make purchases easily and quickly.<sup>24</sup>

### commercialization

Promoting a product to distributors and retailers to get wide distribution, and developing strong advertising and sales campaigns to generate and maintain interest in the product among distributors and consumers.

## LEARNING goal 6

Describe the product life cycle.

## THE PRODUCT LIFE CYCLE

Once a product has been developed and tested, it goes to market. There it may pass through a **product life cycle** of four stages: introduction, growth, maturity, and decline (see Figure 14.4). This cycle is a *theoretical* model of what happens

### product life cycle

A theoretical model of what happens to sales and profits for a product class over time; the four stages of the cycle are introduction, growth, maturity, and decline.

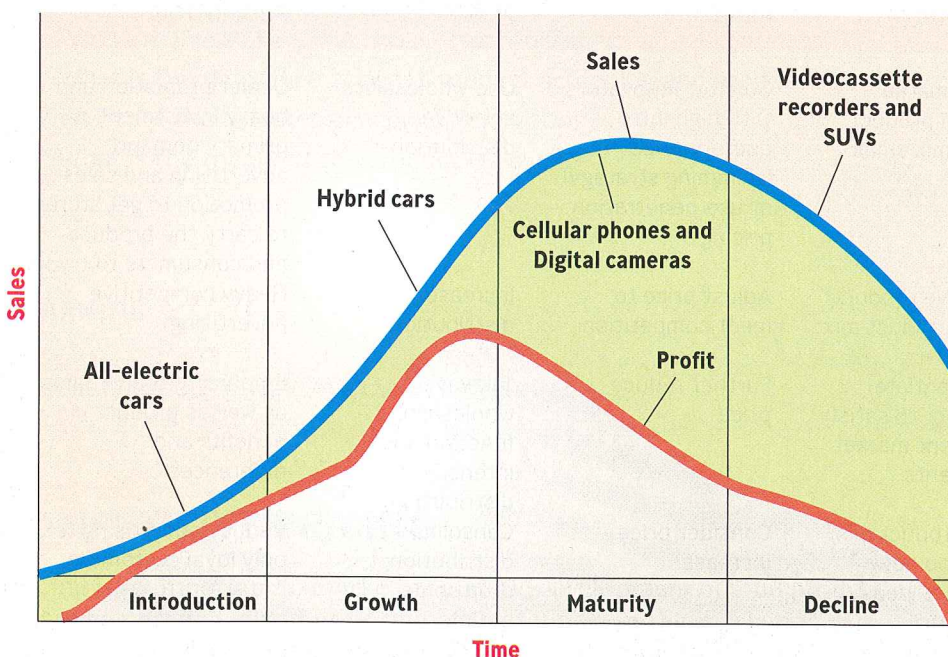


figure 14.4

### SALES AND PROFITS DURING THE PRODUCT LIFE CYCLE

Note that profit levels start to fall *before* sales reach their peak. This is due to increasing price competition. When profits and sales start to decline, it's time to come out with a new product or to remodel the old one to maintain interest and profits.



to sales and profits for a *product class* over time. However, not all individual products follow the life cycle, and particular brands may act differently. For example, while frozen foods as a generic class may go through the entire cycle, one brand may never get beyond the introduction stage. Some product classes, such as microwave ovens, stay in the introductory stage for years. Some products, like catsup, become classics and never experience decline. Others, such as fad clothing, may go through the entire cycle in a few months. Still others may be withdrawn from the market altogether. Nonetheless, the product life cycle may provide some basis for anticipating future market developments and for planning marketing strategies.

### Example of the Product Life Cycle

The product life cycle can give marketers valuable clues to successfully promoting a product over time. Some products, like crayons and sidewalk chalk, have very long product life cycles, change very little, and never seem to go into decline. Crayola Crayons has been successful for 100 years! How long do you think the new virtual video games will last?<sup>25</sup>

You can see how the theory works by looking at the product life cycle of instant coffee. When it was introduced, most people didn't like it as well as "regular" coffee, and it took several years for instant coffee to gain general acceptance (introduction stage). At one point, though, instant coffee grew rapidly in popularity, and many brands were introduced (growth stage). After a while, people became attached to one brand and sales leveled off (maturity stage). Sales then went into a slight decline when freeze-dried coffees were introduced (decline stage). Now freeze-dried coffee is, in turn, at the decline stage as consumers are buying bags of coffee from Starbucks and brewing them at home. It's extremely important for marketers to recognize what stage a product is in so that they can make intelligent and efficient marketing decisions about it.

figure 14.5

**SAMPLE STRATEGIES  
FOLLOWED DURING THE  
PRODUCT LIFE CYCLE**

LIFE CYCLE STAGE	MARKETING MIX ELEMENTS			
	PRODUCT	PRICE	PLACE	PROMOTION
Introduction	Offer market-tested product; keep mix small	Go after innovators with high introductory price (skimming strategy) or use penetration pricing	Use wholesalers, selective distribution	Dealer promotion and heavy investment in primary demand advertising and sales promotion to get stores to carry the product and consumers to try it
Growth	Improve product; keep product mix limited	Adjust price to meet competition	Increase distribution	Heavy competitive advertising
Maturity	Differentiate product to satisfy different market segments	Further reduce price	Take over wholesaling function and intensify distribution	Emphasize brand name as well as product benefits and differences
Decline	Cut product mix; develop new-product ideas	Consider price increase	Consolidate distribution; drop some outlets	Reduce advertising to only loyal customers



LIFE CYCLE STAGE	SALES	PROFITS	COMPETITORS
Introduction	Low sales	Losses may occur	Few
Growth	Rapidly rising sales	Very high profits	Growing number
Maturity	Peak sales	Declining profits	Stable number, then declining
Decline	Falling sales	Profits may fall to become losses	Declining number

figure 14.6

HOW SALES, PROFITS, AND  
COMPETITION VARY OVER THE  
PRODUCT LIFE CYCLE

## Using the Product Life Cycle

Different stages in the product life cycle call for different marketing strategies. Figure 14.5 outlines the marketing mix decisions you might make. As you go through the figure, you'll see that each stage calls for multiple marketing mix changes. Remember, these concepts are largely theoretical and you should use them only as guidelines. We'll discuss the price strategies mentioned in the figure later in this chapter.

Figure 14.6 shows in theory what happens to sales volume, profits, and competition during the product life cycle. Compare it to Figure 14.4. Both figures show that a product at the mature stage may reach the top in sales growth while profit is decreasing. At that stage, a marketing manager may decide to create a new image for the product to start a new growth cycle. You may have noticed how Arm & Hammer baking soda gets a new image every few years to generate new sales. One year it's positioned as a deodorant for refrigerators and the next as a substitute for harsh chemicals in swimming pools. Knowing what stage in the cycle a product has reached helps marketing managers decide when such strategic changes are needed.

Theoretically, all products go through these stages at various times in their life cycle. What happens to sales as a product matures?

### progress assessment

- What are the six steps in the new-product development process?
- What is the difference between product screening and product analysis?
- What are the two steps in commercialization?
- What is the theory of the product life cycle?

## LEARNING goal 7

Identify various pricing objectives and strategies.

## COMPETITIVE PRICING

Pricing is so important to marketing and the development of total product offers that it has been singled out as one of the four Ps in the marketing mix, along with product, place, and promotion. It's one of the most difficult of the four Ps



for a manager to control, however, because price is such a critical ingredient in consumer evaluations of the product. In this section, we'll explore price both as an ingredient of the total product offer and as a strategic marketing tool.

## Pricing Objectives

A firm may have several objectives in mind when setting a pricing strategy. When pricing a new vegetarian offering, we may want to promote the product's image. If we price it *high* and use the right promotion, maybe we can make it the Evian of vegetarian meals. We also might price it high to achieve a certain profit objective or return on investment. We could also price our product *lower* than its competitors, because we want low-income people to afford this healthy meal. That is, we could have some social or ethical goal in mind. Low pricing may also discourage competition because it reduces the profit potential, but it may help us capture a larger share of the market.

Thus a firm may have several pricing objectives over time, and it must formulate these objectives clearly before developing an overall pricing strategy. Popular objectives include the following:

1. *Achieving a target return on investment or profit.* Ultimately, the goal of marketing is to make a profit by providing goods and services to others. Naturally, one long-run pricing objective of almost all firms is to optimize profit. One way companies have tried to increase profit is by reducing the amount provided to customers. Thus cereal companies have cut the amount of cereal in a box, toilet paper companies are making their products smaller, and so on.<sup>26</sup> Have you noticed this happening for products you buy?
2. *Building traffic.* Supermarkets often advertise certain products at or below cost to attract people to the store. These products are called *loss leaders*. The long-run objective is to make profits by following the short-run objective of building a customer base. The Internet portal Yahoo once provided a free auction service to compete with eBay. Why give such a service away? To increase advertising revenue on the Yahoo site and attract more people to Yahoo's other services.
3. *Achieving greater market share.* One way to capture a larger part of the market is to offer lower prices, low finance rates (like 0 percent financing), low lease rates, or rebates.
4. *Creating an image.* Certain watches, perfumes, and other socially visible products are priced high to give them an image of exclusivity and status.
5. *Furthering social objectives.* A firm may want to price a product low so people with little money can afford it. The government often subsidizes the price of farm products to keep basic necessities like milk and bread easily affordable.

Some products are priced high to create a high-status image of exclusivity and desirability. Salvatore Ferragamo shoes fall into this category. What is the total product offer for a product like this?



A firm may have short-run objectives that differ greatly from its long-run objectives. Managers should understand both types at the beginning and put both into their strategic marketing plan. They should also set pricing objectives in the context of other marketing decisions about product design, packaging, branding, distribution, and promotion. All these marketing decisions are interrelated.

Intuition tells us the price charged for a product must bear some relationship to the cost of producing it. Prices usually *are*



set somewhere above cost. But as we'll see, price and cost aren't always related. In fact, there are three major approaches to pricing strategy: cost-based, demand-based (target costing), and competition-based.

## Cost-Based Pricing

Producers often use cost as a primary basis for setting price. They develop elaborate cost accounting systems to measure production costs (including materials, labor, and overhead), add in a margin of profit, and come up with a price. Picture the process in terms of producing a car. You add up all the various components—engine parts, body, tires, radio, door locks and windows, paint, and labor—add a profit margin, and come up with a price. The question is whether the price will be satisfactory to the market as well. How has the market responded to the prices of U.S. cars lately? In the long run, the market—not the producer—determines what the price will be (see Chapter 2). Pricing should take into account costs, but it should also include the expected costs of product updates, the marketing objectives for each product, and competitor prices.

## Demand-Based Pricing

Unlike cost-based pricing, **target costing** is demand-based. That means we design a product so it not only satisfies customers but also meets the profit margins we've set. Target costing makes the final price an *input* to the product development process, not an outcome of it. You first estimate the selling price people would be willing to pay for a product and then subtract your desired profit margin. The result is your target cost of production, or what you can spend to profitably produce the item. Imagine how you would use this process to make custom-made jewelry.

### target costing

Designing a product so that it satisfies customers and meets the profit margins desired by the firm.

## Competition-Based Pricing

**Competition-based pricing** is a strategy based on what all the other competitors are doing. The price can be at, above, or below competitors' prices. Pricing depends on customer loyalty, perceived differences, and the competitive climate. **Price leadership** is the strategy by which one or more dominant firms set pricing practices all competitors in an industry follow. You may have noticed that practice among oil companies.

### competition-based pricing

A pricing strategy based on what all the other competitors are doing. The price can be set at, above, or below competitors' prices.

### price leadership

The strategy by which one or more dominant firms set the pricing practices that all competitors in an industry follow.

## Break-Even Analysis

Before you begin selling a new vegetarian sandwich, it may be wise to determine how many sandwiches you'd have to sell before making a profit. You'd then determine whether you could reach such a sales goal. **Break-even analysis** is the process used to determine profitability at various levels of sales. The break-even point is the point where revenues from sales equal all costs. The formula for calculating the break-even point is as follows:

$$\text{Break-even point (BEP)} = \frac{\text{Total fixed costs (FC)}}{\text{Price of one unit (P) - Variable costs (VC) of one unit}}$$

**Total fixed costs** are all the expenses that remain the same no matter how many products are made or sold. Among the expenses that make up fixed costs are the amount paid to own or rent a factory or warehouse and the amount paid for business insurance. **Variable costs** change according to the level of production. Included are the expenses for the materials used in making products and

### break-even analysis

The process used to determine profitability at various levels of sales.

### total fixed costs

All the expenses that remain the same no matter how many products are made or sold.

### variable costs

Costs that change according to the level of production.



*Shoppers around the world look for bargains, as these consumers in Seoul, South Korea, are doing. How many different ways can marketers appeal to shoppers' desires to find the lowest price? Do online retailers adopt different pricing strategies?*



the direct costs of labor used in making those goods. For producing a specific product, let's say you have a fixed cost of \$200,000 (for mortgage interest, real estate taxes, equipment, and so on). Your variable cost (e.g., labor and materials) per item is \$2. If you sold the products for \$4 each, the break-even point would be 100,000 items. In other words, you wouldn't make any money selling this product unless you sold more than 100,000 of them:

$$\text{BEP} = \frac{\text{FC}}{\text{P}-\text{VC}} = \frac{\$200,000}{\$4.00-\$2.00} = \frac{\$200,000}{\$2.00} = 100,000 \text{ boxes}$$

## Other Pricing Strategies

Let's say a firm has just developed a new line of products, such as Blu-ray players. The firm has to decide how to price these sets at the introductory stage of the product life cycle. A **skimming price strategy** prices a new product high to recover research and development costs and make as much profit as possible while there's little competition. Of course, those large profits will eventually attract new competitors.

A second strategy is to price the new players low. Low prices will attract more buyers and discourage other companies from making sets because profits are slim. This **penetration strategy** enables the firm to penetrate or capture a large share of the market quickly.

Retailers use several pricing strategies. **Everyday low pricing (EDLP)** is the choice of Home Depot and Walmart. They set prices lower than competitors and don't usually have special sales. The idea is to bring consumers to the store whenever they want a bargain rather than having them wait until there is a sale.

Department stores and some other retailers most often use a **high-low pricing strategy**. Regular prices are higher than at stores using EDLP, but during special sales they're lower. The problem with such pricing is that it encourages consumers to wait for sales, thus cutting into profits. As online shopping continues to grow, you may see fewer stores with a high-low strategy because consumers will be able to find better prices on the Internet.

Retailers can use price as a major determinant of the goods they carry. Some promote goods that sell only for 99 cents, or only for \$10. Some of those 99-cent stores have raised their prices to over a dollar because of rising costs.

You learned earlier in this chapter that bundling means grouping two or more products together and pricing them as a unit. For example, a store might

### skimming price strategy

Strategy in which a new product is priced high to make optimum profit while there's little competition.

### penetration strategy

Strategy in which a product is priced low to attract many customers and discourage competition.

### everyday low pricing (EDLP)

Setting prices lower than competitors and then not having any special sales.

### high-low pricing strategy

Setting prices that are higher than EDLP stores, but having many special sales where the prices are lower than competitors'.



price washers and dryers as a unit. Jiffy Lube offers an oil change and lube, checks your car's fluid levels and air pressure, and bundles all these services into one price. Research suggests that a discount will increase sales more effectively if it's offered on an attractive, pleasurable item.<sup>27</sup>

**Psychological pricing** means pricing goods and services at price points that make the product appear less expensive than it is. A house might be priced at \$299,000 because that sounds like a lot less than \$300,000. Gas stations almost always use psychological pricing.

**psychological pricing**

Pricing goods and services at price points that make the product appear less expensive than it is.

## How Market Forces Affect Pricing

Recognizing that different consumers may be willing to pay different prices, marketers sometimes price on the basis of consumer demand rather than cost or some other calculation. That's called *demand-oriented pricing*, and you can observe it at movie theaters with low rates for children and drugstores with discounts for senior citizens. The Washington Opera Company in Washington, DC, raised prices on prime seating and lowered them on less-attractive seats. This strategy raised the company's revenues 9 percent.

Marketers are facing a new pricing problem: Customers can now compare prices of many goods and services on the Internet, at websites like DealTime.com and MySimon.com. Priceline.com introduced consumers to a "demand collection system," in which buyers post the prices they are willing to pay and invite sellers to accept or decline the price. Consumers can get great prices on airlines, hotels, and other products by naming their price. They can also buy used goods online. Clearly, price competition is going to heat up as consumers have more access to price information from all around the world.<sup>28</sup> As a result, nonprice competition is likely to increase.

## NONPRICE COMPETITION

Marketers often compete on product attributes other than price. You may have noted that price differences are small for products like gasoline, candy bars, and even major products such as compact cars and private colleges.

You won't typically see price as a major promotional appeal on television. Instead, marketers tend to stress product images and consumer benefits such as comfort, style, convenience, and durability.

Many small organizations promote the services that accompany basic products rather than price in order to compete with bigger firms. Good service will enhance a relatively homogeneous product. Danny O'Neill, for example, is a small wholesaler who sells gourmet coffee to upscale restaurants. He has to watch competitors' prices *and* the services they offer so that he can charge the premium prices he wants. To charge high prices, he has to offer and then provide superior service. Larger companies often do the same thing. Some airlines stress friendliness, large "sleeping" seats, promptness, abundant flights, and other such services. Many hotels stress "no surprises," business services, health clubs, and other extras.

### progress assessment

- Can you list two short-term and two long-term pricing objectives? Can the two be compatible?
- What are the limitations of a cost-based pricing strategy?
- What is psychological pricing?



## summary

Learning Goal 1. Describe a total product offer.

- **What's included in a total product offer?**

A total product offer consists of everything consumers evaluate when deciding whether to buy something. It includes price, brand name, and satisfaction in use.

- **What's the difference between a product line and a product mix?**

A product line is a group of physically similar products with similar competitors. A product line of gum may include bubble gum and sugarless gum. A product mix is a company's combination of product lines. A manufacturer may offer lines of gum, candy bars, and breath mints in its product mix.

- **How do marketers create product differentiation for their goods and services?**

Marketers use a combination of pricing, advertising, and packaging to make their products seem unique and attractive.

Learning Goal 2. Identify the various kinds of consumer and industrial goods.

- **What are consumer goods?**

Consumer goods are sold to ultimate consumers like you and me for personal use.

- **What are the four classifications of consumer goods and services, and how are they marketed?**

There are convenience goods and services (requiring minimum shopping effort); shopping goods and services (for which people search and compare price and quality); specialty goods and services (which consumers go out of their way to get, and for which they often demand specific brands); and unsought goods and services (products consumers are unaware of, haven't thought of buying, or need to solve an unexpected problem). Convenience goods and services are best promoted by location, shopping goods and services by some price/quality appeal, and specialty goods and services by specialty magazines and interactive websites.

- **What are industrial goods, and how are they marketed differently from consumer goods?**

Industrial goods are products sold in the business-to-business (B2B) market and used in the production of other products. They're sold largely through salespeople and rely less on advertising.

Learning Goal 3. Summarize the functions of packaging.

- **What are the seven functions of packaging?**

Packaging must (1) attract the buyer's attention; (2) protect the goods inside, stand up under handling and storage, be tamperproof, and deter theft; (3) be easy to open and use; (4) describe the contents; (5) explain the benefits of the good inside; (6) provide information about warranties, warnings, and other consumer matters; and (7) indicate price, value, and uses. Bundling means grouping two or more products into a unit, through packaging, and charging one price for them.

Learning Goal 4. Contrast *brand*, *brand name*, and *trademark*, and show the value of brand equity.

- **Can you define brand, brand name, and trademark?**

A *brand* is a name, symbol, or design (or combination thereof) that identifies the goods or services of one seller or group of sellers and distinguishes them from the goods and services of competitors. The word *brand* includes all means of identifying a product. A *brand name* consists of a word, letter,



or group of words or letters that differentiates one seller's goods and services from those of competitors. A *trademark* is a brand that has exclusive legal protection for both its brand name and design.

- **What is brand equity, and how do managers create brand associations?**

Brand equity is the value of a brand name and associated symbols. Brand association is the linking of a brand to other favorable images such as product users, a popular celebrity, or a geographic area.

- **What do brand managers do?**

Brand managers coordinate product, price, place, and promotion decisions for a particular product.

Learning Goal 5. Explain the steps in the new-product development process.

- **What are the six steps of the product development process?**

The steps of product development are (1) generation of new-product ideas, (2) product screening, (3) product analysis, (4) development, (5) testing, and (6) commercialization.

Learning Goal 6. Describe the product life cycle.

- **What is the product life cycle?**

The product life cycle is a theoretical model of what happens to sales and profits for a product class over time.

- **What are the four stages in the product life cycle?**

The four product life cycle stages are introduction, growth, maturity, and decline.

Learning Goal 7. Identify various pricing objectives and strategies.

- **What are pricing objectives?**

Pricing objectives include achieving a target profit, building traffic, increasing market share, creating an image, and meeting social goals.

- **What strategies can marketers use to determine a product's price?**

A skimming strategy prices the product high to make big profits while there's little competition. A penetration strategy uses low price to attract more customers and discourage competitors. Demand-oriented pricing starts with consumer demand rather than cost. Competition-oriented pricing is based on all competitors' prices. Price leadership occurs when all competitors follow the pricing practice of one or more dominant companies.

- **What is break-even analysis?**

Break-even analysis is the process used to determine profitability at various levels of sales. The break-even point is the point where revenues from sales equal all costs.

- **Why do companies use nonprice strategies?**

Pricing is one of the easiest marketing strategies to copy. It's often not a good long-run competitive tool.

## key terms

brand 387

brand association 389

brand awareness 389

brand equity 389

brand loyalty 389

brand manager 390

break-even analysis 397

bundling 386

commercialization 393

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pricing 397

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<b>product analysis</b> 391	<b>skimming price strategy</b> 398	<b>value</b> 378
<b>product differentiation</b> 382		<b>variable costs</b> 397

## critical thinking

1. What value enhancers affected your choice of the school you attend? Did you consider size, location, price, reputation, WiFi services, library and research services, sports, and courses offered? What factors were most important? Why? What schools were your alternatives? Why didn't you choose them?
2. What could you do to enhance the product offer of Very Vegetarian, other than changing the menu from time to time?
3. How could you use psychological pricing when making up the menu at Very Vegetarian?
4. Are you impressed by the use of celebrities in product advertisements? What celebrity could you use to promote Very Vegetarian?

## developing workplace skills

1. Look around your classroom and notice the different types of shoes students are wearing. What product qualities were they looking for when they chose their shoes? How important were price, style, brand name, and color? Describe the product offerings you would feature in a new shoe store designed to appeal to college students.
2. A total product offer consists of everything consumers evaluate when choosing among products, including price, package, service, and reputation. Working in teams, compose a list of factors consumers might consider when evaluating the total product offer of a vacation resort, a cell phone, and a rental apartment.
3. How important is price to you when buying the following: clothes, milk, computers, haircuts, rental cars? What nonprice factors, if any, are more important than price? How much time do you spend evaluating factors other than price when making such purchases?
4. Go through several local stores of different types and note how often they use psychological pricing. Discuss the practice with the class to see whether students recognize the influence psychological pricing has upon them.



## taking it to the net

### Purpose

To assess how consumers can use the Internet to shop for various goods.

### Exercise

Shopbots are Internet sites for finding the best prices on goods you need. No shopbot searches the entire Internet, so it's a good idea to use more than one to get the best deals. Furthermore, not all shopbots quote shipping and handling costs. Here are some to try: MySimon.com, PriceGrabber.com, PriceSCAN.com, and YahooShopping.com.

1. Which of the shopbots offers the most goods and the most information? How helpful are the consumer reviews? The product descriptions?
2. Which shopbot is easiest to use? The hardest? Why?
3. Write down some of the prices you find on the Internet and then go to a local store, such as Walmart or Target, and compare prices. Does either source (online or brick-and-mortar) consistently offer the best price?
4. Compare shopping on the Internet to shopping in stores. What are the advantages and disadvantages of each? Which has the best total product offer?

## casing the web

To access the case, "Everyday Low Pricing," visit a [www.mhhe.com/ubl0e](http://www.mhhe.com/ubl0e)

## video case

To access the video case featuring Dream Dinners, visit [www.mhhe.com/ubl0e](http://www.mhhe.com/ubl0e)