

## **MF: FOOD PRODUCTS FOR CHILDREN**

MF is a USA company specialized in food products for children, with a good brand image among the customers.

The company is launching a new homogenized named “BIMBO” by strong nutritional power and pleasant taste. This new product can replace the full meal for children aged six to twelve months. The product, which will be packaged in jars of 150 gr., is the result of market research whereby the 5% of Americans during early childhood is affected by problems of poor appetite and 1% of these cases occurring in severe form. All of this is a source of great concern for mothers.

There are two main competitors:

Happychildren: a USA food company specialized in products for children, which offers a homogenized enriched meal supplement. Happychildren is characterized by higher sales volumes, supported not only by USA sales, but also by exports of small stakes abroad (Canada and Britain) at a higher price. Happychildren follows double sales channel: pharmacy and supermarket chains. The price of the homogenized Happychildren is equal to \$ 2.00 per jar 150 gr.

Pharmakos: a pharmaceutical company that has an excellent international reputation. Pharmakos offers, for two years, a small range of specialized products for the nutrition of children suffering from serious deterioration in growth processes. Pharmakos sells exclusively in pharmacies. The price of the product Pharmakos is \$ 4.00 per jar 150 gr.

Several market research has shown that the product “BIMBO” is very differentiated from that of competitors: these are not being able to replace a full meal. In particular, the perception of value by the target customer is articulated as follows:

		Score of the three brands (score from 1 to 5)		
		MF	HAPPY	PHAR
	<b>Importance for mom who buys</b>			
Brand reputation	20,00%	4,00	3,50	4,50
The product meets basic nutritional standards	25,00%	3,50	3,00	4,00
Pleasantness of taste	20,00%	4,00	3,50	3,00
Design of the jar	5,00%	3,50	3,00	4,50
Ability to replace a full meal	30,00%	4,50	2,50	3,00
	100,00%			

From the analysis of market, moreover, it emerges that:

- with a price of \$ 4.00 per jar (equal to that of Pharmakos) MF would be able to sell 5,000 jars per year;
- a price of \$ 3.00 on sales attest 10,000 units annually;
- at a price of \$ 2.00 (equal to that of Happychildren) the demand for the product would arrive at 30,000 jars per year;
- pricing sale \$ 1.25 would bring sales to 50,000 jars per year.

Expert analysis of costing, finally, had allowed to calculate the following values:

- Annual salary of the Product Manager of “BIMBO”: \$ 10,000
- Unit cost of purchase of the jar: \$ 0.25
- Annual industrial overheads for all the MF company: \$ 4,000
- Fees payable to the sales agents of the product “BIMBO”: 8.00% of the sale price
- General administrative costs per year for all the MF company: \$ 3,000
- Annual depreciation of the “BIMBO” facilities: \$ 3,000
- Annual logistics costs for all the MF company: \$ 5,000
- Annual costs of R & D for “BIMBO” product: \$ 5,000

- Cost of raw material per 1 gr. Product: \$ 0.002
- Industrial production costs per year for “BIMBO” product: \$ 5,000
- Advertising costs per year for “BIMBO” product: \$ 10,000

## Questions

- A) Which of the four price levels is the most convenient from an economic point of view ?  
Why?
- B) On the basis of the perception of value expressed by customers: what would be the price of “BIMBO” versus Happychildren and versus Pharmakos ?
- C) What you think about the idea of selling “BIMBO” at a price of **\$ 2.50 per jar** ? Which are the opportunities and which are the risks ?

Motivate your answer jointly considering the economic aspects, the perception of value by the customer, the potential volume of demand and the competitive situation.