

## VIDEO CASE 14

## Carmex (B): Setting the Price of the Number One Lip Balm

“Carmex is dedicated to providing consumers with superior lip balm formulas—that heal, sooth and protect—while ensuring lips remain healthy and hydrated” exclaims Paul Woelbing, president of Carma Laboratories, Inc.

## Video 14-3

## Carmex (B) Video Case

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It’s an ambitious mission, but the company has been extraordinarily successful with its 75-year-old product. Woelbing and his management team at Carma Laboratories can attribute their success to a strong brand, a loyal customer base, a growing product line, financial strength, and an exceptional talent for setting prices that achieve company objectives and still provide value to customers. Even during the recession and periods of slow growth the company has been successful. “In a rough economy, shopping habits change,” Woelbing says. “People buy smaller quantities more frequently, but they still need personal care products.”

## THE COMPANY

Carmex was created by Paul’s grandfather, Alfred Woelbing, in his kitchen in Wauwatosa, Wisconsin, in 1937. Alfred had an entrepreneurial spirit and experimented with ingredients such as camphor, menthol, phenol, lanolin, salicylic acid, and cocoa seed butter to make the new product. The name didn’t have any meaning other than Alfred liked the sound of “Carma” and “ex” was a popular suffix for many brands at the time. He packaged the balm in small glass jars and sold the product for 25 cents from the trunk of his car by making personal sales calls to pharmacies in Wisconsin, Illinois, and Indiana. From the beginning, price and value were important to the product’s success. If pharmacies weren’t initially interested in Carmex, Alfred would leave a dozen jars for free. The samples would sell quickly and soon the pharmacies would place orders for more!

As the company grew, Alfred’s son, Don, joined the business and helped add new products to the company’s offerings. For example, in the 1980s Carmex made its first significant packaging change by also offering the balm in squeezable tubes. In the 1990s Carmex became available in stick form, which had been used by two of Carma’s major competitors—

ChapStick and Blistex. In the 2000s Carmex became available in mint, cherry, and strawberry flavors (see Chapter 8 for a description of the research techniques used to identify new flavors). The company also expanded into larger manufacturing facilities, added a new distribution center, and hired its first marketing experts.

Today, the company is led by Alfred’s grandsons Paul and Eric Woelbing, who continue to manage the company to new levels of success. They appeared on *The Oprah Winfrey Show* to announce the sale of their billionth jar of Carmex. The governor of Wisconsin declared a Carmex commemoration day to celebrate its 75th anniversary. NBA all-star LeBron James became a promotional partner. In addition, *Pharmacy Times* magazine recently named Carmex the number one pharmacist-recommended brand of lip balm for the 15th consecutive year. “We are honored to receive this unprecedented acknowledgement,” said Woelbing.

Industry observers estimate that Carma Labs holds approximately 10 percent of the lip balm market. The company distributes its products through major drug, food, and mass merchant retailers, convenience stores, and online in more than 25 countries around the world. The company’s most recent products—Carmex Healing Cream and Carmex Hydrating Lotion—represent a significant step from lip care to skin care. The expanded product line, multichannel distribution, growing volume, international trade, and direct competition make pricing decisions even more important today than when Alfred started the business many years ago.



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## SETTING PRICES OF CARMEX PRODUCTS

“There are many factors that go into what results in the retail price in the store,” explains Kirk Hodgdon of Bolin Marketing. As one of the marketing experts who helps Carma Labs with advertising, marketing research, and pricing decisions, Hodgdon uses information about consumer demand, production and material costs, profit goals, and competition to help Woelbing and Carmex retailers arrive at specific prices. The many factors often overlap and lead to different prices for different products, channels, and