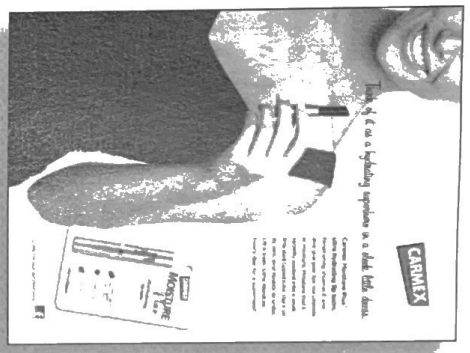


target markets. "It's a challenge!" says Hodgdon.

Consumers' tastes and preferences, for example, influence the price of Carmex products. Bolin director of marketing, Alisa Allen, explains: "Consumers will tell you that they love Carmex because it's a great value. That doesn't necessarily mean that it's the absolute lowest price. It means that it does so much; they pay a dollar and they get all kinds of benefits from the product above and beyond what they would expect." A single jar of original formula Carmex may sell for \$0.99 at mass retailers such as Walmart and Target, and between \$1.59 and \$1.79 in drug and food retailers such as Walgreens and Kroger. These prices are a good indication of how important it is to understand consumers when setting prices. "There are magic price points for consumers," says Allen, "Any time you can drop a penny off, the consumer responds to that price."

Carmex has also introduced a premium lip balm product, Carmex Moisture Plus, at a retail price between \$2.49 and \$2.99. Moisture Plus is a lip balm that is packaged in a sleek silver tube, offers a slant tip like lipstick, and is targeted toward women. The formula offers women a satin gloss shine and includes vitamin E and aloe for richer moisturization. The upscale package and additional product benefits help Carmex Moisture Plus command a higher price than the traditional Carmex jar and tube.

The cost of the ingredients that make up the Carmex lip balm formulas, the packaging, the manufacturing equipment, and the staffing are also factored into the price of the products. Volumes are a key driver of the cost of packaging and ingredients. For example, Carmex purchases up to 12 million yellow tubes each year for the traditional product, and 2 million sticks each year for the newer Moisture Plus product. The difference in quantities leads to a lower price for the traditional yellow tubes. Similarly, ingredient suppliers, label suppliers, and box suppliers all provide discounts for larger quantities. It is also more efficient for Carmex's manufacturing facility to make a large batch of traditional formula than it is to make a small batch of Moisture Plus. Carmex has also reduced its costs with efforts such as its new environmentally friendly Carmex jar which holds the same amount of lip balm but uses 20 percent less plastic, eliminating 35 tons of raw material costs and the related shipping costs!



Source: Carmex Labs Inc.

Carmex also considers retailer margins when it sets its prices. According to Allen, "We typically sell our product to two types of retailers." There are everyday low pricing (EDLP) retailers such as Walmart, and high-low retailers such as Walgreens. EDLP retailers offer consumers the lowest price every day without discounting through promotions. High-low retailers charge consumers a higher price, but they occasionally discount the product through special promotions which Carmex often supports with "marketing discretionary funds." Carmex typically offers its products at different prices to EDLP and high-low retailers to allow each retailer to achieve its profit margin goals and to account for Carmex's promotion expenditures. When the additional expenditures are considered, however, the cost to both types of retailer is similar.

Finally, Carmex considers competitors' prices when setting its prices. Burt's Bees, ChapStick, Blissex, and many other brands offer lip balm products and consumers often compare their prices to the price of Carmex. "We have found through research that it is extremely important that the price gap is not too great," explains Allen. "If that gap becomes too wide consumers will leave the Carmex brand and purchase a competitor's product." When Carmex was preparing to launch its premium Moisture Plus product it conducted a thorough analysis of similar products to ensure that Moisture Plus was in an acceptable price range.

CARMEX IN THE FUTURE

The original, and now legendary, Carmex formula and packaging will continue into the future with occasional changes to its pricing practices. New products, however, are on the horizon and likely to challenge the perceptions of the traditional products and prices in the Carmex line. Carmex Moisture Plus products, for example, will be offered in limited edition designs that ask consumers "Which personality are you?" Paul Woelbeling explains the new approach:

Lip care is an important component of a daily beauty regimen and consumers need a product they can rely on that protects and serves as an important foundation. The goal of the new Carmex Moisture Plus line is to offer our consumers a hard-working lip balm line that represent and reflects their unique style.