

# The Value of Vanity:

## A Case Study in Vanity Product Sales

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# The Firm

- 2 basic products
  - cosmetic creams
  - diet pills
- 3 owners
- Low variable costs
  - \$0.25 - \$2.00 per bottle
- High prices
  - \$30.00 - \$153.00 per bottle
  - average \$80.00
- LOTS of “companies”
  - Basic Research
  - Klein Becker
  - Zoller Laboratories
  - Tree House Marketing
  - Covaxil Laboratories
  - At least 18 more...
- Advertising
  - Major magazines, radio, tv
  - Discounts for 6 or 12 bottles

# Sales

- 1 Call Center
  - Same 3 owners
  - Customers are people who have already bought a product
  - Average success rate ~2%
    - My source is top seller at 5-10% success (~ 10 sales/day)
  - Complicated (vertical?) management structure
    - Many levels
    - No room for promotions

# Strategic Behavior

- Same: suppliers, packagers, owners, products
- Different: “companies,” names, prices
- Creating noise → search cost → “market” based on information asymmetry
  - 3<sup>rd</sup> degree price discrimination (?)
  - ~80% of purchasers order a “new” product over the phone (estimate)
- \* More consumer surplus extracted \*

# Sketchy Behavior

- Product effectiveness is dubious
  - So are sources of testimonials
- E-mail addresses for complaints/feedback are dead ends
- Owners have a habit of severely irritating employees and customers
  - But it's **\$** vs. \$

# Employee Re-sales

- Exploiting company policies to get products for free, selling at a discount online
  - Stealing?
  - Re-distributing product?
- Owners know about it!!
  - ~ 1% (5/200) of call center employees do it
  - There's an advantage in allowing it to continue on a small scale (expanding the market)
  - Would have to be stopped on a larger scale

# The Value of Vanity

- What are vanity products actually worth?
  - Why is one arbitrarily priced company/product combo worth more than another?
  - Most effective sales tactic is “manufacturing need”
  - manufacturing value/price
- Price introduction
  - How do companies set prices when first entering the market?
  - Using the market as a lab

**I am so upset about the mistake I made by ordering the lypoderm diet patch... it made me sooo sick and right after I stopped using it couple days later all the pains went away. I havent yet been billed the 199.99 that the collection agency is supposed to take from my account... I actually used my boyfriend's credit card for this order and I told him it would only bill him the 19.99 now i'm so emberrased to be made look like a fool**