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 $\rightarrow$ search cost $\rightarrow$ “market” based on information asymmetry
  – 3rd degree price discrimination (?)
  – $\sim$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