Let’s consider a smart shoe as a realistic good within the existing fitness industry. Such a shoe

will automatically measure key fitness indicators such as heart rate, average pace, distance run,

blood pressure, and others. These would be automatically uploaded, in real time, to the wearer’s

cloud section on the Internet server for later review. This product is extremely useful for the fitness

fanatic, person who is training for a specific reason, and any other person interested in their overall

aerobic health.

 Identify market structure - The structure for this product would be perfect competition. Once

market effectively, there is room within the market for many buyers and sellers. As such, none of the

major players in the industry will be able to influence the price of the shoe, as the market would

determine that.

 Identify elasticity of the product - The smart shoe would be considered to be a highly elastic

product because it is by no means a necessity. It would be tailored to a specific type of demographic

group, but price increases would result in a loss of customers who would view the product more of a

luxury fitness accessory than a necessity.

•Include rationale for the following questions:

 How will pricing relate to elasticity of your product? The fact that the smart shoe is an elastic

product, producers will be very price conscious in order to maximize profit (of course) but also to

engage as many possible consumers as possible. As such, they will be interested in making sure

that the price is not set so high that the shoe will not gain any traction within the footwear industry.

 How will changes in the quantity supplied as a result of your pricing decisions affect marginal

cost and marginal revenue? The smart shoe would be a new player in the shoe industry, so the

pricing point will likely be set low in order to attract attention. As the demand increases, so will the

quantity supplied, which will increase marginal cost and revenue, as fixed costs will remain

structured and in place. As the product gains traction in the market, pricing can gradually increase in

line with demand.

 Besides your pricing decisions, what are your suggested non-pricing strategies? What non-

pricing strategies will you use to increase barriers to entry? The smart shoe will need to be

connected to revolutionary Internet based technology, which will be a barrier to entry for many

suppliers. There will need to be a strategy implemented where shoe companies partner with

software development companies in order to provide competitive pricing for the service. Such

partnership are non pricing strategies that, once a strong relationship and agreement is formed,

precludes others from entering.

 How could changes in your business operations alter the mix of fixed and variable costs in line

with your strategy? As the smart shoe begins to grow in popularity, so will the range of options

available. Also, shoe consumer typically replace their purchase on a semi-regular cycle, which

means that new designs need to constantly be in the pipeline. This will change fixed and variable

costs as assembly lines will need to be reconfigured as new designs are implemented into the

production phase of the process.