**Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Marketing - Ch. 5 Price Setting**

Retail businesses plaster their windows & walls with signs advertising low prices, discounts, rebates, and sale prices.

* How do you think consumers are affected when they see these signs **everywhere**, **everyday**?
* Are there any products **you** **refuse** to buy unless they are on **sale**?
* Can you think of any stores that **regularly advertise a BIG sale** where prices will be much lower than regular prices?

The **Importance** of **Price**

* How do **YOU** **decide** what you will pay for a product or service?
* Do you ever think a **price is too high**, so you decide not to buy or **look for a lower price**?
* Or do you go ahead and buy it even though you would prefer a lower price?
* Customers want the **best** **value** for their money.
* However, businesses need to make a **profit** on the products or services they sell.

**Product Price** in the Marketing Mix

* **Price** – One of the **4 elements** of the Marketing Mix.
* The **cost** of the product or service **paid by the customer.**
* **Pricing** – One of the 7 Functions of Marketing.
* Pricing is defined as establishing and communicating the **value of products** and **services** to **prospective customers.**

Businesses **plan** **prices** carefully.

* **Price** can be **changed quicker** and **easier** than any other Marketing Mix **elements**.
* Changing price can be as simple as
  + - adding a new price sticker
    - marking out an old price
    - offering a **coupon** or **rebate**
* Some businesses are quick to lower a price if they think it will help to **sell** a product.
* This can cause the business to lose money.

Trying to change other 3 Marketing Mix Elements

* **Product**
  + - Once a product is designed and produced, it is very **difficult to change** its **form** or **features**.
* **Place**/Distribution
  + - Moving a product through a channel of distribution involves many activities and often several companies.
    - The **locations** **where** customers can purchase the product are not easy to change either.
* **Promotion**
  + - Advertisements must be prepared, media purchased well in advance and salespeople given product information and training.

**Price** as an **Economic Concept**

* An **effective price** is based on the economic concept of **supply and demand**.
* If there is a **small quantity** of a product or service or a large demand, the **price** is usually **high**.
* If there is a **very large supply** of a product or if **demand** is **low**, the **price** will be **low**.

Price is affected by more than just the **quantity** of a product available.

* + Customers determine the **value** they will receive from a product or service.
    - They are willing to **pay more** for **greater value**.
* The **value of a purchase** results from many factors. They think a product is a **better value** if it is
  + - **easy** to use,
    - more **accessible** or convenient,
    - or has a desired **image**.

**Prices charged** for products and services are important to the businesses that are selling them.

* Price charged determines how much money a business will have available to cover the costs of **designing**, **producing**, and **marketing** the product.
* If the price is **not high enough** to pay those costs and provide a profit, the business will be **unable to continue** to offer that product.

**Effective marketing** results in satisfaction for the **consumer** and the **business**.

* A **satisfactory price** means that the consumer views the **purchase as a value**.
* It also means that the **business makes** a **profit** on the sale.

Checkpoint pg. 111

* + What does a satisfactory price mean to customers and to a business?

**Activity 5.1 pg. 112**

* Identify a business that you think prices its products to
  + Increase profit
  + To maximize sales
  + To meet competition
  + To maintain a specific image
* Explain the effect of those pricing decisions on the types of products each business sells and the customers they attract.

Determining **Product Price**

* **Companies** want prices that
  + - **cover** their **costs**
    - **contribute** a reasonable **profit**.
* **Consumers** **don’t** care about
  + - the **company’s costs**
    - or if the **company makes a profit**.
* **Consumers** want the **best value** and expect the product to be **comparably priced** to other similar products.

Determining the **actual costs** of marketing a product or what customers are **willing to pay** can be **difficult**.

* Companies don’t often have enough information to set prices properly.
  + - They may base their prices solely on what **competitors are charging**.
    - They may set their prices too **high purposely**, planning to reduce them if customers are unwilling to pay the high price.
* **Price** should be **planned** as carefully as the other mix elements.

Setting **Pricing Objectives**

* The **company** must **determine** which **objectives** it wants to accomplish with the price of their product.
* What is their **GOAL**?
  + - Maximize **Profits**
    - Increase **Sales**
    - Meet **Competition**
    - Maintain an **Image**

Maximizing **Profits**

* Companies that seek to maximize profits carefully **study consumer demand** and determine what customers are **willing to pay**.
* Set prices as **high** **as possible** while still **satisfying customers**.
  + - Leaving more money to **cover production and marketing costs** and **provide a profit**.

Increasing **Sales**

* Some companies want to achieve the **highest possible sales volume**.
* **Prices** are usually **quite low** often **encouraging** customers to **buy**.
* They need to be careful to set the product price high enough to **cover all costs.**
* There must be an **adequate supply** of the product to meet customer demand.

Meeting **Competition**

* Customers see very **few differences** in some products.
  + - It would **not** be **wise** to **charge** a much **higher price** than that of their very similar competitors.
* Businesses must **set prices in line** with those of their **competitors**.
  + - If one company lowers its prices too much, it could set off a price war and all the companies may end up losing money.
* This type of competition **exists in the airline industry.**
  + - Airlines generally keep the prices of flights to the same cities very similar.

Maintaining an **Image**

* Product **price** can be **used** to **create** an **image** for the products or the company.
* Many **consumers** **think** that **price** and **quality** are related.
  + - **Higher prices** often reflect **better quality.**
    - **Lower prices** often suggest **poorer quality**.
* Companies appealing to **cost-conscious customers** need to keep their **prices lower** than competitors.

Checkpoint pg. 113

* + Name four possible objectives for planning prices

**Setting** the **Price** of a Product

* **Selling price** – the price **consumers** are **charged** for a product or service.
* This price will **determine** if the business is able to **make** a **profit or not**.
* Setting the **correct price** is one of the MOST **difficult** **marketing decisions**.

Determining **Selling Price**

* Selling price is made up of **cost & markup.**
* **Cost** of a product is often the **largest** **part** of the selling price.
  + - For **manufacturers** this is the **cost of producing** the product.
    - For **wholesalers** and **retailers** it is the **cost of purchasing** the product.

**Markup** is the **difference** between the **cost** of the product and the **selling price**.

* It is the **amount added** to the **cost of producing** the product plus **profit**.
* Selling price = Cost + Mark-up

**Rate** of Markup

* Businesses determine the correct **percentage** needed to **cover expenses** and provide a **profit**.
* Markups often are calculated as a **percentage** of the **product cost**.

Calculating **Markup**

* If the **cost** of a product to the store is $**280** and the **rate of markup** is **45 percent**:
  + Markup = cost x rate of markup
  + Markup = $280 x 0.45
  + Markup = $126

***Then……***

Calculating **Selling Price with Markup**

* + Selling price = cost + markup
  + Selling price = $280 + $126
  + Selling price = $406

**Marking up** Product **Price**

* Some businesses use a **standard markup** for their products.
  + Most products are originally marked up at the same percentage, such as 50 percent to determine the selling price.
* Other businesses determine costs related to specific products or product categories, then they markup percentage for each. **develop a separate**

**Setting** Effective **Prices**

* **Mark-up percentage** is used to **calculate** the **selling price**, it still **doesn’t guarantee** customers will **pay** that price.
* Businesses often have to **reduce** a product’s **price** because an **incorrect markup** was used.
* This **reduction in price** is referred to as **markdown**.

**Higher markups** don’t always mean a business will make a **larger profit.**

* High markups often **reduce the quantity sold** or may result in **slower sales** and **higher costs** to the business.
* Businesspeople must be **careful** in using extremely low markups.
  + While the lower price may result in **higher sales**, the markup may **not cover all expenses.**

Marketers must carefully **study** the **effects** of **different markup percentages** before determining the one to be used.

* In some cases, expenses increase because of the costs of handling a larger quantity of products.

Check point, pg. 114

* + What are the formulas for computing selling price and markup based on cost?

5.2 Credit

How much **credit** can **you** **afford**?

* Credit cards are **very easy** to get.
  + Every retail store offers a credit card.
  + Offers come in the mail daily.
* The **cost** **of credit** is **very high**.
  + Unpaid credit bills quickly **add interest** so the customer ends up paying a very high price for the products purchased.
* If credit debts are **uncollected** by a business, they will need to **add** those **costs** to product prices so customers end up paying **higher prices**.

Think about this…

* What advice would you give to a friend who is considering whether to apply for credit?
* Do you think business should make credit easy for all of their customers to obtain?

The **Importance** of **Credit**

* What do you think about these two statements?
  + “**The retail price of the new Frienza is $26,800.”**
  + **“You can drive hone the new Frienza for $320 per month.”**
* Most people don’t have the **savings** to pay full price when buying a car.
* Many dealerships will **assist** you with **financing**, the monthly payments.
* **Without credit**, many products and services would **remain unsold**.
* Developing effective **credit policies** and procedures is an important marketing activity.

**Financing** Business **Sales & Purchases**

* A product must be **affordable** in order to **satisfy** **customer needs**.
* Businesses **cannot make a profit** if products remain **unsold** because people can’t afford to purchase them.
* At times some businesses will **reduce a product’s price** and **take a loss just to sell** a product.
  + Credit provides a means to meet customer needs at a profit.

**Credit** is a **very important** marketing activity for most businesses.

* **Rarely** are all sales made with **cash**.
  + Credit is provided to customers to help them purchase.
* Businesses often use credit to pay for costs to running the company.

2 Types of Credit

* Consumer Credit & Sales Credit

**Consumer** Credit

* **Credit extended** by a retail business **to a consumer**.
* It may be provided by the **seller** or offered by **another business**:
  + A bank
  + Finance company
  + Credit card company like MasterCard or Discover.

**Trade** Credit

* Trade credit is when one business offers **financing** to another business.
* The **time lag** between final delivery of a product makes this necessary.
* **Credit sales** are a traditional business practice in many **channels of distribution**.
* Many businesses expect to be able to **wait** **30** to **60 days or longer** before making **payments** for their purchases.

Business purchases can be **very expensive.**

* A computer system, major pieces of equipment, or a new building may cost hundreds of thousands of dollars or more.
* To be able to afford the purchase, the company will need to obtain **financing** from a bank or product’s supplier.

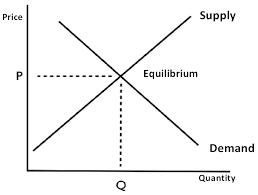
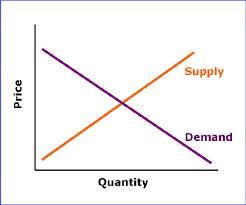
Check Point, pg. 117

* + What are the two types of credit used in business?

Did you know?

* The first credit card in the US was introduced by Diner’s Club in 1951.
* It could be used in about 25 restaurants in New York.

The Law of Supply & Demand



Procedures for **Developing a Credit Plan**

* Businesspeople responsible for credit sales must **plan** procedures **carefully** so credit is a successful part of a marketing strategy.
* They must
  + **Develop** Credit Policies
  + **Approve** Credit Customers
  + Develop Effective **Collection** Procedures

Credit **Policies** to Consider

* Will a company **offer** credit on **all of their products**?
* Which **customers** will they **offer credit to**?
* Will they **offer credit themselves** or rely on other companies to offer credit.
* Develop **Credit Terms**.
  + **Amount of credit** to be extended.
  + **Rate of interest** to be charged.
  + **Length of time** before payment is required.

Credit **Approval**

* Not all customers are **good candidates for credit.**
* Customers that **don’t pay** are a huge **risk**.
* **Characteristics** and **qualifications** of credit customer to be considered.
  + What is the persons credit history?
  + Do they have “resources” to make their payments?

Credit **Applications**

* Businesses have a **credit application procedure** to be followed.
* Credit applicants may be asked to provide **financial references**.
  + These references include **banks** and other businesses they have obtained credit from in the past
* Businesses use **credit services** such as Dun & Bradstreet
  + to **confirm** the **information** **provided** by the applicant
  + and to get a **report on the creditworthiness** of the customer.

Business Math Connection, pg. 119

* Total cost to the customer must be calculated. Product price + total interest paid.
* Interest rate charged and length of time financed determines the total cost of the credit.
* What is the cost of credit for a product costing $1200 financed at an interest rate of 12.5%, for 1 year?
  + What is the total cost to the purchaser?

Solution to Business Math

* Product price x interest rate x # of yrs = interest

$1200 x 0.125 x 1 = $150

* Product price + Interest = total cost of product

$1200 + $150 = $1350

Effective **collection procedures** are an important part of a credit plan.

* **Planned procedures** are necessary to be sure customers are **billed** at the appropriate **time** and **pay** at the due date.
* Some customers are **unable** or **unwilling** to **pay** so procedures for collecting overdue accounts are very important part of a credit system.
* Most businesses have a **percentage** of their credit accounts that are **never collected**.
* Many companies **sell** their **uncollected** **accounts** to companies that attempt to make collections.
* In the end, the **amount received** for the sale of **uncollected accounts** is usually a **small percentage** of the actual amount of the original sales.

Checkpoint, pg. 119

* + What happens to a business if credit is poorly managed?

5.3 Added Value for Customers

Jacob Foster owns a small supermarket in an upscale neighborhood.

* A large National Wholesale Club is being built less than a mile from the location of his store.
* The Wholesale Club will sell a number of the same food products that Jacob offers in his store.
* It will also offer a large number of non-food products that Jacob doesn’t offer.
* He knows that with the purchasing power of a large national company, the Wholesale Club will be able to sell its products at a lower price than he can.

What advice would you give Jacob about how he might be able to continue to operate profitably when the new store opens?

**Reduce** Competition

* Why would someone **pay** much **more** for a particular **brand** of basketball shoes or a designer label of clothing?
  + They could have the **same quality** at a lower price by choosing a lesser-known brand.
* Have you ever visited a restaurant where the prices were not listed on the menu?
  + Why would people be willing to order a meal without knowing the amount they will pay?

**Price** is an element of the Marketing Mix

* Price is the **MOST important** element when people only purchase the **product** choice that **costs the least**.
  + At other times, price is almost **unimportant**.
* Most people are willing to **pay more** than they have for
  + **quality**
  + **image**
  + **convenience**
  + a high level of **customer service**.

Price and **Non-Price** Competition

* Competition ranges from **very intense** to **limited**.
* **Price Competition** - **rivalry** among businesses where the **primary difference** is the **price** offered.
* Unless a company is very large and efficient, it is difficult to compare on the basis of price alone and **still make a profit**.

**Non-Price** Competition

* Emphasizes factors **other than price** as reasons to buy.
* Customers see differences among products in terms of **need satisfaction**.
* When differences in product quality, availability and customer service matter, it may be worth it to customers to pay extra for the added benefits.
* More careful in comparing the products and services they purchase
  + rather than just selecting the ones with the lowest price.

**Avoiding** Price Competition in our lives.

* Would you choose a dentist to complete important dental work just because he or she charged the **lowest price** for the service?
* Do you select the **cheapest ticket** to attend the concert of your favorite music group?
* Will you select the least expensive college to attend after high school if it doesn’t offer the courses or environment you prefer?
* Consumers are usually careful about selecting products and services that they think will provide the **greatest benefit for their money**.
* Businesses that carefully study the **needs of their target markets** and provide a marketing mix that meets those needs will usually be **able to avoid price competition**.

Check point, pg. 122

* + What is the difference between price and non-price competition?

**Adding Value** with the Marketing Mix

* Customers consider many factors when making a purchase:
  + Want a product that offers the **features** and funct**i**ons they need.
  + Want to be able to **obtain** the product at a **location** that is **convenient**, that they **trust**, and that offers the **customer services** they desire.
  + Expect to obtain the **information** and **sales help** they need to **make** the most **informed decision**.
  + Be able to **obtain financing** from the seller.
  + Be able to pay with a check, debit card, or credit card.

Purchase decisions usually come down to **more** than the lowest price.

* Companies need to **study** all the **elements** of the marketing mix and **compare** them to the **specific needs** of a **target market** to determine ways to add value.
  + Product
  + Distribution/place
  + Price
  + Promotion

The customers **perception** **of** **value** can be changed by making **additions** to the **basic** **product**.

* New **features** make the product **easier** to use or allow it to meet additional customer needs.
* **Packaging** changes result in **easier handling** or **storage**, less product **damage**, or a more visible and attractive product.
* **Services**, **guarantees**, and **warranties** provide greater **customer satisfaction** and assurance that the company stands behind its products.
* Products that are **cleverly designed** for a unique market segment will have **greater value** than those that appear to have been developed for another segment.

Distribution/Place

* Consumers frequently purchase products that are **easily available**, **attractively displayed**, or sold through their **favorite stores**.
* If a product is **out of stock**, the customer is likely to **choose another brand**.
* If the product or package has been **damaged** during shipment, it will remain **unsold**.

Price

* One of the most important ways to **add value** to the price of a product is by **offering** **credit** or other **forms of financing**.
* Another way of adding value is to **provide complementary products** or a **larger** **quantity** for a reduced unit price, such as “buy two and get a third item free.”

Promotion

* **Communication** is an important tool for **changing** **consumer** **perception** of value.
* An **effective** advertisement, display or sales demonstration can provide customers with information on **how a product** will **meet** their **needs** **better** than other choices.
* Other types of promotion are used to **enhance the value** of a product.
* Some businesses **offer prizes** and premiums for purchases or use incentives for regular purchasing.
* **Coupons** can be used to encourage people to visit a business or purchase a product.

Check point, pg. 124

* Name one way each of the mix elements can be used to enhance the value of a product