CHAPTER 5

PRICE SETTING

LESSONS

5.1 PRICING METHODS

5.2 CREDIT

5.3 ADDED VALUE FOR CUSTOMERS

CAREERS IN MARKETING

ECHOSTAR

For millions of viewers worldwide, an alternative to cable television is satellite TV. EchoStar, headquartered in Littleton, Colorado, is the parent company of DISH Network, a Direct Broadcast Satellite (DBS) system. EchoStar provides equipment and programming to customers. EchoStar customers receive more than 500 television, movie, music, and data channels as well as an Internet connection using an 18-inch receiving disk mounted on their home.

A DISH Network Retention Manager develops plans to retain customers. The Manager tracks retention rates, completes ROI and breakeven analyses, analyzes retention patterns, and studies seasonal trends. The manager also plans research projects to identify ways to increase retention.

The Manager needs a bachelor's degree and three to seven years of marketing experience. Superb analytical skills using Excel and Access as well as excellent written and oral communications are required. The person must be an effective project manager who works well under pressure.

THINK CRITICALLY

1. Why would a business with more than six million customers be concerned about customer retention?
2. Why is the ability to work under pressure important for this position?

LESSON 5.1
PRICING METHODS

GOALS

DISCUSS the importance of pricing in marketing

IDENTIFY how product prices are set

THE IMPORTANCE OF PRICE

How do you decide what you will pay for a product or service? Sometimes you think a price is too high, so you decide not to buy or to look for a lower price from another company. Other times you go ahead and buy even though you would have preferred a lower price.

Customers want value for the money they pay for products and services. On the other hand, businesses need to make a profit on the products and services they sell. You probably don't think about the profit a company will make when you evaluate the price of a product. Companies that think only of profit without considering how customers will view the price of their product will probably end up with many dissatisfied customers.

ON THE SCENE

Everything on sale! Lowest prices of the season! We will not be undersold! You are probably used to these messages blaring from television or radio and jumping out of advertisements in your local newspaper. Many retail businesses plaster their windows and walls with signs advertising low prices, discounts, rebates, and sale prices. How are average consumers affected when they see those signs everywhere and everyday? Are there products that you will not buy unless they are on sale? Are there stores where you know when they advertise a sale that prices will be much lower than regular prices? Identify ways businesses mislead customers with sale prices. What effect do those practices have on you when deciding where to shop?

PRICE IN THE MARKETING MIX

One of the four elements of the marketing mix, **price** is the cost of the product or service paid by the customer. As one of the seven functions of marketing, **pricing** is defined as establishing and communicating the value of products and services to prospective customers. When planning any marketing activity, businesspeople must consider the impact of the cost to the business, the price customers must pay, and the value that is added to the product or service as a result of the activity.

Businesses must plan prices carefully. Prices can be changed much more quickly than other marketing mix elements. Once a product is designed and produced, it is very difficult to change its form or features. 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. Finally, with promotion, advertisements must be prepared, media purchased well in advance, and salespeople given product information and training. Changing a price is often as simple as adding a new price sticker or marking out an old price. Even manufacturers can change the price charged by a retailer by offering a coupon or a rebate to customers. Because prices can be changed more rapidly, some businesses are quick to lower a price if they think it will help sell a product. That quick decision may cause the business to lose money.

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 but a very large demand, the price will usually be quite high. If there is a very large supply of a product or if demand is low, the price will be low. However, 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. Customers 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 selling them as well as to consumers. The price 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 both 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

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

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Work with other class members to identify businesses in your community that you think price products to increase profit, to maximize sales, to meet competition, and to maintain a specific image. Discuss the effect of those pricing decisions on the types of products each business sells and the customers they attract.

DETERMINE PRICES

Determining the best prices to charge for products is not easy. Companies want prices that cover their costs and contribute a reasonable profit. However, consumers don't care about the company's costs or whether the company makes a profit on the sale. They want to get the best value and expect the product to be comparably priced to other similar products.

It is not easy to determine the actual costs for marketing a product or what customers are willing to pay. Many companies do not have enough information to set prices properly. They may base their prices solely on what competitors are charging. They may set their prices high, thinking that they can reduce them if customers are unwilling to pay the original prices. Such practices are risky and may result in unsold products or loss of profits. Prices should be planned as carefully as the other mix elements.

SET PRICING OBJECTIVES

The first step a company takes in planning prices is to determine what objectives it wants to accomplish with the product's price. Examples of possible objectives are to maximize profits, increase sales, meet competition, or maintain an image.

Maximize Profits Companies that seek to maximize profits carefully study consumer demand and determine what customers in the target market are willing to pay for their products. They set prices as high as possible while still satisfying customers. In this way, there is more money to cover the costs of production and marketing and return a profit.

Increase Sales Some companies want prices that achieve the highest possible sales volume. Prices usually will be quite low to encourage customers to buy. Companies using a sales-based objective need to set the price high enough to cover costs. Also, they must have an adequate supply of the products to meet customer demand.

COMPARE ONLINE PRICES The Internet has changed the importance of price for consumers. Prior to the Internet, comparisons usually could be made only among a few local businesses. The customer would have to travel to each business or obtain the catalogs or price lists of other companies. Today, price comparisons are as simple as completing an online search. Within minutes, a consumer can check the price of a product from many businesses. Web sites have been developed that continually gather price information for products and list them for consumers. They can even determine if the product is in stock and how long it will take for the product to be delivered. Because of the Internet, companies now face intense price competition with more competitors than ever before.

THINK CRITICALLY What advantages and disadvantages does a business face when customers can compare prices using the Internet? How can a business compete if it doesn't have the lowest-priced products?

Meet Competition Customers see very few differences in some products. In those instances, it would not be wise for one competitor to charge a higher price than other companies. Customers would be unwilling to pay the higher price. Therefore a business must set its prices in line with those of competitors. In some industries, if one company lowers its prices too much, it will set off a price war and all the companies may end up losing money. This type of competition exists in the airline industry. Thus airlines generally keep the prices of flights to the same cities very similar.

Maintain an Image Companies can use the prices of products to create an image for the product or the company. Many consumers think that price and quality are related. Higher prices generally mean better quality, while lower prices suggest poorer quality. Companies that are building a quality image should maintain higher prices than competitors. Companies appealing to cost-conscious customers need to keep their prices lower than competitors.

CHECKPOINT

Name four possible objectives for planning prices.

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SET THE PRICE OF A PRODUCT

The price consumers are charged for a product or service is known as the **selling price.** The price at which a product is sold will determine whether the business is able to make a profit or not. Setting the correct price for a product is one of the most difficult marketing decisions.

DETERMINE SELLING PRICE

The selling price is made up of cost and markup. The largest part of the selling price for most products is the *cost* of the product. For manufacturers this is the cost of producing the product. For wholesalers and retailers it is the cost of purchasing the product. The difference between the cost of the product and the selling price is known as the markup. The **markup** is the amount added to the cost of the goods to cover all other expenses plus a profit.

Selling price = Cost + Markup

Businesses determine the correct percentage, or *rate of markup*, needed to cover expenses and provide a profit. Markups often are calculated as a percentage of the product cost. If the cost of the product to the store is $280 and the rate of markup is 45 percent, the markup will be

Markup = Cost × Rate of markup
Markup = $280 × 0.45
Markup = $126

The selling price will be

Selling price = Cost + Markup
Selling price = $280 + $126
Selling price = $406

A few businesses use a standard markup for the products they sell. All products are originally marked up the same percentage, such as 50 percent, to determine the selling price. Other businesses determine the costs related to specific products or product categories. Then they develop a separate markup percentage for each.

SET EFFECTIVE PRICES

Just because a markup percentage is used to calculate the selling price doesn't mean that is the price customers will pay. You will often see that businesses have to reduce a product's price because an incorrect markup was used. This reduction in price is referred to as a *markdown*.

High markups do not always mean that the business will make a larger profit on the product. Usually a high markup reduces the quantity sold or results in slower sales and higher costs to the business. On the other hand, businesspeople must be careful in using very low markups. While the lower price may result in higher sales, the markup may not cover all expenses.

In some cases, expenses increase because of the costs of handling a larger quantity of products. Marketers must carefully study the effects of different markup percentages before determining the one to be used.

CHECKPOINT

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

THINK CRITICALLY

1. What are some examples of products you purchase where the price is particularly affected by supply and demand?

2. Why is setting the correct price on a product such a difficult decision?

3. Why would a company want to avoid taking markdowns on a product's price when many consumers are attracted to a business by sale prices?

MAKE CONNECTIONS

4. **PSYCHOLOGY** Research has shown that the way the price of a product is presented has a psychological effect on consumers. For example, gasoline is often priced with $0.0099 added to the price. If you see gas priced at $1.5999, you will think the price is $1.59 a gallon rather than $1.60. If you see a CD priced at $19.95 you will think the price is $19 rather than $20. Study product prices in stores and in advertisements including sale prices. Find examples that you think have a psychological effect on consumers. Use word-processing software to develop a report that presents the examples and explains how you think the price is designed to affect consumers.

5. **BUSINESS MATH** Use spreadsheet software to calculate the missing values in the table. The formulas are

Selling price = Cost + Markup

Markup = Cost × Rate of markup

Selling Price	Cost	Markup	Rate of Markup
$1.50	$0.40		
	$44	$22	
		$30	25%
	$6.50	$2.25	
		$534	45%

LESSON 5.2
CREDIT

GOALS

DESCRIBE factors to consider in offering credit to customers.

IDENTIFY important credit and collection procedures used by businesses.

THE IMPORTANCE OF CREDIT

What is your perception of the following two statements by an automobile salesperson?

"The retail price of the new Frienza is $26,800."
"You can drive home the new Frienza for $320 per month."

Paying the full price for a new automobile is not possible for most customers. If the auto dealership can assist customers with financing, the monthly payments are affordable. Without credit, many products and services would remain unsold. Developing effective credit policies and procedures is an important marketing activity.

ON THE SCENE

How much credit can you afford? It seems as if every retail store wants you to sign up for its credit card. Offers from MasterCard, Visa, and Discover arrive in your mailbox every day. While credit cards may be easy to obtain, the cost of credit is very high for consumers and businesses alike. 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 businesses, they will need to add those costs to product prices so customers end up paying higher prices. What advice would you give to a friend who is considering whether to apply for a credit card? Do you think businesses should make credit easy for all of their customers to obtain?

FINANCING BUSINESS SALES AND PURCHASES

In order to satisfy customer needs, a product must be affordable. If products remain unsold because customers cannot afford to purchase them, a business cannot make a profit. By simply reducing the product's price, the company may sell the product—but at a loss. Credit provides a means to meet customer needs at a profit.

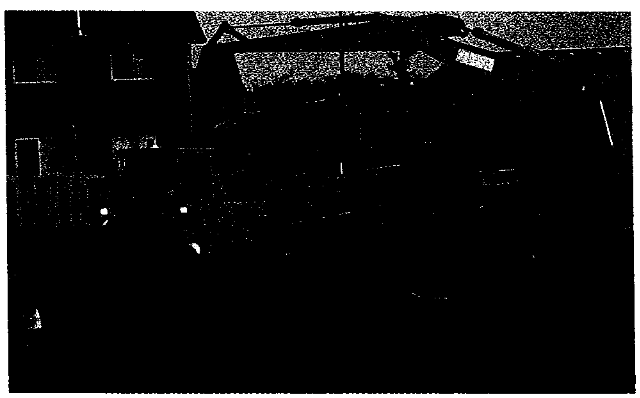
Credit is a part of the financing function of marketing. **Financing** includes budgeting for marketing activities, obtaining the necessary financing, and providing financial assistance to customers to assist them with purchasing the organization's products and services. Credit is a very important marketing activity for most businesses. Seldom are all sales made with cash. Credit is provided to customers to help them finance purchases from the business. The business also uses credit to help it finance the purchases of products and services needed to operate the company.

TYPES OF CREDIT

Consumer credit is credit extended by a retail business to a consumer. The credit may be provided by the seller or may be offered by another business that is participating in the marketing process, such as a bank, finance company, or a credit card company like MasterCard or Discover.

Most sales between businesses are made on credit. **Trade credit** is financing offered by one business to another business. This happens because of the time lag between when a sale is negotiated and when the products are actually delivered to the business and then resold to the business' customers. Credit sales are a traditional business practice in many channels of distribution. Businesses expect to be able to wait 30 to 60 days or longer before making payment for their purchases.

Many purchases of companies are 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 the product's supplier.



CHECKPOINT

What are the two types of credit used in business?

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did you KNOW?

The first credit card in the U.S. was introduced by Diner's Club in 1951. It could be used in about 25 restaurants in New York.

Gather information from several companies and financial institutions on the interest rates they charge for credit cards, financing purchases, and personal loans. Make a list of the types of credit and the interest rates listed. Discuss why businesses offer different interest rates and how the interest rates might influence consumer purchase decisions.

DEVELOP CREDIT PROCEDURES

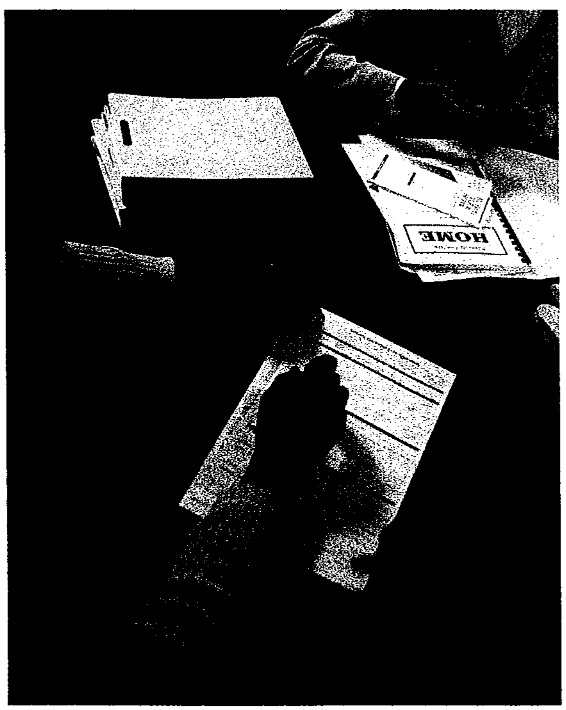
Credit provides a method for obtaining additional customers and sales that otherwise might not be possible with cash sales only. If credit is poorly managed, though, costs may be very high and the money from the sale of products may never be collected from some customers. Businesspeople responsible for credit sales must plan procedures carefully to be sure that credit is a successful part of a marketing strategy. The procedures include developing credit policies, approving credit customers, and developing effective collection procedures.

CREDIT POLICIES

A business must first decide whether or not to offer credit and whether to offer it on all products and for every customer. Next, it must develop a credit plan. The business decides whether it will offer its own credit plan or rely on other companies to offer credit. Finally, the credit terms are developed. The terms include the amount of credit that will be extended, the rate of interest to be charged, and the length of time given to customers before payment is required.

CREDIT APPROVAL

Not all customers are good candidates for credit. If a customer is unable to pay for purchases, the business will lose all of the money invested in producing and marketing the product as well as the cost of extending credit.



A business offering credit needs to determine the characteristics and qualifications of the customers that will be able to pay for credit purchases. Those factors typically include the person's credit history, the resources they have that demonstrate their financial ability, and the sources and amount of money that will be available to make the credit payments.

Most businesses have a credit application procedure in which the applicant provides the needed information. Credit applicants may be asked to provide financial references. These references include banks and other businesses from which they have obtained credit 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

The interest paid on a purchase must be added to the price of the product to determine the total cost to the customer. The interest rate and the length of time the purchase is financed determine the cost of the credit. What is the cost of credit for a product costing $1,200, financed at an interest rate of 12.5%, for 1 year? What is the total cost to the purchaser?

SOLUTION

Product price × Interest rate × Number of years = Interest
$1,200 × 0.125 × 1 = $150

Product price + Interest = Total cost of product
$1,200 + $150 = $1,350

COLLECTIONS

Effective collection procedures are an important part of a credit plan. The procedures are needed so that customers are billed at the appropriate time and pay their accounts when they are due. Because some customers are unable or unwilling to pay their accounts, procedures for collecting overdue accounts are an important part of a credit system.

Most businesses have a percentage of their credit accounts that are never collected. A company can sell its uncollected accounts to companies that then attempt to make collections. However, the amount received by the business for the sale of the uncollected accounts is usually a small percentage of the actual amount of the original sales.

CHECKPOINT

What happens to a business if credit is poorly managed?

THINK CRITICALLY

1. Why might consumers want to use credit even if they can afford to pay the full price of a product in cash at the time of purchase?

2. Why is the use of credit considered to be a part of marketing planning rather than just a financial activity of a business?

3. Why is it important for businesses to be able to obtain credit for the products they buy that will be resold to their customers?

4. Why do businesses need to gather financial information from a customer before offering credit if the customer already has a credit card?

MAKE CONNECTIONS

5. **BUSINESS LAW** Several federal laws guide businesses in developing credit policies, providing information about credit terms to consumers, and collecting past due accounts. Use the Internet to identify and research one law related to consumer credit. Use a word-processing program to prepare a one-page report on the law. Describe how the law is designed to protect the consumer from unfair credit practices.

6. **TECHNOLOGY** Find a loan calculator on the Internet that will allow you to enter a loan amount, an interest rate, and the number of months or years the money will be borrowed. Use the loan calculator to determine the monthly payment and the total amount of interest paid for the following loans.

   A. Home loan for $185,000 for 30 years at 8.5%

   B. Car loan for $12,800 for 4 years at 12%

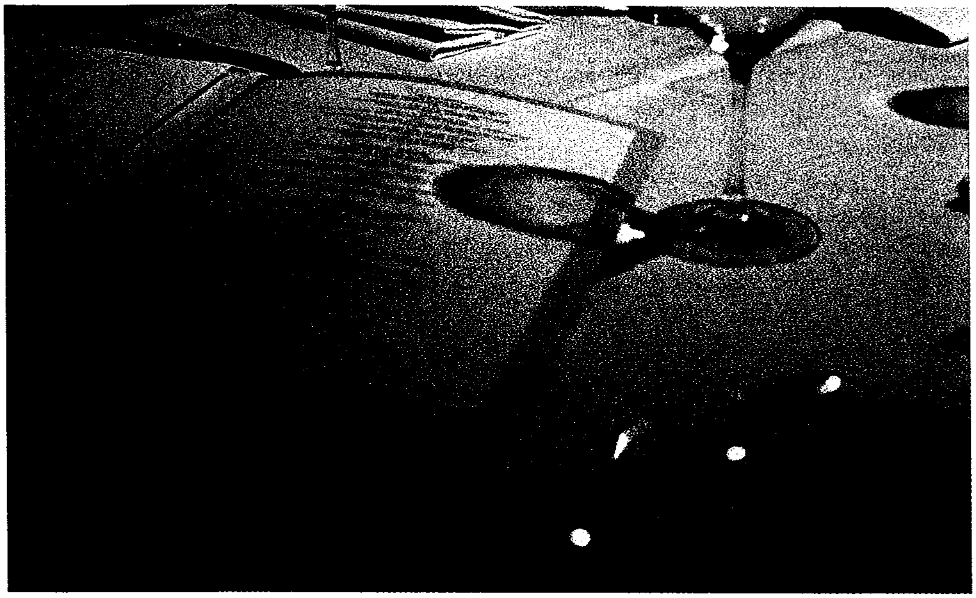
   C. Calculate the monthly payments and total interest paid if the interest rate is 3% higher on each loan

   D. Calculate the monthly payments and total interest paid if the interest rate is 2% lower on each loan

   E. If the loan calculator allows, print out a schedule of payments on one of the loans that shows the principal and interest paid each month. Compare how the amounts change over the life of the loan.

LESSON 5.3

ADDED VALUE FOR CUSTOMERS



GOALS

DISCUSS the difference between price and non-price competition

DESCRIBE ways to add customer value with marketing mix elements

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 one element of a marketing mix. It is the most important element when people will only purchase the product choice that costs the least. At other times, price is almost unimportant. People are willing to pay much more than they have to for quality, image, convenience, or a high level of customer service.

ON THE SCENE

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 also will 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 to Mr. Foster about how he might be able to continue to operate profitably when the new store opens?

WORKSHOP

Identify three products that you think represent price competition and three that represent non-price competition. Construct a table that describes each of the marketing mix elements for each of the products. Using the table, discuss with classmates why you think the type of competition exists for each of the products.

PRICE AND NON-PRICE COMPETITION

The type of competition businesses face ranges from very intense to limited. With intense competition, the business has other companies who sell the same products and offer similar marketing mixes. Customers see few if any differences among the products of the competing businesses. They will likely purchase the products from the company that offers the lowest prices. Rivalry among businesses where the primary difference is the price offered is known as **price competition**. Unless a company is very large and efficient, it is difficult to compete on the basis of price alone and still make a profit.

Non-price competition emphasizes factors other than price as the important reason for customers to buy. Customers may see differences among products and companies in terms of their 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. They will be more careful in comparing the products and services they purchase rather than just selecting the ones with the lowest price.

AVOID PRICE COMPETITION

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 price 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 usually are very careful about selecting the products and services that they think will provide the greatest benefit for the money they spend. 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.

CHECKPOINT

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

ADD VALUE WITH THE MARKETING MIX

Customers consider many factors when making a purchase. They want a product that offers the features and functions they need. They 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. Customers expect to obtain the information and sales help they need to make the most informed decision. They may want to be able to obtain financing from the seller or to be able to pay with a check, debit card, or credit card.

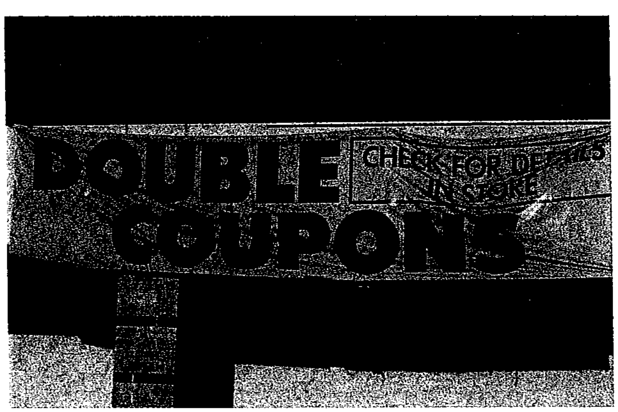
The purchase decision usually comes down to more than the lowest price. Companies need to study all the elements of the marketing mix and compare them to the specific needs of a target market to determine ways to add value for the customer.

Product The customer's 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 clearly designed for a unique market segment will have greater value than those that appear to have been developed for another segment.

Distribution 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. Effective customer service including efficient and accurate order processing will often convince a customer to buy the business's products.

Price One of the 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.



THE EXPLODING HISPANIC MARKET

Liz Claiborne Fragrances introduced Mambo, a Latino scent. One of the "got milk" advertisements features an Hispanic man and his young daughter shopping for the ingredients to make a "tres leches," a popular dessert among Latin families. McDonald's features Cuban sandwiches and "dulce de leche McFlurry" in South Florida restaurants. The interest in Hispanic markets grew rapidly as the number of Hispanic Americans in the U.S. population increased to 33 million in the 2000 census. Representing more than 12% of the national population, it is the fastest-growing minority segment. Immigrants who bring the Spanish language and their Latin culture with them to their new homes account for much of this growth. Businesses are moving at full speed to meet the needs of this important consumer group. Among the top advertisers in the Hispanic market are Procter and Gamble, MCI/WorldCom, AT&T, Sears, and McDonald's. The top ten U.S. Hispanic markets had a total of $199 billion in purchasing power in 2000.

THINK CRITICALLY What advantages do companies have when they produce unique products and develop specific advertisements for the Hispanic market? Why did it take the 2000 census information to cause many businesses to begin to recognize the Hispanic market?

CHECKPOINT

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

THINK CRITICALLY

1. What causes price to be the most important mix element for some customers?

2. What are the characteristics of companies who are successful using price competition?

3. Why will the price of a product likely be higher if a business is trying to increase profits rather than trying to increase sales?

4. What are some ways that contests, games, and other similar promotional activities can be misused by businesses?

MAKE CONNECTIONS

5. **TECHNOLOGY** Work in small groups to complete this exercise. List each of the marketing mix elements on the board. Each student in turn should go to the board and list an example of how technology and the Internet have added value to products and services. The item should be listed under the appropriate mix element. Continue until all possible examples have been listed. Discuss the items to determine if everyone agrees on the placement of the items under the mix elements. Which of the mix elements seems to have been affected most by technology?

6. **DEBATE** Form two teams to debate the following issue:

   "Consumers benefit when businesses engage in price competition rather than non-price competition."

   Use the following space to take notes of the arguments for or against the issue presented during the debate. After the debate has been completed, write a 100-word statement in support or opposition to the issue. After the statements have been prepared, poll all students to see the number who agree with the statement and the number who disagree with it.

REVIEW

CHAPTER SUMMARY

LESSON 5.1 Pricing Methods

A. Customers want value for the money they pay for products and services. Companies that think only of profit without considering price and value will probably have many dissatisfied customers.

B. Prices must be planned carefully by businesses. Changing a price is as simple as changing the price tag or adding a sale price.

LESSON 5.2 Credit

A. Credit is provided to customers to help them finance purchases from the business. The business also uses credit to help it finance the purchases of products and services needed to operate the company.

B. A company offering credit needs to develop credit policies and a credit plan. The business must decide whether it will offer its own credit plan or rely on other companies to offer credit.

LESSON 5.3 Added Value for Customers

A. Sometimes price is the most important marketing mix element. At other times, price is almost unimportant. People are willing to pay more for quality, image, convenience, or superior customer service.

B. Companies need to study each element of the marketing mix and compare them to the specific needs of a target market to determine ways to add value for the customer.

VOCABULARY BUILDER

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms may not be used.

____ **1.** The actual cost of a product or service paid by the customer

____ **2.** Establishing and communicating the value of products and services to prospective customers

____ **3.** The price consumers are charged for a product or service

____ **4.** An amount added to the cost of a product to determine the selling price

____ **5.** Budgeting for marketing activities, obtaining the necessary financing, and providing financial assistance to customers to assist them with purchasing the organization's products and services

____ **6.** Credit extended by a retail business to the final consumer

____ **7.** Financing offered by one business to another business

____ **8.** Rivalry among businesses where the primary difference is the price offered

____ **9.** Emphasizes factors other than price as the important reason for customers to buy

a. consumer credit
b. financing
c. markup
d. non-price competition
e. price
f. price competition
g. pricing
h. selling price
i. trade credit

REVIEW CONCEPTS

10. What is the difference between the customer's view of price and a business's view of price?

11. How does the economic concept of supply and demand affect the price of a product?

12. How does providing credit make a product more affordable for consumers?

13. How does the financing function of marketing relate to the concept of credit?

14. Under what circumstances might a consumer pay more than the lowest possible price for a product?

15. How can a company determine ways to add value to a product for consumers?

REVIEW

APPLY WHAT YOU LEARNED

16. Why is the price of a product important to both consumers and businesses?

17. Why should a company be careful of changing prices quickly?

18. What are some examples of the uses of trade credit?

19. Why would a business want to develop its own credit plan rather than use a plan operated by a bank or another finance company?

20. What can a company do to move from price competition to non-price competition?

21. How can an advertisement increase the value of a product?

MAKE CONNECTIONS

22. GOVERNMENT Specific taxes collected by the federal, state, and local governments can affect the demand for certain products and services. For example, a very high tax is placed on products such as cigarettes and alcohol, while most states do not currently tax products sold on the Internet. Many local governments impose high taxes on hotels, rental cars, and restaurant meals. Gather information on tax policies of the federal government or your state's government that might influence demand for products. Write a one-page report on your findings in which you provide examples of taxes and state your opinion about the use of those types of taxes.

23. TECHNOLOGY Many Internet sites have been developed that allow consumers to quickly compare prices of products. Search the Internet to find examples of those sites. Study them to determine the information that is provided to the consumer in addition to the price of the product. Using a spreadsheet format, develop a chart that compares the sites. Develop a rating system and rate each site in terms of its value in helping customers make effective purchase decisions.

24. BUSINESS MANAGEMENT Work with a team of students to complete this exercise. Your team is responsible for developing credit policies for a home electronics store. Prepare four specific policy statements for the business that describes how credit will be extended and to whom it will be offered. Now prepare a one-page credit application to collect information from consumers that will help you decide whether they are a good candidate for credit. Present your policy statements and credit applications in class. Discuss the similarities and differences among the teams. Compare your policies and application with other teams' policies and credit applications.

25. RESEARCH Use the Internet or your local newspaper to find advertisements from three businesses that offer consumer credit. Make a list of the credit terms, interest rates, and any restrictions on the availability of credit. Determine how effectively the company explains its credit policies and terms. List any questions you would need to have answered in order to understand the company's procedures. Compare your results with that of other students. Discuss recommendations you would make to businesses to make credit more understandable to consumers.