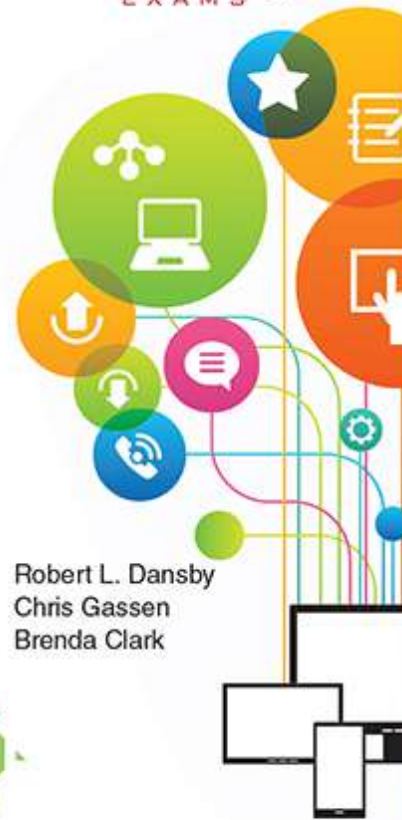


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Principles of Business, Marketing, and Finance

PRECISION
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Presentations for PowerPoint

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11

Product, Price, and Place

Section 11.1

Product

Objectives

- **Explain** product as one of the four Ps of marketing.
- **Describe** common elements of product.
- **Define** product mix.



Essential Question

What is a product?

Product

- Goods and services are called *products*
- Services are different from goods
 - **Intangible** means something cannot be touched
 - **Inseparable** means a service cannot be separated from the person who performs it
 - **Variable** means each service is almost always unique
 - **Perishable** means that services cannot be stored for later use

Product Elements

- Product elements can be changed to meet customer needs
 - Features
 - Usage
 - Protection

Product Elements

- **Features** are facts about a good or service
 - *Service* and *option* features
 - **Quality** is an indicator of a product's excellence
 - Three general quality levels: *premium*, *moderate*, and *value*

Product Elements

- *Usage* means the way something is used
 - *Instructions* are steps carried out in a specific order to successfully complete a task
 - *Installation* is the act or process of putting a good in a certain place and getting it ready for use
 - *Technical support* includes people and resources available to help customers with usage problems

Product Elements

- *Protection* is intended to protect the product, user, or both
 - Safety inspections verify product safety
 - **Packaging** protects products until customers are ready to use them
 - **Warranty** is a written document that states the quality of a product with a promise to correct certain problems that might occur
 - **Guarantee** is a promise that a product has a certain quality or will perform in a specific way
 - Maintenance and repair services

Product Mix

- **Product mix** is all the goods and services that a business sells
 - **Product line** is a group of closely related products within the product mix
 - **Product width** is the number of product lines a company offers
 - **Product item** is the specific model, color, or size of products in a line
 - **Product depth** is the number of product items within a product line

Product Mix

- **Product planning** is the process of deciding which products will appeal to the target market
- *Consumer products* are sold to consumers for their personal use
 - *Convenience goods* are bought often and with little effort
 - *Shopping goods* are usually purchased after comparing price, quality, and style in more than one store
 - *Specialty goods* are unique items that consumers are willing to spend considerable time, effort, and money to buy

Product Mix

- *Business products* are items sold to businesses for use in their operations
 - *Raw materials* are natural or man-made materials that become part of a manufactured product
 - *Process materials* are used in product manufacturing
 - *Component parts* become a part of a finished product
 - *Major equipment* is large machines and other equipment used for production purposes
 - *Office equipment and supplies* are products for basic office needs
 - *Business services* are tasks necessary to keep a business running

Section 11.1 Review

1. In what four ways are services different from goods?

Services are considered products, but they are different from goods because they are intangible, inseparable, variable, and perishable.

2. List the three categories of product elements.

The three categories of product elements are features, usage, and protection.

3. Explain the three general quality levels of products.

Premium quality is the highest level of quality available in products. Moderate quality is the middle range of product quality. Value quality is an adequate level of product quality.

Section 11.1 Review

4. List the three basic categories of consumer products.

The three basic categories of consumer products are convenience goods, shopping goods, and specialty goods.

5. What are the six categories of business products?

Business products can be categorized as raw materials, process materials, component parts, major equipment, office equipment and supplies, and business services.

Section 11.2

Price

Objectives

- **Explain** price as one of the four Ps of marketing.
- **Describe** pricing strategies.
- **Identify** unfair pricing practices.
- **Discuss** governmental price controls.

Key Terms

- price
- value proposition
- list price
- selling price
- manufacturer's suggested retail price (MSRP)
- pricing objective
- break-even point
- markup
- base price
- psychological pricing
- bait and switch
- price discrimination
- deceptive pricing
- predatory pricing
- loss leader
- price gouging
- price ceiling
- price floor



Essential Question

What decisions must businesses make about product pricing?

Price

- **Price** is the amount of money requested or exchanged for a product
- *Value* is the relative worth of something to a person
- **Value proposition** is an explanation of the value of a certain product over others that are similar

Price

- Pricing tiers
 - **List price** is the established price printed in a catalog, on a price tag, or on a price list
 - **Selling price** is the actual price a customer pays for a product after any discounts or coupons are deducted
 - **Manufacturer's suggested retail price (MSRP)** is the price recommended by the manufacturer

Price

- **Pricing objectives** are goals defined in the business and marketing plans for the overall pricing policies of the company
 - *Maximizing sales* is a pricing objective based on offering the lowest price possible to get the largest number of customers to buy the product
 - *Maximizing profit* is a pricing objective that aims to generate as much revenue as possible in relation to total cost

Price

- Many factors influence the price of a product
 - Company goals
 - Expenses
 - Customer perception
 - Competition
 - Supply and demand
 - Economic conditions
 - Product life-cycle

Price

- Pricing throughout a product life cycle
 - *Introduction stage*: Price of a brand new product is often high
 - *Growth stage*: More competitors enter the market and the high price of new products usually falls
 - *Maturity stage*: Sales and price of products are stable
 - *Decline stage*: Price is often significantly reduced and some products are eliminated

Pricing Product

- Consider costs of creating product when setting selling price
- **Break-even point** is the point at which revenue from sales equals the costs; product starts making profit
- **Markup** is the amount added to the cost to determine the selling price
- **Base price** of a product is the general price at which the company expects to sell the product

Pricing Product

- **Psychological pricing** strategies are pricing techniques that create an image of a product and entice customers to buy
 - *Odd pricing*: Prices end in an odd number
 - *Even pricing*: Prices end in an even number
 - *Prestige pricing*: Prices high to convey quality and status
 - *Price lining*: Various prices for same type of product to indicate different levels of quality
 - *Buy one, get one (BOGO) pricing*: Free or reduced-price item when another is purchased at full price
 - *Bundling*: Combines two or more products for one price

Pricing Product

- Discount pricing in B2B market
 - *Cash discount* is usually a percentage deducted from the total invoice amount
 - *Promotional discount* is given to businesses that agree to advertise or promote a manufacturer's product
 - *Quantity discount* offers a reduced per-item price for larger numbers of an item purchased
 - *Seasonal discount* are offered by retailers when they buy goods well in advance of the season
 - *Trade discount* is the way that manufacturers quote prices to wholesalers and retailers; percentage off list price

Unfair Pricing Practices

- **Bait and switch** is the practice of advertising one product with the intent of persuading customers to buy a more expensive item when they arrive in the store
- *Price fixing* is when a group of competitors get together and set the price for a specific product
- **Price discrimination** occurs when a company sells the same product to different customers at different prices based on personal characteristics of the customers

Unfair Pricing Practices

- **Deceptive pricing** is the illegal pricing of products in a way that intentionally misleads customers
- **Predatory pricing** is the practice of setting very low prices to remove competition
- **Loss leader** is pricing an item much lower than the current market price or the cost of acquiring the product
- **Price gouging** is the raising of prices on certain kinds of goods to an excessively high level during an emergency

Governmental Price Controls

- Government may intervene in pricing to help economy or consumers
 - **Price ceilings** are maximum prices set by the government for certain goods and services that it thinks are being priced too high
 - **Price floors** are minimum prices set by the government for certain goods and services that it thinks are being priced too low

Section 11.2 Review

1. Identify seven factors that influence the price of a product.

Factors include company goals, expenses, customer perception, competition, supply and demand, economic conditions, and product life cycle.

2. What is the formula for calculating a percentage markup?

The formula for calculating markup is as follows:

$\text{product cost} \times \text{markup percentage} = \text{dollar amount of markup}$

$\text{product cost} + \text{dollar amount of markup} = \text{selling price}$

Section 11.2 Review

3. Give examples of pricing strategies used for the B2B market.

Examples of pricing strategies in the B2B market include cash discount, promotional discount, quantity discount, seasonal discount, and trade discount.

4. What is the purpose of loss-leader pricing?

The purpose of loss leaders is to draw customers into a business by advertising a product for a very low price. The business hopes that once in the store, consumers will buy enough other products to make up for the lost profit.

Section 11.2 Review

5. How can a price floor cause a surplus?

If the price floor is set higher than the market price, a surplus happens because consumers will not buy the higher-priced products.

Section 11.3

Distribution

Objectives

- **Define** place as one of the four Ps of marketing.
- **Explain** distribution as an important element of place.

Key Terms

- supply chain
- channel of distribution
- direct channel
- indirect channel
- nonstore retailer
- e-tailer
- multi-channel retailer
- trade industry
- bulk-breaking
- freight forwarder
- transportation
- pipeline



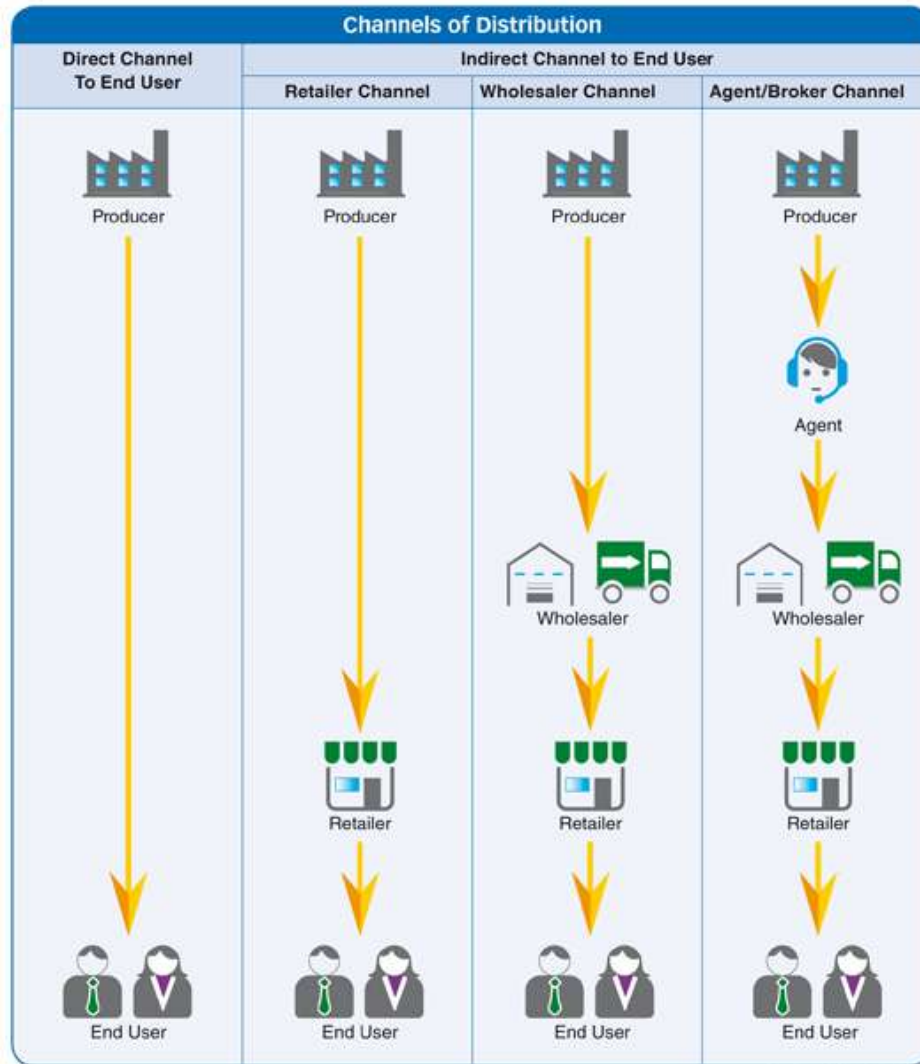
Essential Question

How does place affect the availability and price of products?

Place

- *Place* includes the activities in getting product to the end user
- **Supply chain** is the businesses, people, and activities involved in turning raw materials into products and delivering them to end users
- **Channel of distribution** is the path that goods take through the supply chain
 - **Direct channel** is a path directly from a manufacturer to end users without using intermediaries
 - **Indirect channel** uses intermediaries to get the product from the manufacturer to the end users

Place



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Place

- *Producers* are businesses that create goods and services
- Produces three types of product:
 - Natural resources are also called *raw materials*
 - Agricultural products
 - Finished goods

Place

- *Extractors* are businesses or people that take natural resources from the land
- *Farmers* raise crops and livestock that are sold to end users
- *Manufacturers* use supplies from other producers to make products

Place

- The intermediaries are people and businesses between manufacturers/producers and end users; *channel members*
 - *Transactional function* is sales and marketing activities for the business
 - *Logistics function* is physically moving products from the manufacturers to distributors, retailers, or end users
 - *Facilitating function* is selling product to end users

Place

- *Wholesaler* purchases large amounts of goods directly from manufacturers; *distributor*
- *Retailer* buys products from wholesalers or directly from producers and sells them to consumers to make a profit
 - **Nonstore retailer** sells directly to consumers in ways that do not involve a physical store location
 - **E-tailers** are retailers that sell products through websites
 - **Multi-channel retailers** sell products through both brick-and-mortar stores and online sites

Place

- *Service business* earns profits by providing consumers with services that meet their needs and wants
- **Trade industry** provides labor based on specialized knowledge and skills

Functions of Distribution

- Distribution gives end user possession of goods
- **Bulk-breaking** is the process of separating a large quantity of goods into smaller quantities for resale
- **Freight forwarder** is a company that organizes shipments

Functions of Distribution

- **Transportation** is the physical movement of products through the channel of distribution
 - *Road transportation* includes any motor vehicle that moves products on highways and roads
 - *Rail transportation* is the second most often used mode of transportation in the United States
 - *Air transportation* is the most expensive method of transporting products

Functions of Distribution

- Transportation (continued)
 - *Water transportation* includes ocean-going ships, inland ships, and coastal ships
 - **Pipeline** is a line of connected pipes that are used for carrying liquids and gases over a long distance
 - *Digital transportation* is used to download books and music onto digital devices

Functions of Distribution

Transportation Modes for Distribution		
Transportation Mode	Advantages	Disadvantages
Road	<ul style="list-style-type: none">• Can deliver door to door• Flexible schedules• Can be modified for specific cargo (i.e., refrigerator trucks)	<ul style="list-style-type: none">• Weather delays• Traffic delays• Maintenance problems
Rail	<ul style="list-style-type: none">• Send large quantities over long distances• Inexpensive• Can carry trucks closer to the destination• Can be modified for cargo (flatbed railcars for intermodal containers)	<ul style="list-style-type: none">• Slower method of transportation• Minimal destination flexibility• Needs a second mode of transportation to get to final destination
Air	<ul style="list-style-type: none">• Fastest mode of transportation• Less chance of damage to items• Can save on warehousing as products arrive as needed	<ul style="list-style-type: none">• Most expensive• Weather delays• Maintenance problems• Needs a second mode of transportation to get to final destination
Water	<ul style="list-style-type: none">• Send large quantities over long distances• Can be modified for cargo (i.e., tankers for oil)• Inexpensive	<ul style="list-style-type: none">• Slowest method• No destination flexibility• Needs a second mode of transportation to get to final destination
Pipeline	<ul style="list-style-type: none">• Not subject to weather delays• Fewer maintenance issues• Low operating costs	<ul style="list-style-type: none">• Can only carry products that flow (i.e., gasoline)• Expensive to build• Leaks linked to environmental damage• Needs a second mode of transportation to get to final destination
Digital	<ul style="list-style-type: none">• Low to no operating cost• Easy access• Very fast delivery	<ul style="list-style-type: none">• Only for electronic goods or services

Goodheart-Willcox Publisher; Source: US Census Statistical Abstract

Section 11.3 Review

1. List three basic types of product that come from producers.

Producers are responsible for natural resources, agricultural products, and finished goods.

2. Describe the three functions of intermediaries.

Intermediaries serve three functions: transactional, logistical, and facilitating functions. The transactional function is typically the sales and marketing activities for the business. The logistics function is physically moving products from the manufacturers to distributors. The facilitating function is the final part of the supply chain.

Section 11.3 Review

3. Identify examples of wholesalers.

Wholesalers are often called distributors. Examples of wholesalers are merchant wholesalers, drop shippers, rack jobbers, and manufacturer's sales branches.

4. What is the goal of distribution?

The goal is to provide the best distribution services for the lowest cost.

5. What are the six main methods for the transportation of goods?

The six main methods of transportation methods are road, rail, air, water, pipeline, and digital.