

Product, Price, and Place

Section 11.1

Product



What is a product?

Objectives

After studying this section, you will be able to:

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

Section 11.1 Review

Check Your Understanding

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

Answer: 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.

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

3. Explain the three general quality levels of products.

Answer: 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.

4. List the three basic categories of consumer products.

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

5. What are the six categories of business products?

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

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

intangible

Answer: Something that cannot be touched.

inseparable

Answer: Service cannot be separated from the person who performs it.

variable

Answer: Each service is almost always unique.

perishable

Answer: Services cannot be stored for later use.

feature

Answer: Fact about a good or service.

quality

Answer: Indicator of a product's excellence.

packaging

Answer: Protects products until customers are ready to use them.

warranty

Answer: Written document that states the quality of a product with a promise to correct certain problems that might occur.

guarantee

Answer: Promise that a product has a certain quality or will perform in a specific way.

product mix

Answer: All the goods and services that a business sells.

product line

Answer: Group of closely related products within the product mix.

product width

Answer: Number of product lines a company offers.

product item

Answer: Specific model, color, or size of products in a line.

product depth

Answer: Number of product items within a product line.

product planning

Answer: Process of deciding which products will appeal to the target market.

Section 11.2

Price



What decisions must businesses make about product pricing?

Objectives

After completing this section, you will be able to:

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

Section 11.2 Review

Check Your Understanding

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

Answer: 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?

Answer: The formula for calculating markup is as follows:

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

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

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

Answer: 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?

Answer: 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.

5. How can a price floor cause a surplus?

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

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

price

Answer: Amount of money requested or exchanged for a product.

value proposition

Answer: Explains the value of a certain product over others that are similar.

list price

Answer: Established price printed in a catalog, on a price tag, or on a price list.

selling price

Answer: Actual price customers pay for a product after any discounts or coupons are deducted.

manufacturer's suggested retail price (MSRP)

Answer: Price recommended by the manufacturer.

pricing objectives

Answer: Goals defined in the business and marketing plans for the overall pricing policies of the company.

break-even point

Answer: Point at which revenue from sales equals the costs.

markup

Answer: Amount added to the cost of a product to determine the selling price.

base price

Answer: General price at which the company expects to sell a product.

psychological pricing

Answer: Pricing techniques that create an image of a product and entice customers to buy.

bait and switch

Answer: Practice of advertising one product with the intent of persuading customers to buy a more expensive item when they arrive in the store.

price discrimination

Answer: Occurs when a company sells the same product to different customers at different prices based on personal characteristics of the customers.

deceptive pricing

Answer: Pricing products in a way that intentionally misleads customers.

predatory pricing

Answer: Setting very low prices to remove competition.

loss leader

Answer: Pricing an item much lower than the current market price or the cost of acquiring the product.

price gouging

Answer: Raising prices on certain kinds of goods to an excessively high level during an emergency.

price ceiling

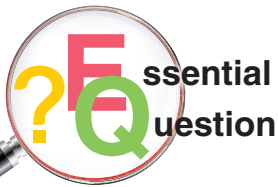
Answer: Maximum price set by the government for certain goods and services that it thinks are priced too high.

price floor

Answer: Minimum price set by the government for certain goods and services it believes are priced too low.

Section 11.3

Distribution



How does place affect the availability and price of products?

Objectives

After completing this section, you will be able to:

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

Section 11.3 Review

Check Your Understanding

1. List three basic types of product that come from producers.
Answer: Producers are responsible for natural resources, agricultural products, and finished goods.
2. Describe the three functions of intermediaries.
Answer: 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.
3. Identify examples of wholesalers.
Answer: 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?
Answer: 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?
Answer: The six main methods of transportation methods are road, rail, air, water, pipeline, and digital.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

supply chain

Answer: Businesses, people, and activities involved in turning raw materials into products and delivering them to end users.

channel of distribution

Answer: Path that goods take through the supply chain.

direct channel

Answer: Path of selling goods or services directly from a manufacturer to end users without using intermediaries.

indirect channel

Answer: Uses intermediaries to get the product from the manufacturer to the end users.

nonstore retailer

Answer: Business that sells directly to consumers in ways that do not involve a physical store location.

e-tailer

Answer: Retailer that sells products through websites.

multi-channel retailer

Answer: Retailer that sells products through both brick-and-mortar stores and online sites.

trade industry

Answer: Provides labor based on specialized knowledge and skills.

bulk-breaking

Answer: Process of separating a large quantity of goods into smaller quantities for resale.

freight forwarder

Answer: Company that organizes shipments.

transportation

Answer: Physical movement of products through the channel of distribution.

pipeline

Answer: Line of connected pipes that are used for carrying liquids and gases over a long distance.

Chapter Summary

Section 11.1 Product

- A product is what a business sells to satisfy customer needs and is one of the four Ps. Products can be goods or services. Goods are physical items that can be touched. Services are intangible, inseparable, variable, and perishable.
- All products have certain elements that can be changed to meet customer needs: features, usage, and protection. Understanding these elements can enable a business to more effectively fulfill the marketing concept of attaining customer satisfaction.
- A product mix is all the goods and services that a business sells. Products are organized into product lines and further organized by product item, width, and depth. The products offered vary depending on whether the target market is consumers or businesses.

Section 11.2 Price

- Price is one of the four ps of marketing. It is the amount of money requested or exchanged for a product. As a function of marketing, businesses use price to establish and communicate the value of products. In addition, the price must be at a level that encourages customers to purchase the product, but also generates profits for the business.
- All products have costs related to creating and delivering them to the end user. Businesses calculate their break-even price for a product and then apply a markup to determine the selling price.

- Both businesses and consumers are affected by unfair and unethical pricing practices. Common unfair pricing practices include bait and switch, price fixing, price discrimination, deceptive pricing, and predatory pricing. There are state and federal laws that regulate pricing to prevent unfair pricing policies and practices used by some businesses.
- The government may intervene in the pricing of some products to control the economy or help consumers. Price controls are often set when the public becomes alarmed about a fast-growing rate of inflation. Price controls may be a price ceiling, which sets the maximum price of a product, or a price floor, which sets the minimum price of a product.

Section 11.3 Distribution

- *Place*, also known as *distribution*, refers to the activities involved in getting goods or services to the end user. Place is one of the four ps of marketing and involves determining when, where, and how products get to customers. The path that products take to customers is known as the channel of distribution.
- Physical distribution is one of the most important parts of place. Distribution influences the final price of the product and company profitability. Distribution strategies include decisions about transportation, storage, and utility costs. The goal is to provide the best distribution services for the lowest cost.

Review Your Knowledge

1. Explain product as one of the four Ps of marketing.

Answer: A product is whatever a business sells to satisfy customer needs. It is one of the four Ps of marketing. Without product, marketing would not be necessary. Collectively, goods and services are called products.

2. Describe the product mix for consumer products and for business products.

Answer: Consumer products are those sold to consumers for their personal use in the B2C market. The three basic categories of consumer products are convenience goods, shopping goods, and specialty goods. Business products are items sold to businesses through the B2B market to keep them operating. Business products tend to fall into one of six categories: raw materials, process materials, component parts, major equipment, office equipment and supplies, and business services.

3. Explain price as one of the four Ps of marketing.

Answer: Price is an important element of the marketing mix. As a function of marketing, businesses use price to establish and communicate the value of products. Some businesses use price to influence customer perception. Customers may be willing to pay more if they believe in the value of the product or service.

4. Describe popular B2B discount pricing strategies.

Answer: The most popular B2B discount pricing strategies marketers use are cash discounts, promotional discounts, quantity discounts, seasonal discounts, and trade discounts. A cash discount is usually a percentage deducted from the total invoice amount. A promotional discount is given to businesses that agree to advertise or promote a manufacturer's product. A quantity discount offers a reduced per-item price for larger numbers of an item purchased. Seasonal discounts are given if retailers buy goods well in advance of the related selling season. A trade discount is a percentage off the list price.

5. Identify five unfair pricing practices.

Answer: Bait and switch is when a business advertises one product with the intent of persuading a customer to buy a more expensive item. Price fixing is when a group of competitors get together and set the price for a specific product. Price discrimination is when a company sells the same product to different customers at different prices based on personal characteristics. Deceptive pricing is when products are priced in a way to intentionally mislead a customer. Predatory pricing is when prices are set very low to remove competition.

6. How can price ceilings and price floors create negative outcomes?

Answer: Price ceilings may cause the very shortages the government is trying to prevent. Existing businesses or producers must accept the lower price set by the government for their goods or services, which may cause many to leave the business. If the price floor is set higher than the market price, a surplus of higher-priced products will develop. In many cases, a surplus situation forces the government to buy the excess inventory to prevent rampant waste.

7. Explain *place* as one of the four Ps of marketing.

Answer: Place refers to the activities involved in getting a product or service to the end user. It involves determining when, where, and how products get to customers.

8. What is the role of wholesalers in a private enterprise system?

Answer: A wholesaler purchases large amounts of goods directly from manufacturers. They store the products and then resell them in smaller quantities to various retailers. In the private enterprise system, wholesalers usually buy products in bulk and then resell them in smaller quantities to other companies. Some wholesalers may also provide promotional support, warehousing, storage, and transportation of goods.

9. Explain the role of retailers in a private enterprise system.

Answer: A retailer is a business that buys products from wholesalers or directly from producers, and sells them to consumers to make a profit. Retailers play multiple roles in the private enterprise system. Primarily, retailers directly provide consumers with the products that meet their needs and wants. Other functions they perform include promotion, offering credit, and handling returns. On a larger scale, retailers provide employment in communities and contribute to local economies.

10. Explain the activities and decisions involved in distribution.

Answer: Physical distribution actually gives the end user possession of the goods. Physical distribution also plays a competitive role in product promotion, influences the final price of a product, and affects company profitability. Distribution strategies include decisions about transportation, storage, and utility costs.

Apply Your Knowledge

1. In the private enterprise system, retailers directly provide consumers with the products that meet their needs and wants. List four types of retailers and an example of each. Describe the consumer needs and wants met by each of the retailers identified.

Answer: Student answers will vary. Evaluate each response individually.

2. Customers often perceive price as an indicator of the value or quality of a product. Make a list of five products for which price affects your perception of value. Give your opinion of each product compared to competing products. Explain how price is a factor in your perception of each product.

Answer: Student answers will vary. Evaluate each response individually.

3. Describe examples of psychological pricing strategies you have seen in the B2C market. Do you think these strategies are effective? Which do you think is most effective in your market? Explain your answers.

Answer: Student answers will vary. Evaluate each response individually.

4. The supply chain includes producers, intermediaries, and service businesses. A channel of distribution is the path that goods take through the supply chain. Choose a product that you purchase regularly. Create a flowchart that identifies each business, person, and activity involved in the process of making the product and getting it to you.

Answer: Student answers will vary. Evaluate each response individually.

5. What are trade industries? Give examples of businesses in the trade industry. How do trade industries participate in providing place?

Answer: Student answers will vary. Evaluate each response individually.



You Do the Math

Functions

A function involves relating an input to an output. Each value in a discrete function is one of a specified set. For example, the number of children in a family must be a whole number, so the function for how many children are in a family is a discrete function. The values in a continuous function do not have to be one of a specific set. For example, the average age of students in a class does not need to be a whole number, so the function for average age is a continuous function.

Solve the following problems.

1. The sales tax in a particular town. Is this a discrete or continuous function?
2. The average age of a business's training staff. Is this a discrete or continuous function?
3. The speed at which a delivery truck travels. Is this a discrete or continuous function?

Answer: Discrete function.

Answer: Continuous function.

Answer: Continuous function.