

CHAPTER

11

Product, Price, and Place

Part 1: Content Review

Matching

Write the letter of the correct term for each definition on the line provided.

Terms

- | | |
|----------------|-----------------|
| A. intangible | F. loss leader |
| B. warranty | G. markup |
| C. quality | H. base price |
| D. guarantee | I. e-tailers |
| E. price floor | J. supply chain |

- _____ 1. Pricing an item much lower than the current market price or the cost of acquiring the product.
- _____ 2. The general price at which the company expects to sell the product.
- _____ 3. Something that cannot be touched.
- _____ 4. The minimum price set by the government for certain goods and services that it thinks are being priced too low.
- _____ 5. A written document that states the quality of a product with a promise to correct certain problems that might occur.
- _____ 6. The amount added to the cost to determine the selling price.
- _____ 7. A promise that a product has a certain quality or will perform in a certain way.
- _____ 8. Retailers that sell products through websites.
- _____ 9. The businesses, people, and activities involved in turning raw materials into products and delivering them to end users.
- _____ 10. An indicator of a product's excellence.

Multiple Choice

Place the letter of the correct answer to each question on the line provided.

- _____ 1. Which of the following is a characteristic of a service?
- A. Can be stored
 - B. Can be repeated in exactly the same way
 - C. Mass produced
 - D. Intangible
- _____ 2. Which of the following is an example of a basic category of consumer product?
- A. Convenience good
 - B. Process material
 - C. Component part
 - D. Raw materials
- _____ 3. Which of the following is *not* a business product category in the business-to-business (B2B) market?
- A. Raw materials
 - B. Process materials
 - C. Major equipment
 - D. Shopping goods
- _____ 4. The price of a good or service must _____.
- A. be lower than what customers are willing to pay
 - B. be below any government price floor
 - C. cover the cost of producing and selling the product
 - D. not be below the manufacturer's suggested retail price (MSRP)
- _____ 5. Which of the following is an example of a pricing objective?
- A. Minimize cost
 - B. Minimize profit
 - C. Maximize profit
 - D. Minimize the product life cycle
- _____ 6. During which stage of the product life cycle are the sales and prices of products stable?
- A. Introduction
 - B. Growth
 - C. Maturity
 - D. Decline
- _____ 7. A product starts marking profit after reaching the _____.
- A. growth stage of the product life cycle
 - B. break-even point
 - C. price ceiling
 - D. mass market
- _____ 8. The path of selling goods or services directly from a manufacturer to end users without using intermediaries is the _____.
- A. supply chain
 - B. direct channel
 - C. indirect channel
 - D. pipeline

Name _____

- _____ 9. Which is *not* a basic type of product created by a producer?
- A. Natural resources
 - B. Transportation
 - C. Agricultural products
 - D. Finished goods
- _____ 10. Buyers and sellers are brought together by ____.
- A. agents
 - B. wholesalers
 - C. distributors
 - D. rack jobbers

Completion

In the space provided, write the word(s) that best completes each of the following statements.

- _____ 1. The _____ price is the amount a customer pays for a product.
- _____ 2. _____ pricing sets prices high to convey quality and status.
- _____ 3. A reduced per-item price for larger numbers of an item purchased is a(n) _____.
- _____ 4. The practice of _____ is advertising one product with the intent of persuading customers to buy a more expensive when they arrive in the store.
- _____ 5. The practice of setting very low prices to remove competition is _____.
- _____ 6. Raising prices on certain kinds of goods to an excessively high level during an emergency is _____.
- _____ 7. The physical movement of products through the channel of distribution is _____.
- _____ 8. Companies that organize shipments are _____.
- _____ 9. A(n) _____ purchases large amounts of goods directly from manufacturers, stores them, and then resells in smaller quantities to various retailers.
- _____ 10. The process of separating a large quantity of goods into smaller quantities is _____.

Name _____

Part 2: Concept Review

Open Response

*Write your response to each of the following statements or questions in the space provided.
Use complete sentences.*

1. What is the difference between the list price of a product and the selling price?

2. What are the four stages of the product life cycle? Explain changes in the price of a product throughout its life cycle.

3. What are five common discount pricing techniques used in business-to-business (B2B) market? Briefly describe each.

Name _____

4. What is an indirect channel of distribution? Who are the people and businesses that may be involved in indirect channels?

5. What are the six main methods of transportation? Choose an item you purchase regularly and identify the methods of transportation used to get the product from the manufacturer to you.

Name _____

Part 3: Math Skills

Multi-Step Mathematics

Businesses must set appropriate prices for their products to make a profit. However, companies do not set prices at random. There are a number of important policies and strategies involved, some of which involve multi-step mathematics.

Answer the following questions about pricing.

1. A unit price is based on a standard unit of measurement, such as an ounce or inch. It is used to compare the prices of different sized items. The formula for calculating unit price is:

$$\frac{\text{price}}{\text{number of units}} = \text{unit price}$$

Tropical Sun Coconut Water is sold at several retailers. Calculate the unit price of each container and determine which retailer offers the best value.

- a. Better Health Store

Price: \$2.79

Size: 12 ounce can

- b. Fresh 'N More Market

Price: \$4.99

Size: 20 ounce can

- c. Mega Warehouse Club

Price: \$39.99

Size: 24 pack case of 12 ounce cans

Name _____

2. A break-even point is when revenue from sales equals costs. It is calculated using the following formula:

$$\frac{\text{fixed costs}}{\text{selling price} - \text{variable costs}} = \text{break-even point}$$

Jogging Boy Company manufactures a unique jogging stroller that has a lightweight frame and holds up to three children. The stroller sells for \$399. The variable cost to manufacturer each stroller is \$165. The company's annual fixed costs are \$135,000. How many strollers does Jogging Boy need to sell to break even for the year?

3. Cost-based pricing sets a base price by adding a markup to the product cost. It is calculated using the following formula:

$$\text{cost} + \text{markup} = \text{base price}$$

Kale Power makes a delicious snack bar that is very high in beta carotene and Vitamin K. The cost to make a 3 ounce bar is \$0.55. Kale Power marks up the item by \$0.95 to help cover fixed costs and contribute an acceptable profit to the business. What is the base price?

4. Another method of calculating a base price is to add a *percentage* markup to the product cost. Percentage markup is calculated using the following formula:

$$\text{cost} + (\text{cost} \times \text{markup percentage}) = \text{price}$$

Applying the same markup percentage to items can help achieve a more consistent level of profits. Banana Dragon manufactures high-quality water shirts for surfing, water skiing, and other water sports. The company adds a 90 percent markup to its product cost when setting the base price for its various styles. The following shows the product cost for three different shirt styles. Calculate the markup and base price for each style.

- a. Big

Product Cost: \$23

- b. High Tide

Product Cost: \$22

- c. Dragon Lagoon

Product Cost: \$27

5. Banana Dragon's High Tide water shirt style has been extremely popular while the Dragon Lagoon style has not. The company decides to raise its markup on High Tide style to 125% and reduce the markup on Dragon Lagoon to 75%. What is the new markup and base price for each style?

- a. High Tide

Product Cost: \$22

- b. Dragon Lagoon

Product Cost: \$27

Name _____

Part 4: Communication Skills

Listening

Listening skills are essential when working in any retail position. Try to improve your listening skills by analyzing one of your instructor's classroom presentations. More specifically, identify how your instructor conveys information to you and the other students by answering the following questions in the space provided.

1. What was the topic or main point?

2. Did you clearly understand the message? If not, why?

3. Were there any nonverbal messages transmitted? If so, what were they?

4. Did you or other students give feedback to your instructor? If so, what was some of the feedback?

*Share your analysis with your instructor to see if you understood the main points of the lesson.
Then answer questions:*

5. Who is responsible for your understanding of the lesson—you or your instructor?

6. Who is the best judge of how well you understood the message—you or your instructor?

Discuss your analysis and the feedback with your class. Did most of your classmates agree on the message that was transmitted?
