**LEARNING GUIDE KEY**

**Objective A**

 1. Effective pricing is important for customer satisfaction and for the continued success of a
business. (5 points)

 2. When a good or service is sold, the buyers and sellers have agreed on a value for the product. That initial value is usually stated as a monetary amount, such as $39.99. At this point, the buyer has decided that s/he is willing and able to pay that amount of money to obtain the product, while the seller has decided that s/he will accept that amount as payment. This amount of money is known as the exchange price. (5 points)

 3. Buyers and sellers must feel that they are receiving the most, or optimum, value from the product. When you buy something, you want to make sure that it is the best purchase you can make for your money. After all, when you spend your money on one product, you will no longer have it available to buy something else. Likewise, sellers want to feel that they are selling their products at the best price—the highest price that will still attract the most buyers. The price that the seller sets will affect the number of sales and the amount of income that the company will make. (5 points)

 4. Effective prices are: (15 points; 5 points each)

 a. Realistic. Customers associate price with quality—if the price is high, the quality is high;
if the price is low, the quality is low. So, businesses must set prices that are realistic to customers—neither too high nor too low.

 b. Flexible. Because pricing is a tug-of-war and a constant quest for balance, businesses must be willing to adjust their prices as necessary. These adjustments may be increases or decreases, depending on the circumstances the business faces.

 c. Competitive. When a similar product is offered by competitors, a business needs to be aware of the prices others are charging. If not, the business will probably lose customers because its prices are not competitive.

 5. Answers will vary but may include alternative names for prices, such as interest, wages/
salary, fees, dues, fare, admission, service charge, tuition, or rent. (5 points; 1 point each)

 6. In a smaller business, the person most often responsible for setting prices is the manager
or owner. This person will check competitors’ prices and use the company’s own records to
establish prices for the goods and services the business offers. (5 points)

 7. In larger companies, an entire department (part of marketing) is usually responsible for setting prices for the company. The department may use more sophisticated means to determine prices for the company’s products. It may analyze market research, conduct customer surveys, study competitors’ prices, and analyze current and past sales records and trends to help with pricing decisions. (5 points)

**LEARNING GUIDE KEY** (cont’d)

**Objective B**

 8. Pricing affects product decisions in the following ways: (25 points; 5 points each)

 a. Research.Pricing affects the type of research conducted, the length of the research
project, and the amount of money spent on research.

 b. Materials used in production.The quality of materials used in production is reflected in the product’s price. Companies, therefore, must decide what materials to use in the
production of their products. If they want to charge lower prices, they may not be able to use more expensive materials.

 c. Profit decisions.Just because a good or service looks great on paper doesn’t mean that the good or service will ever hit the market. Companies must first determine if there is a market for the product and if there will be sufficient demand for it. Before introducing a new product, a company must first determine if it will be profitable. Companies must ask the following questions:

 • Can we make a profit by selling this product?

 • Can we achieve the return on investment we want?

 • Can we set our prices high enough to answer the first two questions with a YES?

 d. Customer decisions.Different companies seek to attract different types of customers. Low prices attract customers who are looking for bargains, while high prices attract
customers looking for prestige and high quality. A company’s pricing strategies will
determine the type of customers its products attract.

 e. Company image.What type of image does a company want to project? Pricing will help determine that image. Stores that have low prices are thought of as discount stores.
On the other hand, stores with very high prices usually are perceived as having more prestigious name brands and higher quality products.

 9. Pricing affects promotion decisions in the following ways: (15 points; 5 points each)

 a. Choice of medium*.* Products with very low profit margins are usually promoted in lower priced media. Products that have high profit margins are usually promoted in a combination of media, including radio, television, newspapers, and magazines. Also, the bigger the advertisement, the higher its cost.

 b. The amount of money spent.Most companies have promotional budgets. The amount of money spent on a promotional campaign is built into the cost of the product. The higher the promotional budget for a good or service, the higher the price of the good or service for customers.

 c. Time allocated to the promotion. Since the cost of promotion is built into the cost of the product, goods and services tend to cost more when they are promoted over a long
period of time.

**LEARNING GUIDE KEY** (cont’d)

 10. Pricing affects place decisions in the following ways: (10 points; 5 points each)

 a. Choice of transportation channels. There are a variety of ways that companies can ship their products to their final destinations. The cost of each type of transportation varies. Companies will choose the method that fits within their budget. Marketers must also consider time when it comes to transportation channels—one channel may be cheaper but might take longer for products to get to their destinations.

 b. Where the product is offered.A product’s price affects where it is sold. Goods and services with high prices will be carried by stores that sell higher priced items. If a product is priced inexpensively, it will sell at a different type of store.

 11. There are a number of different types of pricing objectives that companies have. They may relate to profitability—making as much profit as possible or simply covering costs. They may relate to sales—selling as many units as possible or gaining a certain market share. Objectives may also relate to the competition—keeping prices competitive is very important in many industries, such as the airline industry. Lastly, pricing objectives may relate to image or prestige. Companies may set prices that will help them maintain a certain image in customers’ minds. Companies may use any combination of these pricing objectives when setting prices for goods or services. (5 points)

**Suggested** Criterion Level: 80 points