Unit 4
Examining the Four Ps of Marketing

Unit Overview
For a business to be successful, customers first need to know about the business and want to do business there. This makes marketing decisions some of the most important ones for business owners. Marketing is more than just starting a business and hoping customers will find it.

The chapters in this unit focus on the many different parts of the marketing process. They cover product mix, pricing strategies, and getting the product in the hands of the end users. You will also learn about various ways to promote the business as well as about the selling process itself. The unit ends with information on how to create a marketing plan.

Chapters
10 Product, Price, and Place
11 Promotion and Selling
12 Marketing Plan

Entrepreneurs and the Economy

Entrepreneurs who know their target markets well also understand the differences between selling products to consumers versus businesses. In addition to services provided to consumers or businesses, tangible products fall into different categories. Knowing these categories helps a business choose the best marketing strategies for its product type.

The three basic categories of consumer goods are convenience goods, shopping goods, and specialty goods. Convenience goods are those bought often with little effort for immediate use. Convenience goods include most grocery items and gasoline. The target market for convenience goods is broad and may only be limited by location.

Shopping goods are those usually purchased after making the effort to compare price, quality, and style in more than one store. Shopping goods are purchased less often than convenience goods. They include more expensive, durable items such as appliances and furniture. The target markets for specialty goods are narrower and defined by demographics and buying characteristics. Specialty goods are unique items that consumers are willing to spend considerable time, effort, and money to buy. Examples of specialty products include a unique sports car or rare antiques. Specialty goods have the smallest target markets because purchases are based on personal preference, brand name, or special features.

Business products are a bit more complex and fall into one of five different categories.

• Raw materials are those that become part of the product, such as wood, plastic pellets, or metal.

• Process materials are used in making a product, but are not identifiable, such as food preservatives or industrial glue.

• Component parts become a part of a finished product, but are already assembled, such as computer chips, tires, or switches.

• Major equipment is large tools and machines used for production purposes, such as furnaces, cranes, or bulldozers.

• Accessory equipment is standard business equipment, such as computers, calculators, or hand tools.

Depending on the category of business product, the target markets will be diverse. They are defined primarily by function. For example, not all industries and companies need bulldozers. If you make and sell bulldozers, find the companies that need them and narrow your sales and marketing efforts to that group.
Entrepreneurs Candice Cabe and Nadine Lubkowitz had a great idea for a product: women’s shoes with interchangeable heels. This would allow women to purchase a single pair of shoes that could be used as anything from low heels to high heels. The idea led Cabe and Lubkowitz to found the company Day2Night Convertible Heels. The problem they faced was taking their product idea from conception to reality. In June 2011, they were able to partner with a Massachusetts prototype company, hire some summer engineering interns, and begin the development of a prototype heel that would be removable and still strong enough to last. The first model of shoes comes with five different-height snap-on heels. The company established an initial sale price of $149 per pair.

“I think it’s very important that whatever you’re trying to make, sell, or teach has to be basically good. A bad product and you know what? You won’t be here in ten years.”

—Martha Stewart, founder of Martha Stewart Living Omnimedia

“Product, Price, and Place”

10.1 Product
10.2 Price
10.3 Place

Check Your Entrepreneurship IQ

Before you begin the chapter, see what you already know about entrepreneurship by taking the chapter pretest. If you do not have a smartphone, visit the G-W Learning companion website.

www.m.g-wlearning.com
www.g-wlearning.com

Photo © Kernel Season’s, Brian Taylor

While studying at the University of Michigan, Brian Taylor frequently made popcorn seasoned with a variety of spices. Friends loved it and would always ask for his special spice blends. Brian knew he was onto something. During his last two years of school, he put together a team of flavor experts to come up with a variety of seasonings to use on popcorn.

After graduating from college in 2000, Brian started Kernel Season’s in Illinois. He first worked alone selling the seasonings at one Chicago movie theater. Soon the business expanded.

Today, his popcorn seasonings are found in movie theaters and grocery stores nationwide. The flavors range from butter, salt, and kettle corn to jalapeño, apple cinnamon, and barbecue. As the president and founder of Kernel Season’s, Brian focuses on developing new products, sales, and marketing.
**What Is Product?**

A *product* is anything that can be bought and sold. It is also one of the *four Ps of marketing*—product, price, place, and promotion. The product can be goods, service, or an idea. Goods are tangible. They physically exist and can be touched. A service or an idea is intangible. It is not physical and cannot be touched. Products are grouped by those sold mainly to consumers and those sold mainly to businesses. Some goods and services are used by both groups.

A *product mix* is all of the goods and services that a business sells. Usually the product mix involves goods and services that relate to each other in some way. Small businesses may only sell a limited number of goods, while large corporations can offer thousands of different goods. For example, the product mix for a local stationery store may include invitations, specialty paper, greeting cards, and pens. Some businesses offer only one type of goods or service, such as carpet cleaning.

Products are generally organized into product lines. A *product line* is the group of closely related products within the product mix. For example, a shoe store may sell several different lines of shoes, such as athletic, dress, and casual shoes. A *product item* is the specific model, color, or size of products in a line. For example, the shoe store’s product items include the different styles, colors, and sizes of shoes. Perhaps the store has five identical, size-nine brown shoes. They are not considered different items, but the quantity (five) of one item (size-nine brown shoes).

The *product width* is the number of product lines a company offers. The *product depth* is the number of product items in a product line.

**Product Strategies**

There are many decisions to be made about a business’ products. The first decisions are related to selecting the appropriate products. Decisions must be made about all of the processes needed for products to reach the end users. Product strategies help with *product positioning*, which is distinguishing your products from competing products. The right strategies will help you meet customer needs and beat the competition.

There are a number of product-positioning strategies. These include branding, packaging and labeling, and developing new products when necessary. In addition, it is a good idea to frequently review current products and determine where they are in the product life cycle. This helps ensure that the needs and wants of customers are being met.
Chapter 10 Product, Price, and Place

Branding

A brand is a name, term, or design that sets a product or business apart from its competitors. What do Kleenex®, Crock-Pot®, and Google have in common? They are all established, registered products with powerful brands. In fact, these brands are so strong that those names are used instead of the product categories. For example, most people ask for a Kleenex®, not a facial tissue. Branding a product is using its personality, image, and history to position it favorably in the minds of consumers. One goal of branding is to equate the brand name with quality. In some cases, the brand is the name of the company, such as IBM or Intel®. Well-developed and well-promoted brands build brand loyalty.

A logo is a graphic symbol closely associated with a brand. It may also be called a brand mark. A logo may or may not include the brand name. Along with a logo, businesses often create a catchy or memorable tagline to strengthen the brand. A tagline, or slogan, is a phrase or sentence that summarizes some essential part of the product. For example, almost everyone knows the Nike tagline Just Do It and the You're in Good Hands with Allstate slogan.

Packaging and Labeling

Another important strategy for product positioning of goods is the choice of packaging. Attractive and colorful packaging draws attention to the products and can become part of the brand. Packaging and labels should be consistent with the desired brand image. Packaging and labels are sometimes the first places consumers see information about a product’s features, benefits, and performance.

Customers are very perceptive about the wrappers on the outside of their favorite products. Many businesses make a conscious effort to choose containers that are easily recycled or are made with recycled materials. For these businesses, one of the primary packaging concerns is to select green materials, or ones that do not harm the environment.

Green Entrepreneurs

Company Uniforms

If your employees or you will be wearing a company uniform, consider purchasing clothing that is made from recycled materials. Some manufacturers are using recycled clothing to produce new clothing. Other manufacturers are reusing over 1 million water bottles a year to produce a recycled fabric used in clothing. Look for the green recycling symbol or ask your supplier to show you clothing produced from recycled materials.

New Product Development

Depending on the product, packaging can influence its safety and quality. Breakable items need more packaging than sturdy items. This can increase the cost of the product. Weight and size of the package may affect the expense of shipping or storing.

Some products are subject to labeling laws, which require listing contents and the country of origin. These laws especially affect foods and clothing. It is necessary to research the legal requirements for labeling products. When selling products globally, laws related to the product may differ from laws in the United States.

Generate Ideas

Brainstorming is a good way to start generating ideas for new products. Observe, think creatively, and bounce ideas off others. What new product or product improvement makes sense for the business?

Conduct Research

Conduct primary and secondary research to learn whether the product will meet customer needs and wants. Talk to people in the industry, research trends, read articles, and gather information. Pay attention to social media discussions and what are the current trends.

Investigate a Concept

Talk to the target market. Send surveys or hold focus groups to discover how to meet the needs of the market. If the first new product idea does not test well, develop another one.

Analyze the Finances

Research the cost to bring a new product to market or to revise a current product. Are funds available to create and market the product? Look at the market research to see if the product will generate enough sales to cover costs and make the desired profit.
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Social media can give an entrepreneur insight into potential customers' needs and wants.

Design the Product

After proving the new product meets the needs of the market and can be sold at a profit, it is time to design the product. This is the stage where the idea is converted into reality. During the design phase, details of how to produce the product are planned. Product branding is also part of the design phase. Usually numerous designs are completed and evaluated.

Build a Prototype

A prototype is a working model for a new product for testing purposes. Large companies may create several prototypes for a single idea. But, creating prototypes can be expensive. To save money, an entrepreneur may choose to create a prototype of only one of the designs. Once the prototype is approved, the product can go into full production.

Market the Product

Many businesses spend a lot of money to introduce new products. It is important to decide which marketing strategies will best reach the target market. The marketing strategies and the budget for marketing should be determined before the product is created.

Product Review

As the business matures, the market will change and product offerings will need to be adjusted for the business to remain competitive. Businesses constantly need to review product offerings to determine if the product mix is still correct for the market. Another way to remain competitive is to repurpose a current product. To repurpose a product is to use it for something different than its original function. A good example is Arm & Hammer baking soda. By positioning the product as a cleaning agent as well as a baking ingredient, the company got new life out of an old product.

A product life cycle consists of the stages a product goes through from the beginning to the end. Certain products, such as computers or cell phones, can have a short life cycle due to rapidly changing technology. The four stages of the product life cycle are introduction, growth, maturity, and decline, as illustrated in Figure 10-1. When a product enters the decline stage, it may be necessary to stop making or selling the product.

Introduction Stage

The introduction stage is the time when a new product is first brought to the market. At this stage, often very few people know about the product. The costs to create a new product tend to be higher. Also, sales are low in this stage. Therefore, a product may be the least profitable in this stage of the life cycle.

Growth Stage

The growth stage is defined as the period during which sales of the product increase rapidly. To keep the product sales high, new models of the product may be introduced. Modifications may also be made to the product to keep customers interested or meet new needs.
Chapter 10 Product, Price, and Place

Figure 10-1. The four stages of the product life cycle.

Maturity Stage

The maturity stage occurs when product sales are no longer increasing quickly, but they are not decreasing quickly. Maturity can happen when the market becomes saturated with a product or a newer, better product is introduced to fill the need. During the maturity stage, competition for customers is very intense. At this stage, it may also be important to look for new ways that customers might use a product or identify new markets for the product to avoid losing revenue.

Decline Stage

Mature products eventually enter the decline stage. During the decline stage, sales decrease. If sales rapidly decline, it may be time to stop producing the product. In some cases, sales may decline so much that the best decision is to stop selling the product.

Checkpoint 10.1

1. Explain the difference between tangible and intangible.
2. What is the product mix?
4. Why is packaging important to product strategy?
5. List the four steps of the product cycle.

Build Your Vocabulary

As you progress through this text, develop a personal glossary of entrepreneurship terms and add it to your portfolio. This will help you build your vocabulary and prepare you for a career as an entrepreneur. Write a definition for each of the following terms, and add it to your personal entrepreneurship glossary.

- product mix
- product line
- product positioning
- brand
- branding
- logo
- tagline
- prototype
- product life cycle
Section 10.2 Price

List Price

Most businesses have several tiers, or levels, of pricing. The list price is the established price printed in a catalog or on a price tag. The list price does not include any discounts, or price reductions. List price is sometimes referred to as full price.

Selling Price

The selling price is the price a customer actually pays for the product after discounts and coupons. It may also be called the market price. Discounts are shown as a percentage, such as 40 percent off, or as a dollar figure, such as $20 off. For example, an item you want to purchase has a list price of $100. It also has an advertised 40 percent discount. After applying the discount, the selling price is $60.

Manufacturer’s Suggested Retail Price

Some retailers use the manufacturer’s suggested retail price (MSRP), which is the list price recommended by a manufacturer. The

What Is Price?

Price is the amount of money requested or exchanged for a product. It is also one of the four Ps of marketing. Correctly pricing goods and services is a challenge for every business. There are three important parts to determining a correct price. The price:

- must cover the costs of producing and selling the product;
- should provide the desired level of profit for the business; and
- must be what customers are willing to pay for the product.

Some customers base purchases on product price alone.

Value is another important factor in pricing. Value is the relative worth of something to a person. Some business owners use price to establish and communicate the value of a product in the customer’s mind. Customers may be willing to pay more if they believe in the value of the product or service. A product’s value proposition or unique selling proposition explains the value of the product over others that are similar.
MSRP is only a suggested price. Retailers are not usually required to use it. However, some high-end manufacturers require retailers to use the MSRP. Often, these manufacturers produce well-known brands and do not want price competition among the retailers offering the products. For example, distributors of video games are usually required to use the MSRP so smaller stores can compete with larger stores. Large stores can buy in large quantities to reduce per-unit cost. If the large stores were not required to use the MSRP, they could set a price below what the smaller stores pay to purchase the same games. By requiring products to be sold at the MSRP, the brand name and price is preserved.

Pricing Factors

All businesses have factors that impact their pricing decisions. Expenses, competition, regulation compliance, a product’s life cycle, and supply and demand may affect prices. Each business will need to take into consideration some or all of these factors.

Expenses

All goods and services have certain expenses related to creating them and getting them to the end users. Expenses such as employee wages, shipping, utilities, rent, and other operating expenses affect pricing. There are two basic types of expenses: fixed and variable.

Fixed expenses do not change and are not affected by the number of products that are produced or sold. Fixed expenses include rent, salaries, and loan payments. Whether 100 or 1,000 items are sold in a month, fixed expenses remain the same.

Variable expenses change based on activity of the business. Variable expenses include advertising, packaging, and shipping. The cost of extending credit, which is discussed in a later chapter, may also be included. Figure 10-2 shows examples of fixed and variable expenses.

Competition

Competitors are going to pay attention to your prices. You need to also pay attention to their prices as well. Will you charge a higher price, a lower price, or match the price of competitors? As discussed in chapter 5, price competition is pricing a product lower than the competition to encourage customers to buy your product. Nonprice competition is positioning a product as more valuable to the customer because of service, appearance, or other factors unrelated to its price.

Governmental Regulations

There are many state and federal laws that regulate pricing to prevent monopolies and to promote fair competition. As discussed earlier, both businesses and consumers are affected by unfair pricing practices. Some unfair pricing practices include:

- bait and switch: it is illegal to advertise one product with the intent of persuading a customer to buy a more expensive item;
- price-fixing: it is illegal for a group of businesses to agree to keep their prices in the same range;
- price ceilings: laws may prohibit setting prices too high;
- price floors: laws may prohibit setting prices too low;
- price discrimination: it is illegal to sell the same product to different customers at different prices based on personal characteristics;
- deceptive pricing: pricing products in a way to intentionally mislead a customer is illegal; and
- predatory pricing: it is illegal to set very low prices to remove competition, such as foreign companies that price their products below the same domestic ones to drive the domestic companies out of business.
Product Life Cycle

The stage of a product in its life cycle influences pricing. In the introduction stage of many products, the prices are often higher. Higher prices may reflect the lack of competition and could help the business recover some development costs. When competitors enter the market during the growth stage, however, they may set lower prices to attract new customers. Products can become less expensive to produce during the growth phase, which would also help to lower the prices.

During the maturity and decline phases of a product, prices are often lowered even further to stimulate sales. Businesses hope to recoup declining revenues by selling more items at lower prices.

Supply and Demand

The supply of available product and the demand for the product sometimes determine its price. If everyone wants a product, demand is high. When there are not enough products to meet demand, the supply is low. High demand and low supply mean the business can charge more for the product because customers are likely willing to pay more for it.

If only a few people want a product, demand is low. If there are more products than there are people who want them, supply is high. In this situation, the price for the product must be lower to encourage customers to buy it. Pricing affects supply and demand as shown in Figure 10-3.

A market is elastic when a small change in price produces a relatively large change in the amount of the items demanded. A market is inelastic when the price of a product has no effect on the demand for it.

Pricing Objectives

Businesses set pricing objectives based on the short- and long-term financial goals for the company. The mission statement may also impact pricing objectives. For example, if the mission statement says the business is a price leader, that in part determines pricing objectives.

Keep in mind that pricing objectives are moving targets and will be regularly revised. The price of a product must be at a level that encourages customers to purchase the product. It must also be at a level that generates enough profit for the business.

Figure 10-3. The effects of pricing on supply and demand.
Maximize Sales

Maximizing sales is a pricing objective based on selling a large quantity of products at lower profit margins. A profit margin is the amount by which revenue from sales exceeds the costs of making the product and selling it. For example, if a product costs $10 to make and sell and it is priced at $15, the profit margin is $5.

Another way to maximize sales is to offer volume pricing. Volume pricing is when the list price is lowered based on the amount purchased. In volume pricing, the price decreases as the volume purchased increases. For example, the list price may be $25 each for quantities of 100 or less, $20 each for quantities of 101 to 500, and $15 each for quantities over 500.

Maximize Profits

Maximizing profit per sale is a pricing objective that revolves around fewer sales, but with increased profit margins. A business changes the highest price a customer will pay before deciding that the price exceeds the value. The high-end jewelry industry is an example of where maximizing profit per sale is used as a pricing objective.

Increase Market Share

Market share is the percentage of the total sales in a given market that one business conducts. All of the competing businesses account for 100 percent of the market. Market share is determined by dividing one company’s total revenue by the total revenue of the market. For example, four advertising agencies in a town have combined revenue of $4 million. If one of the agency’s revenue is $2 million, that agency has a 50 percent market share. The goal of increasing market share is to gain additional customers, which often means taking customers from competitors. It can also mean attracting new customers into the market.

Maximize Return on Sales

Return on sales (ROS) is a measure of a company’s profitability and is equal to the net income divided by total sales. ROS reflects how well a company has controlled costs. For example, if a business has a net income of $10,000 from sales of $20,000, the ROS is 50 percent.

\[
\text{ROS} = \frac{\text{net income}}{\text{total sales}}
\]

\[
= \frac{10,000}{20,000} = 50 \text{ percent}
\]

Improve Return on Investment

Return on investment (ROI) is a common measure of profitability for a business. It is based on the amount earned from the investment in the business. One way of determining ROI is to divide net profit by total assets. For example, if a business has a net profit of $50,000 and assets of $150,000, the ROI is 33 percent.

\[
\text{ROI} = \frac{\text{net profit}}{\text{total assets}}
\]

\[
= \frac{50,000}{150,000} = 33 \text{ percent}
\]

Create an Image

Pricing may influence how customers perceive the business or the product. The image of a business or product is how a customer perceives it. High prices tend to create an image of high-end products. Low prices tend to create an image of discount products. Be sure the image set by the pricing matches the image outlined in the business plan.

Pricing Strategies

To stay in business, all companies, except for nonprofits, must generate a profit. A pricing strategy to generate a profit is an important part of the business plan. Choose a pricing strategy based on the pricing objectives. There are many ways to set prices, but they all start with knowing a product’s break-even point.

The break-even point is where sales equal expenses. It is often expressed as the number of items needed to sell in order to recover
expenses. After the break-even point is reached, the business starts to make a profit. To determine how many units of a product must be sold to meet the expenses, complete a break-even analysis. A simple break-even analysis is:

\[
\frac{\text{cost} \times \text{number of units}}{\text{selling price}} = \text{break-even point}
\]

For example, a business sells tablet computers and recently ordered 100 units of a new model. Each tablet computer costs $140 to produce. The pricing strategy is to sell the tablets for $250 each. How many tablets would need to be sold to reach the break-even point? Complete the break-even analysis:

\[
\frac{140 \times 100}{250} = \frac{14000}{250} = 56 \text{ tablets}
\]

Cost-Based Pricing

Cost-based pricing uses the cost of the product to set the product’s selling price. The first step is to accurately determine the actual cost to the business of the item. Next, add the markup, which is the desired amount of profit added, to determine the final price. It is important to accurately estimate the profit needed based on product costs. The following equation expresses cost-based pricing.

\[
\text{cost} + \text{markup} = \text{selling price}
\]

In the previous example, the cost for computer tablets is $140 each. Suppose based on the other costs associated with buying and selling these tablets, you must make $156 in profit on each tablet. This form of markup is called dollar markup because it is expressed as a dollar amount, not a percentage. What would be the selling price?

\[
140 + 156 = 296
\]

Some businesses use keystone pricing. Keystone pricing is doubling the total cost of a product to determine its selling price. For example, under keystone pricing, the $140 tablet would be priced at $280 ($140 × 2). Most businesses use a percentage markup rather than a dollar markup to determine the selling price.

Demand-Based Pricing

Demand-based pricing is a pricing method based on what customers are willing to pay. It is also called value-based pricing and reflects the customer’s perceptions of a product’s value. Demand-based pricing is most effective when the product is unique or there is a high demand for it.

For example, a small business is the only one nearby selling new bracelets popular with middle school students. The students could order the bracelets online for $7 plus shipping and handling, but they would not arrive for weeks. Because they are in high demand, the small business can charge $12 for the bracelets and make a higher profit.

Competition-Based Pricing

Competition-based pricing is a pricing method based primarily on what the competitors charge. The business makes a decision to price above, below, or at the competitor’s prices. To effectively use a competition-based pricing strategy, monitor the competitor’s prices often and make necessary adjustments. Competition-based pricing does not take into account the cost of producing the product, however, and may not provide enough or any profit.

Pricing Techniques

The last step in pricing products is to select the techniques that work best for the product or service. There are multiple pricing techniques. Two common ones are psychological pricing and discount pricing.
Psychological Pricing

Psychological pricing is a pricing technique used by retailers to influence buying decisions. It relies on the nature of human psychology to make prices appear more attractive to consumers. There are six main types of psychological pricing:

- prestige pricing
- odd pricing
- even pricing
- buy one, get one
- bundling
- price lining

Prestige Pricing

Prestige pricing is setting prices high to convey quality and status. Customers see a higher price and think the product is better than lower-priced competing products. High-end fashion designers and car manufacturers often use prestige pricing.

Odd Pricing

Odd pricing sets the sale price so it ends in an odd number, most often 5 or 9. The psychology behind this technique is that $9.95 sounds less than $10.00, even though it is only a five-cent difference. Odd pricing conveys value.

Even Pricing

Even pricing sets the sale price so it ends in an even number, most often 0. Prices might be set at $40, $100, or $14,000. Customers see the even number and think the product is better than one priced for value. Even pricing conveys quality.

Buy One, Get One

The buy one, get one (BOGO) technique gives customers a free or reduced-price item when another is purchased at full price. Depending on the promotion, the items may be the same or similar. Some stores have buy two, get one promotions and other similar offers. The BOGO technique conveys savings and value.
Chapter 10 Product, Price, and Place

Bundling
Bundling combines two or more services or products for one price. Bundling can reduce the overall price when compared to buying the items separately. For example, a clothing store might bundle a $10 hat and a $20 T-shirt for a single price of $25. This bundled price saves the customer $5, and the store has sold two items instead of one. Bundling conveys savings and value.

Price Lining
Price lining is setting different levels of prices for similar products. This is done to differentiate between the quality and features of the products. Retailers sometimes use the terms good, better, best to describe their products and prices. Good conveys value, best conveys quality, and better conveys a balance between the two.

Discount Pricing
In retail businesses (B2C), when items are discounted from the list prices, they are on sale. Companies that sell products to other businesses (B2B) also use discount pricing techniques. The five most popular forms of discount pricing are:
- cash discount;
- promotional discount;
- quantity discount;
- seasonal discount; and
- trade discount.

Cash Discount
A cash discount is usually a percentage removed from the total invoice amount. It is offered to encourage a customer to pay a bill early. A cash discount often shows up in a format similar to 2/10, net 30. The 2 reflects the percentage off the invoice total. The 10 indicates the number of days the customer has to pay the bill to receive the discount. The 30 stands for the number of days the customer has to pay the bill without receiving a penalty. This discount would be read, “2 percent off if paid within 10 days, otherwise the entire bill is due in 30 days.” Cash discounts encourage customers to pay bills early, which helps the business’ cash flow.

Promotional Discount
Promotional discounts are offered for a limited time to entice customers to buy during that period. After the promotional period is over, the price goes back to the regular price. For example, a Fourth of July sale may offer 20 percent off an item, but on July 5th, the item is full price.

Quantity Discount
A quantity discount offers a reduced per-item price for larger numbers of an item purchased. Many companies offer quantity discounts as an incentive for buying more product. The more the customer buys, the more money he or she saves on each item. For example, if a customer buys 48 sweatshirts, the price may be $22 per shirt. If the customer buys 96 shirts, however, the price may be $18 per shirt.

Seasonal Discount
Seasonal discounts are special prices to encourage customers to buy at off-peak times of the year. For example, swimsuits may be on sale in February because summer is when most swimsuits are purchased at full price. Seasonal discounts can also apply to off-peak days or hours. A restaurant might offer Monday-night specials since Mondays are slow for the restaurant business.
Chapter 10 Product, Price, and Place

Trade Discount

A trade discount is the amount a vendor reduces the MSRP for businesses. This is a standard B2B procedure. Manufacturers give trade discounts to the stores so they can in turn resell the items at the full MSRP. This takes into account the fact that retailers must mark up product prices to make a profit.

Prices

After considering pricing factors, pricing objectives, pricing strategies, and pricing techniques, you are ready to set a price for the product or service. Review the mission statement and goals for the business to make sure the price is in line with what the business is trying to do. To streamline the process, many businesses use web-based pricing software or other pricing technology. Automating the process using technology makes it efficient and saves time in monitoring pricing.

Remember that pricing strategies may change as a business grows. Take into account that most businesses cannot sell every product at the list price. Some products may be put on sale, some on permanent clearance, and some donated to a charity.

Global Entrepreneurs

Mark Zuckerberg

In the early 2000s, Mark Zuckerberg was at Harvard University studying computer science and psychology and already had the knowledge to create a website. Little did he know then that in a few years the website he was to create would be the foundation of the multibillion dollar, international corporation Facebook. Zuckerberg founded the global social networking website Facebook with three of his Harvard classmates.

Facebook started on the Harvard campus as a website called FaceMash. Facebook was launched on February 4, 2004. Initially, it was only open to Harvard students. In March 2004, Facebook expanded to other Ivy League schools, including Columbia and Yale, as well as Stanford and NYU. In October 2005, Facebook went global. It expanded to the United Kingdom, Puerto Rico, and Mexico first, followed by other countries. Facebook’s international headquarters is in Dublin, Ireland.

Facebook earns revenue primarily by selling advertisements that are placed on Facebook pages, but a small percentage of revenue comes from payments and fees. Over one-third of Facebook’s revenue comes from international sources, and international revenue has been increasing every year. Since its launch in 2004, Facebook has become an essential tool in the world of international advertising.

Checkpint 10.2

1. List three important considerations when determining price.
2. Give three examples of unfair and illegal pricing practices.
3. Describe the importance of supply and demand in pricing your product.
4. What are two commonly used pricing techniques?
5. List the five most popular forms of discount pricing.

Build Your Vocabulary

As you progress through this text, develop a personal glossary of entrepreneurship terms and add it to your portfolio. This will help you build your vocabulary and prepare you for a career as an entrepreneur. Write a definition for each of the following terms, and add it to your personal entrepreneurship glossary.

value
list price
selling price
manufacturer’s suggested retail price (MSRP)
profit margin
market share
return on sales (ROS)
return on investment (ROI)
break-even point
cost-based pricing
markup
keystone pricing
demand-based pricing
competition-based pricing
psychological pricing
What Is Place?

Place is a part of the four P's of marketing. In marketing, place refers to the activities involved in getting a product or service to the end users, as illustrated in Figure 10-4. Place is also known as distribution. Physical distribution activities include order processing, warehousing or storage, material handling, and transportation. The objective of place is to deliver exactly what the end user wants. This must happen at the right time, in the right place, and at the right price.

Supply Chain

As discussed earlier, a supply chain is the businesses, people, and activities involved in turning raw materials into products and delivering them to end users. The supply chain for some businesses can be very short. For other businesses, it can be rather lengthy. One part of a supply chain consists of businesses that supply the raw materials, component parts, and other supplies to manufacturers for production. Another part of the supply chain is the businesses involved in logistics. Logistics is physically moving products from the manufacturers to distributors, retailers, or end users. The final part of the supply chain is selling the product or service to the end users, either consumers, businesses, or both.

Supply chain management is coordinating the events happening throughout the supply chain. Effective supply chain management results in the following benefits:

- streamlined inventories
- lower operating costs
- timely product availability
- increased customer satisfaction

The people or businesses between the manufacturers or producers and the end users are called intermediaries. There are several types of intermediaries, including wholesalers, retailers, and agents. Figure 10-5 outlines characteristics of intermediaries.

Wholesalers purchase large amounts of goods directly from manufacturers. They store the products and then resell them in smaller amounts to various retailers. Wholesalers are sometimes referred to as distributors. A retailer buys products either from wholesalers or directly from manufacturers and resells them to consumers. The Internet is also considered an intermediary between the businesses creating or reselling the products and the end users.

Agents, also known as brokers, are different from wholesalers because they do not take possession of the product. Instead, they bring buyers and sellers together. The agent may be hired by the buyer or the seller. For example, realtors are agents. They may represent
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Chapter 10  Product, Price, and Place

Channel of Distribution

The channel of distribution is the path that goods take through the supply chain. Think about the pencil you are using right now. How did it get from its original manufacturer to you? It may have been manufactured, sold to a wholesaler, sold to a retailer, and then purchased by you. Or, you may have bought it from the wholesaler's website. The path the pencil took to reach you is the channel of distribution.

Distribution is not free. There are many costs associated with getting products to the end users. These distribution costs increase the prices charged for goods or services. Therefore, it is important to find efficient ways to distribute products that keep costs under control.

Types of Distribution Channels

There are two distribution channels a product can take: direct or indirect. Figure 10-6 shows the two different types of distribution channels.

A direct channel is when goods or services go directly from the manufacturer to the end user. For example, a child care business provides services directly to the parent or guardian of the child. Most service businesses use direct channels of distribution.

An indirect channel uses intermediaries to get the product from the manufacturer to the end users. For example, a bicycle may go from the producer, to a wholesaler, and the retailer before reaching the end user.

Transportation Options

If the channel of distribution includes moving products from one place to another, there are a number of transportation options. The six main types of transportation are truck, train, plane, ship, pipeline, and digital, as shown in Figure 10-7.

Intermediaries

<table>
<thead>
<tr>
<th>Type</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesaler</td>
<td>• Breaks down bulk packages into smaller quantities for resale</td>
</tr>
<tr>
<td></td>
<td>• Buys from manufacturers or producers and resells to retailers</td>
</tr>
<tr>
<td></td>
<td>• Takes ownership of the products</td>
</tr>
<tr>
<td></td>
<td>• Provides storage facilities</td>
</tr>
<tr>
<td></td>
<td>• Often takes on some marketing responsibilities (i.e., provide marketing support in the form of shelf signs, flyers, or advertising)</td>
</tr>
<tr>
<td></td>
<td>• Extends credit to retailers</td>
</tr>
<tr>
<td></td>
<td>• Provides sales information and training</td>
</tr>
<tr>
<td>Retailer</td>
<td>• Has personal relationships with end users</td>
</tr>
<tr>
<td></td>
<td>• Takes on most of the marketing responsibilities</td>
</tr>
<tr>
<td></td>
<td>• Often extends consumer credit</td>
</tr>
<tr>
<td></td>
<td>• Sets the final selling price to end users</td>
</tr>
<tr>
<td>Agent (broker)</td>
<td>• Does not take ownership of products</td>
</tr>
<tr>
<td></td>
<td>• Connects buyers and sellers</td>
</tr>
<tr>
<td></td>
<td>• Takes a commission, which is a percentage of the sale of the product</td>
</tr>
<tr>
<td></td>
<td>• Is useful for international trade and for services</td>
</tr>
<tr>
<td>Internet</td>
<td>• Helps niche products reach a large audience</td>
</tr>
<tr>
<td></td>
<td>• Is convenient for making purchases</td>
</tr>
<tr>
<td></td>
<td>• Uses e-commerce technology for payments</td>
</tr>
<tr>
<td></td>
<td>• May eliminate some other intermediaries because producers can use it to reach end users directly and inexpensively</td>
</tr>
</tbody>
</table>

either the buyer or seller of a home. Realtors never take possession of the home, though. They bring together the person selling a house and the person who wants to buy it. The goal of an agent is to create a favorable exchange for both buyer and seller. Agents can be used anywhere in the distribution channel. They are especially useful in facilitating international trade.

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Figure 10-5. Each type of intermediary meets a different set of needs.

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Figure 10-6. Channels of distribution depend on the product or service that is delivered.

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## Transportation Modes for Distribution

<table>
<thead>
<tr>
<th>Transportation Mode</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Percentage of Products Shipped (determined by dollar value)</th>
</tr>
</thead>
</table>
| Truck (direct and indirect) | - Can deliver door to door  
- Flexible schedules  
- Can be modified for specific cargo (i.e., refrigerator trucks) | - Weather delays  
- Traffic delays  
- Maintenance problems | 87.4 |
| Train (indirect)          | - Send large quantities over long distances  
- Inexpensive  
- Can carry trucks closer to the destination  
- Can be modified for cargo (flatbed railcars for intermodal containers) | - Slower method of transportation  
- Minimal destination flexibility  
- Needs a second mode of transportation to get to final destination | 4.6 |
| Plane (indirect)          | - Fastest mode of transportation  
- Less chance of damage to items  
- Can save on warehousing as products arrive as needed | - Most expensive  
- Weather delays  
- Maintenance problems  
- Needs a second mode of transportation to get to final destination | 2.6 |
| Ship (indirect)           | - Send large quantities over long distances  
- Can be modified for cargo (i.e., tankers for oil)  
- Inexpensive | - Slowest method  
- No destination flexibility  
- Needs a second mode of transportation to get to final destination | 1.2 |
| Pipeline (indirect)       | - Not subject to weather delays  
- Fewer maintenance issues  
- Low operating costs | - 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 | 4.2 |
| Digital (direct)          | - Low to no operating cost  
- Easy access  
- Very fast delivery | - Only for electronic products or services | unknown |

**Figure 10-7.** Each transportation method has its drawbacks.

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### Place Strategies

The first and most important strategy related to place is determining the exact channel of distribution. For example, products that must get to end users quickly need a direct channel or a short indirect channel. Milk is an example of a product that must reach the end user quickly. Durable products with no expiration date can have a longer channel of distribution.

The strategy for place should provide timely delivery for the lowest cost. Transportation, storage, and utility costs are factors to consider when determining the strategy for place.

#### Transportation Costs

Each type of transportation has different costs, efficiencies, and time constraints. For example, when shipping large quantities of durable products, it may be okay to choose a less expensive, slower mode of transportation. However, when shipping perishable goods, a more expensive, faster mode of transportation may be necessary.

#### Storage Costs

Storage is also critical to the strategy for place. Products need protection from weather, theft, and damage. Retail and manufacturing businesses need areas to store physical inventory. This may increase distribution costs, which will affect the final product pricing. If a business does not have enough storage space in the facility, it will need to rent, lease, or build space.

Large companies, such as Neiman-Marcus and Ford, have their own storage facilities. Smaller companies often either lease a storage facility or use wholesalers to store products until they are needed. Some warehouse facilities provide delivery to the end user. By using this type of warehousing service, a business can reduce inventory-storage costs and losses due to damage or theft. Managing inventory is discussed in chapter 15.

#### Utility Costs

**Utility** is the attribute that makes a product capable of satisfying a need or want. There are four types of utility that add perceived value—place, time, possession, and form. All of these utilities are associated with the distribution of products or services from the creators to the end users. Based on the specific product or service, some utility costs will be necessary and directly affect place strategies; others will not apply.
Chapter 10 Product, Price, and Place

Place Utility

Place utility means placing products where they are needed and are useful. For example, if you sell sunscreen lotion, it makes sense to have it available at the beach where people who need it can buy it.

Time Utility

Time utility is getting a product delivered to the end user when it is needed. Timing is everything. If the product is late, the business could lose a customer and goodwill is damaged.

Possession Utility

Possession utility is the satisfaction that a customer receives from owning a product or receiving a needed service. An example of possession utility is owning a car you have wanted for a long time.

Form Utility

Form utility increases the desirability of a product by physically changing it. For example, changing a laundry detergent from powdered to liquid form may mean it works better in some washing machines.

Checkpoint 10.3

1. What is a supply chain?
2. List three types of intermediaries.
3. What are the two types of distribution channels?
4. List the six main types of transportation.
5. What are the four types of utility?

Build Your Vocabulary

As you progress through this text, develop a personal glossary of entrepreneurship terms and add it to your portfolio. This will help you build your vocabulary and prepare you for a career as an entrepreneur. Write a definition for each of the following terms, and add it to your personal entrepreneurship glossary.

- place
- supply chain management
- intermediaries
- channel of distribution
- direct channel
- indirect channel
- utility

Chapter Summary

Section 10.1 Product

- Product, together with place, price, and promotion, make up the four Ps of marketing. A product can be a good, service, or idea.
- Using the appropriate product strategy will help the business out-sell the competition and meet a consumer need. Product strategies include branding, packaging and labeling, and developing new products.

Section 10.2 Price

- Price is one of the four Ps of marketing. A product’s price will have a significant effect on whether or when a company will make a profit.
- Pricing decisions are determined by a number of factors. Included among these are expenses, competition, laws and regulations, product life cycle, as well as supply and demand.
- Price objectives are driven by the short- and long-term goals of the company. Finding the right price requires finding the right balance between an amount at which customers will buy and one that generates enough profit for the business.
- Pricing strategy is based on a company’s pricing objectives. Pricing can be cost-based, demand-based, or competition-based.
- Pricing techniques include psychology pricing and discount pricing. Psychology pricing is most often applied to retail prices, the price at which something is sold to a consumer. Discount pricing is used in both B2B transactions as well as B2C transactions.
- Many businesses use web-based pricing software or other pricing technology when determining prices. Using technology makes the process more efficient.

Section 10.3 Place

- Place is one of the four Ps of marketing. Place is the means by which customers will receive the products.
- Efficient management of a supply chain is important to a business’ success. Effective supply chain management streamlines inventories, lowers operating costs, ensures timely product availability, and increases customer satisfaction.
Chapter 10 Product, Price, and Place

The paths that goods take through the supply chain are channels of distribution. There are both direct and indirect channels of distribution. Choosing which channel to use is first based on the type of good being sold. Transportation, storage, and utility costs are factors that impact place strategy. A place strategy is determining how to get products to customers in a timely manner at the lowest cost.

Check Your Entrepreneurship IQ

Now that you have finished the chapter, see what you learned about entrepreneurship by taking the chapter post test. If you do not have a smartphone, visit the G-W Learning companion website.

Review Your Knowledge

1. Describe a product line.
2. Why is branding important for a business?
3. Describe the process of developing a new product.
4. What is the difference between the list price and the selling price?
5. Explain the difference between fixed expenses and variable expenses.
6. Why does product life cycle affect pricing?
7. List and describe some of the guidelines that can be used to set pricing objectives.
8. Discuss the differences between cost-based pricing, demand-based pricing, and competition-based pricing.
9. Describe what makes up the supply chain.
10. What are some of the place decisions an entrepreneur must make?

Apply Your Knowledge

1. You have selected the product or service that you want to create. Describe the product mix. How many product lines will you have? What is the product line, product item, and product width?
2. Create the brand that you might use for your product. If appropriate, create a logo or slogan.

Teamwork

Working with your teammates, select a product that your team would like to sell to customers. Create a flow chart showing the supply chain. What did you learn from this exercise?

G-W Learning Mobile Site

Visit the G-W Learning mobile site to complete the chapter pretest and post test and to practice vocabulary using e-flash cards. If you do not have a smartphone, visit the G-W Learning companion website to access these features.

G-W Learning mobile site: www.m.g-wlearning.com
G-W Learning companion website: www.g-wlearning.com

Common Core

Speaking. Using the Internet, research information on unique selling proposition (USP). Present your findings to the class using visuals to convey examples to your audience.

Listening. Listening combines hearing with evaluating. While your teacher is presenting a lesson, take notes and evaluate his or her point of view about the material that is being presented. What did you learn about listening?
Community Service Project

Many competitive events for Career and Technical Student Organizations (CTSOs) student organization competitions offer events that include a community service project. This project is usually carried out by the entire CTSO chapter and will take several months to complete. There will be two parts of the event—written and oral. The chapter will designate several members to represent the team at the competitive event.

To prepare for this event, complete the following activities.

1. Read the guidelines provided by your organization. Make certain that you ask any questions about points you do not understand. It is important you follow each specific item that is outlined in the competition rules.
2. Contact the association immediately at the end of the state conference to prepare for next year’s event.
3. As a team, select a theme for your chapter’s community service project.
4. Decide which roles are needed for the team. There may be one person who is the captain, one person who is the secretary, and any other roles that will be necessary to create the plan. Ask your instructor for guidance in assigning roles to team members.
5. Study chapter 3.
6. Identify your target audience, which may include business, school, and community groups.
7. Brainstorm with members of your chapters. List the benefits and opportunities of supporting a community service project.
8. This project will probably span the school year. During regular chapter meetings, create a draft of the report based on direction from the CTSO. Write and refine drafts until the final report is finished.

Building Your Business Plan—Putting the Puzzle Together

Product, Price, and Place

Three of the four Ps of marketing—product, price, and place—were discussed in this chapter. Research plays an important role in making the product, price and place decisions. The first step is to offer the products or services your target market wants and needs. The second step is to price your products or services competitively, yet still make a profit to remain in business. The third step is to manage your business’ supply chain so the products get to the customers when and where they are needed. Product, price, and place strategies will be closely examined by potential funders.

Goals

• Identify the features and benefits of your business’ products or services.
• Choose a pricing strategy.
• Describe the business’ supply chain and best channel of distribution.
• Create business plan notes.

Directions

Access the Entrepreneurship companion website at www.g-wlearning.com. Download each data file for the following activities. A complete sample business plan is available on the companion website to use as a reference. The name of the file is Bus Plan_Sample.RetroAttire.docx.

Preparation

Activity 10-1. Product. Describe the products or services your business will offer. Discuss the features and benefits for each and write your unique selling proposition (USP).
Activity 10-2. Price. Choose one of your business’ products or services and research all the fixed and variable costs that may affect its final pricing. Research the competition as well.
Activity 10-3. Place. Describe the supply chain and channel of distribution for your business’ products or services.
Activity 10-4. Business Plan Notes. Create notes about the research you did when determining the strategies for your business’ product, price, and place.

Business Plan—Business Description and Operations

Now it is time to finalize the products or services you plan to offer. You will also determine how to price your products and deliver them to the end users. In this activity, you will start to write the Products or Services subsection of the Business Description section and the Marketing Strategies subsection of the Operations section.
1. Open your saved business plan document.
2. Locate the Business Description section of the plan. Begin writing the Products or Services subsection.
3. Locate the Operations section of the plan. Begin writing the Marketing Strategies subsection of your plan. At this point, you will address the Product, Price, and Place portions of this subsection.
4. Use the suggestions and questions listed to help you generate ideas. Delete the instructions and questions when you are finished recording your responses. Make sure to proofread your document and correct any errors in keyboarding, spelling, and grammar.
5. Save your document.