**Prices in a Private Enterprise System**

**Lesson Plan Outline**

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| **Outline** | **Notes to Instructor** |
| 1. Value and Price 2. Pricing Factors 3. supply and demand 4. uniqueness 5. age 6. season 7. complexity 8. convenience 9. Price for a Product-money a customer must pay for a product or service 10. includes product costs, operating expenses and a profit 11. markup- amount added to the cost of a product to set the selling price equal to the expected gross margin 12. markdown-a reduction from the original selling price | The age of a product can either decrease or increase the price. Rare antiques and  fine wines go up in price with age while vehicles and equipment decrease in price due to age.  The markup for most clothing stores is at least 200%. Explain to students why it is worth waiting for the 50% markdown. Clothing stores must move their merchandise. |
| 1. Price as a Marketing Tool 2. Satisfaction about a purchase is often times directly related to price 3. price determines how much money a business will make to cover the costs of designing, producing, and marketing its products or services 4. Importance of Price 5. satisfactory price-consumer views the purchase as a value 6. price-money that a customer must pay for a product or service (with a lot deeper meaning) 7. price is one of the four elements of the marketing mix 8. price is the actual cost and the methods of increasing the value of the product to the customers 9. pricing-establishing and communicating the value of products and services to prospective customers 10. Price Adjustability 11. price can be changed more quickly than other marketing decisions 12. can be as simple as changing a price sticker or marking out an old price | When people pay high prices, they expect high quality and excellent service. For some people price is related to quality. An expensive meal must meet the high expectations of the customer.  Some stores seem to always be having the “sale of the year.” Pricing is one element of the marketing mix that can be adjusted frequently to increase the traffic flow of customers. |
| 1. Price as an Economic Concept 2. people have unlimited wants and needs that they try to satisfy with the limited resources that available to society 3. price allocates available resources among people 4. economic utility-value added through changes in form, time, place, or possession 5. elasticity of demand-describe the relationship between changes in a product’s price and the demand for that product 6. based on the number of good substitutes for a product 7. based on the willingness of consumers to go without a product if the price rises too much 8. inelastic demand-a price decrease will decrease total revenue 9. elastic demand-a price decrease will increase total revenue | Adults are no different than kids— we always want more than we can afford.  Some products are more desirable than others. Spending money on a vacation is much more attractive than spending money for funeral pre-planning.  Spending money for a new automobile is much more fun than spending money on the insurance to protect the automobile.  Utility also refers to usability to the consumer. A bolt of cloth is not nearly as valuable to the consumer as the suit that was made from the cloth. |
| 1. Setting Price Objectives 2. Maximize Profits 3. Increase Sales 4. Maintain an Image | Individuals take the risk of operating a business to make a profit. Pricing strategies are sometimes based upon the image that the business desires to maintain. |
| 1. Determining a Price Range 2. Maximum Price 3. Minimum Price 4. Breakeven Analysis-breakeven point is the quantity of a product that must be sold for total revenues to match total costs at a specific price 5. Information to Calculate Breakeven Point 6. Fixed Costs 7. Variable Costs 8. Total Costs 9. Product Price 10. Total Revenue 11. Calculating a Selling Price 12. product cost-cost of producing or buying the product 13. gross margin-difference between the cost of the product and the selling price 14. operating expenses-all costs associated with actual business operations 15. net profit-difference between the selling price and all costs and operating expenses associated with the product sold 16. markup-an amount added to the cost of a product to determine the selling price 17. markdown-reduction from the original selling price | Ask students to survey the manager of a store where they shop. Ask the manager how and when markdowns are determined. Do the markdowns increase customer traffic to the store? What is the best promotion to advertise the sale prices? |
| 1. Pricing Based on Market Conditions 2. Competitive Environment 3. Product Life Cycle 4. types of competition change during product life cycles 5. skimming price-high price designed to emphasize the quality or uniqueness of the product 6. penetration price-a very low price designed to increase the quantity sold of a product by emphasizing the value 7. Consumer Purchase Classifications provide an example of different levels of price competition 8. staple convenience goods and price based shopping goods illustrate intensive price competition 9. customers see few product differences 10. Non-Price Competition 11. de-emphasizes price 12. carefully study the needs of a target market 13. find out things customer find dissatisfying about the competition 14. develop a better, more satisfying marketing mix | When a product is at the end of its life cycle, the price should decrease dramatically. A good example of this concept involves computers that become obsolete or new televisions that replace the previous greatest models.  Dollar Stores have become increasingly popular because consumers do not feel a need to spend large sums of money on staple convenience goods like toothpaste and toilet paper. |
| 1. Pricing Strategies 2. Price Flexibility 3. one-price policy-all customers pay the same price 4. flexible pricing policy-allows customers to negotiate the price within a price range 5. Price Lines-distinct categories of prices based on differences in product quality and features 6. Geographic Pricing 7. FOB Pricing-identifies the location from which the buyer pays the transportation costs and takes title to the products purchased 8. zone pricing-different product or transportation costs are set for specific areas (zones) of t he seller’s market 9. Discounts and Allowances-reductions in a price given to the customer in exchange for performing certain marketing activities or accepting something other than what would normally be expected in the exchange 10. quantity discount 11. seasonal discount 12. cash discount 13. trade discount 14. trade-in allowance 15. advertising allowance 16. coupon 17. rebate 18. Added Value-changing the customer’s perception of value by making additions to the purchase | Automobile dealerships have price lines for different types of vehicles. The GM dealership has the Buick and Cadillac price lines.  FOB pricing affects the final price of a product. FOB dictates whether the producer or the final consumer pays the cost of shipping the merchandise.  Individuals and businesses are constantly looking for discounts to improve profit margin.  Incentives are given for paying on time, paying with cash, and trading in used equipment.  When individuals shop for a new automobile, the dealership will give them a trade-in allowance for their old automobile. Consumers should look up the blue book value of their used vehicle before shopping for the new car to make sure that the dealership is giving them a fair deal. |