

TIME REQUIRED

One to two ninety-minute block classes for marketing students

OBJECTIVES

At the conclusion of this lesson, students will be able to understand concepts and strategies utilized in determining and adjusting prices to maximize return and meet customers' perceptions of value. Students will develop a foundational knowledge of pricing to understand its role in marketing.

PERFORMANCE INDICATORS

- Explain the nature and scope of the pricing function
- Explain factors affecting pricing decisions

MARKETING CLUSTER CORE | INSTRUCTIONAL AREA: PRICING

ACTIVITIES & ASSESSMENT

BELL RINGER

What's in a price?

CLASSROOM ACTIVITY

Pricing products for automated retailing and SBE

CLASSROOM ACTIVITY

Pricing Spirit Factory products for automated retailing

QUIZ

Pricing products and considerations for automated retailing

INSTRUCTIONAL CONTENT

SLIDE 1

BELL RINGER: What's in a price?

At the beginning of the class, introduce this module by asking students to work in pairs or small groups. Provide the product features and benefits for the Apple iPad Air Retina tablet including retail price of \$579 (Or use a product spec sheet of your choice). Product specs for the iPad Air can be found at the following website: <https://www.apple.com/ipad-with-retina-display/specs/>

- Ask students to brainstorm on **why** Apple selected this price as the retail selling price. Spend about 5 minutes in small groups then share out answers.

Hand out trade journal article—or pull up online article on promethean board/smart board and discuss highlights of the article. <http://venturebeat.com/2012/03/17/ipad-teardown-reveals-375-10-total-cost/>
- Students will learn through this article that the total cost to produce this Apple tablet is \$375.10. The rest is profit; more than 50% markup over total cost of production.
 - What other costs might be involved in getting the product from the producer to the consumer?

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- How do these costs impact price? How does the distribution channel impact the retail price? How does promotion impact the retail price?
- Point out to students that 3 of the 5 P's of Marketing become factors to consider when pricing a product.

Example: Product (cost of goods and packaging); Place (distribution costs); and Promotion (advertising costs)

SLIDE 2

Price: the cost of a good or service

Price can also be defined as an exchange (typically a monetary exchange) in order to obtain something.

The price of goods and services is established to fulfill a successful exchange process with the customer. From the customer's perspective, price is what must be given up in order to get something that they want. From the seller's perspective, price is revenue that is gained for a product that leads to profit for the seller.

SLIDE 3

Making good pricing decisions is critical to the success of the business. If a product is priced too high or too low, it can create a loss for the business.

Often, the term price is used interchangeably with the term cost—however, the two are very different.

- Price is what a customer pays a seller—usually a retailer
- Cost is what the seller incurs (which may include cost of production) to obtain the product
 - **Example:** Your school based enterprise might pay a cost of \$15 each for a hooded sweatshirt that is custom printed. Typically that cost is based on a minimum order quantity, which becomes an investment in inventory. However, the price for which you sell the sweatshirt in your retail store may be \$25 each—or more or less. That pricing decision is your decision.

SLIDE 4

There are a number of factors which affect pricing decisions – these factors may be categorized as internal and external factors.

- **Internal factors** are those things that are within the control of the business, or can be altered by the business, such as: cost of goods, operating expenses, and the business product mix.
 - **Cost of goods** is the amount it costs to produce a product or bring a product through the distribution channels and make it available to the customer for purchase.
 - **Operating expenses** are the cost of running the business.
 - **Product mix** are all of the products the business offers for sale.
- **External factors** are those things that occur outside of the business operation and cannot be controlled by the business, such as: supply and demand, government regulations, competition, and natural and economic events.

SLIDE 5

The main objective in pricing a product is for the business to make a profit.

Retailers and School Based Enterprises need to have a clear understanding of all of their costs involved in offering the product for sale and understand the internal and external factors that impact their business.

The same holds true for operating an automated retailing kiosk. It's imperative that the business understands additional costs to the retailer to sell the product through the automated retailing system.

Automated retailing kiosks (Spirit Boxes) definitely have additional costs of doing business. Examples of those costs include: leasing fee, credit card processing fee, costs associated with specialized packaging for dispensing the product, costs for labels or printing of labels.

SLIDE 6

Leasing fees are the amount of money exchanged for rental or use of a product or property. With automated retailing, many retailers lease the kiosk as opposed to purchasing their own machine. Purchasing the retail kiosk is certainly an option but often price prohibitive for some retailers- particularly a school-based enterprise. This fee becomes a cost of providing the product to the customer at the right place. This cost needs to be considered when pricing the product.

Credit card processing fees are fees that are charged for each credit card transaction. This fee is also assessed to retailers who accept credit card purchases in their bricks and mortar stores or online stores. These fees vary based on the contract that is negotiated but typically 2.5% to 3% of the total transaction is charged to the retailer for the convenience of offering credit card purchases. This becomes another cost to consider when pricing products for sale in the automated retail kiosk.

Specialized packaging and labels refers to the type of bag or packaging that the retailer places the product in to ensure it properly vends and is not damaged during the vending process. In some cases, the retailer may need to purchase labels to adhere to the packaging that provides product information for the customer to make an appropriate choice. Packaging and labeling would add an additional cost of vending for the retailer and must be considered in pricing the product.

How will these costs impact the pricing decisions of products that you sell through the automated retailing system (Spirit Box)?

If a school-based enterprise operates in a traditional retail space within the school and adds an automated retailing kiosk in a different location of the school, what price considerations need to be examined?

Will a T-shirt that sells for \$10 in the school store still be sold for \$10 in the kiosk, or will you increase all of your T-shirts to ensure you have accurately priced the product?

Will the pricing decisions for the kiosk change your product mix for the kiosk?

SLIDE 7

CLASSROOM ACTIVITY: Pricing products for automated retailing and SBE

Students may work individually or with a partner. Ask students to create a chart similar to the chart shown in the PowerPoint presentation. Provide cost information to the students for each product. Students should list all internal and external factors that would impact the price of the product and then determine the retail selling price for each product.

SLIDE 8

Example of how students might complete a chart comparison, as shown on the PowerPoint slide:

Product	Internal Factors	External Factors	Pricing Decision Based on Internal and External Factors:
NIKE polo; custom embroidered with school mascot	Cost of item: \$25 ea Packaging for Spirit Box: .20 Credit card processing fee for Spirit Box: 2% of all credit card purchases Company goals/profit objectives	Boosters online selling price for similar NIKE polo: \$45 Price of other school stores in our district: \$40 Target market brand awareness	Total cost of goods—including packaging and credit card processing fee: \$25.22 Company Objective: 50% markup on apparel Retail price: \$39

SLIDE 9

CLASSROOM ACTIVITY: Pricing Spirit Factory products for automated retailing

Using the Spirit Box merchandise website (www.spirit-factory.com), select five products that you think would be successfully marketed through automated retailing. Price each product based on the cost to your store.

- Ensure that you have at least a 40% markup on the product (you may mark up higher if you believe the market will accept that value for the product).
- Also be sure to include any other costs that are involved with selling the product through an automated retailing kiosk.

ASSESSMENT AND FOLLOW-UP

QUIZ: Pricing products and considerations for automated retailing

RESOURCES AND MATERIALS

Online Resources and Trade Journal Articles:

- www.sba.gov/community/blogs/how-price-your-small-business%E2%80%99-products-and-services
- <http://venturebeat.com/2012/03/17/ipad-teardown-reveals-375-10-total-cost/>
- www.knowthis.com/pricing-decisions/factors-affecting-pricing-decision
- <http://automatedretailmachines.com/company-info/what-is-automated-retail/>
- www.learnmarketing.net/price.htm
- <http://kiosk.com/market-solutions/vending-rental>
- www.entrepreneur.com/article/63012
- www.spirit-factory.com Website for custom print spirit products

Books and Textbook Resources:

- *Marketing Essentials*, Glencoe

QUIZ

PRICING PRODUCTS & CONSIDERATIONS FOR AUTOMATED RETAIL

True or False: Mark a T beside each statement that is TRUE and an F beside the statements that are FALSE.

- _____ 1. Price is defined as the cost of a good or service.
- _____ 2. From the customer's perspective, price is what must be given up in exchange for a good or service; from the seller's perspective, price is the revenue that will be gained in the exchange of a good or service.
- _____ 3. In pricing products in an automated retail kiosk, the cost of the product is the only consideration that the seller needs to take into account when calculating the retail price.
- _____ 4. Price and cost are the same.
- _____ 5. Internal and external factors impact how retailers price products.

Application:

Explain how your school-based enterprise applies PRICING decisions to the operation of your automated retail kiosk.

QUIZ ANSWER KEY

PRICING PRODUCTS & CONSIDERATIONS FOR AUTOMATED RETAIL

True/False Key:

1. True
2. True
3. False
4. False
5. True

Short Answer Key:

Responses will vary. Answers should include such responses as: other costs such as packaging, credit card fees, or leasing fees are factored into the final retail price; products are priced using a markup of "X" %; competition and the price of neighboring school stores impact the final determination of retail price; customer perception of the value of the product is considered in determining the retail price, etc.