Chapter 3-Your Purchasing Power

Section 2-Prices and Consumer Choices

Setting Prices in a Market Economy

- Prices are affected by a number of factors:
  - A producer’s desired profit
  - Consumers’ purchases
  - When setting prices the following should be considered:
    - Too high of a price could result in consumers not buying the product
    - Too low of a price could cause consumers to perceive the item as being “cheap” causing low demand for the product
    - Too low of a price could cause a company to not make any profit on the sale of the product
    - A normal profit- allows a business to survive as well as grow

Methods of Price Setting

- **Cost-Recovery Pricing**: setting an introductory price high to recover the R&D (research and development) costs
  - Prices are set high when product is introduce to help recover R&D costs
  - Spurs competition to make generics (inexpensive substitutes)
- **Cost-Plus Pricing**: setting a price based on production cost plus markup
  - Compute the per-unit cost of producing a product
  - Add a markup to obtain the price
    - **Markup**-The percentage amount added to production cost to obtain the price of an item
  - Ensures that the company will make a certain profit on the product if it sells successfully

Methods of Price Setting

- **Value-based pricing**-setting prices based on how much consumers are willing to pay
  - Seller of product tries to determine how much consumers are willing to pay for a product
  - Companies do market research to determine demand
- **Market-based pricing**-setting prices to be competitive with prices of similar products currently being sold
  - Prices are set to be competitive
  - Consumers are most likely to purchase from the business with the lower price
  - Easiest form of setting prices
- **Marketing mix**-group of products or services offered for sale by a business at any point in time.
- **Product differentiation**-sellers with similar products try to market their product as different or better than other products.

Buying Strategies

- **Rational buying**-the process of selecting goods and services based on need, want and logical choices
- **Emotional buying**-the process of purchasing products based on desire rather than logic
  - Making purchases based on emotions
  - Feeling sad, lonely, angry or some other emotion can cause you to make unwise purchases using your emotions rather than logic to drive choices
  - Don’t go shopping when you are in an emotional state

Buying Strategies

- **Impulse buying**-purchasing something on the spur of the moment without any planning
  - Buyers see merchandise at checkouts and grab it on impulse
  - Items may or may not be returned for a credit or refund
    - Ways to avoid impulse purchases:
    - Make a list and stick to it
    - By sticking to the list you wander off into departments that you don’t need to make purchases from
    - Don’t browse the end caps at the checkout lines
- **Buyer’s remorse**-when the buyer later realizes that they made a poor buying decision

Buying Strategies (continued)

- **Economizing**-Saving as much money as possible and spending money only when necessary
  - Consumers wait until it is necessary to buy a product
  - Buy as little as possible at the lowest price they can find
  - Don’t buy large quantities
  - Don’t buy more than needed
  - Goal is to spend as little as possible for the product they need
  - Can lead to savings and better buying habits
  - May spend no or little money on luxury items
  - Consumers use this strategy during certain times to save money for later spending or investing
  - Consumers may spend less on items for basic needs, such as food or clothing

Buying Strategies (continued)

- **Optimizing**-getting the highest value for the money spent
  - May need to purchasing large qualities to get the value
    - When items are sold in large qualities the price is usually cheaper per item than when that item is sold individually
    - Calculate cost per item or per unit by dividing the price by product count or unit
    - Example: package of cookies $2.29 with 48 cookies =.047 cents per cookie
      - If a serving is 2 cookies than the cost per serving is .095 per serving
    - Calculating the price per unit allows you to get the best purchase for money spent
  - May need to purchase high-quality products
  - Demand is higher when prices are lower
  - Customers may buy more product to take advantage of lower prices
  - Shoppers may buy items they don't need simply to take advantage of a bargain

Calculating Unit Prices

- When making purchases you should calculate the cost per unit to get the best buy possible for your money.
- To calculate: take price and divide by quantity
  - Example: 3 packages of cookies
    - $3.39 for 24 cookies
    - $2.79 for 18 cookies
    - $4.75 for 36 cookies
- What's the cost per cookie per package? Which one is the best buy?
  - 3.39/24=.141 cents per cookie
  - 2.79/18= .155 cents per cookie
  - 4.75/36=.131 cents per cookie