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BUS 306-

4/3/14

Graded Assignment #3

**Chapter 11**

*Discussion Questions*

1. Market-skimming pricing occurs when a company introduces a new product at a certain price, and in time, this price drops. As the price drops, it is known to drop in “layers,” each layer appealing to a new customer with a new price range. This strategy works when the product’s quality, image, and demand meet the initial high price-point. In addition, the cost of making the product must be low enough, that when the price drops, the company is still making a profit. Lastly, the product, combined with the price, should not allow competitors to come into the market and sell their similar product for less.

An example of a product using the market-skimming pricing strategy is the Apple iPhone. When the iPhone is introduced, the price to purchase the phone is close to $600. This price point attracts a line of customers outside the Apple store who are all willing and able to pay the price for the brand new phone. This price later drops when a new version comes out, and a new set of customers are able to purchase the phone at the lower price. Lastly, the price drops even more right before that specific version of the iPhone will no longer be sold. Again, this drop attracts a new set of customers that are now able to purchase the phone.

Market-penetration pricing occurs when a company introduces a new product or service at an initially low price. This strategy is known as penetrating the market because it attracts a large number of customers and earns market share as soon as the product is introduced, rather than having to wait to accumulate these things. In order for market-penetration pricing to work, price must play an important factor in the market. The low price must be noticeable in order to increase the number of customers and gain the initial market share. In addition, the low price must remain constant and must keep out competition. In order to remain constant, it is important for the company to be able to decrease costs as volume increases.

An example of a company using the market-penetration strategy is Wal-Mart. From the start, Wal-Mart penetrated the market with its incredibly low prices. Since, it has managed to continue these low prices, while removing competition (Kokemuller, 2014).

1. There are many discounts used by companies to reward customers. First, a cash discount rewards consumers for paying their bills early. An example of this would be if a customer’s bill was due in 30 days, the company might give a percentage discount if the bill is paid within ten days. Next, a quantity discount reduces the price of larger quantity sales. The best example of this discount is when businesses purchase goods through wholesale. The business buys a large quantity of the product, which gives them a discount on pricing. A functional discount, or trade discount, is offered to businesses that perform functions for the company. Lastly, a season discount is a discount given when merchandise that is out of season is purchased. Seasons can include summer, winter, spring, and fall, or holidays such as Christmas, Easter, and Halloween.
2. Dynamic pricing occurs when a price is continually adjusted to meet the needs of the consumer. This pricing strategy is completely legal as long as discrimination based on age, gender, race, etc. is not performed. Dynamic pricing is prevalent online because this is where pricing has become more fluid. Companies like L.L. Bean and Amazon practice dynamic pricing by customizing prices based on a customer’s previous shopping experience, needs, and situation.

*Critical Thinking Question*

1. In order to research the psychological pricing tactic, “just below” or “9-ending”, I chose two products to research online at three different retailers. The products I chose are a reusable water bottle and a cooler, and the retailers I chose are Sports Authority, Target, and REI. A table of my findings is shown below.

|  |  |  |  |
| --- | --- | --- | --- |
| Product | Target | REI | Sports Authority |
| .75L CamelBak Reusable Water Bottle | $14.99 | $15.00 | $15.99 |
| 54Q Coleman Steel Belted Cooler | $100.00 | $109.95 | $149.99 |

Among the stores researched, Target and REI had the best prices. I found myself drawn to the prices ending in two zeros over the prices ending in nines. For the water bottle, I justified this by thinking about the pleasant experience I always have at REI. I decided it would be worth the extra cent to receive the better experience. However, with the cooler, I was drawn toward target because I was thinking $100 even is a *much* better deal than $109.95, even though it is really only ten dollars difference.

Companies use this pricing tactic to play on the psychological factors of the human brain. Although once cent or one dollar is not actually a large difference, the psychological difference is larger.

**Chapter 12**

*Discussion Questions*

1. Responsibilities of channel members vary depending on the company. The producer and intermediaries of the company agree upon the specific duties the channel members will carry out. These include: price policies, conditions of sale, territory rights, and services to be performed. Responsibilities of channel members include gathering and distributing information, promoting and developing offers, finding and facilitating communication with buyers, modifying offers to meet the buyer’s needs, and negotiating with buyers. In addition, some members are also responsible for the physical distribution of goods, financing, and risk taking. These duties vary and are dependent on the company.
2. A multichannel distribution system occurs when a company sets up more than one marketing channel in order to reach different market segments. An example of this is a company that sells its product online and reaches customer segment number one. It also sells directly through its sales representatives to reach customer segment two, and lastly, it sells to a retailer to reach customer segment number three. Each of these channels contributes to the company’s multichannel distribution system.

There are both advantages and disadvantages to this system. By using this system, a company is able to reach more customer segments, therefore, increasing its sales. In addition, the company is able to tailor its products to meet the needs of the customers through certain channels, as discussed in Chapter 11. The disadvantages of using a multichannel distribution center include competing channels for sales. In addition, they are harder to control, and require more attention.

1. In order to determine the number of channel members to use, a company can use one of three strategies: intensive distribution, selective distribution, or exclusive distribution. Intensive distribution requires the company to “stock their products in as many outlets as possible.” (Kotler & Armstrong, 2014). Examples of products that are intensively distributed are candy, chips, toothpaste, etc. These products are available where consumers want them and when they want them. Next, selective distribution is a tactic in which a company distributes a product or line of products to more than one channel, but not to all channels willing to carry it. For example, appliances, furniture, and TV’s are distributed in this way. Selective distribution helps the company build strong relationships with the channels selling its product(s), and produces better selling effort.

Lastly, exclusive distribution occurs when a company is very selective and only gives a certain number of dealers, permission to sell its products through their outlet. One example of this form of distribution is Bentley. There are also many other car companies that only allow selective outlets to sell their cars. By using this tactic, a company maintains that their product is of higher quality and can charge a higher price for exclusivity. These strategies are involved in the marketing channel design decision of identifying major channel alternatives. A company must identify the channel alternatives, how using that channel would benefit them, and whether or not it will be more difficult to manage.

1. When designing international distribution channels, marketers may have difficulties creating an efficient and effective channel. This can be due to many reasons. First, the distribution system of another country may be complex and difficult to penetrate. If this is the case, marketers must go through multiple intermediaries and distributers just to get the product into the store. Next, international distribution systems may be lacking. When the distribution system is inefficient, it may only be possible to reach a small portion of the population in the largest cities, rather than the entire country. Lastly, the local conditions of the country may affect how a company can distribute globally. There are many channels that are open to international distribution, which can make it difficult to select and market the product in just one.
2. Logistics information is managed in the distribution channel. This includes “planning, implementing, and controlling the physical flow of goods, services, and related information.” (Kotler & Armstrong, 2014) This is done from the starting point to the ending point in order to meet customer needs and produce a profit. Specifically, the information included in logistics management is: customer-centered logistics, outbound logistics, inbound logistics, and reverse logistics. Each of these items helps deliver the right product to the right place at the right time. By focusing on these things, companies are able to meet the logistic objective, which is to create maximum customer service at the lowest cost. In order to do this, these different pieces of information must be monitored to ensure the company is functioning in the most efficient way possible.

*Critical Thinking Question*

1. RFID tags will impact inventory management, logistics information management, and warehousing. By incorporating these tags, there will be reduced theft, warehouse space will be optimized, and inventory will become more efficient (Wolff, 2001). Because RFID tags hold all of the information needed to identify an object, products can be stored according to size and shape, which will optimize warehouse space. The traceable feature of the tags will allow tacking of deliveries, causing fewer losses during transportation. In addition, RFID tags will contribute to overall better customer service, meeting the logistics objective (Wolff, 2001).

Currently, there are a few things that stand in the way of adopting the RFID technology. First, many companies will require a third party logistics provider to ensure the information is being handled and utilized properly. In addition, the cost of implementing this system completely is an expense the company would have to take into consideration. Lastly, by incorporating RFID tags, many companies will no longer have a need for most of their employees, raising the unemployment rate significantly.

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