Norway location will provide online website purchases, shipping to neighboring European countries, indirect channel distributions which sell at various levels, and middleman for overseas shipping. Norway consumers will be provided with application for Apple and Android browsing and purchasing.

Most common way of U.S. companies doing business in distributions and sales channels in Norway would be through local agents and distributors.

Also, most of the distributions and sales channels are headquartered in the capital of Oslo the largest city located in southern Norway. In doing business in Norway would benefit in ease of communication because Norwegians speak English well. The American culture is pervasive in Norway through movies and television. Norwegians are generally willing to pay for quality goods and services. Crystal Sports would focus on selling cost focused good quality Patagonia brand. Norway has all major types of advertising media available. A recent trend of advertising neighborhood tabloids which are delivered free-of-charge to households represents a new method of reaching potential consumers. Norway’s corporate tax rates at 28% are lower than EU average. Also, Norway has no currency restrictions because foreign exchange controls were abolished in 1990.

Chapter 15-2b

Using manufacturers' agents can benefit an organizational marketer. These agents usually possess considerable technical and market information and have an established set of customers. For an organizational seller with highly seasonal demand, a manufacturers' agent can be an asset because the seller does not have to support a year-round sales force. The fact that manufacturers' agents are typically paid on a commission basis may also be an economical alternative for a firm that has highly limited resources and cannot afford a full-time sales force.

The use of manufacturers' agents is not problem-free. Even though straight commissions may be more financially viable, the seller may have little control over manufacturers' agents. Because of the compensation method, manufacturers' agents generally prefer to concentrate on their larger accounts. They are often reluctant to spend time following up with customers after the sale, putting forth special selling efforts, or providing sellers with market information when such activities reduce the amount of productive selling time. Because they rarely maintain inventories, manufacturers' agents have a limited ability to provide customers with parts or repair services quickly.

Chapter 15-4a

An ongoing benchmarking study by Deloitte reveals that supply-chain problems can significantly reduce a firm's market value. The most recent report estimates that more than 80 percent of large global firms are not maximizing their returns and only about 10 percent of firms have launched campaigns to improve optimization of their supply chains. The loss to firms from not maximizing their supply chain efficiency can be up to 50 percent. Those companies that have improved their supply chains have benefited from the strongest financial returns among the firms that Deloitte studied.[](javascript://) Many well-known firms, including Amazon, Dell, FedEx, Toyota, and Walmart, owe much of their success to outmaneuvering rivals with unique supply-chain capabilities.

 As supply chains integrate functions, the reward is efficiency and effectiveness as well as a holistic view of the supply chain. Goal-driven supply chains, by direction of their firms, focus on the “competitive priorities” of speed, quality, cost, or flexibility as the performance objective. These priorities can generate problems for some organizations. For example, journalists revealed the appalling working conditions at Chinese factories that produce many popular electronics products, including Apple's iPad. The goal of producing the new products that customers want at a price they will pay resulted in long hours and a single-minded focus on productivity. The pressure to work excessively long hours and to be productive became so overwhelming that some workers even killed themselves. Apple, and other companies, chose to sacrifice worker safety and health in their goal of producing the number-one tablet computer.[](javascript://)

Chapter 15-4b \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

Having an environmentally friendly supply chain is increasingly important to many organizations and their stakeholders. In order to reduce the carbon footprint of its production process, members of the U.S. auto industry partnered with suppliers and the Environmental Protection Agency. The resulting partnership, Suppliers Partnership for the Environment, is a forum for companies and their supply-chain partners to share environmental best practices and optimize supply-chain productivity. Not only do participants improve productivity, but they help reduce waste and pollution and learn from other organizations.[](javascript://)

Although all channel members work toward the same general goal—distributing products profitably and efficiently—members sometimes may disagree about the best methods for attaining this goal. However, if self-interest creates misunderstanding about role expectations, the end result is frustration and conflict for the whole channel. For individual organizations to function together, each channel member must clearly communicate and understand the role expectations. Communication difficulties are a potential form of channel conflict because ineffective communication leads to frustration, misunderstandings, and ill-coordinated strategies, jeopardizing further coordination.

Although there is no single method for resolving conflict, partnerships can be reestablished if two conditions are met. First, the role of each channel member must be specified. To minimize misunderstanding, all members must be able to expect unambiguous, agreed-upon performance levels from one another. Second, members of channel partnerships must institute certain measures of channel coordination, which requires leadership and benevolent exercise of control. To prevent channel conflict from arising, producers or other channel members may provide competing resellers with different brands, allocate markets among resellers, define policies for direct sales to avoid potential conflict over large accounts, negotiate territorial issues among regional distributors, and provide recognition to certain resellers for their importance in distributing to others.

15-5

Although physical distribution managers try to minimize the costs associated with order processing, inventory management, materials handling, warehousing, and transportation, decreasing the costs in one area often raises them in another. [Figure 15.6](javascript://) shows the percentage of total costs that physical distribution functions represent. A total-cost approach to physical distribution enables managers to view physical distribution as a system rather than a collection of unrelated activities. This approach shifts the emphasis from lowering the separate costs of individual activities to minimizing overall distribution costs.

15-5c \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

**Issue: Are online channels of distribution easier on the environment than traditional channels?**

On two of the biggest shopping days of the year—Black Friday and Cyber Monday, the first Friday and Monday after Thanksgiving—the outdoor apparel marketer Patagonia ran online and newspaper ads headlined, “Don't Buy This Jacket.” Patagonia, known for its environmental protection policies, wanted consumers to stop and think before they buy, even when choosing products made from recycled materials.

Article

"However, today's demand chain requires a new mix of digital, direct and retail distribution, fulfillment, measurement and tracking capabilities to maximize customer contact, conversion and interaction."… marketers don't necessarily understand their actual role in the demand chain cycle. While 56% of marketers are focused on campaign design, development and execution, only 16% are looking to production, warehousing, inventory management or delivery as critical elements within the supply chain. In addition, just 2% say they are looking to optimize the actual delivery, fulfillment or distribution of their critical marketing materials

20-2b

**Nonprice Competition**

[**Nonprice competition**](javascript://) occurs when a seller decides not to focus on price and instead emphasizes distinctive product features, service, product quality, promotion, packaging, or other factors to distinguish its product from competing brands. Thus, nonprice competition allows a company to increase its brand's unit sales through means other than changing the brand's price. Mars, for example, markets not only Snickers and M&M's but also has an upscale candy line called Ethel's Chocolate. With the tagline “eat chocolate, not preservatives,” Ethel's Chocolate competes on the basis of taste, attractive appearance, and hip packaging, and, thus, has little need to engage in price competition.[](javascript://) A major advantage of nonprice competition is that a firm can build customer loyalty toward its brand. If customers prefer a brand because of nonprice factors, they may not be easily lured away by competing firms and brands. In contrast, when price is the primary reason customers buy a particular brand, a competitor is often able to attract those customers through price cuts.

Nonprice competition is effective only under certain conditions. A company must be able to distinguish its brand through unique product features, higher product quality, effective promotion, distinctive packaging, or excellent customer service. Apple is known for producing products that demand a premium price because of the capabilities and service that come with its products. One writer went as far as to say that Linux will not be able to compete with the Apple iPad, because it lacks the “magic” that Apple products have. It is difficult to define and therefore imitate Apple's magic; it is a combination of several qualities including the appearance of its products, ease of use, and product integration.[](javascript://) Buyers not only must be able to perceive these distinguishing characteristics but must also view them as important. The distinguishing features that set a particular brand apart from competitors should be difficult, if not impossible, for competitors to imitate. Finally, the firm must extensively promote the brand's distinguishing characteristics to establish its superiority and set it apart from competitors in the minds of buyers.

20-4b Break-even analysis

To use break-even analysis effectively, a marketer should determine the break-even point for each of several alternative prices. This determination allows the marketer to compare the effects on total revenue, total costs, and the break-even point for each price under consideration. Although this comparative analysis may not tell the marketer exactly what price to charge, it will identify highly undesirable price alternatives that should definitely be avoided.

Break-even analysis is simple and straightforward. It does assume, however, that the quantity demanded is basically fixed (inelastic) and that the major task in setting prices is to recover costs. It focuses more on how to break even than on how to achieve a pricing objective, such as percentage of market share or return on investment. Nonetheless, marketing managers can use this concept to determine whether a product will achieve at least a break-even volume.

20-5b Types of pricing objectives

The types of pricing objectives a marketer uses obviously have considerable bearing on the determination of prices. For instance, an organization that uses pricing to increase its market share would likely set the brand's price below those of competing brands of similar quality to attract competitors' customers. A marketer sometimes uses temporary price reductions in the hope of gaining market share. If a business needs to raise cash quickly, it will likely use temporary price reductions, such as sales, rebates, and special discounts. We examine pricing objectives in more detail in the next chapter.

20-5c costs

Clearly, costs must be an issue when establishing price. A firm may temporarily sell products below cost to match competition, generate cash flow, or even increase market share, but in the long run, it cannot survive by selling its products below cost. Even a firm that has a highvolume business cannot survive if each item is sold slightly below its cost. A marketer should be careful to analyze all costs so they can be included in the total cost associated with a product.

20-5d Other marketing mix variables

All marketing mix variables are highly interrelated. Pricing decisions can influence evaluations and activities associated with product, distribution, and promotion variables. A product's price frequently affects the demand for that item. A high price, for instance, may result in low unit sales, which in turn may lead to higher production costs per unit. Conversely, lower per-unit production costs may result from a low price. For many products, buyers associate better product quality with a high price and poorer product quality with a low price. This perceived price-quality relationship influences customers' overall image of products or brands. For example, some individuals view Mercedes Benz vehicles as higher quality than other brands and are willing to pay a higher price. Individuals who associate quality with a high price are likely to purchase products with well-established and recognizable brand names.

The price of a product is linked to several dimensions of its distribution. Premium-priced products are often marketed through selective or exclusive distribution. Lower-priced products in the same product category may be sold through intensive distribution. For instance, high-end Cross pens are distributed through selective distribution and disposable Bic pens through intensive distribution. Moreover, an increase in physical distribution costs, such as shipping, may have to be passed on to customers. When fuel prices increase significantly, some distribution companies pass on these additional costs through surcharges or higher prices. When setting a price, the profit margins of marketing channel members, such as wholesalers and retailers, must also be considered. Channel members must be adequately compensated for the functions they perform.

Price may determine how a product is promoted. Bargain prices are often included in advertisements. Premium prices are less likely to be advertised, though they are sometimes included in advertisements for upscale items like luxury cars or fine jewelry. Higher-priced products are more likely than lower-priced ones to require personal selling. Furthermore, the price structure can affect a salesperson's relationship with customers. A complex pricing structure takes longer to explain to customers, is more likely to confuse potential buyers, and may cause misunderstandings that result in long-term customer dissatisfaction. Anyone who has tried to decipher his or her cell phone bill will empathize with the frustration that complex pricing structures can bring about. Trying to decipher charges for anytime, weekend, daytime, and roaming minutes, not to mention charges for smartphone data usage, can be confusing.

20-5e Channel Member expectations

When making price decisions, a producer must consider what members of the distribution channel expect. A channel member certainly expects to receive a profit for the functions it performs. The amount of profit expected depends on what the intermediary could make if it were handling a competing product instead. Also, the amount of time and the resources required to carry the product influence intermediaries' expectations.

Channel members often expect producers to give discounts for large orders and prompt payment. At times, resellers expect producers to provide several support activities, such as sales training, service training, repair advisory service, cooperative advertising, sales promotions, and perhaps a program for returning unsold merchandise to the producer. These support activities clearly have associated costs that a producer must consider when determining prices.

20-6a Price discounting

Producers commonly provide intermediaries with discounts, or reductions, from list prices. Although many types of discounts exist, they usually fall into one of five categories: trade, quantity, cash, seasonal, and allowance. [Table 20.3](javascript://) summarizes some reasons to use each type of discount and provides examples. Such discounts can be a significant factor in a marketing strategy.

### Trade Discounts

A reduction off the list price given by a producer to an intermediary for performing certain functions is called a [**trade (functional) discount**](javascript://). A trade discount is usually stated in terms of a percentage or series of percentages off the list price. Intermediaries are given trade discounts as compensation for performing various functions, such as selling, transporting, storing, final processing, and perhaps providing credit services. Although certain trade discounts are often a standard practice within an industry, discounts vary considerably among industries. It is important that a manufacturer provide a trade discount large enough to offset the intermediary's costs, plus a reasonable profit, to entice the reseller to carry the product.

### Seasonal Discounts

A price reduction to buyers that purchase goods or services out of season is a [**seasonal discount**](javascript://). These discounts let the seller maintain steadier production during the year. For example, it is usually much cheaper to purchase and install an air-conditioning unit in the winter than it is in the summer. This is because demand for air conditioners is very low during the winter in most parts of the country, and price therefore is also lower than in peak-demand season.

21-1a survival

Survival is one of the most fundamental pricing objectives. Most organizations will tolerate setbacks, such as short-run losses and internal upheaval, if necessary for survival. For instance, during the recent economic downturn, some businesses were forced to reduce their prices in order to survive. Because price is a flexible variable, it is sometimes used to keep a company afloat by increasing sales volume to levels that match expenses.

21-1g Product quality

A company may have the objective of leading its industry in product quality. This goal normally dictates a high price to cover the costs of achieving high product quality and, in some instances, the costs of research and development. For example, Starbucks recently acquired the premium juice company Evolution Fresh with the aim to give the juice market the premium treatment the company has given coffee. The company plans to sell bottled juices as well as open a series of juice bars offering high-end, premium juices. Starbucks hopes to take advantage of the healthful image of juice and draw in customers looking to detox, lose weight, or introduce more fruit into their diets.[](javascript://) As previously mentioned, the PIMS studies have shown that both product quality and market share are good indicators of profitability. The products and brands that customers perceive to be of high quality are more likely to survive in a competitive marketplace. High quality usually enables a marketer to charge higher prices for the product.

21-3 Evaluation of competitors prices

In most cases, marketers are in a better position to establish prices when they know the prices charged for competing brands, the third step in establishing prices. Discovering competitors' prices may be a regular function of marketing research. Some grocery and department stores, for example, have full-time comparative shoppers who systematically collect data on prices. Companies may also purchase price lists, sometimes weekly, from syndicated marketing research services.

Uncovering competitors' prices is not always easy, especially in producer and reseller markets. Competitors' price lists are often closely guarded. Even if a marketer has access to competitors' price lists, those lists may not reflect the actual prices at which competitive products are sold, because those prices may be established through negotiation.

Knowing the prices or competing brands can be very important for a marketer. Competitors' prices and the marketing mix variables that they emphasize partly determine how important price will be to customers. A marketer in an industry in which price competition prevails needs competitive price information to ensure its prices are the same as, or lower than, competitors' prices. In some instances, an organization's prices are designed to be slightly above competitors' prices to give its products an exclusive image. In contrast, another company may use price as a competitive tool and price its products below those of competitors. The Kindle Fire tablet computer from Amazon, for example, is priced at less than half what Apple's cheapest iPad 2 costs. Although the Kindle Fire does not have a camera, microphone, or 3G connection like the iPad, it still offers Wi-Fi connectivity with access to games, movies, books, magazines, music, and other applications. The Kindle Fire also uses Amazon's cloud computing technology, runs on Google's Android operating system, and includes access to the Android application store.

21-4 Selection of basis for pricing

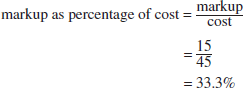
The fourth step involves selecting a basis for pricing: cost, demand, or competition. The selection of the basis to use is affected by the type of product, the market structure of the industry, the brand's market share position relative to competing brands, and customer characteristics. Although we discuss each basis separately in this section, an organization generally considers two or all three of these dimensions, even if one is the primary basis on which it determines prices. For example, if a company is using cost as a basis for setting prices, marketers in that firm are also aware of and concerned about competitors' prices. If a company is using demand as a basis for pricing, those making pricing decisions still must consider costs and competitors' prices. Indeed, cost is a factor in every pricing decision, because it establishes a price minimum below which the firm will not be able to recoup its production and other costs; demand likewise sets an effective price maximum above which customers are unlikely to buy the product. Setting appropriate prices can be difficult for firms. A high price may reduce demand for the product, but a low price will hurt profit margins. Firms must weigh many different factors when setting prices, including costs, competition, customer buying behavior and price sensitivity, manufacturing capacity, and product life cycles.

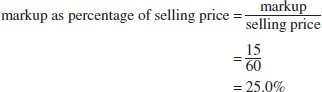
21-4a cost based pricing

### Markup Pricing

With [**markup pricing**](javascript://), commonly used by retailers, a product's price is derived by adding a predetermined percentage of the cost, called markup, to the cost of the product. For instance, most supermarkets mark up prices by at least 25 percent, whereas warehouse clubs like Costco and Sam's Club have a very low average markup of 14 percent.[](javascript://) One markup that might shock you is the average markup for popcorn in movie theaters, which is about 900 percent. Popcorn is not expensive, but consumers are willing to pay the markup to enhance their movie experience by enjoying warm, buttery popcorn at the theater.[](javascript://) Although the percentage markup in a retail store varies from one category of goods to another—35 percent of cost for hardware items and 100 percent of cost for greeting cards, for example—the same percentage is often used to determine the prices on items within a single product category, and the percentage markup may be largely standardized across an industry at the retail level. Using a rigid percentage markup for a specific product category reduces pricing to a routine task that can be performed quickly.

Markup can be stated as a percentage of the cost or as a percentage of the selling price. The following example illustrates how percentage markups are determined and points out the differences in the two methods. Assume a retailer purchases a can of tuna at 45 cents, adds 15 cents to the cost, and then prices the tuna at 60 cents. Here are the figures:





Obviously, when discussing a percentage markup, it is important to know whether the markup is based on cost or selling price.

Markups normally reflect expectations about operating costs, risks, and stock turnovers. Wholesalers and manufacturers often suggest standard retail markups that are considered profitable. To the extent that retailers use similar markups for the same product category, price competition is reduced. In addition, using rigid markups is convenient and is the major reason retailers, which face numerous pricing decisions, favor this method.

21-5b New product pricing

Setting the base price for a new product is a necessary part of formulating a marketing strategy. The base price is easily adjusted (in the absence of government price controls), and its establishment is one of the most fundamental decisions in the marketing mix. The base price can be set high to recover development costs quickly or provide a reference point for developing discount prices for different market segments. When a marketer sets base prices, it also considers unsystematic basis how quickly competitors will enter the market, whether they will mount a strong campaign on entry, and what effect their entry will have on the development of primary demand. Two strategies used in new-product pricing are price skimming and penetration pricing.

With [**penetration pricing**](javascript://), prices are set below those of competing brands to penetrate a market and gain a large market share quickly. This approach is less flexible for a marketer than price skimming, because it is more difficult to raise a penetration price than to lower or discount a skimming price. It is not unusual for a firm to use a penetration price after having skimmed the market with a higher price.

Penetration pricing can be especially beneficial when a marketer suspects that competitors could enter the market easily. If penetration pricing allows the marketer to gain a large market share quickly, competitors may be discouraged from entering the market. In addition, because the lower per-unit penetration price results in lower per-unit profit, the market may not appear to be especially lucrative to potential new entrants.

21-5d Psychological pricing

Learning the price of a product is not always a pleasant experience for customers. It is sometimes surprising (as at a movie concession stand) and sometimes downright horrifying; most of us have experienced some sort of “sticker shock.” Consumers are likely to have negative reactions to incomplete or unclear pricing information, especially when it is conveyed through misleading communications. [**Psychological pricing**](javascript://) attempts to influence a customer's perception of price to make a product's price more attractive. In this section, we consider several forms of psychological pricing: reference pricing, bundle pricing, multiple-unit pricing, everyday low prices (EDLP), odd-even pricing, customary pricing, and prestige pricing.

### Odd-Even Pricing

Through [**odd-even pricing**](javascript://)—ending the price with certain numbers—marketers try to influence buyers' perceptions of the price or the product. Odd pricing assumes more of a product will be sold at $99.95 than at $100. Theoretically, customers will think, or at least tell friends, that the product is a bargain—not $100, but $99 and change. Also, customers will supposedly think the store could have charged $100 but instead cut the price to the last cent, to $99.95. Some claim, too, that certain types of customers are more attracted by odd prices than by even ones. Researchers have found that women are more likely to respond to odd-ending prices than men are.[](javascript://) However, research on the effect of odd-even prices has demonstrated conflicting results; one recent study found that odd prices that end in 5 or 9 failed to trigger the threshold of consumer response.[](javascript://) Nonetheless, odd prices are far more common today than even prices.

21-5f Promotional pricing

### Comparison Discounting

[**Comparison discounting**](javascript://) sets the price of a product at a specific level and simultaneously compares it with a higher price. The higher price may be the product's previous price, the price of a competing brand, the product's price at another retail outlet, or a manufacturer's suggested retail price. Customers may find comparative discounting informative, and it can have a significant impact on their purchases. However, overuse of comparison pricing may reduce customers' internal reference prices, meaning they no longer believe the higher price is the regular or normal price.[](javascript://)

Because this pricing strategy has occasionally led to deceptive pricing practices, the Federal Trade Commission has established guidelines for comparison discounting. If the higher price against which the comparison is made is the price formerly charged for the product, the seller must have made the previous price available to customers for a reasonable period of time. If the seller presents the higher price as the one charged by other retailers in the same trade area, it must be able to demonstrate that this claim is true. When the seller presents the higher price as the manufacturer's suggested retail price, the higher price must be similar to the price at which a reasonable proportion of the product was sold. Some companies' suggested retail prices are so high that very few products are actually sold at those prices. In such cases, comparison discounting would be deceptive. Carrefour and Walmart stores in China were subjected to an investigation and fines after they were charged with deceptive pricing. The retailers were accused of stating that the original prices on items were higher than they were, making discounts look deceptively large. The retailers were also accused of charging more than the marked price at check out. Walmart's CEO of its Chinese operations resigned after a barrage of negative publicity following this incident.[](javascript://)

/////////////////////////////////////////////////////////////////

Market maturity, indicated by consumer acceptance of the basic service idea, by widespread belief that the products of most manufacturers will perform satisfactorily, and by enough familiarity and sophistication to permit consumers to compare brands competently.

Market acceptance means the extent to which buyers consider the product a serious alternative to other ways of performing the same service. Market acceptance is a frictional factor. The effect of cultural lags may endure for some time after quality and costs make products technically useful. The slow catch-on of the garbage-disposal unit is an example.

The initial problem of estimating demand for a new product can be broken into a series of subproblems: (1) whether the product will go at all (assuming price is in a competitive range), (2) what range of price will make the product economically attractive to buyers, (3) what sales volumes can be expected at various points in this price range, and (4) what reaction will price produce in manufacturers and sellers of displaced substitutes.

The first step is an exploration of the preferences and educability of consumers, always, of course, in the light of the technical feasibility of the new product. How many potential buyers are there? Is the product a practical device for meeting their needs? How can it be improved to meet their needs better? What proportion of the potential buyers would prefer, or could be induced to prefer, this product to already existing products (prices being equal)?

The second step is marking out this competitive range of price. Vicarious pricing experience can be secured by interviewing selected distributors who have enough comparative knowledge of customers’ alternatives and preferences to judge what price range would make the new product “a good value.” Direct discussions with representative experienced industrial users have produced reliable estimates of the “practical” range of prices.

The third step, a more definite inquiry into the probable sales from several possible prices, starts with an investigation of the prices of substitutes. Usually the buyer has a choice of existing ways of having the same service performed; an analysis of the costs of these choices serves as a guide in setting the price for a new way.

The fourth step in estimating demand is to consider the possibility of retaliation by manufacturers of displaced substitutes in the form of price cutting. This development may not occur at all if the new product displaces only a small market segment. If old industries do fight it out, however, their incremental costs provide a floor to the resulting price competition and should be brought into price plans.