

**BUAD 307- MKT 385 – Marketing Fundamental**  
**Fall 2018**

**Discussion Session November 1**

**Group participants (print name, last name, USC id)**

## Break-even point

Given the following data:

- Fixed costs = \$90,000
- Variable costs per unit:
  - Direct material = \$5
  - Direct Labor = \$2
  - Direct overheads = 100% of Direct Labor
- Selling price = \$12

Compute:

1. Compute the contribution per unit
2. Break-even volume (e.g. number of products to sell to reach the break-even point)
3. Break-even sales (e.g. the amount of sales to reach the break-even point)
4. Sales required to earn a net profit of \$450,000
5. If sales are 10% and 25% above the break-even sales, determine the net profit
6. What should be the selling price per unit, if the break-even point should be brought down to 20,000 units?

## Supply and demand

1. Suppose that there is an announcement that chocolate causes cancer. What would happen to equilibrium price and quantity in the market for Godiva chocolate? Draw the graph that illustrates your answer.
2. Suppose that the price of Hershey's chocolate, a competitor of Godiva chocolate, increases. What would happen to equilibrium price and quantity in the market for Godiva chocolate? Draw the graph that illustrates your answer.
3. Suppose that the price of sugar increases. What would happen to equilibrium price and quantity in the market for Godiva chocolate? Draw the graph that illustrates your answer.
4. Suppose that a company invents a better machine for mixing the ingredients to make chocolate candies. What would happen to equilibrium price and quantity in the market for Godiva chocolate? Draw the graph that illustrates your answer.
5. Suppose the equation for demand can be expressed as  $P = 20 - Q$ . The equation for supply can be expressed as  $P = Q$ . Find the equilibrium price and quantity. Draw the graph that illustrates your answer.

6. Suppose the equation for demand can be expressed as  $P = 40 - 2Q$ . The equation for supply can be expressed as  $P = Q$ . Find the equilibrium price and quantity. Draw the graph that illustrates your answer.
7. Suppose the equation for demand can be expressed as  $P = 30 - Q$ . The equation for supply can be expressed as  $P = 2Q$ . Find the equilibrium price and quantity. Draw the graph that illustrates your answer.

## PRICING FOR THE WORLD OF HIGH FASHION

Suppose a young socialite walks down Manhattan's Fifth Avenue wearing a \$5,000 silk scarf by Hermès (a French design house) that perfectly complements the \$20 peek-a-boo tank top she purchased at Zara.

Style is no longer dictated by price. Price skimming designers are successful, but so are stores using a market penetration pricing strategy.

The stores using market penetration pricing carefully observe the styles and trends of the designer brands and then quickly and efficiently turn out similar lines in their own stores at an affordable price. Sometimes they are even able to beat the designers' fashions to the stores. To combat these stores' lower-priced but stylish clothing, high-end designers enhance their accessories and clothing with details that cannot be duplicated at a low cost. For example, they use alligator skin, mink, and fine hand stitching.

Both the affordable clothes of stores like H&M and Zara and the expensive, extravagant lines of Hermès and Chanel sell well. The masses can afford H&M and Zara, and those who value the detail and cutting-edge designs from designers like Chanel are willing to pay the price.

Which of the following is NOT a reason high-end stores such as Chanel would use price skimming?

- Their customers are interested in the status afforded by names like "Chanel."
- Their customers like costly details that are not easily imitated.
- Their customers want the latest styles as soon as they come out.
- Their customers make decisions based on convenience and practicality.
- Their customers are not price-sensitive.

Why do companies such as H&M and Zara use penetration pricing?

- They cannot satisfy a rapid rise in demand.
- Their customers are willing to pay more for their products.
- They can raise prices over time.
- They can build profits quickly.
- Their competitors are unable to enter the market easily.

Suppose Zara features in its advertisements and in signs around the store both the original prices and sale prices of certain items. This is an example of \_\_\_\_\_.

- horizontal price fixing
- everyday low pricing
- cost of ownership pricing
- high/low pricing
- improvement value pricing