CHAPTER 9
The Economics of Supply and Demand

9.1 Supply and Demand
9.2 Pricing Strategies
9.3 Market Conditions

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Cereal Stars
One winning marketing strategy is to use celebrity endorsements to promote a product. Wheaties® cereal provides a classic example of the successful use of this strategy.

Wheaties came into existence by accident in 1921. A man was fixing his breakfast and dropped an oatmeal-like wheat bran mix on a hot stove and the splat cooked into a crispy flake. The man ate it, loved it, and recommended it to the Washburn Crosby Company. Washburn Crosby marketed the discovery as Gold Medal Wheat Flakes. Later, the name was changed to Wheaties, and General Mills took over Washburn Crosby.

Wheaties’ first featured star was a fictitious character from radio—Jack Armstrong, All-American Boy. Lou Gehrig was featured on the box in 1935, and from that point on, athletes became a permanent fixture on Wheaties’ boxes. Stars from baseball, aviation, tennis, skating, NASCAR, basketball, swimming, track, gymnastics, hockey, and golf have appeared. Being featured on a box of Wheaties is a career goal for many athletes. It is a sign of achieving success, an honor, and a boon to any athlete’s career.

In 1999, Wheaties launched a five-box series of packages honoring women in sports. The featured athletes were members of the U.S. Women’s Soccer Team. Wheaties’ Marketing Manager Jim Murphy said, “A new era of heroes (was) born. We wanted to do something special to permanently honor these women and their achievements.”

Think Critically
1. Explain the benefit to Wheaties of having a star athlete on its box.
   Explain the benefit to the athlete.
2. Name some risks to Wheaties of having real people on its boxes.
3. Discuss the elements of sponsorship, promotion, and endorsement in relation to Wheaties.
Lesson 9.1

Supply and Demand

Goals
- Explain the relationships among supply, demand, and price.
- Discuss the government’s influence on pricing.

Terms
- law of demand
- law of supply
- scarcity
- equilibrium
- price fixing
- bait and switch
- price discrimination

Opening Act
Economists believe the economic value of a professional sports team does not measure up to the social and psychological significance of the team. Most team owners and sports fans would disagree. For an existing team to move to a city or for expansion teams to be approved, there must be financial benefits to the league’s member owners, to related businesses, and to the cities in which the team will locate. Success cannot occur if one makes a profit and the others lose money.

Work with a group. Brainstorm benefits other than financial that might come to a community acquiring a professional sports team. Exchange and discuss the lists of other groups.

THE LAWS OF SUPPLY AND DEMAND

Consumers are individuals who purchase products to satisfy their needs and wants. DVDs, concerts, sporting events, air flights, and hotel rooms are in demand by consumers. Demand is the relationship between the quantity of a product that consumers are willing and able to purchase and the price. Consumers conduct research and talk to friends and family to select goods and services to satisfy their needs. Producers are businesses that use resources to develop products and services. Supply is the relationship between the quantity of a product that producers are willing and able to provide and the price. Producers also conduct research to gather information about the types of goods and services that customers are likely to purchase. Ballparks, special-event centers, and surrounding restaurants and pubs are built based upon consumer demand for sports and entertainment events.

Price-Demand Relationships
Finding a balance between what producers are willing to produce and what customers are willing to buy is one of the major challenges of marketers.
Many factors must be considered when trying to determine the marketing mix—the right blend of products, pricing, promotion, and distribution.

If consumers know about a desirable product and it is readily available, they may be willing to buy more of it when the price is low. But they will buy less of it when the price is high. This inverse relationship—when the price goes up demand goes down, and when the price goes down demand goes up—is known as the law of demand.

**Price-Supply Relationships**
The producers of a product, whether it is a sports event or a major motion picture, are in business to make a profit. They are willing to invest their resources—time, money, and materials—if they have a good chance of making a profit. The producers of music DVDs are willing to invest millions of dollars to make a profit. But, if the selling price of music DVDs drops, then fewer DVDs will be produced because the chances of making a profit are lessened. If the price of DVDs increases, more companies are willing to produce more DVDs. This relationship—when the price goes up the supply produced goes up, and when the price goes down the supply produced goes down—is known as the law of supply.

Marketers help to balance the impact of the laws of supply and demand by providing consumers information about new products and by making the products conveniently available. Consumers then decide to use their limited resources on the products based on their wants and needs. Producers must pay attention to what is selling at profitable prices and quantities and what is not and adjust production accordingly.

**Scarcity**
Consumers have limited money to spend on sports and entertainment products and events. Producers also have limited resources to use in the production of products and events. The lack of resources is referred to as scarcity. Consumers and producers must decide how to use their limited resources to meet unlimited wants and needs.

**Equilibrium**
The economics of supply and demand can be illustrated by curves on a graph. The supply curve indicates how much product will be provided at different prices. When prices for the goods rise, producers are encouraged to produce more. The demand curve shows how much consumers will buy at different prices. Consumers generally will buy more at lower prices. When prices are too high, consumers will choose other alternatives or do without the goods. Equilibrium is the point where the supply and demand curves intersect. Equilibrium indicates the best quantity and price for goods and services.
Concerts in the Spotlight

Popular concerts sell out in a few hours, sometimes months before the actual event, due to high consumer demand. Fans will form lines at the ticket outlets up to 12 hours before tickets go on sale. Extreme loyalists may even camp outside overnight to ensure they are first in line to purchase tickets. Because of the high demand and limited supply (of available seating), prices can be set high. If demand is high enough, event planners may increase supply by adding a second show.

How does price affect demand?

GOVERNMENT INFLUENCE ON PRICING

The United States has a free-enterprise system, also called a private-enterprise system, based upon independent decisions made by consumers and businesses. The government plays a limited role but even a private-enterprise system calls for some government involvement. The government has an influence on prices charged for merchandise directly and indirectly through antitrust laws, taxation, and various consumer protection laws.

Benefits of Competition

Antitrust laws serve to encourage competition and to avoid monopolies where one business controls the entire market. Increased competition is beneficial to businesses and consumers alike. Competition in a free market allows the laws of supply and demand to set the prices. Businesses receive new ideas from the competition and improve their merchandise and services in order to successfully compete for the business of consumers. Competition also encourages businesses to develop new products and services.
Taxation

Taxation is a second strategy used by the government to encourage or discourage sales. Increasing taxes on alcoholic beverages or cigarettes causes prices for those items to rise. The higher prices will discourage sales and will, at the same time, provide needed revenues to the government. Tax reductions encourage production and sales. Tax breaks to companies manufacturing ethanol encourage production of an alternative fuel source.

Illegal Pricing

Price fixing occurs when related businesses conspire to charge high prices. Suppose that all competing fast-food restaurants formed a cartel that decided to charge $12 for all hamburgers. Price fixing is an illegal practice in the United States.

Bait and switch is another illegal practice. Bait and switch occurs when a product that is advertised at a great price is “out of stock” when customers want to purchase it, and the salesperson then tries to sell customers a higher-priced alternative. Prices that are advertised cannot be deceptive or misleading.

Price discrimination occurs when one individual, group, or business is charged a higher price than others purchasing the same product or service. There must be a valid reason for price differences. Reasons may include differences in distribution costs to different locations, volume of sales, changing market conditions, and so forth.

List three ways the government influences pricing.

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Intermission

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Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. Which of the following is not an accurate statement based on the laws of supply and demand?
   a. When demand for a product goes up, prices can be set higher.
   b. When demand for a service goes down, a business will increase prices in order to make up for the loss of sales.
   c. When the supply of a product increases, prices tend to fall.
   d. The price point at which supply and demand are equal is said to be the equilibrium point.

2. Advertising a great price and then not having the merchandise available for consumers to purchase is part of which practice?
   a. bait and switch
   b. price discrimination
   c. one-price strategy
   d. none of the above

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. Based on the laws of supply and demand, explain why a baseball signed by Babe Ruth commands a high price.

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4. Why do governmental laws seek to restrict monopolies and cartels? How does this benefit consumers and businesses?

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Lesson 9.2

Pricing Strategies

Goals
- Discuss pricing strategies used by businesses to increase sales.
- List five steps for determining price.

Terms
- operating expenses
- markup
- price lines
- loss-leader pricing

Opening Act

The Donald Trump line of business clothing demands a high price. Mr. Trump earns 10 percent royalties for all sales of his business clothing. What motivates consumers to purchase expensive business attire? Many businesspersons will associate the Donald Trump name with prestige and success. Brand awareness is enhanced with a celebrity name. A well-known name on a product gives consumers more confidence in the quality of the product.

Work with a group. Identify personal characteristics of Donald Trump that can be associated with his line of clothing. Design a clever print advertisement for the Donald Trump business clothing line.

PRICING CONSIDERATIONS

Price is the amount that customers pay for products and services. Pricing is the process of establishing and communicating the value of goods and services to customers. When determining the price to be charged for goods and services, you must take into consideration the cost of merchandise, operating expenses, and the desired amount of profit. If you were a retailer, the cost of merchandise would be what you paid to manufacturers for the products that you offer for sale. Operating expenses would be all the costs associated with running your business. Examples of operating expenses include utilities, salaries, and federal income taxes. The amount that is added to the cost of an item for sale to cover operating expenses and allow for a profit is called markup.

Remember that pricing is also determined according to the rules of supply and demand. In a monopoly situation, where there is only one company offering a product or service, the company can set prices high if consumer demand for the product is strong. When there is competition, it is important for a company to differentiate its product or service. In situations of pure competition, where there are many companies offering the same product for which customers do not recognize major differences in the brands, the market will drive the prices low as businesses compete for consumers’ business.
If the market price, as determined by the laws of supply and demand, is not sufficient to cover a business’s product costs and operating expenses and allow for a profit, then the business will stop offering the product.

**Pricing Policies**

A one-price policy means that all customers pay the same price for a product, such as a concert, football game, or running shoes. A flexible pricing policy allows customers to negotiate prices within a range. Automobile dealerships typically allow room for customers to negotiate better prices.

Price lines are distinct categories of merchandise based upon price, quality, and features. Ralph Lauren has Polo as its high-end price line and Chaps as the next best alternative at a lower price.

Geographic pricing allows pricing variations based upon geographic location. Factors influencing geographic pricing include distribution costs, local competition, and local taxes and/or restrictions. Generally, when manufacturers are located closer to retailers, distribution costs are lower, which helps keep prices down for consumers.

**A Variety of Pricing Strategies**

Retailers use a wide variety of pricing strategies in an effort to increase total sales. Marketers must choose the right strategy to motivate customers to buy.

**Psychological Pricing** When retailers use psychological pricing, they are creating an illusion for customers. Odd-even pricing is an example of psychological pricing where prices ending in $.98 or $.99 give customers the illusion of spending less than the next higher dollar amount. Customers have the illusion of a movie DVD priced at $29.98 as being considerably less expensive than $30.00, even though there is only a difference of two cents.

**Prestige Pricing** When retailers charge higher-than-average prices for merchandise and target customers seeking status and high quality, they are using the prestige pricing strategy. Athletic specialty stores charge higher prices for their merchandise, suggesting superior quality and service.

**Time Out**

Bobblehead dolls are popular promotions used by MLB to entice people to buy tickets to the games. The San Francisco Giants were the first MLB team to offer a bobblehead giveaway in 1999. The bobblehead was of Willie Mays.

**Judgment Call**

Many NASCAR racing fans are angry about the potential damage to their sport due to the multistate Master Settlement Agreement (MSA). Under the agreement, tobacco companies are restricted from sponsoring events such as NASCAR auto races in which participants may be under age 18. Winston-Salem of North Carolina announced that it would discontinue sponsorship of the NASCAR Winston Racing Series, which it had sponsored for 26 years. Opinions such as “Companies have a right to advertise and make a profit” and “These limitations are an infringement on free speech” are circulating within the auto racing industry.

**Think Critically**

Express your own opinion on the two statements. What is your opinion about government regulation of advertising of products that have proven to be harmful?
Volume Pricing  Stores like Wal-Mart advertise everyday low prices. Wal-Mart pays lower prices for its merchandise due to the volume pricing it receives from its suppliers. Wal-Mart passes these savings on to customers. In turn, the high volume of sales experienced by Wal-Mart allows it to continue offering low prices.

Promotions  To get more customers in the store, retailers may use promotional pricing strategies. Examples of promotional strategies may include the two-hour/50-percent off sale, buy-one-get-the-second-item-half-price sale, and the no-interest-for-12-months-credit sale. Loss-leader pricing is the willingness to take a loss on the reduced prices of selected items in order to create more customer traffic. Customers attracted by the loss leader will likely purchase additional merchandise that has a much higher markup. The revenues generated by the additional sales will make up for the losses from the loss leader. A special event promotion associates a special sale with a major event, such as Thanksgiving or March Madness. Some stores attract repeat business with rebates and coupons. For purchases made in December, Saks Fifth Avenue may give customers a coupon for 25 percent off any purchases made in January. This type of promotion will encourage customers to come back the following month to buy more merchandise when business is typically slow. Rebates are coupons on products that customers can mail in for a refund. The refund depends upon further action on the part of the consumer.

Quantity Discounts  Power bars may sell for $2 each and have multiple-unit pricing of 3 for $5. Customers receive a financial benefit for buying the larger quantity of power bars. Theme parks may charge $60 for a single day’s admission but may charge $120 for a three-day pass, reducing the cost per day to $40. Or, they may charge $160 for a seasonal pass.

Trade-In Allowances  Customers may be given a trade-in allowance for old merchandise when making a new purchase. Some sporting goods stores give trade-in allowances for used sports equipment, such as golf clubs, that can be refurbished and resold. As athletes excel at a sport, they may trade in old equipment that was appropriate for beginners for more advanced equipment of higher quality.

List and describe five pricing strategies to increase sales.
Determining the Price

There are five steps for determining the price to charge for a good or service.

1. Establish price objectives. You must first decide the amount or percentage of profit you want to earn.

2. Determine the cost of the product or service. A 1.7-ounce bottle of designer perfume may cost $5 from the wholesaler. Setting up cosmetic booths with sales associates may average $6 per bottle of perfume. All forms of promotion and advertising may cost $14 per bottle of perfume. The total cost to acquire and market each bottle of perfume is $25. The retail price decided upon must cover the total cost and allow for a profit.

3. Estimate consumer demand for your product or service. Will demand be high enough to command high prices? Will setting the price low generate enough additional demand to both move the merchandise and make a comfortable profit?

4. Study the competition. Consumers must be able to distinguish your goods and services from those offered by the competition. Higher prices can be charged for better merchandise or better service.

5. Decide on a pricing strategy. Carefully evaluate your product or service to determine an appropriate price that will result in sales. Smart pricing decisions are based upon good marketing information, including an assessment of the competition and consumer trends.

List the five steps for determining price.

Marketing Myths

Many college sports do not draw large crowds to the games or large numbers of people to a city. For example, college baseball games traditionally have low attendance. The top 50 teams had an average of 2,540 fans per home game in the stands during the 2004 season. The top ten teams had an average of 4,838 fans per game in 2004. Louisiana State University topped the rankings with an average of 7,802 fans at home baseball games.

A college football game can generally attract 100,000 fans or more.

Think Critically

1. Find the average home attendance for baseball and football games for five different colleges or universities. How many times did more people attend the football games than the baseball games?

2. Are there any marketing advantages to having a smaller crowd? Explain.
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. Which of the following allows consumers to negotiate prices?
   a. one-price policy
   b. flexible pricing policy
   c. psychological pricing
   d. promotional pricing

2. Which of the following statements regarding markup is true?
   a. Markup is the amount of profit you want to make.
   b. Markup is not affected by operating expenses.
   c. Markup must be sufficient to cover operating expenses and allow for profit.
   d. none of the above

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. Marketing Math  The owner of a sporting goods store has decided upon a 50-percent markup on all apparel. How much will the store charge for bicycle shorts it purchased from the wholesaler for $10 each? What did the store pay for running shoes that are selling for $75?

4. Psychology  Why do so many price tags end in .98 or .99? What is this pricing strategy called? How effective is this pricing strategy?
Lesson 9.3

Market Conditions

- Define the business cycle and describe its impact on sports and entertainment.
- Discuss the importance of monitoring consumer trends.

Goals

Terms
- business cycle
- inflation
- shoulder periods

Opening Act

There is some truth to the saying, “What goes around, comes around.” The clothing industry is a prime example of how popular styles make a comeback 15 to 30 years later. The sports and entertainment industries also experience shifts back to what used to be. Retro jerseys, drive-in movie theaters, college homecomings, and some sports have survived dips in popularity and then made great recoveries. Today, students are less inclined to faithfully attend college football games.

The games were a popular entertainment event for previous college generations. Today’s economy offers consumers many more entertainment options, making it increasingly necessary to compete for the discretionary income of consumers.

Work with a group. What must organizations do to make college and professional sports appealing to young people to sustain the financial well-being of these forms of entertainment?

IMPACT OF THE BUSINESS CYCLE

The business cycle, also known as the economic cycle, refers to the ups and downs of the economy. While referred to as a cycle, there is not a well-defined pattern. The length and severity of each up and down swing can vary significantly. Sports and entertainment planners should be aware of the market conditions they are facing as they make their plans.

Expansion

The upside of the business cycle is referred to as expansion. During the expansion phase, there is a growing demand for goods and services. It is a growth period
that has great potential for profit. Competition is encouraged to enter the market during the expansion stage. Peak is the highest point of growth in the economy.

**Contraction**
The downside of the business cycle is referred to as *contraction*. During this time, the economy slows down, unemployment goes up, and consumer demand lessens. Depending on the severity of the contraction, it may be referred to as a *recession* or a *depression*.

**Inflation** occurs when prices for goods and services rise faster than consumer income. The combination of inflation and growing unemployment can mean less discretionary income available for spending on sports and entertainment. How customers feel about the economy and their economic security influences the money they spend on sports and entertainment. Even consumers who remain actively employed may become nervous about spending money and will tighten their budgets. Spending will be reserved for necessities. Individuals may opt to watch the big game on television instead of spending large sums of money to attend the event in person.

**Business Reaction**
Sports and entertainment businesses are usually hit hard during a recession. As incoming revenues decline, sports and entertainment businesses will tighten their budgets and trim staff. The lowest point of a contraction period is called a *trough*. Recovery occurs when the economy shows signs of improvement. Businesses are encouraged to add staff and increase production during the recovery stage, which leads to a period of *prosperity*.

The travel and tourism industry has taken a hit with the rising costs of fuel and airline prices. Rising prices can rapidly change an expanding economy into a contracting economy. Hotels must create strategies to maintain acceptable occupancy rates. While increasing energy prices have hit discretionary income hard, consumers have indicated that they still intend to travel and take vacations, but they may be less extravagant in their spending while on vacation. Astute travelers look for the best deals. Instead of paying transportation costs for two trips, many business travelers choose to combine a business trip with a family vacation. They may attend business meetings during the week and enjoy the sports and entertainment offerings of the area with their families over the weekend. Hotels that offer great weekend room rates are targeting these business travelers.

Sports and entertainment businesses must react to changing consumer demand caused by the business cycle. When consumers cut back on spending but still want to enjoy some form of sports and entertainment, competing attractions must vie for consumer dollars. Businesses must tighten their budgets, reduce production and supply, and/or offer low-cost alternatives to the budget-conscious consumers.

**Seasonal Cycles**
For some businesses, the demand for products and services fluctuates with the seasons. A ski resort’s *high season*, for example, would typically be the winter, while for an amusement park, winter is typically the *off season*. Periods of moderate demand are called *shoulder periods*. 

Orlando, Florida counts heavily on travel and tourism. The hotels and amusement parks depend on attracting business throughout the entire year. Marketers are challenged to develop strategies to attract tourists during the school year. Special promotions for Halloween, prom, senior days, Mardi Gras, and other occasions keep amusement parks and hotels profitable even during the traditional shoulder and off-season periods. Organizations like DECA that have more than 160,000 members are an attractive target market for convention cities and related amusement parks. The New York Experience and the Sports and Entertainment Management Conference hosted by National DECA are popular events that bring business to tourist destinations such as New York City and Orlando. Cheerleader and music camps are additional examples of special events to generate business during normally slow periods. Sports and entertainment marketing strategies must be developed to help even out the fluctuations created by changing seasonal demands.

What is inflation and how does it contribute to a recession?

Surviving the off-season is difficult for many businesses. If a business is not prepared, it will fail. Planning is critical to meet the challenges a business faces during the off-season. Access thomsonedu.com/school/sports and click on the link for Chapter 9. Read the article and list several things that a business can do to survive the off-season.
IMPACT OF CONSUMER TRENDS

“What goes around, comes around” is true for many industries, including sports and entertainment. Successful marketing firms must follow the latest trends and monitor fickle consumer attitudes. Baseball parks that added roofs for protection from the weather are now making the roofs retractable to bring the outdoors back to the game. Reality programming is currently very popular with viewers and is much less costly to produce than sitcoms. But how long will this trend last before audiences long for the return of more programming like Friends or Everybody Loves Raymond? Trends in the world of sports and entertainment are dictated by television revenue, sponsors, and, above all, consumer demand.

Retro Television
Retro is in style, even in the world of television. There are cable channels totally dedicated to old sitcom television shows like Leave It To Beaver, The Andy Griffith Show, The Dukes of Hazzard, Cheers, and Three’s Company. Fans of retro shows like to relive the good old days and recall positive memories of growing up watching the stars in the sitcoms. Television networks do not have to spend large sums of money to show popular reruns.

Game Shows
Even game shows from the past are making a great comeback. There are now game show channels that rerun old favorites. The major television networks dedicate entire television specials to game shows like Let’s Make a Deal, The Newlywed Game, Hollywood Squares, and numerous other hit game shows of the past. Game shows like The Price Is Right and Wheel of Fortune have survived throughout the years due to broad viewer appeal. Bob Barker, host of The Price Is Right for 35 years, became a big hit with young people, middle-aged fans, and senior citizens alike. New game shows are being produced to meet consumer demand.

Audience Ratings Speak
New television shows are introduced with great expectations for success. Some series do not last for more than six airings due to flat ratings. Television networks cannot afford the risk of having viewers switch channels to watch a more exciting show on another network.

Even local television station newscasts change during Sweeps Week, when viewer ratings are measured. Oftentimes, newscasts will save the spiciest consumer watchdog stories for Sweeps Week. The Nielsen ratings have a definite impact on strategies used by major television networks. Shows that appear to be bombs in the first few airings will be pulled from the network schedule quickly to cut the losses.

Socio-Culture Issues
Socio-culture issues include trends in customer attitudes, lifestyles, opinions, and demographics. Lifestyles that include eating out frequently may result in obesity, which opens up a new market for businesses to serve. Consumer opinions are important when designing goods and services. Special attention...
must be paid to changing demographics, whether it’s the growth of the senior population or greater ethnic diversity.

Sports and entertainment events cannot count on past successes for future profits. Today’s young consumers cannot be taken for granted. They are not as loyal to entertainment venues as individuals who are part of the Baby Boomers, Generation X, or Generation Y. Sports and entertainment sponsors and advertisers must follow the socio-culture trends closely and invest their money wisely.

Businesses must be aware of lifestyle choices to determine such things as the best hours of operation for a store or restaurant, best airtime for a televised ball game, and best time for special sales. Assessing customers’ ever-changing needs and wants is the bottom line for success or failure of a product or service.

Why must sports and entertainment marketers pay careful attention to consumer trends?

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Take a Bow

David Weissman

David Weissman earned his degree in Business and Marketing from the University of Texas and has enjoyed a successful career spanning nearly three decades with the Phillips-Van Heusen (PVH) Corporation. He is a key account representative responsible for $20 million of wholesale business to 750 stores in Houston, Dallas, Atlanta, St. Louis, Minneapolis, and New York.

PVH began in England in 1886 and grew into a $3 billion apparel, shoe, and fragrance corporation. Labels that have been acquired by PVH include Izod, Bass, Arrow, Geoffrey Beene, Kenneth Cole, and Calvin Klein. PVH earned the ranking as the number one U.S. shirt manufacturer by acquiring competitors, associating with designer labels, and producing merchandise desired by consumers.

Mr. Weissman met Donald Trump and Sean John (Diddy) at meetings where the celebrities signed contracts with PVH for their own celebrity-named clothing lines. Most people probably would not associate fine dress shirts with a rap artist, but the clothing line has been very successful. Celebrity-named brands truly sell merchandise, even when the celebrities are not directly involved with the marketing process. Mr. Weissman enjoys a successful and challenging career that involves staying up to date with the latest clothing trends and the hottest celebrities and designers to give customers what they want.

Think Critically
1. What are the likely target markets for the celebrity-named brands?
2. Why is it important for David Weissman to stay up to date on celebrities and designers?
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. The business cycle
   a. is a well-defined, predictable pattern in the U.S. economy
   b. refers to the ups and downs of the economy
   c. does not greatly affect sports and entertainment businesses
   d. all of the above

2. Which of the following is characteristic of the expansion phase of the business cycle?
   a. growing unemployment
   b. less discretionary income
   c. increased consumer demand
   d. decreased competition

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. What impact does the price of fuel have on family vacations? How can tourist and hospitality businesses respond?

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4. Explain how lifestyle choices influence the hours that a business is open. How do lifestyle choices influence the airtime dedicated to a televised college football game?

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**Chapter 9**

**Assessment**

**Review Marketing Concepts**

Write the letter of the term that matches each definition. Some terms will not be used.

1. Occurs when related businesses conspire to charge high prices  
2. The lack of resources  
3. The inverse relationship—when the price goes up demand goes down, and when the price goes down demand goes up—between price and demand  
4. Refers to the ups and downs of the economy  
5. The point at which demand and supply are the same  
6. Periods of moderate demand  
7. Occurs when prices for goods and services rise faster than consumer income  
8. The costs associated with running a business  
9. The amount that is added to the cost of an item for sale to cover operating expenses and allow for a profit  
10. The willingness to take a loss on the reduced prices of selected items in order to create more customer traffic

Circle the best answer.

11. Which of the following is an example of prestige pricing?  
a. A football jersey on sale for $9.98  
b. Individuals negotiating prices at a swap meet  
c. Charging high prices for designer products  
d. Charging wealthy customers higher prices than other customers

12. Which of the following practices is restricted by law?  
a. bait and switch  
b. price fixing  
c. price discrimination  
d. all of the above

13. At the point where supply of a product is the same as demand  
a. the economy has reached its peak  
b. the price is set at its optimum point  
c. inflation will occur  
d. both a and b
Think Critically

14. Explain how the prices charged for tickets to sports and entertainment events have been influenced by the free-enterprise system.

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15. How can small town America take advantage of rising gas prices to increase revenue from sporting events, travel, and tourism?

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16. Assume you are the marketer for a resort in the Rockies. Your high season is in the winter when all of your rooms are booked with ski enthusiasts. In the past, the resort has closed for the summer. The owners have decided to keep the resort open all year. What strategies will you use to attract summer business?

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17. Why would a store be willing to lose money on a loss-leader item?

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18. Describe how marketers can help balance the relationship between the supply producers are willing to make available and the demand consumers have for a product.

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Make Connections

19. **Marketing Math**  Your favorite college team has just won a national championship. You operate a screen-printing company that has the exclusive rights to manufacture and sell the championship t-shirts. The plain cotton shirts cost $3. You plan to charge $15 per shirt to cover operating expenses and to earn a profit. What is the dollar amount of the markup on your t-shirts? What is the markup percentage?

20. **Government**  Explain the role of government in the U.S. free-enterprise system. What are its goals?

21. **Research**  Use the Internet to research prices charged for retro sports jerseys. Provide at least three examples. How do you think the prices for the jerseys were determined?

22. **Ethics**  Describe some pricing policies that you have experienced that you felt were unfair to consumers. Were the practices of the businesses illegal? If not, do you believe such practices should be made illegal? Discuss.
23. **Economics**  Draw a supply and demand curve for gym shoes. Set the equilibrium price point at $50 and the equilibrium quantity sold at 600. Make up the other numbers on the graph as needed. Explain what would happen if the price of the gym shoes rose to $60.

24. **Communication**  You are in charge of raising funds for the school dance. Because reality TV is very popular, the principal has asked you to create a fundraising activity based on this trend. Write a letter to your principal describing your idea.

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**PROJECT EXTRA INNINGS**

Major entertainment events are concerned about rising gas prices and the elevated terrorism alert. Promoters for state fairs, vacation destinations, professional and college sports, and concerts are concerned that consumer demand will decline due to less discretionary income and safety concerns.

Work with a group and complete the following activities.

1. How will rising gas prices and an elevated terrorism alert affect the number of fans watching sporting events on television?
2. Use the Internet to locate web sites for your state fair, a popular vacation destination, and your favorite college team? What special promotions are being advertised by these entertainment venues to attract attendance?
3. Why should college and professional football teams, some of which are building new stadiums, be concerned about the declining interest and demand of young people? Describe in detail five promotional strategies to attract a younger target market to college and professional football games.
4. Why is it important for new stadiums to serve as a venue for multiple entertainment events?
5. Explain the concept of inflation when considering ticket prices for the Super Bowl or the BCS Championship Game.
6. Why must the sports and entertainment industries be sensitive to economic conditions when setting ticket prices?
...COME ON DOWN, YOU’RE OUR NEXT CONTESTANT

In an age when attention spans are short and television programming is sometimes controversial, one daytime game show has remained incredibly popular with fans of all ages—The Price Is Right. The popular game show is taped at CBS Television City in Hollywood. Every morning long lines of people wait outside the studio, hoping to be asked to “Come on down!”

A Diverse Audience
The Price Is Right is truly a family experience passed down from generation to generation. Many loyal fans of The Price Is Right developed a love affair with the show during their childhood while watching with their parents. The show attracts a diverse market of millions of TV fans, ages 19 to 95. Fans line up along Fairfax Avenue at 3 a.m., four days a week, most of the year, hoping to land one of the 325 spots in the studio audience. Hopeful contestants often come in intergenerational groups that schedule their vacations around tapings of the show. They appear at CBS studios wearing shirts that identify them by their town or family name.

The Farmer’s Daughter Hotel across the street from the studio is a popular lodging establishment for hopeful contestants. They can receive a nightly tutorial from a desk clerk on how to improve their chances of being selected as members of the studio audience.

Bob Barker, the show’s host for 35 years, attributes the success of the show to its central theme—gauging inflation when guessing prices. Anyone who shops can identify with The Price Is Right.

Most game shows have contestants between the ages of 20 and 45 who are physically attractive. The Price Is Right selects contestants of all ages, races, and body types. One big winner was 95 years old. Fans of The Price Is Right do not have to win talent contests or overcome backstabbing boardroom tactics to earn a piece of daytime fame. While other game shows come and go, The Price Is Right endures as a cultural touchstone for generations of American shoppers.

Think Critically
1. Why has The Price Is Right remained popular over many decades?
2. What type of family value is associated with The Price Is Right?
3. What age groups make up the target market for The Price Is Right? What characteristics do they have in common?
4. Considering the target market for The Price Is Right, what types of commercials would be likely to air during the show? Explain.
MARKETING MANAGEMENT SERIES ROLE PLAY

The goal of television programming is to capture the greatest percentage of viewers possible. Television ratings determine which programs stay and which ones are discarded. The number of college football bowl games has increased to more than 30, making it difficult to capture the attention of college football fans. The popularity of the teams and the significance of the game are factors that determine television success.

A lower-tier college bowl game is scheduled to air on the morning of December 31 immediately following *The Price Is Right*. The morning time slot is a drawback for television ratings, but no other games are scheduled to broadcast on competing networks during 80 percent of the airtime. Television ratings for this game have been declining during the last three years. Two major football conferences have signed a five-year commitment to play in this bowl game. Your marketing firm has been hired to increase the popularity of the game and the size of the television audience watching. You must develop a marketing plan and advertising campaign to promote the game and elevate it to the status of a major bowl game.

Consider the demographics of the television audience that normally tunes in on weekday mornings. Capture the attention of *The Price Is Right* viewers so that they remain tuned into the channel.

Performance Indicators Evaluated

- Demonstrate an understanding of the economic challenges facing television network programming.
- Demonstrate critical thinking and problem-solving skills.
- Describe promotions appropriate for the target market that will result in increased ratings for the bowl game.
- Describe advertisements that will attract the attention of your target market.
- Develop a strategy to encourage viewers of *The Price Is Right* to watch the bowl game.

Go to the DECA web site for more detailed information.

Think Critically

1. How have the number of bowl games affected the television ratings for the games?
2. Why are the scheduled date and time of the game important factors for ratings and promotions?
3. Why should television networks pay attention to the programming scheduled around the game and on competing networks when making decisions?
4. How can an association be made between the game show and the bowl game?

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