



13 Costs



Why Are Managers Obsessed With Cost?

Setting sales price

Managers set **sales price** by using **markups** or the **cost-plus** method. How? It's simple. Start with the cost of producing something. Then add a certain percentage. This percentage includes the desired profit and fixed expense recovery. But what if a company sells below cost?

LOWEST PRICES OF THE YEAR



Get Ready!

1 Before you read the passage, talk about these questions.

- 1 How do companies set prices?
- 2 How can companies get in trouble for their prices?



Reading

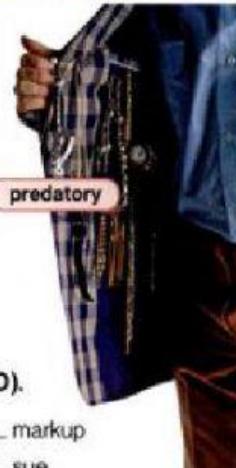
2 Read the magazine article. Then, choose the correct answers.

- 1 What is the passage mainly about?
A setting sales prices
B influencing competitors
C lowering fixed expenses
D preventing rising expenses
- 2 Businesses are only allowed to lower prices if
A they are dumping
B they remain above their costs
C they are being sued
D their competitors agree
- 3 What can be inferred about dumping?
A It is considered ethical.
B It is legal in some countries.
C It involves the markup method.
D It doesn't account for fixed expenses.



Dumping

Sometimes, businesses try to gain an advantage by selling **below cost**. This is called **dumping**. Many countries have passed laws against dumping. It is a **predatory** pricing practice because companies use it to **drive competitors out of business**. Businesses can only lower their prices down to their costs. Otherwise, someone can **sue** them.



Vocabulary

3 Match the words (1-4) with the definitions (A-D).

1	— sales price	3	— markup
2	— dumping	4	— sue

A	an amount added to costs when setting prices
B	the amount a business charges for product
C	setting a price below costs
D	to initiate legal proceedings against someone



4 Fill in the blanks with the correct words and phrases from the word bank.

Word BANK

below cost predatory
cost-plus method out of business

- 1 Low prices can drive competitors _____.
- 2 Dumping is considered a _____ pricing practice.
- 3 The _____ involves adding a certain percentage.
- 4 The company is being sued because it was pricing _____.

5 Listen and read the article again. What illegal practice do some businesses use and why?

Listening Listening

6 Listen to a conversation between two accountants. Mark the following statements as true (T) or false (F).

- 1 ___ The woman is surprised by the lawsuit.
- 2 ___ The man often makes purchases from the company.
- 3 ___ The woman thinks the company was acting against the law.

7 Listen again and complete the conversation.

Accountant 1: Did you hear about Smithson Technologies?

Accountant 2: No. Did something 1 _____ them?

Accountant 1: They're 2 _____.

Accountant 2: Really? I hadn't heard that. Why?

Accountant 1: The lawsuit says they were dumping. It doesn't 3 _____ me. Their prices seemed too low.

Accountant 2: Personally, I think it's great when a company can offer a 4 _____ product for less money.

Accountant 1: But if they're selling 5 _____, it's against the pricing laws.

Accountant 2: I see 6 _____. Maybe they were trying to drive their competitors out of business.

Speaking

8 With a partner, act out the roles below based on Task 7. Then switch roles.

USE LANGUAGE SUCH AS:

Did you hear about ...?

They're getting sued.

It doesn't surprise me. Their prices ...

Student A: You are an accountant. Talk to Student B about:

- a lawsuit
- reasons for it
- pricing laws

Student B: You are an accountant. Answer Student A's questions.

Writing

9 Use the conversation from Task 8 to fill out the email. Make up names for the accountant and manager.

FROM: _____, Accountant

TO: _____, Manager

RE: dumping

Dear _____

As you requested, here is some information about pricing laws.



Unit 13

Accountant 1 (F): Did you hear about Smithson Technologies?

Accountant 2 (M): No. Did something happen to them?

Accountant 1: They're getting sued.

Accountant 2: Really? I hadn't heard that. Why?

Accountant 1: The lawsuit says they were dumping. It doesn't surprise me. Their prices seemed too low.

Accountant 2: Personally, I think it's great when a company can offer a decent product for less money.

Accountant 1: But if they're selling below cost, it's against the pricing laws.

Accountant 2: I see your point. Maybe they were trying to drive their competitors out of business.

A: Did you hear about Smithson Technologies?

B: No. Did something happen to them?

A: They're getting sued.

B: Really? I hadn't heard that. Why?

A: The lawsuit says they were dumping. It doesn't surprise me. Their prices seemed too low.

B: Personally, I think it's great when a company can offer a decent product for less money.

A: But if they're selling below cost, it's against pricing laws.

B: I see your point. Maybe they were trying to drive their competitors out of business.