13 Costs

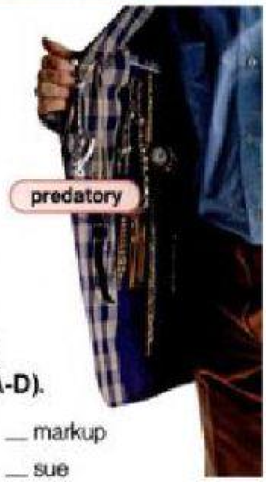
Why Are Managers Obsessed With Cost?

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?

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.



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.

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

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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

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. ______
______
______

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ACTIVITY 6 AND 7

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

ACTIVITY 8

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.

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