Chapter 22

Making Consumer Decisions

Chapter Objectives

After completing this chapter, you will be able to:

Section 22.1 Consumer Choices

- Identify four decisions that consumers make when they buy goods and services.
- Compare brand-name and generic products.
- Identify choices that consumers must make about when to buy.
- List several choices that consumers have when selecting a store to make purchases.
- Describe tools that consumers can use to compare prices for goods and services.

Section 22.2 How to Be a Smart Consumer

- Identify types of information that can be helpful to a consumer in making wise shopping decisions.

Ask

STANDARD & POOR’S

Can bonds help protect me against inflation?

Bonds are basically IOUs between a borrower and a lender. Governments and corporations borrow billions of dollars a year from investors, and bonds are a common way for them to do so. Like a savings account, the initial amount borrowed is called the principal, while the lender is generally paid in the form of interest. There are two main types of bonds: those issued by the government and those issued by private companies. If you are concerned about inflation, there are two kinds of U.S. government securities, the Treasury Inflation Protected Securities (TIPS) and the Series I Savings Bond (or I Bond), that are guaranteed to rise more rapidly than inflation. This is because their rates of return are directly tied to a common measure of inflation—the CPI-U, or Consumer Price Index for All Urban Consumers.

Mathematics The interest rate on an I Bond has two parts: a 30-year fixed rate and an inflation rate that changes every six months. The composite earning rate is the fixed rate plus the semiannual inflation rate. Determine the interest on a $5,000 I Bond over a six month period in which the fixed rate is 2% and the inflation rate is 0.28%.

CONCEPT Percents Less Than 1 Percents less than 1 represent values less than \( \frac{1}{100} \). In other words, 0.1% is one-tenth of one percent, which can also be represented in decimal form as 0.001, or in fraction form as \( \frac{1}{1000} \).
Conserving and Recycling  It is important for businesses and people to conserve and recycle. **What can young people do to promote a healthy environment?**
Section 22.1

Consumer Choices

Read to Learn
• Identify four decisions that consumers make when they buy goods and services.
• Compare brand-name and generic products.
• Identify choices that consumers must make about when to buy.
• List several choices that consumers have when selecting a store to make purchases.
• Describe tools that consumers can use to compare prices for goods and services.

The Main Idea
Consumers must make many buying decisions. They must decide what, when, and where to buy goods and services, and how much to pay for them.

Key Concepts
• Buying Goods and Services
• Deciding What to Buy
• Deciding When to Buy
• Deciding Where to Buy
• Deciding How Much to Pay

Vocabulary
Key Terms
consumer
brand name
generic products
comparison shopping

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
disposes
priority
version
bulk

Graphic Organizer
In boxes like those on the figure below, list four decisions a consumer must make before buying goods or services.

Academic Standards
English Language Arts
NCTE 1 Read texts to acquire new information
NCTE 9 Develop an understanding of diversity in language use across cultures

Mathematics
Measurement Apply appropriate techniques, tools, and formulas to determine measurements

Think about some decisions you will have to make about some goods or services you are planning to buy.
Buying Goods and Services

When shopping, making choices is not always easy. A consumer (a person who selects, purchases, uses, and disposes of goods and services) is faced with many buying options. Making consumer decisions involves determining what is most important to you.

If you had unlimited money, you could buy whatever you wanted. However, no one has unlimited funds. They have to budget their money to satisfy their wants and needs. A budget is a plan that specifies how resources—particularly money—will be allocated or spent during a particular period.

Consumers must make many decisions about buying goods and services. They must decide what, when, and where to buy, and how much to pay.

Define What is a budget?

BusinessWeek Reader and Case Study

All Together Now

How collaboration software can make your company more efficient

Michael Richards is through schlepping bags of documents to clients of his $1 million auditing firm, Michael Richards & Associates in Yorba Linda, California. In April of last year, Richards signed up for WebEx™ WebOffice, a shared online workspace where he and his 10 employees can store and edit documents. Now when Richards visits clients, he simply logs on to a shared Web site to find the paperwork he needs. “This has really revolutionized our business,” he says.

The revolution was painless. Within minutes after Richards signed up with WebEx, he had a special Web site that he and his employees could use to manage projects, update their calendars, and gain access to a shared database. “Without the site, we would have two or three more employees managing paper,” says Richards. The site is working so well that he recently signed up for a second site he’ll use to collaborate with his 100 clients. All told, Richards will spend $9,000 a year for the two sites, plus unlimited Web conferencing for 25 people. He reckons he’ll save $50,000 this year in administrative salaries. Clients are happy, too. “There’s a little bit of a learning curve with clients, but once we show them how it works, they can’t believe we didn’t do it sooner,” says Richards.

CASE STUDY Go to the Introduction to Business Online Learning Center through glencoe.com for the BusinessWeek Reader Case Study.

Active Learning

One popular type of collaboration software is the shared calendar. Research electronic calendar programs and use one to set up an appointment with a classmate to study this chapter.
Deciding What to Buy

Consumers must first decide what product they want to buy. Usually they decide what is a top priority for them. Then they can choose to buy either a brand-name product or a generic product. A brand name is the trade name for a product or service produced by a particular company. Familiar brand names include Nike®, Kellogg’s®, and Pepsi®. Buyers often associate quality with brand names.

Generic products are plainly labeled, unadvertised products that are sold at lower prices than brand-name goods. Many brand-name medicines and grocery items have a generic version. Despite the difference in cost, they may be equal in quality to some brand-name products. Figure 22.1 illustrates a comparative graph for making a buying decision.

Deciding When to Buy

Prices for many items change during different times of the year. Postponing or planning a purchase can sometimes save you money. For example, you would probably save more money if you bought an air conditioner in the winter instead of in the summer. There is less demand for air conditioners during cold months, which means prices for them are lower then.

Stores often run special promotions during and after holidays, just before a school year begins, and at the end of a season. There are often more choices when products are first available. However, you may find better prices if you wait until the items go on sale.

Figure 22.1 — Making Consumer Decisions

Comparison of Vegetable Prices

<table>
<thead>
<tr>
<th>Type of Vegetable</th>
<th>Cost per Pound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned (generic brand) 1lb.</td>
<td>$3.50</td>
</tr>
<tr>
<td>Canned (brand name) 1lb.</td>
<td>$3.00</td>
</tr>
<tr>
<td>Fresh 1lb.</td>
<td>$2.50</td>
</tr>
<tr>
<td>Packaged Frozen 1lb.</td>
<td>$2.00</td>
</tr>
<tr>
<td></td>
<td>$1.50</td>
</tr>
<tr>
<td></td>
<td>$1.00</td>
</tr>
<tr>
<td></td>
<td>$0.50</td>
</tr>
<tr>
<td></td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Source: http://retailtrafficmag.com/mag/retail_america_shops

Your Choices at the Supermarket Generic brands usually cost less than brand-name products. Food products may come fresh, frozen, or canned. Which would you choose from these different vegetable products?
Deciding Where to Buy

Along with choosing what to buy, consumers have to decide where to shop. There are three factors that affect a consumer’s decision on where to shop: the kinds of goods and services sold, prices, and convenience.

Department Stores

Department stores sell a wide variety of goods. Because they offer name brands and customer service, their prices may be higher than other types of stores. Most sell many lines of products, such as furniture, clothing, and shoes. They include Sears, JCPenney®, and Macy’s®.

Discount Stores

Discount stores also sell a variety of goods. However, discount stores generally offer lower prices. They can sell for less because they offer fewer services and keep large quantities of goods. They include Wal-Mart® and Kmart®.

Off-Price and Outlet Stores

These types of stores carry well-known brand names at bargain prices. They offer big discounts because the items they sell may have flaws, may be out of season, or may be discontinued merchandise. Examples are T.J. Maxx®, Stein Mart®, and Loehmann’s®.

Limited-Line Retailers

Limited-line retailers, or specialty stores, sell an assortment of goods in one product line or a few related lines. They often have a variety of items and high levels of service and expertise. Foot Locker®, PetSmart®, and Ace Hardware® are specialty stores.

Superstores

Superstores are like supermarkets but sell items such as books, hardware, sporting goods, and clothing as well as groceries. Like supermarkets, they are also self-serve. Kroger®, Wal-Mart, and Safeway® operate superstores.

Convenience Stores

As their name implies, convenience stores provide easy access to products that consumers often buy as necessities or impulse items. They offer limited lines of products, mostly grocery items. The world’s largest chain of convenience stores is run by 7-Eleven®.

Adapting to New Cultures

Wal-Mart is one of the leading U.S. retailers. In December 2005, it acquired 545 stores in South America and Japan. Wal-Mart purchased the Sonae retail company’s operations in Brazil, which will add a variety of new retail formats to Wal-Mart’s already diverse catalog. Wal-Mart Canada is in the process of expanding its stores to include fresh food and a wider selection of products. All of the stores will keep the basic “feel” of the stores in America while offering products that are more fitting to the country in which they are sold.

Examples of Languages Across Cultures

Q: In Brazilian Portuguese, how do you say: “What time should I arrive?”

A: A que horas devo chegar? (pronounced: Àh kà ör-dàs dày-voo shà-gàr?)

Why is it important for a company to adapt to new cultures? What types of changes does a company need to adopt when entering a foreign market?
Warehouse Stores

Warehouse stores are typically about the size of a football field. They carry a huge selection of food and nonfood items at low prices and in bulk quantities. Some require customers to become members to get buying privileges and discounts. They include Costco and Sam’s Club.

Shopping at Home

Consumers can shop at home through TV channels, catalogs, or the Internet. Some companies such as Service Merchandise sell items only on the Internet. Others offer catalog and online services. Some retail stores, such as Crate & Barrel and Eddie Bauer, also mail catalogs.

Deciding How Much to Pay

Comparison shopping is an important factor in buying products or services. Comparison shopping is comparing the prices and the characteristics of competing brands or stores. It is most important for major purchases because the difference in cost can be significant. Some people think the most expensive item is always the best product. However, sometimes the least expensive item or the one in the middle might be the best buy for the money.

Section 22.1

Review Key Concepts

1. What are four decisions that consumers must make when they buy goods and services?
2. Compare brand-name and generic products.
3. Identify choices that consumers must make when they buy.

Academic Skills

4. Mathematics Paper towels come in two sizes, regular and jumbo. A regular roll costs 89¢ and contains 80 sheets, each 11 × 9 inches. A jumbo roll costs $1.37 and contains 146 sheets, each also 11 × 9 inches. What is the difference in the cost per square foot of the two sizes?

CONCEPT Finding Areas The formula for finding the area of a rectangle is \( A = l \times w \). To convert square inches into square feet, divide the number of square inches in the roll by 12 × 12, the number of square inches in one square foot.

For math help, go to the Math Appendix.

Go to the Introduction to Business Online Learning Center through glencoe.com to check your answers.
How to Be a Smart Consumer

Read to Learn
- Identify types of information that can be helpful to a consumer in making wise shopping decisions.

The Main Idea
To get the most value for your shopping dollar, you can collect information to make an informed decision when you shop. You should plan ahead so that you can make the best choices and get the best buys.

Key Concept
- Preparing to Shop

Vocabulary
Key Terms
- promotional sale
- clearance sale
- loss leaders
- impulse buying
- warranty

Academic Vocabulary
You will find these words in your reading and on your tests. Make sure you know their meanings.
- convince
- label
- publications
- document

Graphic Organizer
In a figure like the one below, list the steps you need to take when you prepare to shop.

Academic Standards
English Language Arts
- NCTE 1 Read texts to acquire new information
- NCTE 4 Use written language to communicate effectively
- NCTE 5 Use different writing process elements to communicate effectively
- NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries

Science
- Content Standard D Students should develop an understanding of origin and evolution of the Earth system
Preparing to Shop

Consumers have to decide what a bargain is to them. You can become a smart consumer by planning in advance. Before making a purchase, a smart consumer should

- study advertisements.
- read consumer publications.
- shop at sales.
- use shopping lists.
- resist pressure and gimmicks.
- read labels and warranties.

Identify What should a smart consumer do before purchasing a product or service?

Study Advertisements

To be a wise consumer, you must learn how to read ads for information that will be helpful. Most ads are one of two types. *Rational advertising* attempts to convince consumers with facts and information. It tries to persuade buyers to choose a specific product because it is the best one for their purposes. *Emotional advertising* appeals to people’s feelings. For example, it might suggest that if consumers buy a particular car, they will be popular.

When you look at advertising, decide whether it provides useful information. An ad that simply says, “The best buy in town!” will not necessarily help you become a smarter consumer. However, an ad that says, “6 oz. Sparkle-Plenty Toothpaste, $1.99,” might be very helpful. If you know that this toothpaste is good and usually sells for $2.79 for 6 ounces, then you will know that the sale is a good buy.
Selection  |  Convenience  |  Price  
---|---|---
Always in stock  |  Convenient location  |  Good value for the price  
Have what I want  |  Good service  |  High quality  
Unique merchandise  |  Products easily accessible  |  Low or fair prices  

Source: http://retailtrafficmag.com/mag/retail_america_shops

What Consumers Want  There are many things that are important to consumers when they shop. What do you consider to be the most important reason for choosing a particular store?

Read Consumer Publications  
Publications such as Consumer Reports and Consumers’ Research Magazine give detailed information about goods that have been tested and rated. If you need to buy an expensive item, you can begin comparison shopping by studying what these magazines say about the competing brands.

Consumer magazines examine and rate products ranging from bottled iced teas to travel agencies. Many specialty magazines, such as those for photographers or hikers, rate equipment such as cameras or hiking boots. Libraries and online services are good places to find these publications.

Shop at Sales  
Stores often use sales to attract customers. A promotional sale is one that offers a special buy on a new product or a product that is in season. It is usually held at a time when consumer purchases are down, such as after holidays. A clearance sale is a sale to clear out goods that are going out of season or are no longer profitable. These sales often make room for new merchandise. Clearance sales often mark the end of a season. Many businesses also hold other sales throughout the year.

During a sale, look for products that are advertised as selling at a loss or below cost. Loss leaders are advertised products that sell at a loss to bring customers into a store. Even though a store does not make money on them, their low prices are intended to attract more customers. Store managers hope consumers will buy other items along with loss leaders. Figure 22.2 shows why consumers shop at certain stores.

Real World

Consumer Advocates  Several organizations represent consumers. For instance, the Association of Community Organizations for Reform Now (ACORN) advocates for low- and moderate-income families. Other organizations include the National Consumers League and American Association of Retired Persons. What kinds of issues would cause you to contact a consumer advocate?
Impulse buying is the act of making unplanned purchases. Impulse buying can ruin a consumer’s budget and result in buying items that are not needed. To cut down on unplanned buying, use a shopping list. It might keep you from making unnecessary shopping trips because you forgot something you need. It can also save you money, because you can decide in advance what to buy and how much to spend.

Some salespeople use high-pressure tactics to get consumers to buy their goods and services. They can be very persuasive. You should always ask yourself if what the salesperson is saying is true, if you need the product or service, and if you can afford it.

Sales gimmicks, such as ads for prizes or “super-low prices,” are meant to grab consumers’ attention and get them into a store to buy something. For example, you might get a notice in the mail that says you have won a prize. However, after reading closely, you realize you will not get the prize unless you buy something. Always examine any deal that seems too good to be true.

As You Read

Stores are in business to make a profit. Think about the reasons a store would sell a product at a loss.
Read Labels and Warranties

Before buying a product, read its **label**. You might find information on it that will lead you to decide not to buy the product. For instance, before buying fruit juice, read the food label for the contents. What you thought was 100 percent fruit juice could mainly be corn syrup and water.

Many items come with a warranty. A **warranty** is a written guarantee from the manufacturer or distributor that states the conditions under which the product can be returned, replaced, or repaired. It is a legal **document** that states the rights and responsibilities of the consumer and the store or manufacturer. Federal law requires sellers of products that cost more than $15 (and that have a warranty) to make the warranty available to customers before a purchase. It is often printed on the package.

Warranties are divided into two basic types: implied and express. **Implied warranties** are unwritten guarantees that cover certain aspects of a product or its use. An implied warranty of **mechantability** guarantees that a product is fit for its intended use. **Express warranties**, which are usually written, come in two forms. **Full warranties** state that the seller will repair or replace a product that does not work, usually free of charge, or give a refund. Full warranties are usually good for a stated time period, such as 90 days or one year. **Limited warranties** cover only certain parts of a product. They may require the buyer to pay a portion of the repair costs.

**Section 22.2**

**After You Read**

**Review Key Concepts**

1. What can you do before shopping that can help you make a wise choice?
2. Describe promotional sales and clearance sales.
3. What types of protection do a full warranty and a limited warranty provide to consumers?

**Academic Skills**

4. **English Language Arts** List products that you would buy at a store that is convenient to you. Then list products for which you shop around at several stores even if you have to travel to get to them. Write a paragraph comparing the lists.

5. **English Language Arts** With a partner, create a poster to advise students about ways to be a smart shopper and to avoid getting “taken in” by ads and promotions. Use some of this chapter’s key words in your poster.

Go to the **Introduction to Business Online Learning Center** through [glencoe.com](http://glencoe.com) to check your answers.
### Section 22.1 Summary

**Consumer Choices**  Making shopping decisions is not always easy, especially when there are many options available. Most people have limited funds. As consumers, they have to budget their money to satisfy their wants and needs. Consumers must decide what, when, and where to buy goods and services as well as how much to pay for them. They must also decide whether to buy generic or brand-name items. The best buy depends on what is important to the individual consumer.

### Section 22.2 Summary

**How to Be a Smart Consumer**  You can become a smart consumer by planning in advance. Smart consumers study advertisements, read consumer publications, and shop at sales. They also use shopping lists, resist pressure and gimmicks to buy goods and services, and read labels and warranties. Many consumers turn to consumer magazines when researching products and services. Planning helps them to avoid impulse buying and allows consumers to get the best warranty.

### Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

   **Key Terms**
   - consumer
   - brand name
   - generic products
   - comparison shopping
   - promotional sale
   - clearance sale
   - loss leaders
   - impulse buying
   - warranty

   **Academic Vocabulary**
   - disposes
   - priority
   - version
   - bulk
   - convince
   - publications
   - label
   - document

### Review Key Concepts

2. Identify four decisions that consumers make when they buy goods and services.
3. Compare brand-name and generic products.
4. Identify choices that consumers must make about when to buy.
5. List several choices that consumers have when selecting a store to make purchases.
6. Describe tools that consumers can use to compare prices for goods and services.
7. Identify types of information that can be helpful to a consumer in making wise shopping decisions.
Critical Thinking

8. What time(s) of the year would be best for department stores to offer sales because of a decrease in consumer purchases?

9. Some specialty stores set higher prices and still find a niche with shoppers. What factors do you think make them successful?

10. What types of products do you think consumers should consider buying in large quantities to save money?

11. Think about three items you have bought recently. Where did you buy each one? Did you comparison shop before you made the purchases? Why or why not?

12. In many stores, racks by the checkout counter have a wide range of “convenience goods” on display. These goods include candy, magazines, batteries, and chewing gum. Why do you think they are placed here?

13. Warehouse stores offer a wide variety of items. Why do you think consumers and small businesses choose to shop at them?

14. Do you think consumers can make informed decisions without advertising?

Write About It

15. Choose an ad from your local newspaper for a department store where you like to shop. Write two or more paragraphs describing the products that are featured in the ad. Include your ideas about why these products are being featured at this time of year.

16. Use your local phone book and prepare a list of 10 stores in your shopping community. Classify each store as one of the types of stores you have read about in this chapter.

17. Choose a store in one of the categories discussed in this chapter. Visit the store’s Web site and research the types of information it offers to consumers. Write two or more paragraphs on your findings.

18. Go to a library and find an issue of a consumer magazine such as Consumer Reports or Consumers Digest. Write a short summary of the magazine features.


Technology Applications

Database Software

20. Research the stores that offer an item you want to buy. Use database software to create a database of the stores. Include names, addresses, telephone numbers, Web site addresses, prices, and any other information to use in comparison shopping. Use the information to determine the best place to buy the item.

Business Ethics

The Ethics of Advertising

21. A store in your neighborhood announces it will hold a sale. You know that the store raised prices before the sale was announced, but everything was later discounted for the sale. Is this ethical? What can consumers do in response?
Applying Academics to Business

**English Language Arts**

22. Ads use writing that is designed to persuade. Choose a product you like and use often. Write both a rational and an emotional ad for it. Include an attention-grabbing headline and two or three sentences describing features of the product. Present your ads to the class and lead a discussion about their differences.

**Mathematics**

23. The computer you bought includes a one-year service warranty. The cost of servicing computers averages about $45 in parts and labor per service. If the retail price of the computer was $750, about what percentage of that price covers the cost of the warranty?

**Problem Solving**

It is often helpful to restate the problem in your own words before solving. In this case you are asked to express the cost of the warranty as a percent of the cost “per computer.”

**English Language Arts**

24. Sort the words below to make a list of eight two-word phrases about making consumer decisions.

- generic
- brand
- clearance
- discount
- comparison
- name
- buying
- unit
- leader
- shopping
- product
- price
- store
- impulse
- sale
- loss

**Mathematics**

25. Go through a coupon mailer or flyer for a local grocery store. List the face value for at least 20 coupons. Find the mean and median of the data.

**Data Analysis**

The mean of a set of numbers is their average; the median is the middle number, or the average of the two middle numbers, when the data are listed from least to greatest.

**Active Learning**

**Wise-Shopping Presentation**

26. Prepare a short presentation for your class on wise-shopping tips for buying an electronic device of your choice. Include some ideas in your presentation for making the best choices when preparing for a shopping trip and during shopping. Include information about the best places to shop in your community for the product you chose. Present your ideas to the class.

**Business in the Real World**

**Generic Brands**

27. Visit a grocery store or supermarket. Choose five items that are available as generic products. Record their prices. Then find brand-name versions of those items and record their prices. Calculate the unit prices of the 10 items. Prepare a chart showing the unit price of each item and the amount a shopper could save by buying the generic products.
28. Sometimes the government or a business that produces a good or a service makes a decision about a consumer issue that greatly affects consumers’ finances. Research a consumer issue, and determine the financial implications for consumers. What might consumers do in response to this action?

29. Go to the Introduction to Business Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job title “sales representative” (wholesale and manufacturing). Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

30. Situation With two or three of your classmates, discuss the points you need to consider in deciding to buy a new computer.

Activity Plan a short skit that your group will present to your class, demonstrating the questions you would ask before you make your decision.

Evaluation You will be evaluated on how well you meet the following performance indicators:

• Describe some different types of computers from which you could choose.
• Outline at least five questions your group will discuss.
• Identify the best choice.
• Prepare a written outline of the points in your skit.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. What is 559,607 rounded to the nearest hundred thousand?
   A 500,000
   B 560,000
   C 559,600
   D 600,000

TEST-TAKING TIP When answering an essay question on a test, focus on one main idea per paragraph. Do not write long introductions and conclusions. Spend most of your time answering the question asked.