



# Incentives

“To Buy or Not to Buy”

Incentives are actions or rewards that encourage people to act. Incentives motivate people and businesses to behave in predictable ways. Prices work as incentives for both producers and consumers. Continue on to find out more about incentives and how they affect prices, behavior, and our economy.

# Prices as Incentives



Prices are incentives for producers as well as consumers. Prices help determine what is produced, how it is produced, and who receives what is produced. Prices are the link between buyers and sellers. Producers base their decisions on prices. They need to know the price of labor and other resources for the products they make. Remember, resources are scarce. So, businesses want to use their resources so that they can make the most profit. Prices tell businesses about the value consumers put on certain products. If consumers are willing to pay high prices, consumers are telling producers that they are using their resources well. If consumers are only willing to pay low prices for goods they are telling producers that resources could be used more efficiently. Producers can raise prices to solve a shortage or they can lower prices to eliminate a surplus.

Raising prices for goods that consumers want encourages businesses to increase production. By increasing production, businesses can create more of the products that consumers want, which increases their profit. Profit is a primary incentive for businesses. Businesses want to produce goods that will make them money. Consumers tend to respond to the incentive of lower prices by buying more of that product. Businesses then have the incentive to make more products that consumers want to buy, which creates competition. Think back to the "Economics" modules where you learned about "consumer sovereignty." Consumer sovereignty is the power of consumers to decide what gets produced. Our market economy makes incentives work for both the consumer and the business!

Your actions as a consumer affect the economy. Businesses produce goods and services they think people will buy. If you buy, then the business does well and can hire more employees, pay higher wages, and purchase supplies from other companies. More money goes into the economy which causes economic growth. If you don't buy, the business does not do well. It may have to lay off employees, pay lower wages, and stop buying supplies. Less money goes into our economy, causing a slowdown.

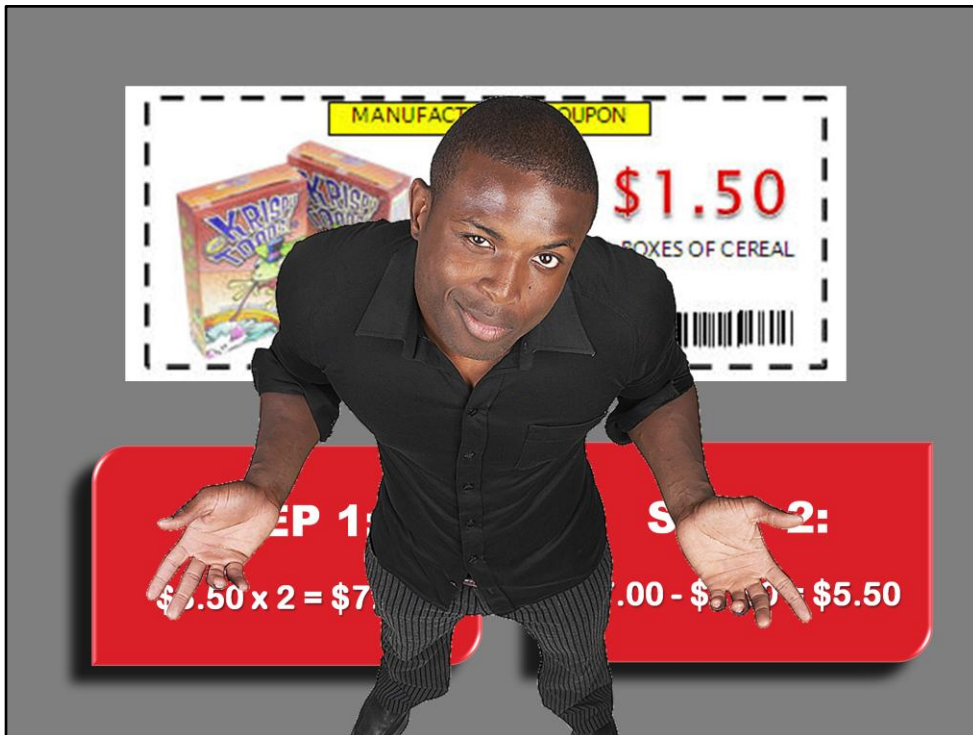
Prices also provide incentives in resource markets such as labor and capital. By increasing wages, businesses attract new employees to apply for or change jobs. Lowering wages has the opposite effect. Workers want jobs that pay them the most money. We tend to work harder and longer if we are rewarded with more pay. When a company raises prices in order to raise profits, they may pass some of that profit on to their workers in the form of bonuses or salary increases. This gives workers the incentive to perform better.

Investors want to put their money to work in businesses that will give them the most return on their investment. Remember, capital is the investment side of our market economy. It is the money that is put into a business, whether it is in the form of cash or equipment. Investors want to use their resources wisely too. They want to invest in businesses that are making money and producing the products that consumers want. Again profit is the major incentive for investors.

# Consumer Incentives



Consumer incentives are also called sales incentives. Businesses want you to buy their products. They have an incentive to get you in their store—the incentive to get your money. Have you ever been tempted to buy something because the price was too good to pass up? The low price was an incentive to you. It motivated you to buy. Sales incentives are positive things that businesses give to their customers to get them to buy. Let's take a closer look at each of these sales incentives.



Stores and manufacturers frequently offer money-off coupons to encourage sales. Coupons may be offered to introduce new products to consumers. Some coupons require you to buy in bulk or to buy something else in order to save money. Be careful of this! There are some items you don't want to buy in bulk, such as milk and yogurt, because they may go bad before you can use them. Be sure to read each coupon carefully so that you are aware of what you must do in order to receive the discount. Sometimes the requirements of the coupon negate the savings. In other words, using the coupon may not be the best deal.

Coupons may convince you to buy something that you may not need. There are several types of coupons for national brand and store brand products. Be aware of expiration dates and specific coupon requirements. Some stores offer to double coupons up to a certain amount. In other words, if you have a coupon for \$.50 off of batteries and you shop at a store that doubles coupons, you would actually save \$1.00 on the batteries! You can find coupons in a lot of different places, such as newspapers, store flyers, the Internet, and coupon exchange clubs.

Some coupons are good only when the shopper buys more than one item. So, again, it is very important to read the coupon carefully! Look at the example below:

Jack has a coupon that offers a savings of \$1.50 on any **two** boxes of cereal. Each box costs \$3.50. How much will the two boxes cost with the coupon?

Step 1: Multiply the cost of each item by the number of items:  $\$3.50 \times 2 = \$7.00$

Step 2: Subtract the value of the coupon from the total cost:  $\$7.00 - \$1.50 = \$5.50$

This example shows how you can save money with the coupon. However, before Jack uses the coupon, he needs to consider whether or not he will be able to use **two** boxes of cereal. If the second box of cereal will be stale by the time he finishes the first box, then this may not be a good deal for Jack.

# Discounts



- **Manufacturer's Name**
- **Model Number**
- **Stock Number**
- **Other Product Information**



Discount is just another word for sale. Stores may offer a percentage off of their regular prices in order to entice you to buy. Sales or discounts are usually offered to lure you into the store. However, just because an item is “discounted” or “on sale” does not necessarily mean that it is the best price for that item. You need to shop around to make sure you are getting the best deal. We will discuss comparison shopping in more detail in the next topic. Discounted prices are usually offered for a limited time. When you compare the price of an item with other stores’ prices, you will need to have the manufacturer’s name, the model number, the stock number, or other specific information that identifies the product.

# Buy One, Get One



This type of incentive is commonly referred to as “BOGO.” This may seem like a good deal, but you need to consider if you will be able to use the second product. You may buy a product that you don’t really need because you know you will get a second one free. Some people can’t resist these types of “great deals.” If you have a use for a second item (such as paper towels) then this offer may be worth it. If you don’t need a second item, such as another gallon of milk or the exact same shirt, this type of incentive may be leading you to make purchases that you don’t really need – or even worse, that you didn’t budget for!



A rebate is a “money back” offer, usually by mail. After you purchase an item that has a rebate, you must complete the necessary paperwork, attach proof of purchase, and mail the documentation to the company. Many people don’t take advantage of this offer because it requires time to complete the paperwork. Failing to take advantage of this type of offer is like throwing money away! It is important to know that it may take several weeks before you receive your rebate. Be sure to read the rebate information carefully. You should also make a note of when you mail in the rebate so you can follow up with the company if you don’t receive your money. Always make a copy of all paperwork that you send in for the rebate.

## Frequent Customer Card



This type of incentive may also be called a Preferred Customer Card or a Rewards Program. Many businesses offer these types of cards to their customers. Each time you make a purchase, you show or scan your card and your rewards points add up, or accrue. After you make enough purchases or earn enough points, you usually get something from the store. Sometimes, you receive a coupon for a percentage or money off of your next purchase or you might get a free product or service. This is another way that salespeople and merchants encourage consumers to spend money in their store. It seems like you are getting something for free, but you may be visiting that store more often so that you can “earn” the free item or service. Be careful of overspending in order to earn your rewards! Grocery stores have these types of cards. They offer discounts on certain products each week to those customers who scan their card upon checkout. This type of incentive is good when you already need to buy the discounted product anyway and don’t care which brand you purchase. By scanning your card, the grocery store is collecting data on its customers to see which items are purchased by which customers. Some stores sell this information to telemarketers, which is why you may receive certain types of spam in your email!



## Special Offers



Clearance “sales” would fall under special offers. At the end of each season, many stores want to get rid of merchandise so they can bring in the new season’s products. You may be able to find some really good deals at clearance sales. Be careful of overspending though! Don’t go over budget just because you find a good price on an item that you want.

Another special offer may be a scratch and dent sale. With this type of sale, stores mark down the regular price of their floor models. You can sometimes get really good deals on slightly damaged items. Be sure to inspect the item to make sure that it still works properly. You also need to ask about the warranty on the product. If the warranty is not in effect for the product because it is a floor model, reconsider the purchase. Warranties will be covered more fully in the “Consumer Skills” module.

Many times popular sale items will sell out quickly. Some stores will give you a rain check for a sale item that is sold out. A rain check is a piece of paper that you can bring back to the store in order to purchase the item at the sale price when more merchandise arrives. It is important to get a rain check because the sale price may not be in effect when more merchandise arrives at the store.

Read the sale ads carefully. Some may say “quantities limited,” “no rain checks,” or “not available at all stores.” Before you go shopping, call ahead to make sure that the store has the item you want in stock. If you are shopping for a particularly popular or hard-to-find item, ask the store to hold it for you until you can get there.

## Final Tips when Considering Sales Incentives

- ▶ Consider all costs
- ▶ Look for price-matching
- ▶ Use your technology skills
- ▶ Think!
- ▶ Ask about “sales adjustments”
- ▶ Check the store return/refund policies



Be sure to consider your time and travel costs. If an item is on sale but you have to go way across town to get it, you need to decide how much you will really be saving. Consider the opportunity cost of lost time – what you could have been doing instead of driving across town. Also, consider your gas cost as well as any parking costs you may incur.

Some stores will match (or even beat!) their competitors' prices. You will probably have to have a sale advertisement that shows the price of the product at the other store in order to get the matching price. Some very popular, or hard-to-get items may not be eligible for the price matching policy. Be sure to check on this with your store.

Use your technology skills and go online. Check out Internet sites that compare prices. Some sites may also compare prices offered at the stores in your area. You should be aware, though, that many times the really good price may only be available online. Remember to include shipping costs and delivery time when considering buying online.

Think carefully about bargain offers that require additional purchases to receive the incentive. The “buy one, get one” or “free gift with purchase” offers may seem great, but if you really don't need the item, it's not a good deal for you.

Ask about “sale adjustments.” Have you ever bought something that went on sale the next week? Many stores will give you a credit or a refund for the discounted amount within a certain amount of time (like 30 days). Be sure to ask what proof you will need in order to get the money back.

Always ask about refund and return policies for sale items. Merchants may have different policies for sale items, especially clearance merchandise.