CHAPTER 10

PRICING PRODUCTS: PRICING CONSIDERATIONS AND STRATEGIES

MULTIPLE CHOICE QUESTIONS

1. ____________ is the amount of money charged for a product or service.
   a. Price
   b. Accountancy
   c. Demand
   d. Value

Answer: (a) Difficulty: (1) Page: 353

2. _____________ is the sum of the values that consumers exchange for the benefits of having or using the product or service.
   a. Price
   b. Elasticity
   c. Demand
   d. Value estimate

Answer: (a) Difficulty: (2) Page: 353

3. Throughout most of history, prices were set by ____________.
   a. fixed-price policies constructed by sellers
   b. negotiation between buyers and sellers
   c. governments and regulatory agencies
   d. ruling monarchs

Answer: (b) Difficulty: (1) Page: 353

4. A ____________ policy means that a firm sets one price for all buyers in a given product or service line.
   a. fixed-price
   b. variable-price
   c. dynamic-price
   d. standard-price

Answer: (a) Difficulty: (1) Page: 353

5. Which of the following factors is spurring a new movement in pricing toward dynamic pricing?
   a. the federal government
   b. strong retailers
   c. the Internet
   d. strong wholesalers

Answer: (b) Difficulty: (2) Page: 354

6. ____________ is the practice of charging different prices depending on individual customers and situations.
   a. Fixed-pricing
   b. Standard-pricing
   c. Barter-pricing
   d. Dynamic pricing

Answer: (d) Difficulty: (2) Page: 354

7. _______ is the only element of the marketing mix that produces revenue.
   a. Product
   b. Price
   c. Place (distribution)
   d. Promotion

Answer: (b) Difficulty: (1) Page: 354

8. All of the following are among the internal factors that affect pricing <u>EXCEPT</u>: (Pick the LEAST LIKELY.)
   a. globalization.
   b. the company's marketing objectives.
   c. marketing mix strategy.
   d. the organization.

Answer: (a) Difficulty: (2) Page: 354, Figure 10-1

9. Before setting price, the company must decide on its strategy for:
   a. distribution.
   b. promotion.
   c. the environment.
   d. the product.

Answer: (d) Difficulty: (2) Page: 354

10. Companies set ______________ as their major objective if they are troubled by too much capacity, heavy competition, or changing consumer wants.
   a. current profit maximization
   b. survival
   c. market share leadership
   d. product quality leadership

Answer: (b) Difficulty: (2) Page: 356, 357

11. Pricing to cover variable costs and some fixed costs, as in the case of some automobile distributorships that sell below total costs, is typical of which of the following pricing objectives?
   a. current profit maximization
   b. product quality leadership
   c. market share leadership
   d. survival

Answer: (d) Difficulty: (3) Page: 356, 357

12. Choosing a price based upon its short-term effect on current profit, cash flow, or return on investment reflects which of the following pricing objectives?
   a. current profit maximization
   b. product quality leadership
   c. market share leadership
   d. survival

Answer: (a) Difficulty: (3) Page: 357

13. If a company believes that the company with the largest market share will enjoy the lowest costs and highest long-run profits, that company will probably choose which of the following pricing objectives as their primary course of action?
   a. current profit maximization
   b. product quality leadership
   c. market share leadership
   d. survival

Answer: (c) Difficulty: (3) Page: 357

14. The Samuels Company, a company that makes performance racecars for dirt tracks, charges high prices to cover higher performance quality and the high cost of R&D necessary to stay on top of the performance racing field. Which of the following pricing objectives would the Samuels Company most likely be following as a course of action?
   a. current profit maximization
   b. product quality leadership
   c. market share leadership
   d. survival

Answer: (c) Difficulty: (2) Page: 357

15. When a company sets a price for a new product on the basis of what it thinks the product should cost, then develops estimates on what each component should cost to meet the proposed price with an acceptable profit margin, the company is practicing:
   a. predatory pricing.
   b. target costing.
   c. strategic pricing.
   d. low cost leadership.

Answer: (b) Difficulty: (3) Page: 358

16. ______________ set(s) the floor for the price that the company can charge for its product.
   a. Supply
   b. Demand
   c. Costs
   d. Nonprofit factors

Answer: (c) Difficulty: (2) Page: 359

17. Companies with ___________ can set lower prices that result in greater sales and profits.
   a. lower market share percentages
   b. higher costs
   c. lower costs
   d. larger supply ratios

Answer: (c) Difficulty: (1) Page: 359

18. Costs that do not vary with production or sales levels are called:
   a. fixed costs.
   b. variable costs.
   c. standard costs.
   d. independent costs.

Answer: (a) Difficulty: (1) Page: 359

19. Another term for fixed costs is:
    a. standard costs.
    b. overhead.
    c. independent costs.
    d. “the bottom line.”

Answer: (b) Difficulty: (1) Page: 359

20. Costs that vary directly with the level of production are called:
    a. fixed costs.
    b. variable costs.
    c. standard costs.
    d. independent costs.

Answer: (b) Difficulty: (1) Page: 359

21. In industries such as aerospace, steel, railroads, and oil, companies often have a _____________ to set the prices or to help others in setting them.
    a. Vice-President of Pricing
    b. Pricing Board
    c. Pricing Department
    d. PFO (Pricing and Financial Officer)

Answer: (c) Difficulty: (2) Page: 360

22. The type of market that consists of many buyers and sellers trading in a uniform commodity such as wheat or copper is called:
    a. pure competition.
    b. monopolistic competition.
    c. oligopolistic competition.
    d. pure monopoly.

Answer: (a) Difficulty: (1) Page: 360

23. The type of market in which no single buyer or seller has much effect on determining the going market price is called:
    a. pure competition.
    b. monopolistic competition.
    c. oligopolistic competition.
    d. pure monopoly.

Answer: (a) Difficulty: (2) Page: 360

24. The type of market that consists of many buyers and sellers who trade over a range of prices rather than a single market price is called:
   a. pure competition.
   b. monopolistic competition.
   c. oligopolistic competition.
   d. pure monopoly.

Answer: (b) Difficulty: (1) Page: 360

25. The type of market in which sellers try to develop differentiated offers for different customer segments is called:
   a. pure competition.
   b. monopolistic competition.
   c. oligopolistic competition.
   d. pure monopoly.

Answer: (b) Difficulty: (2) Page: 360

26. The type of market that consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies is called:
   a. pure competition.
   b. monopolistic competition.
   c. oligopolistic competition.
   d. pure monopoly.

Answer: (c) Difficulty: (1) Page: 360

27. The type of market that consists of one seller is called:
   a. pure competition.
   b. monopolistic competition.
   c. oligopolistic competition.
   d. pure monopoly.

Answer: (d) Difficulty: (1) Page: 361

28. Nonregulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons. One of those reasons is the:
   a. desire to skim profits is usually low.
   b. desire to penetrate the market faster with a low price.
   c. fear of global cultural reaction.
   d. damage that high pricing does to corporate culture.

Answer: (b) Difficulty: (2) Page: 361

29. The _____________ is a curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.
   a. price curve
   b. cost curve
   c. supply curve
   d. demand curve

Answer: (d) Difficulty: (2) Page: 362

30. With respect to the demand curve (in the normal case), demand and price are:
   a. directly related.
   b. parallel.
   c. inversely related.
   d. related only through "the invisible hand" of the market place.

Answer: (c) Difficulty: (2) Page: 362

31. ____________ is a measure of the sensitivity of demand to changes in price.
   a. Price sensitivity
   b. Price comparability
   c. Price elasticity
   d. Price response

Answer: (c) Difficulty: (1) Page: 363

32. If the demand hardly changes with a small change in price, we can say that the demand is classified as being:
   a. neutral.
   b. elastic.
   c. kinked.
   d. inelastic.

Answer: (d) Difficulty: (2) Page: 363

33. If demand is elastic rather than inelastic, sellers will consider:
   a. lowering their price.
   b. raising their price.
   c. acquiring competitors as a means of avoiding price competition.
   d. maintaining the status quo.

Answer: (a) Difficulty: (2) Page: 363

34. All of the following are considered to be forms of a cost-based approach to pricing <u>EXCEPT</u>:
   a. cost-plus pricing.
   b. break-even analysis.
   c. going-rate pricing.
   d. target profit pricing.

Answer: (c) Difficulty: (3) Page: 364

35. Adding a standard markup to the cost of the product refers to:
   a. cost-plus pricing.
   b. break-even analysis.
   c. target profit pricing.
   d. perceived-value pricing.

Answer: (a) Difficulty: (2) Difficulty: 365

36. Markup pricing remains popular in the marketplace. Which of the following is a reason for this popularity?
   a. Cost-plus pricing favors the best price.
   b. Standard markups make the most sense.
   c. Cost-plus pricing is fairer to both buyers and sellers.
   d. The method focuses on demand as its base.

Answer: (c) Difficulty: (3) Page: 365

37. Setting prices to break even on the costs of making and marketing a product or make the target profit it is seeking is called:
   a. cost-plus pricing.
   b. perceived-value pricing.
   c. break-even pricing.
   d. Going-rate pricing.

Answer: (c) Difficulty: (2) Page: 365

38. Which of the following would be considered to be one of the major faults of break-even analysis and target profit pricing?
   a. They do not take into account the price-demand relationship.
   b. They are very complicated to calculate.
   c. There are serious time lags in the calculations.
   d. Most managers do not have confidence in the methods.

Answer: (a) Difficulty: (3) Page: 366

39. The pricing method that uses the buyer's point of view regarding the worth of a product, not the seller's cost, is called:
   a. cost-plus pricing.
   b. value-based pricing.
   c. break-even pricing.
   d. going-rate pricing.

Answer: (b) Difficulty: (2) Page: 366

40. When a coffee shop in an airport and a fine restaurant in a luxury hotel charge different prices for the same meal to customers who find the atmosphere in the hotel worth the difference in price, we can say that ____________ was being used.
   a. value-based pricing
   b. cost-plus pricing
   c. break-even pricing
   d. going-rate pricing

Answer: (a) Difficulty: (2) Page: 366

41. Which of the following pricing methods uses the idea that *pricing begins with analyzing consumer needs and value perceptions, and price is set to match consumer's perceived value*?
   a. cost-based pricing
   b. service-based pricing
   c. psychology-based pricing
   d. value-based pricing

Answer: (d) Difficulty: (2) Page: 367

42. _____________ is offering just the right combination of quality and good service at a fair price.
   a. Value pricing
   b. Cost pricing
   c. Service pricing
   d. Demand pricing

Answer: (a) Difficulty: (1) Page: 367

43. ____________ pricing involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items below the EDLP level.
   a. Fair
   b. Low-high
   c. High-low
   d. Promotional

Answer: (c) Difficulty: (2) Page: 369

44. If the customers base their judgments of a product's value on the prices that competitors charge for similar products, then ___________________ is in place.
    a. cost-plus pricing
    b. value-based pricing
    c. competition-based pricing
    d. target profit pricing

Answer: (c) Difficulty: (1) Page: 370

45. When demand elasticity is hard to measure, and firms tend to price according to the "collective wisdom" of the industry, the pricing method most likely to be used is called:
    a. cost-plus pricing.
    b. break-even pricing.
    c. sealed-bid pricing.
    d. going-rate pricing.

Answer: (d) Difficulty: (3) Page: 371

46. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies. What are these two broad strategies?
    a. product mix strategies and pricing mix strategies
    b. product line pricing and captive-product pricing
    c. market-skimming pricing and market-penetration pricing
    d. market-expansion pricing and market-harvesting pricing

Answer: (c) Difficulty: (3) Page: 371

47. The process of setting a high price for a new product to gain maximum revenues layer by layer from the segments willing to pay the high price is called:
    a. market-penetration pricing.
    b. market-layer pricing.
    c. market-skimming pricing.
    d. market-saturation pricing.

Answer: (c) Difficulty: (2) Page: 371

48. When Intel develops a strategy whereby they develop and introduce a newer, higher margin microprocessor chip every 12 months and send the older models down the industry food chain to feed demand at lower price points (their new chips can sell for as much as a $1,000 apiece), they are using which of the following pricing strategies?
   a. market-layer pricing
   b. market-segmentation pricing.
   c. market-saturation pricing.
   d. market-skimming pricing.

Answer: (d) Difficulty: (3) Page: 371

49. Market skimming makes sense only under certain conditions. Which of the following WOULD NOT be a reason for using market skimming pricing?
   a. The market must be highly price sensitive.
   b. The product's quality and image must support its higher price, and enough buyers must want the product at that price.
   c. The costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more.
   d. Competitors should not be able to enter the market easily and undercut the high price.

Answer: (a) Difficulty: (2) Page: 371, 372

50. Setting a low initial price to attract a large number of buyers quickly and win a large market share is called:
   a. market-penetration pricing.
   b. market-skimming pricing.
   c. market-loss pricing.
   d. market-competitive pricing.

Answer: (a) Difficulty: (2) Page: 372

51. Market-penetration pricing refers to the practice of:
   a. setting a high initial price and then penetrating the market with successive prices for each price sensitive layer.
   b. setting a low initial price to penetrate the market quickly and attract a large number of buyers to win a large market share.
   c. pricing to attract low volume in many segments so as to gradually penetrate the market as a whole.
   d. pricing products very high to penetrate deeply and quickly into large profits for the company.

Answer: (b) Difficulty: (3) Page: 372

52. When Dell Computer runs an advertisement that boosts “Superior Quality, Superior Service, and Unbelievable Price,” they are most likely using which of the following new product pricing strategies?
   a. market-penetration pricing
   b. market-skimming pricing
   c. market-loss pricing
   d. market-competitive pricing

Answer: (a) Difficulty: (2) Page: 372

53. ________________ is setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors’ prices.
   a. optional-product pricing
   b. captive-product pricing
   c. product line pricing
   d. by-product pricing

Answer: (c) Difficulty: (2) Page: 373

54. The use of price points for reference to different levels of quality for a company’s related products is typical of which product-mix pricing strategy?
   a. optional-product pricing
   b. captive-product pricing
   c. by-product pricing
   d. product line pricing

Answer: (d) Difficulty: (2) Page: 373

55. Using a low sticker price on automobiles to attract customers and then selling models with additional accessory features to meet customer needs is a form of which of the following pricing strategies?
   a. optional-product pricing
   b. captive-product pricing
   c. by-product pricing
   d. product line pricing

Answer: (a) Difficulty: (3) Page: 373

56. ______________ is setting a price for products that must be used along with a main product, such as blades for a razor.
   a. Optional-product pricing
   b. Captive-product pricing
   c. By-product pricing
   d. Product line pricing

Answer: (b) Difficulty: (2) Page: 373, 374

57. Captive-product pricing applies to services pricing. With respect to services, the captive-product strategy is called:
   a. demand pricing.
   b. slack pricing.
   c. two-part pricing.
   d. referral pricing.

Answer: (c) Difficulty: (3) Page: 374

58. ________________ is setting a price for by-products in order to make the main product's price more competitive.
   a. Optional-product pricing
   b. Captive-product pricing
   c. By-product pricing
   d. Product line pricing

Answer: (c) Difficulty: (1) Page: 374, 375

59. If a zoo sells ZOO-DOO to customers as a great natural fertilizer, it is practicing a form of:
   a. product-bundle pricing.
   b. optional-product pricing.
   c. captive-product pricing.
   d. by-product pricing.

Answer: (d) Difficulty: (2) Page: 375

60. Combining several products and offering them together at a reduced price is called:
   a. product-bundle pricing.
   b. optional-product pricing.
   c. captive-product pricing.
   d. by-product pricing.

Answer: (a) Difficulty: (1) Page: 375

61. All of the following are price-adjustment strategies <u>EXCEPT</u>:
   a. segmented pricing.
   b. market-penetration pricing.
   c. psychological pricing.
   d. promotional pricing.

Answer: (b) Difficulty: (2) Page: 375

62. A price reduction to buyers who buy in large volumes is called a:
   a. quantity discount.
   b. cash discount.
   c. seasonal discount.
   d. trade discount.

Answer: (a) Difficulty: (1) Page: 375

63. A(n) _________ is a straight reduction in price on purchases during a stated period of time.
   a. allowance
   b. discount
   c. pricing segment
   d. reference price

Answer: (b) Difficulty: (1) Page: 375

64. A(n) ________________ is a price reduction to buyers who pay their bills promptly.
   a. quantity discount
   b. functional discount
   c. cash discount
   d. allowance

Answer: (c) Difficulty: (1) Page: 375

65. In an attempt to keep production steady during an entire year, especially for products whose use is for only part of the year, sellers often use which of the following?
   a. cash discounts
   b. quantity discounts
   c. functional discounts
   d. seasonal discounts

Answer: (d) Difficulty: (1) Page: 376

66. A functional discount is also called a _________ discount.
   a. segmented
   b. quantity
   c. trade
   d. service

Answer: (c) Difficulty: (2) Page: 376

67. Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way is called a(n):
   a. discount.
   b. allowance.
   c. rebate.
   d. off-retail price.

Answer: (b) Difficulty: (2) Page: 376

68. If a state university charges different tuition rates to in-state and out-of-state students, then the university is practicing a form of:
   a. promotional pricing.
   b. institutional pricing.
   c. segmented pricing.
   d. psychological pricing.

Answer: (c) Difficulty: (2) Page: 376

69. When different versions of a product are priced differently but not in accordance to differences in their value, it is a form of:
   a. customer-segment pricing.
   b. product-form pricing.
   c. location pricing.
   d. time pricing.

Answer: (b) Difficulty: (2) Page: 376

70. When consumers pay $100 for a bottle of perfume that only contains $3 worth of ingredients, they are participating in:
   a. upscale pricing.
   b. discriminatory pricing.
   c. psychological pricing.
   d. promotional pricing.

Answer: (c) Difficulty: (2) Page: 378

71. Prices that buyers carry in their minds and refer to when they look at a given product are called:
   a. segmented prices.
   b. reference prices.
   c. relationship prices.
   d. basing-point prices.

Answer: (b) Difficulty: (1) Page: 379

72. With respect to setting pricing amounts, the belief that individual digits in a product's price have symbolic and visual qualities that should be considered in setting price is linked to:
a. psychological pricing.
b. promotional pricing.
c. symbolic pricing.
d. psychographic pricing.

Answer: (a) Difficulty: (2) Page: 379

73. If a company pursues ________________, it often temporarily prices products below the list price, and sometimes even below cost, to increase short-run sales.
a. psychological pricing
b. promotional pricing
c. symbolic pricing
d. psychographic pricing

Answer: (b) Difficulty: (2) Page: 380

74. The type of promotional pricing that uses a few products with very low prices to attract customers into the store in the hope that they will then buy regularly priced items is called:
a. special-event pricing.
b. cash rebates.
c. loss leaders.
d. low-value pricing.

Answer: (c) Difficulty: (2) Page: 380

75. When the seller places products at no charge with a carrier and the title and responsibility pass to the customer who pays the freight, it is which type of pricing strategy?
a. FOB-origin pricing
b. uniform-delivered pricing
c. zone pricing
d. basing-point pricing

Answer: (a) Difficulty: (3) Page: 381

76. __________________ is a geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.
a. FOB-origin pricing
b. uniform-delivered pricing
c. zone pricing
d. basing-point pricing

Answer: (b) Difficulty: (2) Page: 381

77. The pricing method that charges different prices to customers in different zones (but the same prices to customers within a zone) is called:
   a. FOB-origin pricing.
   b. uniform-delivered pricing.
   c. zone pricing.
   d. basing-point pricing.

Answer: (c) Difficulty: (1) Page: 381

78. When a seller selects a given city as the source from which to charge all customers freight costs from that location, they are practicing which of the following?
   a. FOB-origin pricing
   b. uniform-delivered pricing
   c. zone pricing
   d. basing-point pricing

Answer: (d) Difficulty: (2) Page: 381

79. A major factor in price increases is:
   a. promotional expenditures.
   b. government regulations.
   c. cost inflation.
   d. underdemand.

Answer: (c) Difficulty: (2) Page: 383

80. How does a company respond to a price change by a competitor. The text suggests four alternative strategies. Which of the following <u>WOULD NOT</u> be among those four strategies?
   a. reduce price
   b. raise perceived quality
   c. launch low-price "fighting brand"
   d. increase price to force response

Answer: (d) Difficulty: (2) Page: 386, Figure 10-6

81. In response to a price reduction by a competitor, a company can introduce a "fighting brand." A good definition of a "fighting brand" would be one that:
   a. raises a price to offer a high price alternative.
   b. raises quality and increases price.
   c. becomes a lower-priced brand or line to combat the competitor's price reduction.
   d. copies the competitor's brand to confuse the buyer.

Answer: (c) Difficulty: (2) Page: 386

82. Which of the following statements MOST ACCURATELY reflects the Federal government's position on price fixing?
   a. Price-fixing is illegal per se--no excuses are accepted.
   b. Price-fixing is controlled by state mandates.
   c. Price-fixing is alright in natural monopolies.
   d. Price-fixing is alright if judged to be in the national interest.

Answer: (a) Difficulty: (2) Page: 387

83. Which of the following strategies best describes the attempt on the part of sellers to sell below cost with the intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business?
   a. price-fixing strategy
   b. deceptive pricing strategy
   c. price discrimination strategy
   d. predatory pricing strategy

Answer: (d) Difficulty: (2) Page: 387

84. The ____________ Act seeks to prevent unfair price discrimination by ensuring that sellers offer the same price to customers at a given level of trade.
   a. Sherman-Antitrust
   b. Robinson-Patman
   c. Federal Trade Commission
   d. Wheeler-Lea

Answer: (b) Difficulty: (3) Page: 389

85. What is the Federal government's view on *retail price maintenance* as a competitive policy?
   a. It has no views on the subject.
   b. It is prohibited.
   c. It can be used as long as it is not viewed to be deceptive.
   d. It has turned over jurisdiction to the individual states which each have their own laws and regulations.

Answer: (b) Difficulty: (3) Page: 389

TRUE/FALSE QUESTIONS

86. In the narrowest sense, price is the amount of money charged for a product or service.

Answer: (True) Difficulty: (1) Page: 353

87. Throughout history, the most common pricing approach was to install a fixed-price policy (setting one price for all buyers).

Answer: (False) Difficulty: (2) Page: 353

88. The factor that promises to reverse the trend to fixed pricing and return businesses to a policy of dynamic pricing is advertising.

Answer: (False) Difficulty: (3) Page: 354

89. Price is the only element of the marketing mix that produces revenue.

Answer: (True) Difficulty: (1) Page: 354

90. One of the most common mistakes made by companies with respect to pricing is that their pricing is too cost-oriented.

Answer: (True) Difficulty: (1) Page: 354

91. According to a *Marketing at Work* article that discusses dynamic pricing on the Web, the Internet is changing the rules for sellers in that sellers can change prices on the fly according to changes in demand or costs.

Answer: (True) Difficulty: (2) Page: 355, Marketing at Work 10-1

92. An example of a common pricing objective is survival.

Answer: (True) Difficulty: (1) Page: 356, 357

93. Many companies want to obtain market share leadership. To become the market share leader, these firms must set prices as high as possible so they can earn the greatest profits.

Answer: (False) Difficulty: (2) Page: 357

94. According to information found in the text, the original Swatch watch provides a good example of target costing.

Answer: (True) Difficulty: (2) Page: 358

95. Supply sets the floor for the price that the company can charge for its product.

Answer: (False) Difficulty: (2) Page: 359

96. In pure competition, if price and profits rise new sellers can easily enter the market.

Answer: (True) Difficulty: (1) Page: 360

97. In monopolistic competition, each firm is less affected by competitor's marketing strategies than in oligopolistic markets.

Answer: (True) Difficulty: (2) Page: 360

98. The revenue curve is a curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.

Answer: (False) Difficulty: (2) Page: 362

99. If demand changes greatly as price is changed, demand is said to be elastic.

Answer: (True) Difficulty: (1) Page: 363

100. A good example of a cost-based pricing approach would be sealed-bid pricing.

Answer: (False) Difficulty: (2) Page: 365

101. The simplest pricing method is target profit pricing.

Answer: (False) Difficulty: (2) Page: 365

102. Value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing.

Answer: (True) Difficulty: (1) Page: 366

103. The king of EDLP (everyday low pricing) is Macy's Department Stores.

Answer: (False) Difficulty: (2) Page: 369

104. Another name for competition-based pricing is going-rate pricing.

Answer: (True) Difficulty: (1) Page: 370

105. Sealed-bid pricing is a form of psychological pricing.

Answer: (False) Difficulty: (2) Page: 371

106. Market-skimming pricing means setting a high initial price and taking revenues layer by layer from each price-sensitive segment of the market.

Answer: (True) Difficulty: (2) Page: 371

107. Conditions that favor a market-skimming strategy are an elastic demand curve, many producers, and low barriers to market entry.

Answer: (False) Difficulty: (2) Page: 371, 372

108. In product-line pricing, management must decide on the price steps to set between the various products in the line.

Answer: (True) Difficulty: (1) Page: 373

109. Good examples of captive-product pricing are razor blades and camera film.

Answer: (True) Difficulty: (2) Page: 373

110. By-product pricing is pricing bundles of products sold together.

Answer: (False) Difficulty: (2) Page: 374, 375

111. When theaters and sports teams sell season tickets at less than the cost of single tickets, they are using a pricing method called product bundle pricing.

Answer: (True) Difficulty: (1) Page: 375

112. "2/10, net 30" is a typical example of quantity discount.

Answer: (False) Difficulty: (2) Page: 375

113. When a store lowers the price of a stereo to $299.95 (from $300), it is using psychological pricing to attract buyers.

Answer: (True) Difficulty: (2) Page: 379

114. Using promotionally priced linens every January to attract weary Christmas shoppers back into stores would be an example of special event pricing.

Answer: (True) Difficulty: (2) Page: 380

115. FOB-origin pricing occurs when the company charges the same price plus freight to all customers, regardless of their location.

Answer: (False) Difficulty: (3) Page: 381

116. Zone-pricing is the opposite of FOB pricing.

Answer: (False) Difficulty: (3) Page: 381

117. A good reason behind a seller initiating a price increase is overdemand.

Answer: (True) Difficulty: (1) Page: 384

118. One of the ways to respond to a competitor that changes its price would be to improve quality and increase price.

Answer: (True) Difficulty: (2) Page: 386, Figure 10-6

119. Predatory pricing is a policy of selling below cost with the intention of destroying competition.

Answer: (True) Difficulty: (1) Page: 388

120. Retail price maintenance is not illegal as long as it is initiated by the manufacturer.

Answer: (False) Difficulty: (2) Page: 389

<u>ESSAY QUESTIONS</u>

121. Define price and identify how marketing objectives affect pricing decisions.

Answer:
As defined in the text, price is the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service. Price can also be called by any of the following terms: rent, tuition, fee, fare, rate, interest, toll, premium, honorarium, bribe, dues, assessment, retainer, salary, commission, wage, or even income taxes.

Marketing objectives are among the internal company factors affecting price. Common objectives include *survival* that sets a low price. *Current profit maximization* sets a high price to meet current financial outcomes rather than long-run performance. *Market-share leadership* seeks the dominant market share through low prices to gain low cost advantages. *Product quality leadership* sets high prices for superior products and high R&D.

Difficulty: (2) Page: 353, 354, 356-358

122. What is dynamic pricing and how is it different from the form that has been used for the last hundred years or so?

Answer:
Dynamic pricing charges different prices depending on individual customers and situations. This form of pricing was used prior to the age of fixed-pricing (the form used for the last hundred years or so). Under fixed-pricing, one price was set for all buyers. This form of pricing was adopted by nineteenth century retailers as an improvement over the barter or negotiation system (now called dynamic pricing). A return to dynamic pricing has been spurred by the popularity of the Internet and e-commerce.

Difficulty: (1) Page: 353-356, Marketing at Work 10-1

123. Discuss and explain the pricing technique of target costing.

Answer:
Companies often position their products on price and then base other marketing mix decisions on the prices they want to charge. Many firms support price-positioning strategies with a technique called target costing. Target costing pricing starts with an ideal selling price, then targets costs that will ensure that the price is met. Target costing reverses the usual process of first designing a new product, determining its cost, and then asking, "Can we sell it for that?"

Difficulty: (2) Page: 358, 359

124. List and briefly define the four different types of markets that affect pricing decisions. Give an illustration of each type of market.

Answer:
(a) *Pure competition*: a market in which many buyers and sellers trade in a uniform commodity--no single buyer or seller has much effect on the going market price. An example would be markets for wheat, copper, or financial securities.
(b) *Monopolistic competition*: a market in which many buyers and sellers trade over a range of prices rather than a single market price. An example would be national food products such as pickles which would include H.J. Heinz, Vlasic, and several other national brands of pickles in addition to many local and regional brands.
(c) *Oligopolistic competition*: a market in which there are a few sellers all of whom are highly sensitive to each other's pricing and marketing strategies. An example would be steel companies.
(d) *Pure monopoly*: a market in which there is a single seller--it may be a government monopoly, private regulated monopoly, or a private nonregulated monopoly. Examples would be the U.S. Postal Service, a power company in a local community, or a company that has a patent (such as DuPont with nylon).

Difficulty: (3) Page: 360-361

125. Define a demand curve. Draw a demand curve and explain the concept of this curve. Be sure to indicate how elasticity and inelasticity of demand applies to the curve.

Answer:
A demand curve may be defined as being a curve that shows the number of units the market will buy in a given time period, at different prices that might be charged. See Figure 10-2 for a visual picture of the demand curve. Students should appropriately label the curve and its axis. Students should also be encouraged to use an example to illustrate their idea of the demand curve (this is, however, optional). Price elasticity of demand is a measure of the sensitivity of demand to changes in price. An elastic demand curve changes (sometimes greatly) as price changes. An inelastic demand curve hardly changes at all as price changes.

Difficulty: (2) Page: 362-363, Figure 10-2

126. The text discusses four general approaches to pricing. Discuss each one as to its definition, characteristics, and any inherent advantages and disadvantages.

Answer:
(a) *Cost-plus pricing*: adding a standard markup to the cost of the product. Lawyers typically use this method. Though simple, this method has the basic problem of ignoring demand and competitor prices. However, this method still remains somewhat popular because sellers are more aware of costs than demand, when all producers in an industry use this method it tends to work, and many feel that this method is fairer to both buyers and sellers.
(b) *Break-even pricing (target profit pricing)*: setting prices to break even on the costs of making and marketing a product or setting price to make a target profit. This method uses a break-even chart to calculate different prices where break-even volume is examined. This is a popular method used by public utility companies. Using this method, the producer will have to find ways to lower costs and react to competitor prices.
(c) *Value-based pricing*: setting price based on buyers' perceptions of value rather than on the seller's cost. Using this method, the seller must consider price along with all the other variables in the marketing mix before the marketing program is set. Pricing cannot be done last. Value-based pricing reverses the product driven approach to pricing. This method has become popular in the 1990s as more companies endeavored to become closer to their customer and give them better value than their competitors. Services have been added to justify prices.
(d) *Competition-based pricing*: consumers will base their judgments of a product's value on the prices that competitors charge for similar products. Two forms include: (1) *going-rate pricing*--setting prices based largely on following competitors' prices rather than on company costs or demand (common in oligopolistic industries where competitors sell products like steel, paper, or fertilizer). This method is used often when demand elasticity is hard to measure and firms feel that the collective wisdom of the industry can be used to set the price. (2) *Sealed-bid pricing*--setting price based on how the firm thinks competitors will price rather than on its own costs or demand-used when a

company bids for jobs. This form makes sense for a large firm that makes many bids and carefully considers expected profits.

Difficulty: (3) Page: 364-371, Figure 10-5, Marketing at Work 10-2

127. Discuss the two new product strategies of market-skimming and market-penetration. Indicate when each strategy makes the most sense or when each should be used as the primary pricing strategy.

Answer:
(a) *Market-skimming*--setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company will make fewer but more profitable sales. This policy makes sense under conditions where: (1) the product's quality and image must support its higher price, and enough buyers must want the product at that price, (2) the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more, and (3) competitors should not be able to enter the market easily and undercut the high price.
(b) *Market-penetration*--setting a low price for a new product in order to attract a large number of buyers and a large market share. The company sets a low price hoping to penetrate the market quickly and deeply. The high volume of sales will result in falling costs, allowing the company to cut its price even further. Conditions that favor this strategy include: (1) the market must be highly price sensitive, (2) production and distribution costs must fall as sales volume increases, and (3) the low price must help keep out the competition, and the company must maintain its low price position.

Difficulty: (2) Page: 371, 372

128. Characterize each of the five product-mix pricing strategies shown in the text.

Answer:
The chapter covers five major product-mix strategies. They are: *product-line pricing, optional-product pricing, captive-product pricing, by-product pricing, and product bundle pricing.* Each strategy is characterized below:
(a) *Product-line pricing*--setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitor's prices. The price steps should take into account cost differences between the products in the line, customer evaluations of their different features, and competitor's prices.
(b) *Optional-product pricing*--the pricing of optional or accessory products along with a main product. An example would be when an automobile company sells the car for a low sticker price but then adds on more expensive (and profitable) options or services.
(c) *Captive-product pricing*--setting a price for products that must be used along with a main product, such as blades for a razor and film for a camera. In the case of services, this strategy is called two-part pricing where there is a fixed fee and a variable usage rate.

(d) *By-product pricing*--setting a price for by-products in order to make the main product's price more competitive. In this case, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them.
(e) *Product bundle pricing*--combining several products and offering the bundle at a reduced price. This form of pricing is popular with theaters and sports teams where a season ticket is sold at less than the cost of single tickets.

Difficulty: (3) Page: 373-375

129. Characterize each of the following price-adjustment strategies: (a) discount and allowance pricing, (b) segmented pricing, (c) psychological pricing, and (d) promotional pricing. Be specific in your comments and characterizations.

Answer:
(a) Discount and allowance pricing. A discount is a straight reduction in price on purchases during a stated period of time. Forms can include a cash discount (a reduction to buyers who pay their bills promptly), a quantity discount (a price reduction to buyers who buy in large volumes), a functional or trade discount (offered by the seller to trade channel members who perform certain functions), or a seasonal discount. An allowance is promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.
(b) Segmented pricing--Selling a product or service at two or more prices, where the difference in prices is not based on differences in cost. Forms can include customer-segment pricing, product-form pricing, location pricing, or time pricing.
(c) Psychological pricing is a pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product. This form can be based on reference prices (prices that a buyer carries in his or her mind and refers to when he or she looks at a given product).
(d) Promotional pricing is temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales. Forms include loss leaders and special-event pricing.

Difficulty: (3) Page: 375-380, Marketing at Work 10-3

130. Briefly characterize and identify the following geographical pricing forms: (a) FOB-origin pricing, (b) uniform-delivered pricing, (c) zone pricing, and (d) basing-point pricing.

Answer:
(a) FOB-origin pricing means that the goods are placed free on board a carrier. At that point title and responsibility pass to the customer, who pays the freight from the factory to the destination.
(b) Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost.

(c) Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.
(d) Basing-point pricing--the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped.

Difficulty: (3) Page: 381

131. According to the text, a company has four possible reactions to a competitor that has changed its price. What are these four options?

Answer:
The four options are:
(a) Reduce price.
(b) Raise perceived quality.
(c) Improve quality and increase price.
(d) Launch low-price "fighting brand."

Difficulty: (2) Page: 386, Figure 10-6

APPLICATION QUESTION

132. For many years the Compaq Computer company succeeded in the marketplace by making a variety of excellent quality computers that were sold through a series of resellers (such as Circuit City, CompUSA, and other electronic retailers). However, because of price pressures from such direct marketers as Dell and Gateway 2000, profits shrunk. The management of Compaq decided to take a bold pricing and distribution strategy to offset these problems and challenges. The company began to slowly develop their own network of retail outlets or "Compaq stores" in which to distribute their newest products. If you were the Vice-President of Marketing for Compaq, what new-product pricing strategy would you recommend for the new Compaq stores (and their new product offerings)--market-skimming pricing or market-penetration pricing? Consider relationships with your "old distributors," current competitors, and consumers in your decision. Explain your rationale and any advantages and disadvantages of your choice. Be specific in your explanation.

Answer:
As explained in the text (and in *Question #127* above), the explanation, advantages, and disadvantages of market-skimming pricing and market-penetration pricing include:

(a) *Market-skimming*--setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company will make fewer but more profitable sales. This policy makes sense under conditions where: (1) the product's quality and image must support its higher price, and enough buyers must want

the product at that price, (2) the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more, and (3) competitors should not be able to enter the market easily and undercut the high price.
(b) *Market-penetration*--setting a low price for a new product in order to attract a large number of buyers and a large market share. The company sets a low price hoping to penetrate the market quickly and deeply. The high volume of sales will result in falling costs, allowing the company to cut its price even further. Conditions that favor this strategy include: (1) the market must be highly price sensitive, (2) production and distribution costs must fall as sales volume increases, and (3) the low price must help keep out the competition, and the company must maintain its low price position.

The right decision given the amount of information provided and the objectives of the company (to meet or beat the competition supplied by Dell and Gateway 2000 computers) would be to select the market-penetration pricing strategy. The advantage of using this strategy would be that it would closely match that of the competition. The company was prevented from using this strategy in the past because of the need to allow for profit on the part of resellers and distributors (i.e., Circuit City, et cetera). These resellers and distributors would demand certain concessions from all major computer makers so they could remain competitive with their own set of competitors (at the reseller level). By opening their own stores, Compaq can reduce these concessions and, therefore, be able to lower the price of their computers (while still making good profits). In essence, a layer of middlemen has been removed. In addition, Compaq also sells recycled used Compaq computers in their stores. These computers add an additional low-priced line and give a past Compaq owner an outlet for their old computer (since trade-ins are accepted and encouraged). These owners usually upgrade to a new computer from the Compaq line. At present, Compaq is still selling their computers through both forms of distribution. The effect of this dual-distribution technique has been to meet the challenge presented by Dell and Gateway 2000 (so much so that both of these companies are considering opening their own retail outlets to complement their direct marketing approaches).

Difficulty: (2) Page: 371-372

******Instructor's Note: Because of the similarity of learning concepts, it recommended that this question not be used if Essay Question #127 above is used.******