Pricing Strategies - Harvesting Product Value 2nd edition Schindler Test Bank

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Multiple choice questions

Chapter 1: Pricing as an element of the marketing mix

1. Which one of the following statements is true about the commercial exchange?

a. The buyer must be a business customer

b. The interaction is voluntary

c. The seller must be a business customer

d. Only goods, not services, can be involved in the exchange

e. The product in the exchange must be intangible

Ans: B; ref: pages 2–3

2. For a retail merchant, which of the following best expresses the difference between prices and costs?

a. Prices are fixed, but costs are variable

b. Prices are incremental, but costs are nonincremental

c. He sets prices when he sells goods and sets costs when he sells services

d. Only prices make use of a medium of exchange

e. He sets prices when he sells something and pays costs when he buys something

Ans: E; ref: page 3

3. Which of the following is ***not*** one of the elements of what is traditionally known as the marketing mix?

a. Pricing

b. Evaluation

c. Product

d. Distribution

e. Promotion

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Ans: B; ref: pages 5–6

4. Which of the following would be an indication that price has a high strategic prominence for a company?

a. The company is positioned so that every item sold has a specific price

b. The prices of items sold serve as background activities for the company

c. Price is used to attract and keep customers

d. Non-price competition is the typical positioning of the company

e. The advertising of the company is produced by a high-priced advertising agency

Ans: C; ref: page 8

5. According to Chapter 1, what is the difference between price setting and pricing policy?

a. Pricing policy involves negotiation with customers, but price setting involves only auction mechanisms

b. Only pricing policy involves the consideration of the costs when making decisions regarding the pricing of individual items

c. Price setting involves deciding on prices of specific items, whereas pricing policy decisions involve rules regarding the setting of prices

d. One is interactive while the other is flexible

e. Price setting involves decisions about pocket prices, whereas pricing policy involves avoiding any decisions about pocket prices

Ans: C; ref: page 9

6. A large provider of home improvement products sells flooring tiles to retail customers for $13.99 per box of 20 tiles. The provider offers contractors who sign up for the provider's loyalty programme the same box of tiles for $10.99 when they purchase more than 10 boxes of the tiles. This would be an example of _____?

a. Price format

b. Partitioned pricing

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c. Price negotiation

d. Price segmentation

e. Just-below pricing

Ans: D; ref: page 11

7. What is the difference, described in Chapter 1, between flexible pricing and interactive pricing?

a. There is no difference between flexible and interactive pricing; they are synonymous terms

b. Flexible pricing is used when a seller has continually varying costs, whereas interactive pricing is used when demand is continually varying

c. Flexible pricing occurs when the price of an item is not listed but is determined by the seller alone; interactive pricing occurs when a price results from buyer–seller interactions such as those that occur at an auction

d. Interactive pricing is based on an interaction between the four elements of the marketing mix, whereas flexible pricing is used only in barter situations

e. Flexible pricing is when the seller simply states the price of an item is variable; interactive pricing is when the buyer's purchase price is variable

Ans: C; ref: pages 12–13

8. What is the term for the marketing-mix activity concerned with the management of a firm's prices to support the firm's long-term interests and goals?

a. Marketing strategy

b. Positioning

c. Lead activity

d. Background activity

e. Pricing strategy

Ans: E; ref: page 13

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9. Which one of the following is ***not*** one of the individuals in an organization who will have direct pricing involvement and responsibility?

a. A merchandise buyer in a department store

b. A product manager in a large consumer products organization

c. The manager of salespeople in a company that sells to business customers

d. Revenue management specialist in a service industry

e. All of these

Ans: E; ref: pages 14–15

10. What is the relationship between an invoice price and a pocket price of an item?

a. The invoice price is the standard price of an item; the pocket price is price-segmentation method to attract more customers

b. The invoice price is the price that a pricing manager sets for the item, which will appear on the customer's bill; the pocket price is the amount of money the company actually receives once discounts and payment terms have been applied

c. There is no constant relationship between the two; most of the time, the invoice price and the pocket price are interchangeable terms

d. A pocket price tends to be inflated, because a firm will charge a premium to loyal customers to achieve a lower invoice price for the item

e. The invoice price is typically set by the salesperson in the organization, but the pocket price is the price arrived at through coordination among various department overseen by a central authority

Ans: B; ref: page 15

Chapter 2: Starting points for setting an initial price

1. Which of the following is an example of cost-based pricing?

a. Setting prices based only on a standard markup

b. Using a product's VTC to start the pricing process

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c. Beginning the price-setting process with research on how customers feel about what they currently pay

d. Starting the price-setting process by considering the customer's needs

e. Starting the price-setting process by considering only consumer value perceptions

Ans: A; ref: pages 25–26

2. A distributor of parts for diesel engines sets his prices to conform to a gross margin of 52%. Given this price-setting procedure, what will be the distributor's price for an item that cost the distributor $24.00?

a. $61.52

b. $36.48

c. $72.00

d. $50.00 [$24.00/{(1 – (52/100)}]

e. $46.15

Ans: D; ref: pages 28–30

3. A retailer has purchased an item for $12 and has used cost-based pricing to set the item's selling price at $30. This price reflects a(n):

a. –18% markup

b. 18% gross margin

c. 130% gross margin

d. 60% gross margin [{($30 – $12)/$30} × 100]

e. 40% markup

Ans: D; ref: pages 28–30

4. Which of the following is an advantage of markup pricing?

a. It ensures that the price will not be too high

b. It ensures at least that the price will not be too low

c. Its use guarantees maximum profits

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d. Its simplicity

e. It considers all relevant factors in the price-setting process

Ans: D; ref: page 32

5. A typical tube-style incandescent light bulb lasts for 1,000 hours and is available to consumers for $3.00 per bulb. A manufacturer has produced a new tube-style incandescent light bulb that lasts for 1,300 hours. What is the VTC of the manufacturer's new light bulb to consumers who buy tube-style incandescent light bulbs?

a. $3.30

b. $10.00

c. $3.00

d. $3.90 [$3.00 + {($3.00/1000) × 300} = $3.90]

e. $13.00

Ans: D; ref: pages 34–35

6. R.S. Hughes, Inc. makes a new type of rubber gloves. Because these gloves allow assembly-line workers to have a better grip, they will enable the workers at these manufacturing companies to assemble 5% more products per hour than if they wear the currently available gloves. Each pair of these new gloves lasts for 10 hours. The average pay rate for these assembly-line workers is $16 per hour. The price of the currently available rubber gloves in this industry is $6.20 per pair. What is the value to the customer of a pair of R.S. Hughes' new gloves?

a. $16.80

b. $14.20 [$6.20 + {(0.05 × $16.00) × 10} = $6.20 + $8.00]

c. $11.60

d. $4.60

e. $6.82

Ans: B; ref: pages 34–36

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7. A plant manager at a commercial bakery is evaluating frames of bread racks from two different suppliers. Supplier A has engineered its frames to accommodate an extra rack, without altering the frame's overall dimensions. With this extra rack, the bakery's daily production costs would be reduced by 5%. With Suppler B's racks, the bakery's daily production costs would not change. When the plant manager evaluates the two competing suppliers' frames, the manager would be using which method to determine the differentiation value of a frame having the extra rack?

a. Parity pricing
b. Tradeoff-measurement approach
c. Savings-expenditure approach
d. Value to the consumer
e. Negative differentiation value

Ans: C; ref: pages 38–39

8. A Malaysian tyre manufacturer is expanding internationally. The company has conducted market research, and a VTC analysis indicates that its tyre has similar features to Goodyear's, which are selling for $175 per tyre. The Malaysian manufacturer's tyre possesses no positive differentiating factors over Goodyear's and has two negative differentiating factors: lack of brand recognition, which customers value at $16 per tyre, and slightly greater tyre wear, which customers value at $7 per tyre. Given this information, what is the VTC of the Malaysian manufacturer's tyre?

a. $152 [$175 – $16 – $7)]
b. $168
c. $159
d. $191
e. $175

Ans: A; ref: page 41

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9. A craft coffee shop located in the lobby of a downtown skyscraper sells a cup of coffee for $6.00. Employees who work in a building three blocks away have an easy access to a food truck that sells a cup of coffee for $4.95. These employees have a positive differentiating value of $3 for the craft coffee shop's coffee due to the quality of its beans, and a negative differentiating factor of $1.50 due to the distance of the shop from their desks. What would be the VTC for the craft coffee shop's product for the employees of the building three blocks away?

a. $7.50
b. $8.60
c. $3.40
d. $5.35
e. $6.45 [$4.95 + $3.00 – $1.50]

Ans: E; ref: page 42

10. What is a major reason that customer-based pricing is not more commonplace?

a. Customer-based pricing requires research on customer needs rather than the firm's costs or the prices of competing products
b. It is easy to acquire detailed information on a customer's needs
c. It is better for a firm to use competitor pricing since this is a more accurate way of determining what existing customers are willing to pay
d. When costs are low for a firm to produce a product, cost-based pricing is a better model to use compared to customer-based pricing
e. Cost-based pricing is difficult to implement when new products are introduced

Ans: A; ref: page 44

Chapter 3: Assessing value to the customer

1. A food product that most consumers find, tastes better than its competitors is doing a better job of satisfying which type of consumer needs?

a. Hedonic/esthetic performance needs

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b. Support-service attribute needs
c. Need for objective performance
d. Product convenience needs
e. Need for social performance
Ans: A; ref: page 52

2. According to the five customer need categories presented in the course, a consumer's need to know that a package shipping service will always deliver his packages on time would most clearly be an example of a(n):
a. Social performance need
b. Hedonic performance need
c. Dummy-variable need
d. Esthetic performance need
e. Performance reliability need
Ans: E; ref: pages 53–54

3. Which of the following is ***not*** one of the five decision-process roles in an organization's buying centre?
a. Purchaser
b. Salesperson
c. Decider
d. User
e. Gatekeeper
Ans: B; ref: page 55

4. Airtight Manufacturing produces plastic cases that utility companies buy to protect electronic components on utility poles from weather damage. Airtight has recently developed better insulation for its protective case. The protective case currently used by utility companies has a 0.035 probability of failing in any given year. When a protective

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case fails, the utility company incurs a $600 repair expense. If this better insulation enables Airtight's new protective case to have a 0.015 probability of failing any given year, then what is the value to a utility company of this better-insulation feature?

a. $45

b. $9

c. $12 [(0.035 – 0.015) × $600 = $12]

d. $21

e. –$9

Ans: C; ref: pages 59–60

5. In Chapter 3, conjoint analysis is presented as a technique to help:

a. Calculate the profitability of an expected sales change

b. Estimate which fixed costs are incremental

c. Measure the value of a differentiating factor

d. Identify a competitor's competitive stance

e. Determine an item's price format

Ans: C; ref: page 61

6. If a company is trying to measure how its customers value its product's greater esthetic appeal, which of the following would be a good way to collect the necessary data?

a. Identify any new expenditures that the product would involve

b. Use probability data to calculate an expected value

c. Measure monetary savings involved

d. Collect data on past prices of the product

e. Field a research questionnaire

Ans: E; ref: pages 61–62

7. Dummy-variable coding:

a. Can be done only for a dependent variable

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b. Requires at least five attribute coding levels

c. Can be used for only one of the variables in a multiple regression analysis

d. Can be used only when subjective performance is being measured

e. Involves coding a variable using only 0s and 1s

Ans: E; ref: page 63

8. A researcher is carrying out a conjoint analysis to determine the degree to which consumers value weight, styling, price and the presence of a retractable power cord in a new vacuum cleaner. She asks consumers to rank their preferences among descriptions of a large number of alternative vacuum cleaner products, and she uses multiple regression to analyse the results. In this multiple regression analysis, which of the following should be the dependent variable?

a. Weight of vacuum cleaner

b. Presence of retractable power cord

c. Absence of retractable power cord

d. Vacuum cleaner price

e. Consumer preference ranks

Ans: E; ref: page 63

9. In a regression analysis, what do the coefficients attached to the independent variables in a conjoint study represent?

a. The utility tradeoffs of that variable

b. Preference for that variable

c. Dislike for that variable

d. The utility benefit of that variable

e. The relationship the IV has to the DV

Ans: D: ref: page 64

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