Naga College Foundation, Inc.
COLLEGE OF BUSINESS & MANAGEMENT

Member: Philippine Association of Collegiate Schools of Business (PACSB) PACUCOA Level 2 Accredited Business Programs

Costing and Pricing Strategy
Preliminary Examination, 2nd Semester, AY 2023-2024
“Put your best effort on the exam and God will surely crown you with success. Best of Luck!”

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Area 1: Match the statement concept of Category A (I. Strategy, II. Quality Cost Allocation, III. Inventoriable Cost, IV. Research Cost, V. Administration Cost) to Category B (1. Policy Cost, 2. Improvement Cost, 3. Product Cost, 4. Prevention & Detection Strategy, 5. Position). Explain their significant relationship/s. (50pts.)

I. Strategy - 4. Prevention & Detection Strategy

Important Relationship: Since both strategies entail developing and putting into practice plans to stop quality problems or identify them early in the process, Strategy (I) and Prevention & Detection Strategy (4) go hand in hand. Maintaining product quality and cutting costs related to errors or rework require this.

II. Quality Cost Allocation - 3. Product Cost

Important Relationship: Because it deals with allocating expenses associated with preserving product quality, Quality Cost Allocation (II) and Product Cost (3) are connected. This includes expenses for materials inspection, testing, and quality control procedures that are incurred during the production process to guarantee that the finished product satisfies quality requirements.

III. Inventoriable Cost - 2. Improvement Cost

Important Connection: The cost of items kept in stock before being sold is known as the inventory cost (III). It is comparable to Improvement Cost (2) since improved inventory management, lower holding costs, and more overall efficiency can result from investments made in better production techniques or product design.

IV. Research Cost - 5. Position

Research Cost (IV) has a significant relationship to Position (5) since it aids in a company's positioning within the market. The exploration of new markets, the development of new goods, or the enhancement of current ones all result in research expenses that affect a company's ability to compete.

V. Administration Cost - 1. Policy Cost

Important Relationship: Since both Administration Cost (V) and Policy Cost (1) deal with the overhead expenses related to creating and upholding organizational policies, they complement each other. Overall operating expenses can be impacted by administration costs, which include management, human resources, and other support services required for putting corporate rules into effect and upholding them.

These matches illustrate the interplay between different categories of costs and strategic concepts within a business context, emphasizing their significant relationships in terms of cost management, quality control, strategic planning, and market positioning.

Area 2: Costing and Pricing Strategy Problems and Applications (CPSPA). (50pts.) Below are Five (5) Pricing Objectives. Define each and explain the relevance

Survival:

- Definition: The objective of survival pricing is to set prices at a level that covers all costs and allows the company to continue operating in the short term, particularly during challenging economic conditions or intense competition.
- Relevance: Survival is fundamental for any business. By ensuring prices cover costs, the company can avoid losses and maintain operations, providing stability and continuity. This objective is crucial for startups, companies facing financial difficulties, or those entering new markets where competition is fierce.

Maximum Current Profits:

- Definition: This objective aims to set prices to maximize current profitability without necessarily considering long-term implications. Prices are set at levels that generate the highest possible profits in the short term.
- Relevance: Maximizing current profits is essential for companies looking to maximize returns for shareholders or reinvest profits into immediate business needs such as expansion, research, or debt reduction. However, it's important to balance this objective with long-term sustainability and customer satisfaction to avoid damaging the company's reputation or market position.

Maximum Market Share:

- Definition: The objective here is to capture the largest possible share of the market by setting prices lower than competitors' prices. This strategy focuses on gaining a significant portion of the market, even if it means sacrificing short-term profits.
- Relevance: Achieving maximum market share can lead to economies of scale, increased bargaining power with suppliers, and greater brand recognition. It's particularly relevant for companies aiming to dominate an industry or establish themselves as market leaders. However, companies must carefully manage costs to sustain this strategy and ensure long-term profitability.

Market Skimming:

- Definition: Market skimming involves setting high initial prices to target early adopters or customers willing to pay a premium for new or innovative products. Over time, prices are gradually lowered to attract more price-sensitive customers.
- Relevance: Market skimming is effective for companies introducing breakthrough products or technologies with limited initial competition. It allows them to capture maximum revenue from early adopters before expanding their customer base. However, companies must innovate continuously to justify premium pricing and prevent competitors from undercutting them.

Product Quality Leadership:

- Definition: This objective focuses on positioning the product as the highest quality option in the market and pricing it accordingly. Prices are set at levels that reflect the superior quality and value offered compared to competitors.
- Relevance: Product quality leadership is crucial for building a strong brand reputation, fostering customer loyalty, and commanding premium prices. Companies pursuing this objective must invest in research, development, and quality control to maintain their competitive edge. Additionally, they must effectively communicate the value proposition to customers to justify the higher prices. This objective aligns with long-term strategic goals centered on differentiation and customer satisfaction.

Area 3: Costing and Pricing Strategy Concept Idea Test (CPSCIT).
A. The price element of the marketing mix affects both cost orientation and market orientation. Is the statement true or false? Explain? (20pts)

The assertion is accurate. It is true that the price component of the marketing mix influences both the market and cost orientations. Now let's explore the explanation:

Orientation towards Cost:

Setting pricing mostly in accordance with the expenses related to creating, marketing, and delivering a good or service is known as cost orientation. Using a cost-oriented approach, the business determines its expenses and tacks on a markup to guarantee a return.
Because it directly affects how costs are taken into account when setting prices, the price component of the marketing mix has an effect on cost orientation. A cost-oriented approach to pricing, for instance, is demonstrated when a business bases prices only on meeting production costs plus a targeted profit margin.
Market-Based Thinking:

In contrast, market orientation entails determining prices in accordance with the market's perceived worth of the good or service. This method takes into account the pricing strategies of competitors, consumer demand, and general market dynamics.
The pricing component of the marketing mix influences how prices are positioned in relation to competitors and perceived value, which has an impact on market orientation as well. For example, a business may decide to charge more to indicate superior quality or less than rivals to increase market share.
Justification

Between cost orientation and market orientation, the pricing component of the marketing mix serves as a link. When deciding on the best price for their goods or services, businesses need to take into account both their expenses and the state of the market. To guarantee long-term success, they must find a balance between profitability and competitiveness. Furthermore, there is a dynamic interplay between market orientation and cost orientation. Companies may need to modify their pricing strategy in response to shifts in costs, market demand, competition, and other external variables. For instance, to remain competitive without compromising profitability, a business facing cost increases might need to review its pricing approach. In order to achieve sustainable business outcomes, a company's entire strategic approach to pricing is shaped in large part by the price aspect of the marketing mix, which blends considerations of costs and market dynamics.

B. Successful costing and pricing approaches are deliberated frequently. Yet, while some make theoretical sense, customers and clients feel disadvantaged (or worse, being "deceived and cheated") at times (such as in the case of Pepsi-Cola adjustable price vending machines and Uber's policy of "surge pricing"). Explain the concept of a reference price and how it relates to the mindset of the consumer. Further, explain and discuss how firms can more easily fit in efficient economic costing and pricing practices without facing a backlash from consumers. (40pts.)

Concept of Reference Price and its Relation to Consumer Mindset:

A reference price is the price that consumers expect to pay for a product or service based on past experiences, external influences, and internal perceptions. It serves as a benchmark against which consumers evaluate the fairness and attractiveness of current prices. Reference prices can be influenced by factors such as previous purchase prices, competitor prices, promotional offers, and societal norms.

The concept of reference price is closely tied to the mindset of the consumer in several ways:

Perception of worth: In order to determine the worth of a product or service, consumers compare its current price to their reference price. They might think it's too expensive and be hesitant to buy if the current price is much more than their reference price.

Feelings of Fairness: In order for customers to believe that they are receiving fair treatment from the business, they frequently want pricing to match their reference price. Feelings of being duped or taken advantage of might result from deviations from the reference price, particularly if they are thought to be unreasonable.

Purchasing Decision: By influencing consumers' willingness to pay, reference prices have an impact on their purchasing decisions. They might think it's a good deal and be more likely to buy if the current price is less than their reference price.

Strategies for Fitting Efficient Economic Costing and Pricing Practices:

Transparent Communication: Companies can reduce consumer reaction by explaining their pricing strategies in a clear and understandable manner. Customers may comprehend why prices are set at particular levels if elements like manufacturing costs, market dynamics, and value-added characteristics are clearly explained to them.

Value Proposition: Stressing a product or service's value proposition to customers can help them accept a price increase. Businesses should emphasize special features, advantages, and superior qualities that set their products apart from those of rivals and support their premium pricing.

Customization and Personalization: You can lessen consumer reaction by providing pricing options that accommodate various consumer categories or preferences. Pay-per-use, subscription-based, and tiered pricing are examples of flexible pricing models that provide customers the freedom to select the option that best suits their needs and budget.

Fairness Perception: In order to preserve consumers' impressions of fairness, businesses should make an effort to match their prices with reference prices. Pricing methods that are deemed fair and reasonable can be informed by market research to determine consumers' price sensitivity, willingness to pay, and reference prices.

Analyzing and Adaptation: Businesses can adjust their pricing strategy in reaction to shifting consumer preferences and market conditions by regularly analyzing competition pricing, market trends, and consumer input. Proactively addressing customer issues and adapting pricing methods in response might avert negative consequences and preserve customer loyalty.

In conclusion, by placing a high priority on openness, highlighting value, providing customisation, guaranteeing justice, and being receptive to customer feedback, businesses can execute effective economic costing and pricing strategies without fear of public reaction. Firms can cultivate favorable relationships with consumers and achieve long-term success in the marketplace by matching their pricing tactics to consumer expectations and perceptions.