

***Principles of Marketing, 17e (Kotler/Armstrong)***

**Chapter 10 Pricing: Understanding and Capturing Customer Value**

1) \_\_\_\_\_ refers to the amount of money charged for a product or service.

- A) Value
- B) Cost
- C) Price
- D) Wage
- E) Salary

Answer: C

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Easy

2) \_\_\_\_\_ is the only element in the marketing mix that produces revenue.

- A) Price
- B) Product
- C) Place
- D) Fixed costs
- E) Variable costs

Answer: A

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Easy

3) Which of the following is true with regard to price?

- A) Historically, price has had the least perceptible impact on buyer choice.
- B) Price is the least flexible element in the marketing mix.
- C) Unlike product features and channel commitments, prices cannot be changed quickly.
- D) Price is the sum of all the values that customers give up to gain the benefits of having a product.
- E) Prices only have an indirect impact on a firm's bottom line.

Answer: D

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Moderate

4) Price is important to managers \_\_\_\_\_.

- A) because prices cannot be changed quickly, so must be correctly determined
- B) because a small percentage improvement in price can generate a large percentage increase in profitability
- C) but other marketing mix elements create customer value and build relationships
- D) but product features can be changed more quickly
- E) but has little impact on a firm's market share

Answer: B

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Challenging

5) Prices have a direct impact on a firm's bottom line.

Answer: TRUE

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Easy

6) Price is the most inflexible of the marketing mix elements.

Answer: FALSE

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Easy

7) List some important characteristics of price.

Answer: Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly.

AACSB: Application of knowledge; Written and oral communication

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Moderate

8) Why is price considered one of the most flexible elements of the marketing mix?

Answer: Unlike product features and channel commitments, prices can be changed quickly.

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Easy

9) Define price. Discuss its importance.

Answer: In the narrowest sense, price is the amount of money charged for a product or a service. More broadly, price is the sum of all the values that customers give up to gain the benefits of having or using a product or service. Historically, price has been the major factor affecting buyer choice. In recent decades, however, nonprice factors have gained increasing importance. Even so, price remains one of the most important elements that determines a firm's market share and profitability.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number one problem facing many marketing executives, and many companies do not handle pricing well. Some managers view pricing as a big headache, preferring instead to focus on other marketing mix elements. However, smart managers treat pricing as a key strategic tool for creating and capturing customer value. Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can generate a large percentage increase in profitability. More important, as part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships.

AACSB: Analytical thinking; Written and oral communications

Skill: Concept

Objective: LO 10.1: Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.

Difficulty: Moderate

10) What sets the ceiling for product prices?

- A) product manufacturing costs
- B) sellers' perceptions of the product's value
- C) customer perceptions of the product's value
- D) variable costs
- E) break-even volume

Answer: C

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

11) What sets the floor for product prices?

- A) consumer perceptions of the product's value
- B) product costs
- C) competitors' strategies
- D) advertising budgets
- E) market competition

Answer: B

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

12) Effective \_\_\_\_\_ pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value.

- A) competition-oriented
- B) cost-based
- C) time-based
- D) customer-oriented
- E) marketer-oriented

Answer: D

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

13) \_\_\_\_\_ pricing uses buyers' perceptions of value as the key to pricing.

- A) Customer value-based
- B) Cost-based
- C) Time-based
- D) Markup
- E) Target return

Answer: A

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

14) Factors a company considers in setting its price include all of the following EXCEPT

- A) competitors' strategies and prices
- B) product costs
- C) overall marketing strategy and mix
- D) value of the product on the pre-owned market
- E) nature of the market and demand

Answer: D

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

15) Which of the following is true of value-based pricing?

- A) The targeted value and price drive decisions about what costs can be incurred and the resulting product design.
- B) Value-based pricing is mostly product driven.
- C) Value-based pricing involves setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for its effort and risk.
- D) The marketer usually designs a product and marketing program and then sets the price.
- E) A company using value-based pricing designs what it considers to be a good product, adds up the costs of making the product, and sets a price that covers costs plus a target profit.

Answer: A

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

16) What is usually the first step in cost-based pricing?

- A) testing the product concept with potential customers
- B) determining the marketing mix strategy
- C) setting a price that covers costs plus a target profit
- D) designing a good product
- E) adding up the costs of making the product

Answer: D

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

17) Which of the following processes does value-based pricing reverse?

- A) high-low pricing
- B) everyday low pricing
- C) cost-based pricing
- D) good-value pricing
- E) value-added pricing

Answer: C

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

18) A pharmaceutical company in Utah recently released a new and expensive anti-ulcer drug in the market. The company justifies the high price of the drug by claiming that it is highly effective for treating all kinds of ulcers. The company also claims that the new drug will help bring down the need for invasive surgeries, an additional benefit for patients. Which of the following pricing strategies is the pharmaceutical company most likely using in this instance?

- A) target pricing
- B) markup pricing
- C) cost-based pricing
- D) value-based pricing
- E) break-even pricing

Answer: D

AACSB: Analytical thinking

Skill: Application

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Challenging

19) A restaurant wants to use value-based pricing. It knows the costs of the ingredients in the food. It must also factor in \_\_\_\_\_ in determining customer satisfaction and value.

- A) wages of employees
- B) costs of utilities of the restaurant
- C) atmosphere and décor of the restaurant
- D) travel distance for customers
- E) percentage of bar patrons versus dining patrons

Answer: C

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

- 20) The perceived value of different product offers can be reasonably assessed by \_\_\_\_\_.  
A) conducting a SWOT analysis  
B) preparing demand curves  
C) conducting surveys and experiments  
D) collecting data about competitors' offers  
E) setting a benchmark for product quality

Answer: C

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

- 21) Underpriced products \_\_\_\_\_.  
A) produce less revenue than they would if they were priced at the level of perceived value  
B) sell poorly in the global marketplace  
C) produce more revenue than they would if they were priced at the level of perceived value  
D) mostly offer higher value than those with a high markup price  
E) are characterized by rapidly declining demand

Answer: A

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

- 22) The Great Recession of 2008 to 2009 triggered a shift in consumer attitudes toward \_\_\_\_\_.  
A) variety and price  
B) perceptions of value  
C) locations of stores  
D) price and quality  
E) economic data

Answer: D

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

23) Which of the following involves introducing less-expensive versions of established, brand name products?

- A) markup pricing
- B) good-value pricing
- C) time-based pricing
- D) cost-based pricing
- E) target profit pricing

Answer: B

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

24) \_\_\_\_\_ pricing refers to offering just the right combination of quality and gratifying service at a fair price.

- A) Markup
- B) Good-value
- C) Cost-plus
- D) Target profit
- E) Break-even

Answer: B

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

25) When McDonald's and other fast food restaurants offer "value menu" items at surprisingly low prices, they are most likely using \_\_\_\_\_ pricing.

- A) break-even
- B) target profit
- C) good-value
- D) cost-plus
- E) target return

Answer: C

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy



26) Azure Air, an airline company, offers attractive prices to customers with tighter budgets. A no-frills airline, it charges for all other additional services, such as baggage handling and in-flight refreshments. Which of the following best describes Azure Air's pricing method?

- A) target profit pricing
- B) good-value pricing
- C) cost-based pricing
- D) break-even pricing
- E) penetration pricing

Answer: B

AACSB: Application of knowledge

Skill: Application

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

27) Retailers such as Costco and Walmart charge a constant, daily low price with few or no temporary price discounts. This is an example of \_\_\_\_\_ pricing.

- A) competition-based
- B) everyday low
- C) cost-plus
- D) break-even
- E) penetration

Answer: B

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

28) Bon Vivant offers an assortment of exclusive French wines at incredibly low prices. These prices are neither limited-time offers nor special discounts, but represent the daily prices of products sold by Bon Vivant. This reflects Bon Vivant's \_\_\_\_\_ pricing strategy.

- A) everyday low
- B) markup
- C) penetration
- D) break-even
- E) cost-based

Answer: A

AACSB: Application of knowledge

Skill: Application

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

29) \_\_\_\_\_ pricing involves charging higher prices on an everyday basis but running

frequent promotions to lower prices temporarily on selected items.

- A) High-low
- B) Everyday low
- C) Cost-plus
- D) Break-even
- E) Penetration

Answer: A

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

30) Department stores such as Kohl's and JCPenney's practice high-low pricing by \_\_\_\_\_.

- A) charging a constant, everyday low price
- B) providing few or no temporary price discounts
- C) increasing prices temporarily on select products
- D) having frequent sale days for store credit-card holders
- E) underpricing most consumer items

Answer: D

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

31) Companies that adopt value-added pricing \_\_\_\_\_.

- A) consider value-added features as a fitting substitute for aggressive cost cutting
- B) set incredibly low prices to meet competition
- C) attach value-added features and services to differentiate their offers and support their higher prices
- D) overprice their products without any apparent justification
- E) underprice their products and lower quality to boost demand in the short-run

Answer: C

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

32) Which of the following is true with regard to value-added pricing?

- A) Companies that practice value-added pricing typically match the competition by cutting prices.
- B) Companies practicing value-added pricing differentiate their offers by attaching value-added features to offerings that, in turn, justify higher prices.
- C) The intrinsic value of products sold by companies practicing value-added pricing is far less than their actual selling price.
- D) Companies practicing value-added pricing primarily rely on cost differentiation.
- E) Value-added pricing is the most suitable pricing strategy in pure monopolies.

Answer: B

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

33) In an effort to differentiate its offerings from its competitors, Pegasus Computers decided to add an extra USB port in all its laptops besides providing a free pair of Delphi power bass headphones with every Pegasus laptop. Although the additional features increased the price of the laptops by \$500, Pegasus was confident that the strategy would help boost demand for its laptops substantially. This is an example of \_\_\_\_\_.

- A) good-value pricing
- B) markup pricing
- C) break-even pricing
- D) value-added pricing
- E) cost-based pricing

Answer: D

AACSB: Analytical thinking

Skill: Application

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Challenging

34) \_\_\_\_\_ involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

- A) Value-based pricing
- B) Competition-based pricing
- C) Cost-based pricing
- D) Penetration pricing
- E) Break-even pricing

Answer: C

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

35) Companies with lower costs \_\_\_\_\_.

- A) specialize in selling products with value-added features
- B) usually market products with inferior quality, thereby justifying the low selling price
- C) can set lower prices that result in smaller margins but greater sales and profits
- D) tend to overprice products owing to their monopolistic advantage
- E) usually set higher prices that result in higher margins

Answer: C

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

36) Companies with higher costs \_\_\_\_\_.

- A) can drive out competitors through their pricing strategy
- B) intentionally pay higher costs so that they can add value through higher quality and claim higher prices and margins
- C) can set lower prices that result in increased sales though with lower margins
- D) specialize in selling products without value-added features
- E) are more financially successful

Answer: B

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

79) Customer perceptions of the product's value set the floor for prices.

Answer: FALSE

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when

setting prices.

Difficulty: Easy

80) Product costs set the ceiling for prices.

Answer: FALSE

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

81) In customer value-based pricing, price is considered along with all other marketing mix variables before the marketing program is set.

Answer: TRUE

AACSB: Analytical thinking

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

82) Value-based pricing uses the sellers' perception of value as the key to pricing.

Answer: FALSE

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

83) Using value-based pricing, a marketer would not design a product and marketing program before setting the price.

Answer: TRUE

AACSB: Analytical thinking

Skill: Application

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

84) Good-value pricing usually is used by premium brands, and rarely by less-expensive brands.

Answer: FALSE

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

85) Cost-based pricing is often product driven.

Answer: TRUE

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

86) Department stores that practice everyday low pricing typically provide frequent sale days, early-bird savings, and bonus earnings for store credit-card holders.

Answer: FALSE

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

89) Cost-based pricing involves setting prices based on consumer perception of value.

Answer: FALSE

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

93) The simplest pricing method is cost-plus pricing, which involves adding a standard markup to the cost of the product.

Answer: TRUE

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

94) Markup pricing is popular because when all firms in the industry use this pricing method, prices tend to be similar, so price competition is minimized.

Answer: TRUE

AACSB: Application of knowledge

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

98) Explain the concept of the price floor.

Answer: Price floor represents the price below which there is no profit.

AACSB: Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

99) Explain the concept of the price ceiling.

Answer: Price ceiling represents the price above which there is no demand.

AACSB: Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

100) Briefly describe the process of value-based pricing.

Answer: The company first assesses customer needs and value perceptions. It then sets its target price based on customer perceptions of value. The targeted value and price drive decisions about what costs can be incurred and the resulting product design. As a result, pricing begins with analyzing consumer needs and value perceptions, and the price is set to match perceived value.

AACSB: Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate

101) What is good-value pricing?

Answer: Good-value pricing refers to offering just the right combination of quality and good service at a fair price.

AACSB: Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

102) What is high-low pricing?

Answer: High-low pricing involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items.

AACSB: Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Easy

108) Distinguish between value-based pricing and cost-based pricing.

Answer: Customer value-based pricing uses buyers' perceptions of value as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with all other marketing mix variables before the marketing program is set.

Although costs are an important consideration in setting prices, cost-based pricing is often product driven. The company designs what it considers to be a good product, adds up the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase.

AACSB: Application of knowledge; Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate



109) Explain break-even pricing.

Answer: Break-even pricing (target return pricing) refers to setting price to break even on the costs of making and marketing a product, or setting price to make a target return. Target return pricing uses the concept of a break-even chart, which shows the total cost and total revenue expected at different sales volume levels.

AACSB: Application of knowledge; Written and oral communication

Skill: Concept

Objective: LO 10.2: Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.

Difficulty: Moderate