

Chapter 13 - Setting the Right Price

1. What is price?
 - a. what you pay
 - b. the combined financial value of all inputs
 - c. the image of value you receive when purchasing the product
 - d. revenue minus expenses

ANSWER: a

2. The marketing manager of icruise.com (a website targeted to consumers who want a luxury vacation) finds that the firm can gain market share and become the industry leader if it cuts prices by 50 percent during December. However, the vice-president of finance is committed to reporting a 25 percent return on investment at all times. What does this conflict illustrate?
 - a. a need to eliminate low-profit products
 - b. how pricing operates in a mature marketplace
 - c. the need for trade-offs in pricing objectives
 - d. how target markets can be ignored

ANSWER: c

3. After establishing pricing goals, managers should estimate total revenue at a variety of prices. Which of the following should they do next?
 - a. choose the ROI target
 - b. determine corresponding costs for each price
 - c. implement pricing segmentation
 - d. establish geographic pricing heuristics

ANSWER: b

4. Which of the following is NOT one of the four steps in the pricing process?
 - a. establish objectives
 - b. determine what is value
 - c. estimate demand
 - d. fine-tune the base price

ANSWER: b

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5. What is the main reason for establishing pricing objectives?
- to give direction for price movements over the product life cycle
 - to define the initial price
 - to establish a good understanding of the market and the needs of the consumer
 - to interact with the other elements of the marketing mix

ANSWER: c

6. A 16-ounce bottle of Prairie Herb vinegar sells for \$4.95, and a 16-ounce bottle of Heinz vinegar costs \$1.05. Prairie Herb vinegar is new to the market, is perceived to be of higher quality, and provides a unique flavour to foods even though it is used in the same way as Heinz vinegar. Which type of policy is Prairie Herb vinegar most likely using?
- penetration pricing
 - status quo skimming
 - price skimming
 - bundling cost pricing

ANSWER: c

7. A shortage of blood for transfusions for injured animals has resulted in the introduction of a synthesized product called Oxyglobin, which can be used effectively as a blood replacement. The manufacturer of the product has put a high price on the product in order to recoup its research and development costs. Which type of policy is the manufacturer of Oxyglobin using?
- penetration pricing
 - price-lining
 - bundling costs
 - price skimming

ANSWER: d

8. The price skimming strategy is sometimes called a “market-plus” approach to pricing because it denotes a high price relative to the prices of competing products. When does this strategy work best?
- when competition is abundant
 - when revenues are equal to expenses
 - when supply is greater than demand
 - when demand is greater than supply

ANSWER: d

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9. When the Mosquito Magnet was introduced, it was designed to rid the immediate area of mosquitoes and other annoying insects. It is a patented grill-like apparatus that emits carbon dioxide to attract bugs to a fan that draws them into the device where they die. What type of pricing policy would you recommend the company use to introduce this product to the market?
- a. penetration pricing
 - b. price skimming
 - c. flexible skimming
 - d. leader pricing

ANSWER: b

10. For which of the following situations would a price skimming strategy be most appropriate?
- a. the addition of a new comic book series with an obviously gay hero
 - b. the introduction of a new brand of bottled water
 - c. the elimination of demand for low-wattage light bulbs
 - d. the introduction of a unique, roomy automobile model that has extremely low energy and fuel costs

ANSWER: d

11. The DCS Stainless Steel Gas Grill for outside cooking costs \$3,995. The market for a grill that could easily replace a kitchen range is limited even though a lot of people have seen articles about this grill in cooking magazines and in the cooking section of newspapers. There is no potential competitor for this grill. Which strategy is probably best?
- a. price skimming
 - b. penetration pricing
 - c. status quo
 - d. price-lining

ANSWER: a

12. The market for turkey products is large. If a major producer of turkeys were to introduce a boneless fresh turkey wrapped around spicy dressing, most of the large market for this new product would be aware of its existence. The market is price sensitive, and there is some potential competition. What would be the appropriate strategy?
- a. price skimming
 - b. penetration pricing
 - c. status quo
 - d. price lining

ANSWER: b

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13. Big Sky Brands have introduced Jones Carbonated Candy, a candy that delivers a blast of the most popular Jones soft drink flavours along with an oddly enjoyable tongue-tingling sensation. Which strategy would most likely be used with this product to convince consumers to try it and not buy some other brand?
- a. price lining
 - b. price fixing
 - c. penetration pricing
 - d. price skimming

ANSWER: c

14. When Apple introduced the iPhone 5c, it was at a relatively low price designed to capture a large share of the Chinese market. What type of pricing strategy was Apple pursuing?
- a. penetration pricing
 - b. price-insensitive demand
 - c. price skimming
 - d. cost bundling

ANSWER: a

15. Pharmacies are a relatively new addition to Costco. Costco has a stated philosophy of marking up merchandise a maximum of 14 percent. When that philosophy is applied to prescription drugs, warehouse club prices can be dramatically lower than those of conventional drugstores. Which type of strategy is Costco using to convince consumers to use its pharmacies rather than its competitors?
- a. penetration pricing
 - b. price-insensitive demand
 - c. price skimming
 - d. cost bundling

ANSWER: a

16. A penetration strategy tends to be effective in a price-sensitive market. What is one of the purposes of penetration pricing?
- a. to recoup product development costs quickly
 - b. to discourage competitors from entering the market
 - c. to produce a large margin of profit per unit
 - d. to develop exclusive distribution

ANSWER: b

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17. Penetration pricing means charging a relatively low price for a product as a way to reach the mass market. The low price is designed to capture a large share of a substantial market. Thus, penetration pricing tends to do which of the following?
- a. to be more effective in a less price-sensitive market
 - b. to tempt competitors to enter the market
 - c. to recoup product development costs quickly
 - d. to lower production costs

ANSWER: d

18. The introductory price for the Nintendo Gamecube video game console was \$100 lower than the list price of Xbox and Playstation 2, its only two competitors. Given this information, you can assume Nintendo used which type of policy for its Gamecube?
- a. penetration pricing
 - b. flexible pricing
 - c. competitive skimming
 - d. price sensitive skimming

ANSWER: a

19. When does a penetration pricing strategy tend to be most effective?
- a. when demand is relatively inelastic
 - b. in price-sensitive markets
 - c. when the company can perform only small production runs
 - d. if unit costs are high

ANSWER: b

20. Leupold & Stevens Inc. makes scopes for rifles and has introduced a new scope that has the quality and performance for which Leupold & Stevens is famous, at a price much lower than it has ever sold a rifle scope before. Which pricing strategy is Leupold & Stevens using to appeal to a larger market?
- a. price skimming
 - b. status quo pricing
 - c. penetration pricing
 - d. demand skimming

ANSWER: c

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21. After managers understand both the legal and the marketing consequences of price strategies, they should set the general level at which a company expects to sell a good or service. What is this type of price called?
- a. zone
 - b. demand
 - c. leader
 - d. base

ANSWER: d

22. Razer-Edge makes machines for sharpening the blades used by butchers to slice meat. When Razer-Edge priced its Primary Sharpener, its salespeople were told that it would be sold for \$1,700, but that there would be room for discounts and flexibility. What type of price is the \$1,700 price for the Primary Sharpener?
- a. base
 - b. zone
 - c. demand
 - d. functional

ANSWER: a

23. The Second Cup coffee house prices its products quite close to those offered by its main competitor, Starbucks. Which strategy is Second Cup using?
- a. differentiation pricing
 - b. penetration pricing
 - c. status quo pricing
 - d. leader pricing

ANSWER: c

24. Super-Sav supermarket employees regularly shop at other local supermarkets in order to make certain that Super-Sav is charging prices comparable to the other supermarkets. What type of pricing strategy is Super-Sav using?
- a. leader pricing
 - b. pre-emptive pricing
 - c. status quo pricing
 - d. flexible pricing

ANSWER: c

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25. Nickel & Nickel launched a new brand of wine, which it sold at \$125 a bottle. The wine is allowed to age three times as long as lower-priced wines, and the grapes used in the wine's production are handpicked. Wine lovers appreciate how both production techniques improve wine quality. What did Nickel & Nickel use to build market share?
- a. value-based pricing
 - b. unbundling
 - c. price line bundling
 - d. status quo pricing

ANSWER: a

Scenario 13-1

In 2006, the price of a single ticket in the infield box at a Toronto Blue Jays baseball game was \$35.

26. Refer to the scenario. If you elected to buy a season pass for the same seat, the ticket price was reduced or discounted. This \$35 is an example of which type of price?
- a. base price
 - b. zone price
 - c. demand price
 - d. functional price

ANSWER: a

27. Refer to the scenario. The effective value of a season pass for the same seat was \$2,735, but the buyer was charged \$2,241. What were season ticket buyers rewarded with?
- a. promotional allowances
 - b. noncumulative quantity discounts
 - c. frequent buyer allowances
 - d. cumulative quantity discounts

ANSWER: b

28. When a buyer pays a lower price for buying in multiple units or above a specified dollar amount, what is the buyer receiving?
- a. a functional discount
 - b. a cash discount
 - c. a promotional discount
 - d. a quantity discount

ANSWER: d

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29. Pam was informed by an employee at Altimos Hairdressers that after her ninth haircut, she would receive her tenth for free to show their appreciation. What type of discount was this?
- a. cumulative quantity
 - b. noncumulative quantitative
 - c. functional
 - d. cash

ANSWER: a

30. Why are quantity discounts most often used?
- a. to reward the buyer who pays in cash
 - b. to encourage large orders
 - c. to increase supply for a specific raw material
 - d. to shift the storage function backward to the supplier

ANSWER: b

31. An Internet picture frame manufacturer offers retailers reduced prices on any combination of size or style frames purchased. The discount is shown as they shop and adjusted as the quantity of frames purchased increases. What common form of purchase discount is the frame manufacturer using?
- a. rebate allowance
 - b. quantity discount
 - c. promotional allowance
 - d. functional discount

ANSWER: b

32. Companies frequently offer a reduction from the base price to customers who pay immediately, or within a specified time period. What is this called?
- a. a quantity discount
 - b. a base discount
 - c. a cash discount
 - d. a promotional discount

ANSWER: c

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33. When a customer of the Majestic Sign Company chooses to pay immediately on delivery rather than wait to be billed in 30 days, the buyer receives a 5 percent discount. What is this discount an example of?
- a. a quantity discount
 - b. a cash discount
 - c. a functional discount
 - d. a promotional discount

ANSWER: b

34. Sally used Refine Renovations to finish her basement. Since the organization was classed as a professional contractor, when they purchase paint and carpeting, Refine Renovations received large discounts from the base price. What is this discount called?
- a. promotional allowance
 - b. cumulative or noncumulative quantity discount
 - c. functional (or trade) discount
 - d. rebate allowance

ANSWER: c

35. When the salesperson from R.W. Hunt & Sons, a distributor of rifles, calls on retail sporting goods stores, she is authorized to offer the retailers a 15 percent discount from the list price in recognition of activities retailers perform for the distributor. What is this 15 percent reduction called?
- a. bulk discount
 - b. promotional allowance
 - c. trade discount
 - d. channel allowance

ANSWER: c

36. What is the term for a price reduction that shifts the storage function forward to the purchaser and enables manufacturers to maintain steady production year-round?
- a. functional allowance
 - b. promotional allowance
 - c. quantity discount
 - d. seasonal discount

ANSWER: d

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37. A June sale on Cadbury Creme Eggs, an Easter staple for many people, is an example of which of the following pricing tactics?
- a. quantity discount
 - b. seasonal discount
 - c. promotional allowance
 - d. functional allowance

ANSWER: b

38. What is the term for cash refunds given for the purchase of a product during a specific period?
- a. cash discount
 - b. loss leaders
 - c. reciprocal allowances
 - d. promotional allowances

ANSWER: a

39. Kenmore offered purchasers of any Kenmore brand major appliance a refund of \$100 if they mailed Kenmore the receipt showing where and when they had purchased the appliance. What was Kenmore offering?
- a. a cash discount
 - b. a reciprocal allowance
 - c. a cash discount
 - d. a trade promotion

ANSWER: a

40. When a firm is customer driven and seeks to understand the attributes customers want in the goods and services they buy and the value of those attributes to customers, the price of the product is set at a level that seems to the customer to be a good price compared with the prices of other options. What is this strategy called?
- a. value-based pricing
 - b. noncumulative pricing
 - c. promotional bundling
 - d. price bundling

ANSWER: a

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41. What is the basic assumption behind value-based pricing?
- a. The firm is sales driven.
 - b. The firm is both customer driven and competitor driven.
 - c. Increased profitability for wholesalers will increase the number of services they are willing to perform.
 - d. Consumers are more concerned about price than quality.

ANSWER: b

42. Manjeet was interested in purchasing a Barbour jacket from J.Crew in the United States. However, once Manjeet was informed that she would be required to absorb the freight costs from the shipping point, she changed her mind. What is this price tactic called?
- a. zone pricing
 - b. uniform delivered pricing
 - c. freight absorption pricing
 - d. FOB origin pricing

ANSWER: d

43. What is FOB an acronym for?
- a. free on board
 - b. fee on buyer
 - c. first buyer
 - d. freight on board

ANSWER: a

44. If an item purchased under FOB origin terms is damaged in truck transit, against whom can the purchaser file its damage claim?
- a. against the manufacturer
 - b. against the common carrier
 - c. against all of the supply chain members
 - d. against the driver

ANSWER: b

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45. Shipping fresh-cut flowers to international buyers can be risky because of price changes during the time required for shipment, expense incurred over long distances, and quality of product delivered. To minimize risks and costs, what would a seller likely employ?
- a. freight absorption pricing
 - b. zone pricing
 - c. basing-point pricing
 - d. FOB origin pricing

ANSWER: d

46. Ray and Wes are brothers. They both decided to purchase identical bowling shoes. The brothers live on opposite ends of Canada. However upon purchase, the online retailer charged them a flat freight charge. When does this usually occur?
- a. when using uniform delivered pricing
 - b. when using zone pricing
 - c. when using FOB origin pricing
 - d. when using freight absorption pricing

ANSWER: a

47. What does uniform delivered pricing enable a firm to do?
- a. to charge each customer the actual cost of shipping its products
 - b. to stir up price competition between buyers
 - c. to maintain a nationally advertised price
 - d. to charge each customer its fair share of the cost of shipping

ANSWER: c

48. An Ontario-based catalogue retailer sells fireplace equipment. Its customers in Ontario are charged one shipping rate, and customers west of the Rockies are charged a different rate. Customers in the Maritime provinces are charged yet another rate. What kind of geographic pricing is the catalogue retailer using?
- a. FOB origin pricing
 - b. zone pricing
 - c. freight absorption pricing
 - d. uniform delivered pricing

ANSWER: b

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49. If your favourite mail-order catalogue lists freight charges according to the dollar amount of merchandise purchased, which type of pricing is it using?
- a. quantity discount
 - b. freight absorption
 - c. uniform delivered
 - d. FOB origin

ANSWER: c

50. What is uniform delivered pricing also known as?
- a. one pricing
 - b. postage stamp pricing
 - c. calculated pricing
 - d. regional pricing

ANSWER: b

51. If the book seller Chapters decides to divide its market area into segments or regions and charge a flat rate for freight to all customers in a given region, which type of pricing is the company using?
- a. zone
 - b. uniform delivered
 - c. FOB origin
 - d. basing point

ANSWER: a

52. Green Earth Marketing sells containers for temporary storage of recyclables nationally through its catalogue. The company wants to simplify pricing and reduce its risk. Green Earth also desires some type of difference in price due to distance. Which type of pricing should the company use?
- a. uniform delivered
 - b. freight absorption
 - c. flexible
 - d. zone

ANSWER: d

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53. Quart jars of Dancing Pig Barbecue Sauce, produced in British Columbia, are sold through the mail. The company uses two different shipping prices. All customers west of the Fraser River pay \$3.99 shipping and handling costs per order, while all east of the Fraser River pay \$4.99. Which type of pricing is being used?
- a. penetration
 - b. skimming
 - c. zone
 - d. freight absorption

ANSWER: c

54. If the seller pays all or part of the actual freight charges and does not pass them on to the buyer, which type of pricing is the seller using?
- a. freight absorption
 - b. uniform delivered
 - c. zone
 - d. basing point

ANSWER: a

55. Landover Arms Inc. currently markets its rifles designed for competitive shooting in the Ontario market. It would like to expand into the western market, but the competition there is intense. Which geographic pricing tactic should the firearms manufacturer use?
- a. zone pricing
 - b. freight absorption pricing
 - c. basing-point pricing
 - d. multiple unit pricing

ANSWER: b

56. Donegal Sweaters, a company that manufactures farm style wool sweaters, has designated a shipping point from which to calculate all freight charges. It then charges its customers the freight costs from that point (even if the goods were shipped from another location). Which type of pricing is Donegal Sweaters using?
- a. freight absorption
 - b. uniform delivered
 - c. zone
 - d. basing-point

ANSWER: d

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57. In a catalogue targeted to people who like to bake, customers can buy a single yeast bread mix designed specifically to be baked in bread machines for \$3.95 each or 12 different mixes for \$37.50. What is this an example of?
- a. price bundling
 - b. psychological pricing
 - c. penetration pricing
 - d. basing-point bundling

ANSWER: a

58. A national manufacturer of car parts has six warehouses and has a pricing policy of charging freight from the closest warehouse to the customer, regardless of where parts are shipped from. Which pricing does the manufacturer use?
- a. FOB origin
 - b. uniform delivered
 - c. basing-point
 - d. freight absorption

ANSWER: c

59. The Dollar Store is a chain of retail stores where all of the merchandise is priced at \$1. The Dollar Store uses which of the following?
- a. a single-price tactic
 - b. flexible pricing
 - c. price lining
 - d. price bundling

ANSWER: a

60. This tactic allows different customers to pay different prices for essentially the same merchandise bought in equal quantities. It is often found in the sale of shopping goods, specialty merchandise, and most industrial goods except supply items. What is this tactic called?
- a. zoning (or basing) pricing
 - b. price maintenance
 - c. psychological (or odd-even) pricing
 - d. flexible (or variable) pricing

ANSWER: d

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61. According to your text, what is an advantage associated with a flexible pricing policy?
- a. It causes inconsistent profit margins.
 - b. It enables a seller to close a sale with a price-conscious customer.
 - c. It enables salespeople to automatically lower the price to make a sale.
 - d. It can spark a price war with competitors.

ANSWER: b

62. The advent of the Internet and electronic commerce has greatly affected the way businesses price their goods and services and has allowed for the use of more of which of the following?
- a. zoning (or basing) pricing
 - b. two-part pricing
 - c. psychological (or odd-even)
 - d. flexible (or variable) pricing

ANSWER: d

63. Ahmad Jing operates a wedding consultant service. He will often provide essentially the same service to different customers at distinctly different prices depending on how much he likes the customer and how much he thinks the customer needs his services. What does Jing use?
- a. two-part pricing
 - b. flexible pricing
 - c. bait-and-switch practices
 - d. zoning (or basing) pricing

ANSWER: b

64. Which of the following best describes single-price selling?
- a. removes price comparisons from the buyer's decision-making process
 - b. does not benefit the retailer
 - c. is most effective when used during an inflationary period
 - d. encourages clerical errors

ANSWER: a

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65. Eustis Lee is a lawyer who handles only drinking and driving cases. No matter how quickly he resolves the case, he charges each customer \$5,000. Lee justifies the fee because of his lengthy education and the years he has spent learning how the judicial system operates. Which pricing policy is the lawyer using?
- a. professional services pricing
 - b. potential (or base) pricing
 - c. price maintenance
 - d. flexible (or variable) pricing

ANSWER: a

66. Pauline LaMour works as a personal organizer. If she were hired to come to your home and organize your closets, she would charge \$500—whether the job took her 15 minutes or the entire day. She feels her fee is justified because of her 20 years of experience. Which pricing policy is LaMour using?
- a. professional services pricing
 - b. price maintenance
 - c. psychological pricing
 - d. flexible (or variable) pricing

ANSWER: a

67. Merck & Co., the manufacturer of the AIDS drug Crixidan, distributes exclusively to one distributor, Stadtlanders Pharmacy. The pharmacy has been criticized for charging too high a price for the drug and exploiting inelastic demand. Stadtlanders claims the charges are ethical because of high staffing costs and associated discounts with various health plans. This situation describes issues associated with which of the following?
- a. price bundling
 - b. flexible pricing
 - c. professional services pricing
 - d. uniform delivered bundling

ANSWER: c

68. Often a seller will establish a series of prices for a family of merchandise items. There may be several different models at specific price points but no prices in between. What is this policy called?
- a. price lining
 - b. family bundling
 - c. variable lining
 - d. price bundling

ANSWER: a

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69. At the Greenville Florist, there are four different prices for funeral bouquets. The smallest bouquet sells for \$30; there is also a \$40 version and a \$75 version. For those who want to express their grief through the purchase of a dramatic floral arrangement, the florist also offers a \$150 value. Why has the owner of the florist shop chosen price lining?
- a. It will enable the shop to carry a larger total inventory.
 - b. It will maintain all of the product line at the same stage in the product life cycle.
 - c. It will confuse customers and allow salespeople to sell more of the expensive models.
 - d. It will reach several different target market segments.

ANSWER: d

70. Why is price lining a valuable tactic for marketing managers?
- a. Price lining results in a greater inventory carrying charge.
 - b. A company that uses price lining is able to carry a smaller total inventory and reduce confusion for its customers.
 - c. A company that uses price lining has more price markdowns and greater markup.
 - d. The price lining strategy allows the company to gain brand loyalty from its targeted segments.

ANSWER: b

71. If the grocery chain Safeway were to sell its bread at near or below cost in the hopes of inducing store patronage, what type of pricing would they be using?
- a. odd-even pricing
 - b. loss leader pricing
 - c. price skimming
 - d. base skimming

ANSWER: b

72. The owner of a neighbourhood hardware store has decided to sell a set of three padlocks for \$5. He hopes the below-cost price for the locks will attract current and new customers who will also buy regularly priced items. The owner is encouraging store patronage through which of the following?
- a. variable maintenance
 - b. psychological pricing
 - c. price maintenance
 - d. loss leader pricing

ANSWER: d

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73. Why do retailers use loss leader pricing?

- a. to attract customers to a store so they can be persuaded to buy a more expensive product instead
- b. to attract customers to the store so they will buy other products in addition to the leader product
- c. to price products at odd-numbered amounts to stimulate demand
- d. to maintain a status quo pricing strategy

ANSWER: b

74. The retail nursery is selling potting soil at a below-market price to lure customers into the store in hopes that while they are in the store to buy potting soil, they will also buy other gardening items that have a much higher markup. What is the retail nursery using?

- a. price lowballing
- b. price maintenance
- c. price lining
- d. loss leader pricing

ANSWER: d

75. If a marketer decides to price goods at odd-numbered dollar amounts to denote bargains, and at even-numbered amounts to denote quality, what is he or she using?

- a. two-part pricing
- b. deal pricing
- c. decoy pricing
- d. psychological pricing

ANSWER: d

76. Which of the following phrases accurately describes psychological pricing?

- a. It is banned in most jurisdictions.
- b. It is equally effective on all types of products.
- c. It is also called odd-even pricing.
- d. It is essentially the same as price shading.

ANSWER: c

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77. Being a frugal shopper, Tersea decided to buy both shampoo and conditioner in a single package for one price. What is this known as?
- a. price bundling
 - b. two-part bundling
 - c. psychological pricing
 - d. family pricing

ANSWER: a

78. The Toronto Convention and Visitors Association offers tourists a promotion in which they can buy one night in a Toronto hotel, and two tickets to a theatrical production for a single price (a lower price than if the components were purchased separately). Which pricing technique is the Toronto Convention and Visitors Association using?
- a. price lining
 - b. psychological pricing
 - c. price bundling
 - d. bait pricing

ANSWER: c

79. For just \$59.00, a customer can buy the Grand Slam Ticket Pack, giving them access to four Toronto Blue Jays baseball games, four hotdogs, four Coca-Colas, four Jays bucket caps, and one game program. This price is significantly lower than if the items could be purchased individually. What are the Jays using?
- a. price lining
 - b. two-part pricing
 - c. price maintenance
 - d. price bundling

ANSWER: d

80. Tickets to the combined amusement park and water slide were \$49 for the day. Then the company gave customers the option to purchase tickets for either the amusement park or the water slide for \$18. To help keep costs in line, the park management also began charging its customers a small parking fee. Initially, the cost of parking was figured into the \$49 price. What is the amusement park using?
- a. price bundling
 - b. potential (or base) pricing
 - c. unbundling
 - d. professional services pricing

ANSWER: c

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81. Teresa and Debbie have decided to keep their new power boat in a “drystack” storage facility rather than in the water at a marina. The storage facility charges them a fee of \$500 per year, plus \$25 each time they call ahead and ask the facility to put their boat in the water for the day or weekend. Which pricing tactic is the facility using?
- a. multiple unit pricing
 - b. price lining
 - c. price bundling
 - d. two-part pricing

ANSWER: d

82. Why do consumers sometimes prefer two-part pricing?
- a. Prices are often perceived as quality indicators.
 - b. Consumers like to be in control of costs.
 - c. Consumers are uncertain about the number and types of activities they might use at places like amusement parks.
 - d. Prices have little or no psychological influence on most consumers.

ANSWER: c

83. If you want to buy season tickets in the comfortable seating behind the batter at the Fullerton Softball Complex, you can expect to make a qualifying payment that gives you the right to purchase the tickets. This payment is not deemed to be part of the ticket price. It is one of the costs that must be paid in order to buy a season ticket. What is Fullerton using?
- a. professional services pricing
 - b. price lining
 - c. price bundling
 - d. two-part pricing

ANSWER: d

84. Post makes several varieties of cereals. In promoting this product line, Post offers a 50-cents-off coupon that can be used to purchase any of its cereals. What type of discount is this?
- a. cash discounts
 - b. cumulative discount
 - c. quantity discount
 - d. noncumulative discount

ANSWER: a

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85. Best Buy sells their televisions at or just above cost in the hope that when customers come to purchase televisions, they shall also purchase other peripheral items such as cables. What would these televisions also be known as?
- a. product bundles
 - b. loss leaders
 - c. price liners
 - d. price penetrators

ANSWER: b

86. Because many sellers ship their wares to a nationwide or even a worldwide market, the cost of freight can greatly affect the total cost of a product. Which of the following is NOT an example of geographic pricing?
- a. FOB origin pricing
 - b. location bundling
 - c. uniform delivered pricing
 - d. zone pricing

ANSWER: b

87. Derek is a financial advisor with Scotia Bank. What kind of pricing strategy should he employ?
- a. financial zoning pricing
 - b. bankers pricing
 - c. professional services pricing
 - d. bait pricing

ANSWER: c

88. Which of the following pricing methods can be used to build market share during a recession?
- a. unbundling
 - b. psychological pricing
 - c. bundling
 - d. variable pricing

ANSWER: c

89. What are two effective pricing tactics that can be used during a recession to hold or build market share?
- a. flexible pricing and price skimming
 - b. price bundling and price lining
 - c. unbundling and price shading
 - d. value-based pricing and price bundling

ANSWER: d

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90. Health and fitness clubs charge a membership fee and then a flat fee each time a person uses certain equipment or facilities. What is this known as?
- a. price shading
 - b. escalator pricing
 - c. two-part pricing
 - d. delayed quotation pricing

ANSWER: c

91. Which of the following tries to get customers into the store with misleading advertising and then uses high-pressure selling to persuade the consumer to buy something else more expensive?
- a. functional pricing
 - b. bait pricing
 - c. production-oriented pricing
 - d. decoy pricing

ANSWER: b

92. Cashtown Used Cars aired a radio spot announcing, "Today only, previously owned cars are only \$200!" Meghan just wanted some kind of in-town transportation. When she went to Cashtown, the salesperson said, "We have only one \$200 car left, but it's not the kind of car I'd want my wife to drive. However, we do have some great deals on newer models." Meghan went home with an \$8,000 used car. What is Cashtown probably practising?
- a. decoy pricing
 - b. deal pricing
 - c. functional pricing
 - d. bait pricing

ANSWER: d

93. South Africa's Competition Commission accused South African Airways of conspiring with its partner, Germany's Lufthansa, to set prices on flights between Cape Town, Johannesburg, and Frankfurt. As a result, what were the two airlines charged with?
- a. price discrimination
 - b. price fixing
 - c. bait pricing
 - d. channel control pricing tactics

ANSWER: b

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94. K&G Restaurant Supplies sells paper products and commodity items like flour to for-profit businesses. It charges a substantially lower price to companies that operate multiple locations such as a restaurant chain. It charges a higher price to small or independent operations because they are less profitable customers. What is K&G Restaurant Supplies engaging in?
- a. unfair trade practices
 - b. price fixing
 - c. price discrimination
 - d. predatory pricing

ANSWER: c

95. Pennies (a grocery chain) opened next door to the established low cost grocery chain Price Busters. Price Busters lowered their prices to a level at which Pennies could not compete. Once Pennies was driven out of business, Price Busters increased their prices again. What is this strategy called?
- a. price fixing
 - b. predatory pricing
 - c. bait and switch
 - d. deceptive pricing

ANSWER: b

96. Some restaurants have early bird specials early in the evening when they sell meals for less than during peak times. What is this example of?
- a. price fixing
 - b. price discrimination
 - c. predatory pricing
 - d. bait pricing

ANSWER: b

97. Imagine you have developed a device that can be used to tell whether uncooked meat has been irradiated. Several smaller retail chains have agreed to carry your product, but a large discount retailer has asked you to sell the device to it for a substantially lower price. What is the large discount retailer asking you to carry out?
- a. unfair trade practices
 - b. predatory pricing
 - c. price fixing
 - d. price discrimination

ANSWER: d

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98. When Microsoft introduced its Windows NT network operating system, it gave buyers free Web server software. At the same time, Netscape was trying to sell similar Web server software for \$4,999. Once Microsoft got a large share of the market, and Netscape's market share declined substantially, Microsoft began charging an above-market price for its Web server software. What did many people think Microsoft was guilty of?
- predatory pricing
 - unfair trade practices
 - channel manipulation pricing
 - price discrimination practices

ANSWER: a

Scenario 13-2

It's September and Sophia wants to buy some arts and crafts supplies for an after-school program she is developing for her daughter's elementary school. In her Saturday newspaper was a flyer from Michael's, an arts and crafts retailer. As she looked through the newspaper insert, she noticed that if she purchased three or more bottles of Alene's Tacky Glue, the regular price of \$1.50 each was reduced to \$1.15 each. She also saw that the store priced its plastic storage boxes at \$1.99, \$3.99, and \$5.99. She thought they would be useful for storing each individual child's projects. On the front page of the flyer was an ad for Funky Girls Gel Pens, something she knew her daughter would love to use. The price at Michael's was \$6.99 lower than the price she had found at the other stores that carried the pens. She thought that some of the older girls might like to start a scrapbook and was pleased to find that Michael's had a scrapbook starter kit, which includes scissors, book, pages, and stickers for only \$15. The items could be purchased separately for \$19.99. The flyer also announced that all flag-related items left over from its Canada Day sale were reduced by 40 percent.

99. Refer to the scenario. Which type of discount is being used to price the tacky glue?
- noncumulative quantity discount
 - promotional discount
 - cash discount
 - cumulative quantity discount

ANSWER: a

100. Refer to the scenario. Which of the following merchandise is offered in the flyer with a seasonal discount?
- tacky glue
 - plastic storage boxes
 - flag-related items
 - scrapbook starter kit

ANSWER: c

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101. Refer to the scenario. What pricing practice was used to price the plastic storage boxes?

- a. seasonal pricing
- b. price shading
- c. price lining
- d. cumulative pricing

ANSWER: c

102. Refer to the scenario. Which pricing tactic was Michael's probably using with its Funky Girls Gel Pens?

- a. seasonal pricing
- b. price lining
- c. price bundling
- d. loss leader pricing

ANSWER: d

103. Refer to the scenario. What pricing practice was used with the scrapbook starter kit?

- a. psychological pricing
- b. price lining
- c. price bundling
- d. leader pricing

ANSWER: c

104. The first step in setting the right price for a new product is to estimate demand, costs, and profits.

- a. True
- b. False

ANSWER: False

105. All pricing goals have trade-offs that managers must weigh.

- a. True
- b. False

ANSWER: True

106. Once the owner of a cleaning service puts together information on pricing objectives, market demand, quantity supplied, and the price elasticity of demand, he will be ready to determine the optimal price for a new service offering.

- a. True
- b. False

ANSWER: False

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107. Profit maximization means setting prices so that total revenue is as large as possible relative to total costs.

- a. True
- b. False

ANSWER: True

108. It makes the most sense to use price skimming as a pricing policy when supply is greater than demand.

- a. True
- b. False

ANSWER: False

109. Penetration pricing is sometimes referred to as a “market-plus” approach to pricing.

- a. True
- b. False

ANSWER: False

110. The Raver-Smythe Corporation (RSC) has introduced mylar-based artificial fingernails. It earns a low profit margin on the sale of each box of its new fingernails and is still able to meet its revenue objectives due to economies of scale. RSC is using a penetration pricing policy.

- a. True
- b. False

ANSWER: True

111. One disadvantage of using a penetration pricing policy is that the high unit profit margins will attract potential competitors into production of similar products.

- a. True
- b. False

ANSWER: False

112. There are two limousine services that drive customers from communities in Winnipeg to the airport. Whenever one reduces its fare, its competitor reduces its fares by the same amount. This is an example of status quo pricing.

- a. True
- b. False

ANSWER: True

113. Manufacturers know the approximate price level they can expect when establishing a product price. This approximate price is called the base price.

- a. True
- b. False

ANSWER: True

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114. One of the advantages of penetration pricing is that it can make it difficult for the competition to compete.

- a. True
- b. False

ANSWER: True

115. Functional discounts are typically calculated as the wholesale price times the accumulated margin percentages.

- a. True
- b. False

ANSWER: False

116. Hudson owns a company that installs in-ground swimming pools. He gives large discounts to homeowners who have pools built in October or November. This is an example of a seasonal discount.

- a. True
- b. False

ANSWER: True

117. Functional discounts, noncumulative quantity discounts, and promotional allowances are examples of rebates given to the trade customer.

- a. True
- b. False

ANSWER: False

118. The basic idea with price skimming is that the firm is customer driven, and seeks to understand the attributes customers want in goods and services they buy and the value of that bundle of attributes to customers.

- a. True
- b. False

ANSWER: False

119. Evergreen Lighting, a manufacturer of decorative, energy-efficient lighting products, requires its buyers to pay for the cost of transportation from the manufacturing site to their place of businesses. Evergreen Lighting uses FOB origin pricing.

- a. True
- b. False

ANSWER: True

120. A manufacturer using uniform delivered pricing is legally discriminating against buyers who are located close to the point of shipping because they pay the same amount as buyers located far from the point of shipping.

- a. True
- b. False

ANSWER: True

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121. A retail store implements a single-pricing tactic as a way to remove price comparisons from the buyer's decision-making process.

- a. True
- b. False

ANSWER: True

122. A catalogue retailer offers three styles of khaki pants at three price levels. Customers can buy khaki pants for \$26, \$32, or \$38 and at no other prices but these. The special pricing tactic used by the catalogue retailer is best described as variable psychological pricing.

- a. True
- b. False

ANSWER: False

123. Charlene's cable system has offered her a deal for basic cable plus six premium channels for less than she is currently paying for basic cable. The cable system is using price lining to increase its overall profits.

- a. True
- b. False

ANSWER: False

124. One example of price bundling occurs when the ballet sells season tickets at a lower price than the total price of tickets for each show bought individually.

- a. True
- b. False

ANSWER: True

125. Many businesses find recessions to be an excellent time to build market share through the use of price bundling.

- a. True
- b. False

ANSWER: True

126. Two-part pricing means charging two separate amounts for the service and tangible product elements.

- a. True
- b. False

ANSWER: False

127. Bait pricing is a price tactic that tries to get the consumer into a store through false or misleading price advertising and then uses high-pressure selling to persuade the consumer to buy more expensive merchandise.

- a. True
- b. False

ANSWER: True

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128. Price fixing is clearly illegal in all instances.

- a. True
- b. False

ANSWER: True

129. Price discrimination can sometimes be justified.

- a. True
- b. False

ANSWER: True

130. A winery that makes a huge profit on merlot wines may lower its price on pinot noir wines to cause damage to wineries that produce only pinot noir. This is an example of predatory pricing.

- a. True
- b. False

ANSWER: True

131. List in order the four steps used to set the right price for a product.

ANSWER:

1. Establish pricing objectives.
2. Estimate demand, costs, and profits.
3. Choose a price strategy to help determine a base price.
4. Fine-tune the base price with pricing tactics.

132. Two reasons are given to explain why some companies price their products too low, thereby reducing company profits. What are they?

ANSWER: First, managers attempt to buy market share through aggressive pricing. Usually, these price cuts are quickly met by competitors. Thus, any gain in market share is short lived, and overall industry profits end up falling.

Second, managers have a natural tendency to make decisions that can be justified objectively. Managers, however, often lack the hard data needed to make an accurate assessment of the market and what pricing strategy should be used. Managers tend to make pricing decisions based on easily gathered, short-term focused information, such as costs, sales, market share, and competitors' prices rather than on long-term profitability.

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133. What activities occur once the marketing manager has established pricing goals? Why are these activities important?

ANSWER: The marketing manager must first estimate quantity demand levels and elasticity of demand, which allows for an estimate of revenues at a variety of price levels. Next, corresponding costs should be determined for each price. Then the manager can estimate the amount of profit and market share that can be earned at each possible price. Alternative pricing policies can be examined in terms of revenues, costs, and profits. This information becomes the core of the price policy by determining which price can best meet the firm's pricing goals.

134. What are the three basic strategies for setting a price on a new good or service? Briefly describe each strategy.

ANSWER: Price skimming: With this method, a high introductory price is charged that skims the top off a market in which there is greater demand than supply. The high introductory price attracts a smaller market share but recoups costs quickly.

Penetration pricing: With this method, a firm charges a relatively low price, hoping to reach the mass market in the early stages of the product life cycle. The low price allows the product to penetrate a large portion of the market, resulting in large market share and lower production costs.

Status quo pricing: With this method, price is set identical or close to that of the competition. This strategy may be used more often by small firms for survival or ease of use but ignores demand and cost.

135. Under what conditions is each of the three basic pricing methods successful?

ANSWER: Price skimming is successful when (1) demand is greater than supply; (2) there are barriers to competitive entry, such as legal protection or technological breakthroughs; (3) production cannot be expanded rapidly; and (4) customers perceive a high value for the product.

Penetration pricing is successful when (1) the market is price sensitive, (2) economies of mass production are feasible, and (3) the firm has substantial resources to sustain the short-run losses necessary to obtain penetration.

Status quo pricing can be successful when (1) the firm is comparatively small, and (2) the firm needs a safe route to long-term survival.

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136. List the three basic pricing methods. Name one advantage and one disadvantage associated with each.

ANSWER: Price-skimming advantages include (1) quick recovery of product development or educational costs, (2) pricing flexibility that allows subsequent lowering of price, and (3) the ability to market prestige products successfully. Disadvantages include encouragement of competitive entry into the market.

Penetration pricing advantages include (1) a tendency to discourage competitive entry, (2) large market share due to high volume sold, and (3) lower production costs resulting from economies of scale. Disadvantages include (1) lower profits per unit, (2) higher volume required to reach the break-even point, (3) slow recovery of development costs, and (4) inability to later raise prices.

Status quo policies have the advantage of simplicity. Disadvantages include ignoring demand and cost.

137. Which pricing method (skimming, penetration, or status quo) would be most appropriate for each of the following products: (1) a new kind of automatic vacuum cleaner, (2) brightly coloured wooden blocks to be used as a child's toy, (3) a new, low-cost, no-calorie fat substitute, (4) a home computer, and (5) a designer perfume. Briefly justify your answers.

ANSWER: Vacuum cleaner: Skimming could be used, because there are innovators and early adopters who would like to be "first" to own the product. It is likely that competition could also follow fairly quickly, further justifying a skimming policy.

Child's blocks: Status quo pricing could be used, because this type of toy is a mature product with many substitutes. Penetration pricing could be argued if one assumes the producer found manufacturing cost advantages.

Fat substitute: Penetration pricing would quickly gain a large market share and is appropriate for a low-cost item. Skimming could be argued if one assumes greater demand than supply for the product.

Home computer: Penetration pricing is appropriate because of the large amount of competition in this particular market.

Perfume: Skimming would be appropriate, because a lower introductory price might reduce the high-prestige perception of the product.

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138. A base price may be lowered through the use of a discount. Discounts take a variety of forms and have several different objectives. Name and define three types of discounts (do not include allowances or rebates). State the main objective of the each type of discount you identify.

ANSWER: *Quantity discounts* are offered to buyers who purchase multiple units or above a specified dollar amount. The objectives of the quantity discount include selling large volumes and encouraging customer loyalty (through cumulative quantity discounts).

Cash discounts are price reductions offered to buyers who pay promptly. One objective is to save the seller carrying charges, billing expenses, and expenses associated with extending credit. Another objective is to avoid bad debt.

Functional (or trade) discounts are compensation to wholesalers and retailers for performing channel functions. The objective is to compensate the channel member for services rendered or to encourage additional functions to be performed by the trade.

Seasonal discounts are price reductions for buying merchandise out of season. The objectives of seasonal discounts include shifting the storage function forward to the purchaser and enabling a steady manufacturing schedule.

139. Distinguish between a cumulative and a noncumulative discount.

ANSWER: A *cumulative quantity discount* is a deduction from list price that applies to the buyer's total purchases made during a specific period and is intended to encourage customer loyalty.

A *noncumulative quantity discount* is a deduction from list price that applies to a single order and is intended to encourage orders in large quantities.

140. What is value-based pricing? What is the basic assumption marketers must make about their markets before implementing a value-based pricing strategy?

ANSWER: Value-based pricing is a pricing strategy that has grown out of the quality movement. Instead of figuring prices based on costs or competitors' prices, it starts with the customers, considers the competition, and then determines the appropriate price. The basic assumption is that the firm is customer driven, seeking to understand the attributes customers want in the goods and services they buy and the value of that bundle of attributes to customers.

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141. Geographically dispersed sellers often result in significant freight costs. Define four types of geographic pricing tactics that can be selected by a marketing manager to moderate the impact of freight costs on its more dispersed customers. For each tactic defined, specify the circumstances that would prompt the selection of that geographic pricing tactic.

ANSWER: FOB origin pricing: This price tactic requires the purchaser to pay for the cost of transportation from the shipping point. A manager would choose to use FOB origin pricing if he or she is not concerned about total costs varying among the firms' clients or if freight charges are not a significant pricing variable.

Uniform delivered pricing: With this price tactic, the seller pays the actual freight charges, but bills every buyer an identical, flat freight charge. This equalizes the total cost of the product for all buyers, regardless of location. A manager would select this policy if the firm is trying to maintain a nationally advertised price or when transportation charges are a minor part of total costs.

Zone pricing: This price tactic is a modification of uniform delivered pricing in which the geographic selling area is divided into zones. A flat freight rate is charged to all customers in a given zone, but different rates will apply to each zone. A marketing manager would use this strategy to equalize total costs among purchasers within large geographic areas.

Freight absorption pricing: With this price tactic, the seller pays all or part of the actual freight charges and does not pass these charges along to the customer. A manager would choose this tactic if competition is extremely intense or if the firm is trying to break into new market areas.

Basing-point pricing: This method requires the seller to designate a location as a basing point and charge all purchasers the freight cost from that point (regardless of the point from which the goods are actually shipped).

142. What type of geographic pricing policy would a marketing manager most appropriately choose for the following products: (1) nationally advertised bubble gum, (2) rebuilt engines for jet airplanes, and (3) bulk amounts of a rare spice harvested from a single mountain in Canada and used in high-priced restaurants? Justify your answers, and specify any assumptions you used to arrive at your answer.

ANSWER: Geographic pricing policies should be compatible with the total price structure of the firm, so assumptions about the company's pricing objectives and other pricing policies will affect responses.

Additionally, assumptions about competitors' practices and customs in the industry are important.

Bubble gum: In this case, identical retail prices would be sought, so the bubble gum should be delivered at the same price throughout the country. This would result in a pricing policy of uniform delivered pricing or possibly freight absorption pricing if competition is extremely intense.

Engines: Because engines are large and heavy, transportation costs are an important component of pricing. In this case, FOB origin pricing could be used to put the burden of transportation on the purchasers. This pricing policy could be assumed if there were few competitors in the jet engine business. Otherwise, basing-point pricing would be the most appropriate pricing policy, though this type of pricing is being used less frequently due to adverse court rulings.

Spice: Zone pricing would be appropriate in this case. Because the spices are sold in bulk, it should be assumed that transportation costs are not insignificant. Uniform delivered pricing is not appropriate because there is no heavy competition. FOB origin pricing could be used as well, because other pricing aspects of the spice might outweigh the transportation costs.

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143. Marketing managers can use a wide variety of special pricing tactics to fine-tune prices. Name and define five of the special pricing tactics that are legal. For each tactic, give an example of a specific company, industry, or product that would use the tactic.

ANSWER: Single-price tactic means all goods and services are offered at the same price (or perhaps two or three prices). Examples of retailers include One Price Clothing Stores, Dollarama, Your \$10 Store, and Fashions \$9.99.

Flexible pricing or variable pricing means different customers pay different prices for essentially the same merchandise purchased in equal quantities. Car dealers, many appliance retailers, and manufacturers of industrial installations commonly used this method.

Professional services pricing refers to the charging of an hourly rate or a fee based on some problem solution or performance. Lawyers, architects, and management consultants are all examples.

Price lining is the practice of offering a product line with several items at specific pricing points. This method is used by many boutiques.

Leader pricing is a method used to attract customers to a store by offering a product at or below cost with the hope the customer will buy other merchandise while in the store. Supermarkets are the most used example.

Odd-even pricing or psychological pricing uses a price ending in an odd number to connote a bargain and a price ending in an even number to connote quality. Discount stores use odd pricing, and specialty boutiques use even pricing.

Price bundling is marketing two or more products in a single package for a special price. The tourist industry does this frequently as do fast-food restaurants with their deal for a drink, a sandwich, and an order of fries.

Two-part pricing means establishing two separate charges to consume a single good or service. Examples include health and tennis clubs that charge both a membership fee and a fee each time the facilities are used.

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144. Name five of the special pricing tactics. Give one advantage and one disadvantage associated with using each of the tactics you have named.

ANSWER: Single-price tactic: Advantages include (1) removal of price comparisons from the buyer's decision-making process, (2) a simplified pricing system, and (3) minimization of clerical errors. Disadvantages include (1) continually rising costs and (2) necessity for frequent revisions of the selling price.

Flexible (or variable) pricing: Advantages include (1) possibility of adjustments for meeting or beating another seller's price, (2) ability for the seller to close a sale with price-conscious consumers, and (3) ability to procure business from a potential high-volume shopper. Disadvantages include (1) the lack of consistent profit margins, (2) the potential ill will of high-price purchasers, (3) the tendency for salespeople to automatically lower the price in order to make a sale, and (4) the possibility of a price war among sellers.

Professional services pricing: Advantages include (1) prices justified according to the education and experience of the service provider, and (2) the simplicity of flat-rate pricing. Disadvantages include (1) difficulty in attaching dollar amounts to experience, education, or certifications, and (2) a temptation to charge "all that the traffic will bear" in an inelastic demand situation.

Price lining: Advantages include (1) reduction of confusion for salespeople and consumers, (2) a wider variety of merchandise offered to the buyer at each price, (3) the ability of the seller to reach several market segments, and (4) smaller total inventories for the seller. Disadvantages include (1) confusing changes in price line prices in times of rising costs and (2) difficulty in determining where to place the prices within a line.

Leader pricing: Advantages include (1) increase in store patronage, (2) potential higher volume of sales per customer, and (3) inducement of store switching. Disadvantages include (1) potential of consumers to stock up on only the leader items and (2) lack of response because of competition with other stores offering similar bargains.

Bait pricing: Advantages may include (1) increase in store patronage, (2) potential higher volume of sales per customer, and (3) inducement of store switching. The main disadvantage is that the practice is illegal.

Odd-even (or psychological) pricing: Advantages include (1) implied bargains (odd) or quality (even) and (2) stimulation of demand for some products. Disadvantages include (1) creation of a saw-toothed demand curve and (2) changes in the price elasticity of demand.

Price bundling: Advantages include (1) stimulation of demand for the bundled items if the consumers perceive the price as a good value, (2) better coverage of constant fixed costs (especially in service industries), and (3) assistance in selling the maximum number of options (on a car, for example). Disadvantages include (1) customers' resistance if one of the bundled items is not wanted and (2) consumers' incorrect value perceptions.

Price unbundling: Advantages include keeping costs down. A possible disadvantage is that customers may not want to pay "extra" for items that have typically been bundled.

Two-part pricing: Advantages include (1) consumers' preference of two-part pricing when they are unsure of utilization, (2) high-use consumers paying a higher total price, and (3) possible increase in revenue for the seller by attracting low-use consumers. Disadvantages include (1) difficulty in establishing pricing levels from usage estimates, and (2) resistance by high-use consumers.

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145. Some pricing decisions are subject to government regulation. Name and define three pricing practices that are illegal.

ANSWER:

Price fixing is an agreement between two or more firms on the price they will charge for a product or service. Several laws govern price fixing practices.

Price discrimination occurs when a firm sells to two or more different buyers at different prices, and the result reduces competition. Price discrimination can also occur if the seller discriminates between buyers in terms of supplementary services provided, or if the buyers use their power to force sellers into discriminatory practices.

Predatory pricing is the practice of charging a very low price with the intent of driving competitors out of business or out of the market. This practice is illegal.

146. What is a price fixing?

ANSWER: Price fixing occurs when two or more companies conspire to set the prices for their products or services. It can be done by establishing a lowest price, in a bidding, situation or by simply setting the market price that the consumer will pay.

147. List and describe the six elements necessary for price discrimination to occur.

ANSWER:

Two or three instances of discrimination must have occurred over time.

The sales in question must have occurred within a relatively short period of time.

The products sold must be commodities or tangible goods.

The seller must charge different prices to two or more buyers for the same product.

The products sold must be of the same quality and grade.

The buyers of the good must be competitors.

148. How do value-based pricing, unbundling, and bundling help marketers hold onto market share during a recession?

ANSWER: Value-based pricing stresses to customers that they are getting a good value for their money. Products that typically use prestige pricing can introduce products at a lower price, thereby earning lower profit margins, which are typically offset by increased sales volume.

Unbundling allows a marketer to start charging separately for some products that were sold together prior to the economic recession. By selling items separately, the markets have a lower base price, which often appeals to consumers.

Bundling can stimulate demand. When features are added to a product, consumers may perceive the offering as having greater value, which appeals to some consumers.