QUESTIONS CHAPTER TWELVE

1. How does value pricing differ from traditional pricing? If a firm wanted to adopt a value pricing strategy for its line of packaged consumer household products, how should it proceed to do so? In your answer, be sure to consider the reactions of retailers.

2. Under which market and competitive conditions are each of the following *pricing objectives* most appropriate for a business to consider?

a. Maximize sales growth through penetration pricing.

b. Maximize current profit through skimming pricing.

c. Maximize current profit through harvesting.

3. Firms sometimes set a low price in a new product-market (penetration pricing) to discourage potential competitors from entering the market. Can you think of any circumstances where a company might deliberately want to attract competitors to a new market and set a high price to help accomplish such an objective?

4. What is *price elasticity?* Distinguish between price elastic demand and price inelastic demand. What are the pricing implications of each type of elasticity?

5. The demand curve sums the reactions of many potential buyers to the alternative prices that might be charged for a product. What are the more important factors affecting a customer's price sensitivity? How can a firm go about estimating the demand curve for each of their major products?

6. Suppose executives estimate that the unit variable cost for their firm's videocassette recorder is $100, the fixed cost related to the product is $5 million annually, and the company's estimated sales volume for next year is 100,000 recorders. The firm has a target rate of return of 20 percent, and it has made capital investments totaling $4 million to produce and distribute its recorders. What price will the firm have to obtain for each recorder to achieve its target rate of return?

7. The manufacturer of videocassette recorders described in question 6 sells its recorders through electronics wholesalers who, in turn, sell to retail stores. The manufacturer's *trade discount* policy is 40/20. What should be the suggested retail price for the firm's recorders? How much should the retailer have to pay for each recorder?

8. Tennant Company manufactures cleaning equipment for commercial applications. Its walk-behind electric floor waxer/buffer is priced at $350. The product's per-unit variable cost is $200, and total fixed costs associated with the product are $3 million. How many units must Tennant sell to reach *breakeven?* How would the break-even volume change if the firm reduced the price of the product by $50?

9. A uniform manufacturer in North Carolina operates at a freight cost disadvantage relative to competitors in the western United States. Which methods of quoting prices could the firm adopt to make it more competitive in the western states. What are the possible disadvantages of each method?

10. Manufacturer A has experienced cost increases for its product in recent months. It would like to initiate a price increase, but only if its major competitors are likely to follow A's lead with price increases of their own. Which characteristics of

Manufacturer A, and which market and competitive conditions, are most likely to encourage A's competitors to follow its lead in increasing prices?

11. Ford Motor Company offers a number of automobile models in different price ranges. In addition to the usual cost and demand considerations, what other factors should the company consider when determining the relative prices for various products in its line?

12. Some companies are using the Internet to sell their products—both new and old. How could the Internet be used to develop a demand curve for a new product? An established product?

13. You have been hired as a marketing consultant by the owner/manager of a small retail chain of major appliances (refrigerators, stoves, washers, and dryers). Your first assignment is to help her resolve some of the ethical issues involved in their pricing practices—specifically those relating to sale pricing and comparative pricing. In the former, present practice called for items to be marked at an original or regular price for 15 to 20 days and then dropped to a sale price for the next three months. In the case of comparative pricing, the company included in all of its advertising a statement that it would match any price in town on the item in question—or its equal. Rarely did it have to do so since, when challenged, the store manager asked for "proof," including model number and the price charged.