# MKTG4825, Pricing Strategies and Channel Management

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## **SAMPLE QUESTIONS, EXAM 1**

- 1. What is the conceptual progression of cost-based pricing?
  - a. Product > Cost > Price > Value > Customers
  - b. Customers > Value > Price > Cost > Product
  - c. Customers > Cost > Price > Product > Customers
  - d. Value > Cost > Product> Price > Customers
- 2. Which of the following product has the highest retailer markup?
  - a. A \$60 Spalding basketball, which has a wholesale price of \$30.
  - b. A pair of \$20 Golf glove, which has a margin of 30%
  - c. A \$45 lucky bamboo with a markup of 25%
  - d. A \$100 textbook which has a unit contribution of \$40.
- 3. Which statement is not true about conjoint analysis?
- a. Conjoint analysis can be used to measure sensitivities to product attributes other than prices.

b. Conjoint analysis involves asking consumers choosing from several options that involve trade-offs.

c. Conjoint analysis is the least expensive way of analyzing price sensitivity.

d. Conjoint analysis is an experimental way of measuring price sensitivity.

4. Which of the following is not an internal source on which the consumer's reference price is formed?

- a. Advertised price.
- b. Past price.
- c. Purchase context.
- d. Costs of production.

5. AMC theatres is considering whether to purchase the screening rights of new movie "Dear John" from Relativity Media to play around Valentine's Day. The purchase cost is \$4 million. Suppose with 1/4 of chance the movie will be a hit (scenario #1), bringing \$10 million in admission revenue; with chance of 3/4 it will be a flop (scenario #2), bringing \$4.5 million. It is also possible to conduct a marketing research to ascertain which particular scenario is going to arise. Given above information, what will be the status quo course of action, namely the action that the management should take if there is no market research available?

- a. Conduct the marketing research.
- b. Don't conduct the marketing research.
- c. Purchase the screening rights.
- d. Don't purchase the screening rights.

6. What will be the scenario (s) that the marketing research can possibly change the status quo course of action?

a. # 1
b. # 2
c. # 1 and # 2
d. Neither # 1 and # 2.

7. Given above information, what is the value of the marketing research in this case?

- a. \$0 million
- b. \$3 million
- c. \$3.5 million
- d. \$4 million.

8. Consider the following table of utilities, which is consistent with the *Prospect Theory*. Which of the two pairs of (Gain, utility) can be used to illustrate the fact that consumers are risk averse?

Gain	Utilities	Loss	Utilities
\$200	40	-\$200	-80
\$400	70	-\$400	-140
\$600	90	-\$600	-180
\$800	100	-\$800	-200
\$1000	105	-\$1000	-210

a. (\$200, 40) and (-\$200, -80) b. (\$200,40) and (\$400, 70) c. (\$400, 70) and (-\$200, -80) d. (-\$200, -80) and (-\$400, -140)

9. Which of the following does not constitute as a reason why penetration pricing should be favored?

a. Products of the focal company and its competitors are difficult to compare.

b. The focal company enjoys some sustainable cost and resource advantage over its competitors.

c. The focal company has an excess production capacity.

d. Customers have high price sensitivity

10. AMC theatres sell three sizes of popcorn: small (32 OZ), medium (40 OZ) and large (56 OZ). It is known that AMC theatres uses small popcorn as a flank product. In this case, which seems to be the reasonable prices for the three sizes of popcorn?

a. \$3.5, \$6, \$7 b. \$4, \$6, \$7 c. \$4.5, \$6, \$7 d. \$5, \$6, \$7

11. A consumer's willingness-to-pay is the sum of

- a. Economic value and use value
- b. Economic value and transaction utility
- c. Transaction utility and economic value
- d. Use value and reference value

12. The following table shows the results of a spread-sheet based break-even analysis. Consider the company A, which sells square watermelon in period 1 and period 2. In period #1, A finds that it cannot improve current profit with a 15% price increase. Suppose that in period #2, company A manages to increase the contribution margin by 10%. Also suppose in period #2, any percentage change in price will generate the same percentage change in demand as in period #1. Then, in period #2 which of the following statements is true?

	5%	10%	20%	30%	40%	50%	<b>60%</b>	70%	80%	<b>9</b> 0%
35%	-88%	-78%	-64%	-54%	-47%	-41%	-37%	-33%	-30%	-28%
25%	-83%	-71%	-56%	-45%	-38%	-33%	-29%	-26%	-24%	-22%
15%	-75%	-60%	-43%	-33%	-27%	-23%	-20%	-18%	-16%	-14%
5%	-50%	-33%	-20%	-14%	-11%	-9%	-8%	-7%	-6%	-5%
0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
-5%		100%	33%	20%	14%	11%	9%	8%	7%	6%
-15%			300%	100%	60%	43%	33%	27%	23%	20%
-25%					167%	100%	71%	56%	45%	38%
-35%					700%	233%	140%	100%	78%	64%

#### **Contribution Margin**

- a. With a price increase of 15% company A can improve its period #2 profit for sure.
- b. With a price decrease of 15% company A can improve its period #2 profit for sure.
- c. With a price increase of 15% company A cannot improve its period #2 profit for sure.
- d. With a price increase of 15% company A may or may not be able to improve its period #2 profit.

13. Which of the following technique of measuring price sensitivity is different from the others?

- a. Analysis of Historical Sales Data
- b. Laboratory Purchase Experiments
- c. Analysis of Scanner Data
- d. Depth Interview.

14. Suppose that Christine's watermelon sells an average of 100,000 units in the U.S. market every month. The fixed costs for this new product, which consist of overhead and marketing costs, are \$2 million per month, and the variable cost is \$60 apiece. Currently, each watermelon is priced at \$100. What is the total *annual* profit?

- a. \$2 million.
- b. \$4 million.
- c. \$8 million.
- d. \$24 million.

15. Suppose that you are running an online mountain bike store in Boulder and you purchase the bikes at a wholesale price of \$100 each. You know that there are a total of 100 customers each week, and that there are two types of customers: 35% are casual shoppers who are willing to pay \$400 for the bike, but they are happy to pay a discount price. Casual shoppers can spend two days of each week shopping online. 65% are deal seekers who are willing to pay only \$200 for the bike. Deal seekers check out the prices online seven days a week. Your goal as the store manager is to maximize the overall profit. Using the optimal price promotion strategy, what will be the leakage rate (defined as the percentage of casual shoppers ended up paying a low price)?

a. 14.3%
b. 28.6%
c. 35%
d. 85.7%

16. Following the preceding question - what will the weekly profit generated from the casual shoppers under the optimal pricing strategy?

a. \$7,500
b. \$8,500
c. \$11,000
d. \$12,000