**Entrepreneurship**

**And**

**Small Business Management**

Homework 9

**Chapter 11 Pricing and Credit Strategies**

Following are 20 questions: 16 multiple choice questions worth 4 points each and four open questions worth nine points each.

1) Setting prices for products and services requires entrepreneurs to balance a multitude of complex forces as entrepreneurs determine prices for their goods and services that will draw customers and \_\_\_\_\_\_\_\_.

A) position prices lower than all competitors

B) produce a profit

C) effectively compete with online alternatives

D) have high volume/high margin sales

2) Which of the following statements about price is true?

A) Price measures what the customer must exchange to obtain goods and services in the marketplace.

B) Target market, business image, and price are closely related.

C) For most goods and services, there is an acceptable price range and not a single "ideal price."

D) All of the above

3) A common pricing mistake entrepreneurs make is lowering prices because they fail to recognize the \_\_\_\_\_\_\_\_.

A) extra value, convenience, service, and quality they offer their customers

B) advantages they have due to their lower cost structure

C) complexities that larger competitors have to face

D) driving need that all customers have to find the lowest price possible

4) The top business challenge that drives pricing decisions is the \_\_\_\_\_\_\_\_.

A) increased price transparency

B) increased price sensitivity of customers

C) need to protect the brand's image

D) increased pricing aggressiveness from competitors

5) \_\_\_\_\_\_\_\_ frequently convey the idea of quality, prestige, and uniqueness to customers.

A) Effective packaging

B) Low prices

C) High prices

D) High profile promotions

6) A key ingredient to setting prices properly is to understand a company's \_\_\_\_\_\_\_\_.

A) cost structure

B) most aggressive price competitor

C) target market

D) profit expectations

7) Which of the following statements concerning the impact of competition on a small company's prices is true?

A) When setting prices, a business owner must either match or beat competitors' prices on similar products or services.

B) Because federal laws prohibit the practice as an unfair trade practice, business owners should not monitor their rivals' prices on identical items.

C) When going up against larger, more powerful rivals, small firms should consider using nonprice competition as a way to differentiate their products or services rather than head-to-head price competition.

D) All of the above

8) Businesses facing rapidly rising costs should consider \_\_\_\_\_\_\_\_.

A) offering products in smaller sizes or quantities

B) communicating with customers about the cost increases

C) anticipating rising material costs and try to lock in prices early

D) All the above

9) A business with a 25 percent gross profit margin that reduces its price by 10 percent would have to \_\_\_\_\_\_\_\_ its sales volume just to break even.

A) double

B) triple

C) quadruple

D) match

10) It has been reported that the use of credit cards increases the \_\_\_\_\_\_\_\_ of customer spending.

A) probability

B) speed

C) magnitude

D) All of the above

11) Small companies have the following three options for selling to customers on credit: \_\_\_\_\_\_\_\_.

A) credit cards, manufacturer credit, and trade credit

B) credit cards, installment credit, and trade credit

C) credit cards, installment credit, and poor credit

D) debit cards, installment credit, and trade credit

12) The use of credit cards by consumers \_\_\_\_\_\_\_\_.

A) has little real impact on sales

B) broadens a small company's customer base

C) costs businesses nothing and adds significantly to their sales

D) has no impact on pricing decisions

13) Macy's buys white, pinpoint oxford blouses at $14 each and sells them at $30 each. Macy's percentage (of cost) markup is \_\_\_\_\_\_\_\_ percent.

A) 46.7

B) 87.5

C) 53.3

D) 114.3

14) Macy's buys white, pinpoint oxford blouses at $14 each and sells them at $30 each. Macy's percentage (of retail price) markup is \_\_\_\_\_\_\_\_ percent.

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D) 114.3

15) A technique that involves selling a product for a low price and charging a higher price for the accessories that accompany it is called \_\_\_\_\_\_\_\_ pricing.

A) multiple-unit

B) optional product

C) captive-product

D) by product

16) Once a company has invested time and money developing a unique new product, to recoup some of the high R&D costs, they will likely use a \_\_\_\_\_\_\_\_ pricing strategy.

A) skimming

B) penetration

C) sliding-down-the-demand-curve

D) discount

**Open Questions**

1) What does it mean to "focus on value" in relationship to establishing a price? In your response, discuss how customers recognize and evaluate value.

2) There are at least eight different pricing strategies for established goods and services. Explain four of those strategies and under what conditions a business owner should use them.

*Read the following narrative and answer question Three. Show your work.*

Miller Manufacturing, Inc., produces electronic components for television circuitry. Variable costs comprise 67 percent of the product's selling price. The variable costs of producing a component include:

Direct material $1.83/unit

Direct labor $6.72/unit

Variable factory overhead $ .86/unit

Vicki Miller, President, expects to produce 80,000 electronic components and to incur $280,000 of fixed costs.

**3a)** If Miller desires a profit of $120,000, what price should she set?

**3b)** What is Miller Manufacturing's break-even price?

4) Explain the different kinds of credit a small business can offer its customers and the impact each has on pricing.