

**MNM2609**

(474688) October/November 2015

PRICE MANAGEMENT

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MS M GOPAUL

SECOND

MS LE FOURIE

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of seven (7) pages plus instructions for the completion of a mark-reading sheet

This is a **closed-book examination**. You may not consult notes of any kind, or any person, except the invigilator, during the examination session

This paper consists of two (2) sections, section A and section B. Section A is compulsory and should be answered on the mark-reading sheet provided. Answer **any two** (2) of the questions in section B in the examination answer book provided.

This paper counts a total of 70 marks. The marks obtained (out of 70) will be converted to a percentage (100).

PLEASE NOTE: Write the numbers of the questions that you have answered on the cover page of the examination answer book, in the "Question no" column, in the order that you have answered them.

HAND IN THE MARK-READING SHEET TOGETHER WITH YOUR EXAMINATION ANSWER BOOK.

INSTRUCTIONS TO CANDIDATES.

- 1 Number your answers clearly
- 2 Read the questions carefully before answering
- 3 Answers must be set out in a systematic and logical way using appropriate headings and subheadings
- 4 Answer the questions in detail

[TURN OVER]

SECTION A: COMPULSORY

Answer all the questions in this section on the mark-reading sheet and write your answers down in your answer book

In your answer book, write down the correct option number (1, 2, 3 or 4) next to the question number for each of the multiple-choice questions below. For example, question 16 4, question 17 3, et cetera. Make sure that the options indicated on the mark-reading sheet correspond with those in your answer book. Each multiple-choice question is worth two (2) marks. Section A counts 30 marks.

QUESTION 1

Katlin has requested DSTV installation at her new apartment but is extremely worried about whether the provider will do a good job. This is related to which component that forms part of the perceived total customer cost?

- 1 time costs
- 2 monetary costs
- 3 psychic costs
- 4 energy costs

[2]

QUESTION 2

BEST describes a manufacturer temporarily lowering the product price to encourage distributors to buy more than can be sold to customers in a reasonable time.

- 1 Trade loading
- 2 Channel fixing
- 3 Fixed trading
- 4 Trade selling

[2]

QUESTION 3

An organisation that produces different designs according to different needs in the same target market is following a _____ design strategy.

- 1 standard industry
- 2 modified standard
- 3 customised
- 4 limited edition

[2]

QUESTION 4

Natasha consistently purchases the cheapest brand on the market. She is **BEST** described as a

- 1 loyal customer
- 2 competitors' customer
- 3 brand switcher
- 4 price buyer

[2]

[TURN OVER]

QUESTION 5

A designer ware manufacturer wants to select two intermediaries that will distribute its products and not carry competing products. Which **ONE** of the following distribution strategies will **BEST** suit the designer ware manufacturer?

- 1 aggressive distribution
- 2 selective distribution
- 3 exclusive distribution
- 4 intensive distribution

[2]

QUESTION 6

Marco has budgeted to purchase an Audi S3. However, it is costing him more than planned as he needs to pay extra for the red leather seats and sunroof that he wants. Which type of pricing model is reflected in the scenario?

- 1 feature pricing
- 2 market pricing
- 3 portfolio pricing
- 4 tiered pricing

[2]

QUESTION 7

Which **ONE** of the following is considered an internal factor which may influence the organisation's pricing decisions?

- 1 petrol price increase
- 2 market share increase
- 3 consumer demand decrease
- 4 interest rate increase

[2]

QUESTION 8

An organisation that offers a product with no real substitutes is **BEST** described by which competitive form?

- 1 oligopoly competition
- 2 monopoly competition
- 3 monopolistic competition
- 4 perfect competition

[2]

QUESTION 9

Products sourced in another country from non-approved distributors and sold in South Africa at a competitive price are referred to as _____ imports.

- 1 parallel
- 2 straight
- 3 black
- 4 grey

[2]

[TURN OVER]

QUESTION 10

Which **ONE** of the following formulas is used to calculate price elasticity?

1 $E = \frac{\% \text{ change in unit sales}}{\% \text{ change in unit price}}$

2 $E = \frac{\% \text{ change in costs}}{\% \text{ change in price}}$

3 $E = \frac{\% \text{ change in fixed costs}}{\% \text{ change in variable costs}}$

4 $E = \frac{\% \text{ change in unit price}}{\% \text{ change in unit sales}}$ [2]

QUESTION 11

Which **ONE** of the following methods for measuring consumer price sensitivity may **NOT** be applicable to new product launches?

- 1 expert judgements
 - 2 customer surveys
 - 3 price experimentation
 - 4 historical price data
- [2]

QUESTION 12

A bakery purchasing flour to produce fresh rolls will incur costs

- 1 fixed
 - 2 variable
 - 3 average
 - 4 mark-up
- [2]

QUESTION 13

A manufacturer maintains the retail price of soft drinks at the same level over a long period of time. The manufacturer is using

- 1 customary pricing
 - 2 going-rate pricing
 - 3 sealed-bid pricing
 - 4 uniform-delivery pricing
- [2]

QUESTION 14

A seller who includes all the product shipment costs is following which **ONE** of the following geographical pricing strategies?

- 1 free-on-board pricing
 - 2 base-point pricing
 - 3 uniform-delivery pricing
 - 4 freight-absorption pricing
- [2]

[TURN OVER]

QUESTION 15

Which **ONE** of the following options **BEST** describes “target profit pricing” ?

- 1 adding a standard markup to the cost of the product
- 2 setting an annual target of a specific rand volume of profit
- 3 setting prices that will give the company a profit with 1% of the sales volume
- 4 setting prices to achieve the predetermined target

[2]

Total for section A: [30]

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[TURN OVER]

SECTION B. COMPULSORY

Read the short case study below and answer any two (2) of the following three (3) questions. If you answer more than two questions, only the first two questions will be marked in the order in which they appear in the answer book. For example, if you answer all the questions in the order 1, 2 and 3, only the answers to questions 1 and 2 will be marked. If you answer all the questions in the order 3, 1 and 2, only the answers to questions 3 and 1 will be marked. Section B counts 40 marks. Structure your answers by using appropriate headings and subheadings.

KFC

KFC is seen to be affordable take-aways. However, in comparison to other fast-food retailers of chicken such as Chicken Licken and Hungry Lion, KFC is often at a premium. In fact KFC has always taken a hard line by never discounting or positioning on price, which is a tough stance to take in a market filled with price fighters. In fact, many of KFC's competitors are all-out price fighters and seasoned discounters. Think of Roman's Pizza's discount positioning, McDonald's small-change campaigns and Steers' 2-for-1 Wacky Wednesday specials. Yet, KFC consumers are not concerned about price as confirmed by a TNS price elasticity study. In a survey of 1 698 respondents, KFC's customers had showed the lowest absolute price elasticity of any brand that was tested in the survey. This demonstrates that consumers are loyal to KFC despite pricing.

Source: Van Heerden, C.H. 2013. *Contemporary retail and marketing case studies*. Cape Town: Juta.

ANSWER ANY TWO (2) OF THE FOLLOWING THREE (3) QUESTIONS**QUESTION 1**

- a) Analyse the **four** ways in which individuals perceive and define value and indicate how KFC can adapt its offering accordingly (8 marks for the theoretical discussion and 4 marks for the practical application to KFC)

(12)

- b) Suppose that KFC's "Double Crunch Burger" is produced and sold with the following
- fixed costs = R10 000
 - variable cost per unit = R15
 - selling price per unit = R40
 - units to be sold = 1000

Calculate KFC's break-even point and illustrate it graphically by means of a graph (3 marks for the calculation and 5 marks for the illustration)

(8)

[20]**[TURN OVER]**

QUESTION 2

- a) Examine and practically apply the **three** major groups of objectives that KFC needs to consider to ensure that its pricing strategy meets organisational goals (6 marks for the theoretical discussion and 6 marks for the practical application to KFC)
(12)
- b) Explain the **four** types of differentiated pricing and provide an example for each (4 marks for the theoretical discussion and 4 marks for the practical application)
(8)
[20]

QUESTION 3

- a) Highlight **seven** factors that may have an impact on the price sensitivity of KFC's customers and practically apply (7 marks for the theoretical discussion and 7 marks for the practical application to KFC)
(14)
- b) Discuss with examples how KFC can use sales promotion tactics to motivate its customers to purchase (3 marks for the theoretical discussion and 3 marks for the practical application to KFC)
(6)
[20]

Total for section B: 40**TOTAL MARKS [70]**

