3E2 MARKETING – CRIB 2015

1 (a) Describe the three value disciplines. Briefly discuss how a firm should formulate its competitive strategies from the perspectives of the value disciplines.

The three value disciplines are:

- *Product leadership (offering high quality products among competitors, often implying high innovativeness),*
- *Operational excellence (having highly efficient operations among competitors thus achieving low operating costs), and*
- *Customer intimacy (offering highly customised total solution to every customer).*

To acquire sustainable competitive advantage, a firm should seek to excel in one of the disciplines and be competent in the others.

(b) "The best way to compete is to stay away from competition." Provide arguments in support of this statement in the context of marketing strategies that firms may decide to adopt.

The question can be approached from more than one direction. Examples include:

- *The idea that firms should acquire core competency, namely competitive advantages that are not easily imitable by potential competitors over a wide variety of markets. In a sense, this means that the firm should become unique to the point of extricating itself out of direct competition as much as possible.*
- *The idea that firms should explore Blue Ocean strategy – namely that firms should not focus on "Red Oceans" of direct competition but try to tap a Blue Ocean of uncontested market through value innovation.*
- *Peter Drucker's statement that innovation (together with marketing) should be the basic function of a business. Innovation means that, instead of competing head-on with other firms that market products with the current technology, firms should seek to focus on new products with the objective of staying ahead (which is arguably a form of staying away) of competition. This point has a similar flavour as Blue Ocean but a broader meaning, and can be discussed in conjunction with the previous point.*

Providing appropriate original arguments might be worth extra points.

(c) Why might it be preferable for Burger King to open a new restaurant next to (as opposed to far from) an existing McDonald's restaurant that seems to be enjoying good business?

Any reasonable points will be given credit. The better students should be able to include several reasonable explanations. Examples include:

- *Before McDonald's opened its restaurant in the location in question, McDonald's must have done its own homework and calculation to choose the location. This* *should increase Burger King's confidence in the location as a good one for a new outlet. The fact that the McDonald's restaurant is enjoying good business further strengthens the evidence.*

- *The current existence of a McDonald's may have already cultivated in customers' mind some general awareness of the location as a "fast food place", so that Burger King may not need as much promotion to attract customers to the location, compared with otherwise.*
- *In addition to the previous point, outlets of two major fast food chains in one location will hopefully further increase customer awareness of the location as a place to consume fast food; the potential effect in increasing primary demand for fast food at the location may outweigh the potential competition for Burger King.*

2 (a) Suggest two different scenarios in which a profit-maximising firm would sell a product at a price that is lower than the product's marginal cost of production. Explain your answers.

The major course reading Tellis (1986, Journal of Marketing) has a number of examples in which a firm would sell some of its products at prices that are lower than marginal cost. For example:

- *Periodic discounting: consider seasonal selling in which half of the consumers have high valuation and demand the product as soon as possible, while the other half have low valuation and can wait. It might then happen that the firm could produce a sufficient number of products to sell to all the consumers, then sell the first half of the batch at a high price to the high valuation consumers first, followed by a markdown later to attract the low valuation consumers. The markdown price could be even lower than the marginal cost of the product, but producing for both segments can achieve economy of scale that would make the strategy justifiable. Credit will be given to answers that elaborate on this concept by simple numerical example such as that used in the Tellis reading.*
- *Penetration pricing: this can happen when the product is new and has network effect. The firm might like to price very low initially – possibly even lower than marginal cost – to build up an installed base, and then recoup its losses by pricing higher as the product becomes more valuable due to an expanding network of users.*

(b) Explain two mechanisms through which low price can signal high quality.

Any reasonable points will be given credit. One approach is to think of low price as a handicap signal for a new product – that is, the firm can use the low price to signal to consumers that the product must be of sufficiently high quality to be able to entice consumers to become loyal customers in the future, when the price may rise. Another possibility is that, suppose a well-known brand wants to reassure consumer confidence *(e.g., after a crisis); then low price for well-known products can be used to signal commitment to a long-term continuation of high quality. The better answers should explain very clearly why a firm with a low quality product would not mimic this strategy by also selling at a low price. Extra points might be awarded for illustrating the mechanisms with exceptionally relevant examples.*

(c) Why might it be easier to sell a second-hand car at £10,245 as opposed to £10,000?

As discussed in the course, the higher price is less rounded than the lower price, and is thus more likely to give buyers the perception that it has been well-reasoned based on market information. As a result, buyers might be more likely to be persuaded to accept the offer.

3 (a) Describe the newsvendor problem in supply chain management.

The newsvendor problem can be illustrated by a cover story whereby a newspaper vendor has to submit to the printer an order for the quantity of newspapers (and pay for the order) before the demand for the newspapers is realised the next day. It is a problem of inventory ordering in the face of demand uncertainty.

(b) The management of a restaurant has decided to keep its number of tables below the level that would be required to meet the restaurant's usual demand. There is enough space to allow for more tables and the restaurant would have no financial problems in purchasing more tables and related accessories.

(i) Suggest two different marketing-related reasons that might have led to the restaurant's decision. Explain these reasons.

One possible reason is that the policy will lead to consumers being frequently unable to get a table or having to queue for a table, which will give them – and the market at large – a perception that the restaurant must be highly sought after and of high quality.

A different possible reason is based on considering the atmosphere of the restaurant in relation to the number of tables. Even though there would be space for more tables, a smaller number of tables helps make consumers feel more comfortable and more exclusive, which increases the value of the consumption experience.

Appropriate original reasons might be worth extra points.

(ii) Select one of the reasons in your answers to (i). Suppose this is the real reason behind the restaurant's decision. How should the other aspects of the restaurant's marketing strategy be designed in conjunction with this decision? Explain your answer.

If we select either of the reasons given above, the restaurant should perhaps consistently pursue a premium positioning with the other aspects of its marketing strategies. In that case, the restaurant should seek to:

- *Define a high-quality brand image with unique high-quality cuisine adhering to a consistent style;*
- *Set high prices that reflect the food quality and the premium image, and create status consumption effects among consumers;*
- *Make sure the waiters are well trained to provide polite, efficient service;*
- *Make an effort on stylish decorations and furniture; and*
- *Launch promotion campaigns that aim to cultivate a classy brand image in the market at large, etc.*

Notions such as the value discipline of product leadership, or Porter's differentiation strategies, can be brought into the discussion as conceptual explanations, which can also put the various suggestions in perspective.

Examiner's Comment

Q1. Most answers to part (a) are generally correct in outlining the concepts of the three value disciplines; one outstanding answer gives a critical evaluation of the framework. Answers to part (b) are reasonably well argued. Part (c) elicits many interesting and sometimes creative insights.

Q2. Most answers to part (a) include relevant points and reasonable arguments; the best answers are quite well-written. Part (b) is often poorly answered; some answers try to explain why some products could have a high quality image despite low prices, which is different from what the question is asking. Part (c) is generally well answered.

Q3. About 78% of the candidates attempted this question, making it the most popular question. Quite a few answers to part (a) fail to describe the newsvendor problem correctly. The answers to part (b)(i) often include interesting and well-taken insights. The answers to part (b)(ii) often reveal a good application of diverse related concepts learned from the course.