

3E2 MARKETING – CRIB 2019

- 1 (a) Briefly describe the guessing game (one of the in-class exercises in the course session on competition); explain the reasoning that leads to the theoretical prediction that every player will submit a guess of zero.

The rules of the guessing game are as described in the lecture slide on that exercise.

The theoretical reasoning is as follows. First of all, the guess of 67 must be better than any guesses that are higher than 67. This is because no guess can be higher than 100, so that the average of the guesses cannot be higher than 100 either, so that $2/3$ of the average cannot be higher than $100 \times 2/3 \approx 67$. But if every player has intuited this observation, no player will submit a guess that is higher than 67, which means that the average of the guesses will not be higher than 67 either, so that $2/3$ of the average cannot be higher than $67 \times 2/3 \approx 45$. That is, the guess of 45 is better than any guesses that are higher than 45.

This line of reasoning can proceed further in iterations, each time marking down the maximum possible guess by $1/3$. The iterations will approach the lowest possible guess of 0 indefinitely. Hence the theoretical prediction of the guessing game is that every player will submit a guess of 0.

A good answer should be able to articulate these ideas with logical clarity.

- (b) Explain why the actual decisions of the class in the guessing game exercise deviated from the theoretical prediction (you are not required to describe the distribution of the actual decisions). What do these observations imply regarding how you should formulate competitive strategies in the market?

The theoretical prediction is predicated on people being fully rational; the indefinite iterations of thinking in the theory is predicated on every player in the game being able to go through the iterations. But people are not fully rational. For example, some of the players might not be able to appreciate an indefinite iterative thought process; they might stop after two or three iterations and submit guesses in the often-observed range of 20 to 50.

Secondly, suppose a player could go through the indefinite iterations and intuit the theoretical prediction of zero. But the player might also presume that some of their co-players cannot go through the indefinite iterations. Then the player would try to predict

what was going to be the actual average among the other co-players, and then mark down from that average to arrive at a best guess.

Thirdly, suppose the player was confident that all of their co-players could intuit the indefinite iterations. Does this mean that the player should submit a guess of zero? Not necessarily. The player might also feel that some of the co-players might not have sufficient confidence in the abilities of others to go through the indefinite iterations, and might thus submit guesses that were substantially higher than zero, in order to match what they thought would be the average. The player might then also submit a guess that was substantially higher than zero.

With regard to formulating competitive strategies, the lessons learned are that you need to correctly intuit the strategic sophistication of your competitors, and to correctly intuit their beliefs in the market's collective strategic sophistication. More generally, 'winning' in a game of business or daily life is to be able to 'game' others by being just (and not necessarily more than) one step ahead of your co-players.

An excellent answer should be able to demonstrate a clear understanding of the above issues.

- (c) Computer memory has been described as a commodity, in the sense that it is widely available from different manufacturers with little potential for differentiation. Suppose a new startup is entering the computer memory hardware market, where there are already a number of incumbents with large market shares. Discuss the competitive strategies that the startup might employ to survive in the market.

One approach to answering this question is the application of judo strategy. The Session 4 major reading on judo strategy (Yoffie and Kwak 2002), as well as the class discussion on judo strategy, should be able to offer relevant ideas. For example, the 'puppy dog ploy' could be applied, with the firm deliberately limiting the size of its manufacturing capabilities and publicly letting its competitors know. In conjunction, the firm could focus its business on an underserved geographical market that other competitors would find it cost-ineffective to invest resources to compete over.

An answer will be given high marks if it demonstrates creative ideas or in-depth insights into competitive issues in well-argued writing.

- 2 (a) Briefly explain the meaning of product line and the breadth of a product mix.

A product line is a collection of related products, which can often be planned independently with its own set of competitors. The breadth of a product mix refers to the number of product lines managed by a company.

A good answer needs to demonstrate a basic understanding of these ideas in clear writing, perhaps (but not necessarily) with examples to aid the explanation.

- (b) When might a company with multiple product lines refrain from mentioning its own corporate brand name when promoting one or more of its product lines? Explain your answer.

An approach is to use the idea of consistency of product mix. That is, if different product lines in the company make inconsistent offerings, it might be better for the parent company not to mention its own brand name to avoid unfavourable associations across product lines. For example, in class we discussed the fact that Unilever manages both the Persil detergent brand and the Magnum ice cream brand. It might be advisable for Unilever to refrain from mentioning its own brand name when promoting Magnum, so that consumers will not form unnecessary associations with a detergent when they are considering whether to buy Magnum products.

Alternatively, suppose a company used to have a low-end, low-cost brand image, but is now making a brand extension into a more premium product line. Again, it might be advisable for the company to refrain from mentioning its own brand name when promoting the new product line, so as not to evoke a low-end image in consumers' mind.

An excellent answer should be able to put forward well-argued and insightful possibilities. Original ideas that go beyond the obvious will also be appreciated.

- (c) McKing is a (fictional) global fast food chain with a long reputation of selling mostly meat-heavy items. In recent years, the company has begun offering vegetarian items in many of its outlets. The company is now considering the idea of opening a chain of vegetarian restaurants. If the idea is to be implemented, the vegetarian restaurants would be run as a new line of business and would be managed independently of McKing's fast food outlets. Imagine that you are a management consultant who has been hired to offer recommendations on the following questions: assuming McKing will implement the idea, what should be its marketing strategies for the new line of business, including which segment(s) of consumers to target and what services to provide? Moreover, taking one step back, should McKing implement the idea at all? Outline your recommendations and explain your answer.

One factor to note is that the company has begun offering vegetarian items in recent years. This suggests that the company is aware of the health-conscious trends in recent

years (which belong to the social/cultural and demographic domain in the PEST analysis). It thus seems that the company is trying to attract sales from consumers who avoid it because of health concerns. It must also be trying to rebuild its brand reputation in the modern era.

To highlight the fact that this is an attempt to upgrade the company's brand image, the vegetarian restaurants might target sit-down customers looking for a mid- to premium-priced casual dining experience. Because this is a drastic departure from what the company usually does, it might be advisable for the company to promote a new brand name for the restaurants, while keeping the McKing brand name visible in the background.

In line with the company's recent development as discussed earlier, opening a line of vegetarian restaurants seem like a natural, though bold, step forward. This suggests that the company should implement the idea. Students can elaborate on how the venture can help to turn around the company's reputation, and to tap into consumer segments that the company has not reached out to before.

But it can also be argued that the company should not go ahead at all. The new restaurant chain would be tainted by the parent company's brand image, which should be expected to be still strong in consumers' mind. The venture would be seen negatively by consumers as a cynical attempt to cover up the company's meat-heavy fast food business.

The above are just outlines of what an answer could be possibly about. As in similar instances, there is no right or wrong answer. Any well-argued answer with originality or good application of course concepts can lead to a good mark for this question.

- 3 (a) Briefly describe the EAST framework that was introduced in the class discussion on nudging.

'EAST' is an abbreviation for Easy, Attractive, Social, and Timely. More specifically, it states that a policy maker/firm can nudge people towards a decision option by making the option relatively easy to adopt (e.g., through making it the status quo option), attractive (e.g., using especially bright colour to highlight that option in the decision process), socially desirable (e.g., stating that a good proportion of the decision maker's neighbours have chosen the same), or timely (e.g., timing the request to choose at a point when the decision maker feels the benefit of the option most keenly).

A good answer needs to state what 'EAST' stands for and elaborate on the four aspects in a clear fashion, perhaps with the aid of simple, high-level examples.

(b) Businesses often try to nudge consumer purchase decisions using behavioural insights that do not involve monetary incentives. Describe two real-life examples of such nudges and explain your answer.

As the question indicates, it is up to the student to supply examples from their personal experience. Students might also use examples discussed in class, such as the supermarket nudges. Importantly, students need to explain their answer, such as clarifying how their examples can fit into one or more elements of the EAST framework, or making use of the concepts described in readings such as Gourville (2006, major reading for Session 2).

An excellent answer should offer a clear, succinct description of the nudge examples, and demonstrate an understanding of the behavioural insights behind them.

(c) Conspicuous consumption, by which consumers purchase luxury items to signal their social or economic status in public, is often described as an important factor in consumer choice. However, in recent years there has been a rise of ‘inconspicuous consumption’, by which consumers of luxury items deliberately avoid flaunting those items in public. Discuss the possible psychological motivations behind the phenomenon of inconspicuous consumption.

One approach to answering this question is to apply the concept of self-signalling. A consumer who embraces inconspicuous consumption might feel that being low profile about owning luxury items could enhance their own self-image of having an exclusive taste, to the extent that they do not even find it necessary to justify themselves to the public.

In addition, the consumer can be highly satisfied in realising that, if the public find out later about the consumer’s inconspicuous consumption practice, they will see the consumer as having such good taste as to not strut around like a vulgar show-off. This actually can serve to bolster the consumer’s social image in the end.

Thirdly, making a luxury item so low profile will help to ensure that it is only owned and consumed within a small circle of cognoscenti. Among the cognoscenti, the sense of exclusivity and status imbued by the consumption can be enhanced as a result.

The above are just some possibilities. Inconspicuous consumption is a rather recent area of consumer research. Any answer that offers interesting, original insights in well-argued writing will be given a high mark.