

ENGINEERING TRIPOS PART IIA 2004

Solutions to Module 3E2

Marketing

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MODULE 3E2
MARKETING
2004 EXAM CRIBS

1. Discuss how channel structure can help to build and maintain a product's positioning [50 %]. Examine how this might change as product life cycles progress from introduction to maturity [50 %].

Crib

- Begin with a definition of product positioning comprising keys elements;
 - i. Customer Value (tangible and intangible benefits/tangible and intangible costs to the consumer)
 - ii. Importance of perceptions (relative to competitors)
- Identify some of the key participants within marketing channels and how they can create customer value. In general students should identify opportunities for channel members to increase the perceived benefits that customers receive (relative to competition) and opportunities for reducing customers' perceived costs of acquiring these benefits (relative to competition)
- Some more specific examples could then be explored. These could be based on the eight key functions of distribution channels:
 - i. Research
 - ii. Promotion
 - iii. Contact
 - iv. Matching
 - v. Negotiation
 - vi. Physical Distribution
 - vii. Financing
 - viii. Risk Taking
- How these functions change in relative importance, as the product life cycle evolves from introduction to decline should then be discussed. This could be done by selecting both a high involvement product (e.g., digital TV) and a low involvement product (e.g., chilled ready meals)
Some examples might include (but are not limited to)
 - i. The matching function will be critical in early stages of the product life cycle where available quantities of the new product need to closely reflect consumers' propensity to try the new product (e.g., Nutrasweet was available initially in small sachets allowing low risk trial). Later in the product life cycle, bulk availability is likely to create more customer value
 - ii. The market research role will change from seeking radical innovations and improvements in early stages of the product life cycle, to seeking more incremental product and process

- innovations later in the product life cycle (once a dominant design has been reached).
- iii. In early stages of the PLC, retailers and agents close to customers will take a greater responsibility for providing customer information.
2. Define the pricing strategies of ‘skimming’, ‘penetration’, and ‘stability’ pricing [30 %]. Explain how consumer behaviour, competitive response, company objectives, and the product life cycle will affect a firm’s choice between these strategies [70 %].

Crib

- Students should begin with a definition of price and its four components
 - i. Money
 - ii. Time
 - iii. Behavioural effort
 - iv. Cognitive activity
- This should be followed by a brief overview of skimming, penetration, and stability pricing strategies and how the four components (above) can be managed under these strategies.
- Students should then review the appropriateness of these three strategies given the following considerations:

Consumer behaviour

 - i. High involvement products – consider skimming strategy and its implications or quality assurance and (i.e., price embodies information about the product and creating prestige (through exclusion)
 - ii. Low involvement products – consider the relative unimportance of price as long as it meets an acceptable range (underscores the importance of a stability objective)

Company objectives

 - i. Profit oriented – skimming strategy
 - ii. Sales/growth oriented – penetration strategy
 - iii. Maintain competitive parity – stability strategy

Competitive response (new markets)

 - i. If competitors follow slowly to a market, firms have the opportunity to ‘skim the market’ while they hold a quasi monopoly
 - ii. Where competitors are fast to imitate, a penetration strategy might be used to capture early market share and deter competitors through decreased profit opportunities

Competitive response (established markets)

 - iii. Consider likelihood and ability of competitors to match/imitate a price cut as a determinant of choice of pricing strategy

- iv. Consider the alternatives for managing perceived price through other means (e.g., behavioural/cognitive/time costs)

Product Life Cycle

- v. In introductory stages of the product life cycle, consumers are typically price insensitive; a skimming strategy is often plausible and expected
 - vi. In growth markets, competitors are fighting for market share and consumers are seeking increased value as products move toward a dominant design; penetration pricing is often plausible
 - vii. In mature markets, competitors try to avoid using price as a competitive tool as consumers are well informed and can switch to competitors easily. Will use variations on price (e.g., sales promotions) to create increased value
 - viii. In declining markets often a skimming price strategy is once again relevant as competitors leave.
3. Businesses are increasingly looking toward loyalty programmes as a means for growing and retaining market share. Drawing on your knowledge of relationship marketing theory, explain why this is occurring [50 %]. Discuss critically the use of loyalty programs as a component of a marketing programme [50 %].

Crib

- Students should begin with a discussion of the logic of relationship marketing. This might include consideration of;
 - i. Recognition of market failure (e.g., need for idiosyncratic investments)
 - ii. Improved understanding of consumer value
 - iii. Improved understanding of the value chain
 - iv. Customer relationship economics
- From this, students can support the view that decreasing customer turnover (i.e., achieving high levels of customer loyalty) is a desirable business objective.
- Discuss how loyalty programs help to achieve loyalty
 - i. Alter the perceived value received by customers (i.e., increased benefits)
 - ii. Create a sense of belonging and social identity
 - iii. Offer greater potential for customization (via greater exchange of information between customers and the firm)
- Students should then provide a framework for assessing loyalty which includes two key dimensions:
 - i. Level of repeat patronage
 - ii. Relative attitude

- Critique the use of loyalty programs and their ability to create truly loyal customers. Students may offer a critique from a consumer behavioural point of view, incorporating notions of;
 - i. Direct vs. indirect effects of loyalty programs
 - ii. Potential for them to generate ‘deal loyalty’ rather than ‘brand loyalty’
 - iii. How consumers value the rewards (e.g., spending/reward ratio, likelihood of achieving rewards, choice of rewards, aspiration value of rewards, sense of belonging or “membership”, timing of rewards)
 - Students might also critique loyalty programs from a strategic point of view, considering factors such as;
 - i. Ease with which competitors can imitate
 - ii. Cost of maintenance
 - iii. Ease with which customers can join multiple programs
4. Discuss how market segmentation can be used by marketers to achieve competitive advantage [40 %]. Explain how product planning considerations and the product life cycle might influence a firm’s approach to market segmentation [60 %]

Crib

- Provide an outline of the logic of market segmentation which would include some consideration of;
 - i. Optimising resource allocation
 - ii. Identifying opportunities for strategy differentiation (e.g., markets served, product positioning)
 - iii. Identify opportunities for new product development
- Outline an approach to effective market segmentation
 - i. Internal homogeneity
 - ii. External heterogeneity
 - iii. Profitability
 - iv. Must be operational
- Explore the role that segmentation plays in product planning—the decisions that effect the nature and configuration of a firm’s product offering (e.g., differentiation and product augmentation)
 - i. Consider appropriateness of segmentation given degree of perceived product homogeneity/heterogeneity
 - ii. Opportunities for customization and added value through differentiation
 - iii. Consider compatibility between segments (i.e., opportunities for economies of scope, entering new segments from an established product platform)

- iv. Consider degree of fit between a firm product development capabilities and segment requirements
- Explore how product life cycle considerations affect segmentation
 - i. As consumers become more knowledgeable and sophisticated as product life cycles mature, there are greater opportunities for finer distinctions between segments
 - ii. A firm's approach to segmentation should also consider new consumers entering markets and their different requirements (e.g., early adopters -> early majority -> late majority -> laggards)