

3E2 CRIB 2010

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1 In today's business world, products in many markets are becoming "commoditised" at a rapid pace due to stiff competition. Firms that fail to find powerful points of differentiation inevitably enter fierce price wars, which dramatically reduces profitability. Thus the long-term sustainability of a firm critically hinges on its ability to "de-commoditise" its product. Using cooking oil as an example of a typical "commodity", discuss how a manufacturer of cooking oil can "de-commoditise" it and establish competitive advantage.

Several approaches can be suggested:

- 1. Provide superior product value by focusing on enhanced health benefits*
- 2. Provide added value such as proper guidance on usage rate, amount, and cooking suggestions, etc.*
- 3. Provide a total solution by linking it up with other related product category, e.g., product bundling*
- 4. Focus on "total consumption experience", e.g., packaging, (colour, material, design, label), taste, "feel", and smell, etc.*
- 5. Build a rich brand culture that is distinctive, personal and positive*
- 6. Provide a "meaning" for customers to use this product, e.g., social responsible initiatives, cause-based marketing, e.g., environmental protection, etc.*

2 Pricing has always been a difficult yet important element of the marketing 4Ps, because it is the only P that brings in revenue, while all others imply cost. However, most companies do not know how to price their products optimally. That is precisely the problem that the Swiss watch manufacturer SWATCH is facing at the moment. The company, whose products have been very popular, is planning to launch new design, and

is determined to get the price right this time. Assuming you are a consultant from a major consulting firm and are hired to develop an optimal pricing strategy for the new design:

(a) Recommend and explain to the company an optimal pricing approach for the product.

Students can get credit by mentioning the following approach in formulating a pricing strategy, which facilitates optimal pricing:

- (i) Select the pricing objective e.g. building market share, maximise current profits, price skimming etc*
- (ii) Analyse characteristics of demand that are relevant to the product category, such as price elasticity and consumer price sensitivity factors*
- (iii) Estimate costs including economy of scale and experience curve effects*
- (iv) Analyse competitors' price, cost and offers*
- (v) Select a pricing method e.g. mark-up pricing, target return pricing, perceived customer value pricing*
- (vi) Select the final price based on additional factors such as brand quality, advertising, distributors, and dealers' reaction*

Further credit can be gained by discussing possible optimal approaches in more specific terms. One possibility is to suggest that the fundamental requirement for optimal pricing is price discrimination or customisation, because customer value perception of the same product varies substantially from person to person. The student may then proceed to discuss perceived value pricing and the pricing thermometer.

(b) Provide the company with a plan as to how an optimal pricing strategy can be implemented for the new design.

The challenge is to find out how much value a consumer would assign to a certain product, e.g., SWATCH in this case. Marketing research is needed in identifying consumer perceived value. Discussion can be organised around the collection and use of primary versus secondary data, and, among methods of primary data collection, the distinction between qualitative versus quantitative methods.

Pricing strategy is closely related to a firm's positioning strategy and is also driven by a firm's overall objective. Students may discuss how this pricing strategy fits into SWATCH's overall strategy.

Another possible point of discussion is the fairness issue. When price customisation is practiced, consumers when they are aware of this practice, often feel that “they have been exploited or cheated”. This negative sentiment can have a devastating effect on brand reputation/equity. The challenge here is not just getting the price right based on customer value perception, but also making sure that this price strategy will not backfire – need to come up with some creative approaches to mitigate this potential problem.

Extra credits will be given to relevant insights that pertain to the particular product under discussion, e.g. watch as a product some people use to show off fashion consciousness.

- 3 (a) Members within conventional marketing channels (suppliers, intermediaries, and buyers) often have conflicting objectives. Why? How might channels conflicts undermine channel coordination? How can control be established in a channel to overcome these problems?

Factors that lead to channel conflicts:

- (i) Misaligned incentives*
- (ii) Opportunism arising from asymmetric information e.g. retailer knows more about local demand than manufacturer, while manufacturer knows more about future offerings than retailer*

Channel conflicts might undermine channel coordination through:

- (i) Misrepresentation of information*
- (ii) Not following coordination actions suggested by (and maybe previously agreed upon with) other channel members*

Review the various forms of channel control systems, such as:

- (i) Vertical marketing system (VMS), which can either be a corporate, contractual, or administered system;*
- (ii) The more general range of channel designs including (starting from the most controlled system):*
 - (1) Selling directly to customers*
 - (2) Corporate system*

- (3) *Franchising/Retailers' cooperative*
- (4) *Conventional system with exclusive/selective distribution*
- (5) *Conventional system with intensive distribution*

(b) Discuss some of the more important factors you would consider in making a choice about the most appropriate channel design.

Factors affecting design of channels should be discussed according to the need to minimise channel conflicts noted above, to maintain a consistent customer value, and to maximise profitability under demand uncertainty. Examples include (but are not limited to):

- (i) *Assuming more responsibility for channel functions which are closely aligned with the firm's capabilities*
- (ii) *Make a distinction between products with high demand uncertainty (e.g. new product) and product with low demand uncertainty, and then focus channel flexibility and coordination for the former*
- (iii) *Maintaining the most selective distribution channel that is possible (given product-related and market-related constraints) in order to maximize control*
- (iv) *Incentivising channel members to increase the likelihood of cooperation, for example through trade promotions – but this must be done with a good balance with consumer promotion given constraints and profitability objectives*

4 (a) With reference to the possible stages involved in consumer response to marketing communications, explain how marketers can employ different communication tools (e.g. advertising and sales promotion) to best effect.

Outline of consumer response to communications. Examples of models that can be used for discussion include:

- (i) *The AIDA model*
- (ii) *Hierarchy-of-effects model*
- (iii) *Innovation-Adoption model*
- (iv) *Communications model*

Describe tools of marketing communications:

- (i) Advertising*
- (ii) Sales promotion*
- (iii) Public relations*
- (iv) Personal selling*
- (v) Word-of-mouth*
- (vi) Direct marketing*

Discuss each tool in terms of their capacity and then link with respect to the stages involved in consumer response to communications. Examples include:

- (i) Advertising and publicity are best suited to getting customer attention which is particularly important at the awareness stage of response*
- (ii) Sales promotion is most relevant for encouraging immediate purchase or repurchase*
- (iii) Personal selling is most relevant for providing rich information to aid evaluation of alternatives, thereby strengthening conviction to purchase and encouraging immediate purchase*

(b) Describe the different types of appeal in advertising messages and how they can influence consumer decision making.

Discuss advertising appeals in terms of the informational (quality, performance, reliability etc.) and transformational (fear, humour etc.) distinction. Examples of how these types of appeal influence consumer decision making include:

- (i) Both types of appeal can lead to recall/recognition of the product and reinforce/change consumer attitude*
- (ii) Transformational appeal is often effective in inducing awareness or recognition, and in building/reinforcing brand image*
- (iii) Informational appeal can assist evaluation and strengthen memory of the product through high-involvement response*