

3E2 CRIB 2011

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1 Pay as you wish (PAYW) is a simple but bold pricing mechanism with which the seller allows customers to pay any amount of money they like (including paying nothing) for the PAYW product. An example is the use of PAYW by the British band Radiohead in late 2007 when it launched its album “In Rainbows”: any consumer could download the album from a specific website, when he/she would be prompted to make a payment of his/her own choice (which could be any amount including nothing) that went directly to Radiohead.

(a) Why might a customer of a PAYW product pay a positive amount of money (rather than nothing) for the product?

Some possible reasons are:

- (i) *Fairness concern – the customer considers that it is fair to both sides of the transaction only if he/she pays the seller some positive amount.*
- (ii) *The customer pays money to the seller as a reward for its previous offers (e.g. Radiohead’s admirers might pay Radiohead for its previous works, not necessarily In Rainbows).*
- (iii) *The reverse of (ii), namely that the customer pays money to the seller to motivate/support its future business.*

(b) How might PAYW help the seller understand more about the market for its products?

The different amounts that different buyers pay for the product can help the seller segment the market (most importantly to gauge the size of the “fan” segment who would pay highly for its product), have a rough idea of how people value its products, whether consumers perceive it to be a business that has to be dealt with fairly, etc. Another point is that the total number of buyers who make a purchase (with whatever payment) can be a proxy for the total potential market for the product.

(c) Discuss how Radiohead's PAYW exercise, as mentioned above, might enhance the band's profits by considering promotion and supply chain issues.

(i) *Promotion issues: The PAYW exercise itself, being so unconventional in the music business, could be use as a "publicity stunt" to raise the band's profile further among consumers. Moreover, the media would pick up the news and essentially give free promotion for Radiohead – in the process of which further information about the band and its other offers, such as previous/future albums and concert tours, would be mentioned. In general, consumers would be made more aware of these other offers through the publicity of PAYW, which then achieved the purpose of cross-selling.*

(ii) *Supply chain issues: conventional channels for music albums involve intermediaries between the artists and the consumers, such as record companies and retailers. In Radiohead's PAYW exercise, all payments went directly to Radiohead, so that the band did not have to share some of its revenues with the channel intermediaries.*

2 (a) Compare and contrast the typical characteristics of qualitative and quantitative marketing research.

(i) *Qualitative research is exploratory and hypothesis developing while quantitative research is conclusive and hypothesis testing.*

(ii) *Qualitative research typically involves relatively small sample sizes while quantitative research typically involves relatively large sample size.*

(iii) *Qualitative research involves broad range of flexible questioning while quantitative research has well structured questions.*

(iv) *Qualitative research calls for subjective interpretation of data while quantitative research requires statistical analysis.*

(b) "Qualitative marketing research is useless because its sample size is so small." Discuss this statement.

It is true that qualitative research typically involves relatively small sample sizes, so that whatever data it yields should not be taken as a comprehensive representation of the market at large. However, the purpose of qualitative research is not meant to seek out comprehensive representation of the market; rather, it should be one step in a marketing research project that should be followed by statistically valid quantitative research. As such, its purpose is to generate and formulate hypotheses for quantitative research to test, and to help questionnaire designers in a quantitative research effort consider what questions would be meaningful to ask. More generally, the role of qualitative research is to clarify and define research problems, alternative courses of actions, and to discover new ideas about the market and customers. These are all possible with qualitative research because of the fact that this type of research allows for flexible questioning that can help the researcher seek out unexpected information about the market.

(c) The world-famous Internet business Yahoo! reportedly places little emphasis on conventional marketing research methodologies but gets to know about its market through unusual qualitative approaches. For example, the company would invite select consumers to work with its product managers in informal small-group sessions to develop new product ideas together. Discuss the pros and cons of such a research method for Yahoo!

Pros:

- (i) The method takes away the role of market researcher in the research process by placing the product managers directly in touch with customers. It therefore allows for first-hand gathering of information by those who really develop products and create value for the company;*
- (ii) An informal, small-group session with non-marketing researchers suggests a less "official" atmosphere than the typical marketing research interviews or focus groups. The consumers would then be more comfortable about expressing themselves when they feel that they are participants in an idea development process rather than subjects of a research examination;*
- (iii) As the consumers are aware that they are talking directly to product managers, they might feel strongly that their voice can make a difference to Yahoo!'s products, and therefore might be more serious and enthusiastic in expressing themselves.*

- (iv) *Participating in an idea developing process allows for opportunities for consumers to express unfulfilled needs and feelings towards existing products that they might not be able to consciously articulate well in a more conventional research context.*

Cons:

- (i) *Product managers are (usually) not professional market researchers and may not be able to guide the flow of a session in an efficient way that uncovers as much information as possible.*
- (ii) *Product managers may have their own biases as to what kind of products should be developed, and let their biases interfere with letting consumers speak out their preferences.*

- 3 (a) Describe Maslow's Hierarchy of Needs.

From bottom to top in the hierarchy:

- (i) *Physiological needs: the needs for food, water, shelter etc.*
- (ii) *Safety needs: the needs for security and protection*
- (iii) *Social needs: the needs for a sense of belonging and love*
- (iv) *Esteem needs: the needs for self-esteem, recognition, and status*
- (v) *Self-actualisation needs: the needs for self-development and realisation*

- (b) Discuss how the purchase of a pair of Nike sports shoes might satisfy the needs of different buyers in the context of Maslow's Hierarchy.

- (i) *Physiological needs: shoes allow walking without hurting the feet.*
- (ii) *Safety needs: sports shoes are needed for jogging and running, which help improve health/maintain good health.*
- (iii) *Social needs: if many of the buyer's friends also have bought Nike sports shoes and like wearing them, buying and wearing a pair of Nike can help bond the buyer more strongly with his/her friends.*
- (iv) *Esteem needs: if few of the buyer's friends have bought Nike sports shoes but aspire towards buying them as something that are worth showing off,*

buying and wearing a pair of Nike could help raise the buyer's social recognition among his/her friends.

- (v) *Self-actualisation needs: a buyer who sees excelling in sports as a purpose in life might see Nike shoes as part of the equipment in achieving his/her goal.*

(c) In recent decades Nike has been involved in sweatshop controversies, as some of the factories that manufactured Nike shoes in developing countries were found to have poor working environments. How would Nike's appeal to the buyers' needs, as discussed in part (b), be affected by those controversies? Explain your answer.

Apparently, the sweatshop controversies in themselves could not have affected the appeal of Nike to more basic needs such as physiological and protection needs. However, the controversies might be damaging to the social and esteem needs if the buyer moves in socially conscious circles, so that: (a) the buyer's friends all turn against Nike because of the controversies, thus making Nike less of a means to bond the buyer with his/her friends; (b) the controversies make Nike less of a means to show off but rather more of a means to show that the buyer is insensitive to sweatshop issues. Lastly, if a buyer thinks that being socially conscious in consumption is part of the (moral) meaning of life, then the controversies can hurt Nike's appeal to the buyer's self-actualisation needs.

4 (a) The service that the sales staff of a furniture store provides to its customers, as well as the furniture that it sells, can both be seen as "products" of the store. Compare and contrast the natures of these two types of "products" in this example.

- (i) *Service is intangible, furniture is tangible.*
(ii) *Service cannot be "owned" but purchased furniture results in definite ownership.*
(iii) *Service is transient and mostly occurs at (or slightly before) transaction. The value that purchased furniture offers is much more permanent and ongoing.*
(iv) *Related to (iii), customers' evaluation of service (especially in word-of-mouth evaluation when talking about the service with other consumers)*

often relies on memory of the transaction, but their evaluation of purchased furniture can rely on direct, recent experience.

(b) “All products are about experience.” Discuss this statement from a market orientation perspective. Use an example to illustrate your views.

From a market orientation perspective, all products, be that tangible products, service, or pure experience, are about delivering value to customers. As value is always to be felt and thus to be “experienced” by the customer’s mind and body, the statement is very apt. For example, a piece of furniture, say a sofa, may look like a very objective, tangible product, but its value is derived from design (i.e. whether the buyer feels that it looks good and fits well at home), comfort (i.e. how the buyer feels when sitting on the sofa), and/or other attributes, all of which can be traced to some kind of customer experience.

(c) A newly established low cost passenger airline operates with the following strategy: it charges very cheap fares and provides no-frills quality in almost all aspects of its offers, including in-flight seating, food, entertainment etc., but allocates a substantial budget to maintaining excellent service quality among its staff (e.g. flight attendants) and cultivating a corporate culture that emphasises service. Discuss this strategy.

A possible answer is: in a sense, successfully orienting a company towards service can save a lot of marginal cost. If a corporate culture is cultivated so that staff are self-motivated to serve customers well, then customers could enjoy good experience – and therefore derive a high value – from their flights through excellent service without costing the company much in terms of providing value through tangible products such as seating or food. It would not even cost the company much in terms of incentivising staff to provide good service, since the corporate culture has internalised the motivation to serve well. Good staff service is also often the key to cultivating long-term customer relationships and loyalty, which is especially important for a new company with a brand name to build. As such, the strategy seems desirable for a company that seeks to keep down its costs.