

3E2 CRIB 2012**Vincent Mak**

- 1 (a) Explain why the demand for a branded handbag may increase after a big increase in its price.

A main point is conspicuous consumption. The increase in price effectively increases the value of that handbag as a status symbol, so that, when carried in public, it can function as a signal of the wealth of the owner. Another possible line of argument is that consumers may infer higher quality from a higher price, and demand may increase as a result of a perceived increase in quality.

- (b) Suppose there is in fact another brand of handbag that has long competed directly with the brand mentioned in (a). Discuss how the strategic responses of this competitor might weaken or strengthen the demand-increase effect in (a).

Any reasonable, clearly written, well-structured argument will be given credit. A possible argument along the "weaken" line is that the competing brand would increase the price of its own handbags as a strategic response, so that both brands would attain comparable status symbol functions and would compete together for the same segment of consumers; the effect in (a) would then be weakened as a result. A possible argument along the "strengthen" line is that the competing brand would rather avoid directly competing in the upmarket segment and switch to target a price sensitive segment looking for low price rather than status symbol value. As a result, the competitor's brand image would become less associated with conspicuous consumption, thus further highlighting the protagonist brand's handbag as a status symbol.

- (c) Discuss two more examples with which demand could increase with price. Note that credit will be given to answers that are very different in nature from each other and from your answer to (a).

Two possible examples are: (i) High price to create exclusivity with quality (as distinct from status symbol) consequence. For example, an airline may charge high prices for its business class in order to discourage families with potentially noisy children to travel in that class – so that the real “business” travelers could have more peace and better travelling experience. (ii) Purely psychological effect due to consumer perception of the price point. For example, as discussed in class and in the major reading Anderson and Simester (2003), raising the price of a dress from \$34 to \$39 could increase its demand.

- 2 (a) Discuss the pros and cons of carrying out marketing research for a new product before launching it in the market.

The pros include reducing uncertainty and increasing the likelihood of making correct decisions, and thus better marketing performance and profits. The cons include: financial, human resources, and time costs; delay in launching time and thus income generation as well as (possibly) first mover advantage; release of information about the product to competitors, either because of the marketing research itself or because of information leakages from the company during the period of research.

- (b) Henry Ford (1863-1947), the legendary industrialist and founder of Ford Motor Company who popularised automobiles in the US, has this quote attributed to him: “If I had asked people what they wanted, they would have said faster horses.” Discuss this quote in relation to the value of doing marketing research as a part of new product research and development.

A possible line of discussion is about how this quote points to the inherent dilemma of innovation. Innovation in marketing is about bringing new products/services to the world, and consumers themselves might probably not be creative enough to consciously suggest those products/services in marketing research exercises as means to satisfy existing needs and wants (or create new needs and wants, see the suggested answer to question 2(c)). For example, if consumers at the time of Ford had divined (before Ford succeeded in popularising automobiles) that mass-marketed

automobiles could be feasible at all, they might well have suggested cars rather than horses to satisfy their transportation needs and wants.

That said, marketing research could be useful in bringing to managerial attention the diverse existing needs and wants of consumers that might inspire new product developers. Of course it still very much depends on the new product developers to creatively invent highly competitive new products.

(c) It has been said that, when Steve Jobs was leading Apple Inc., the company did little or no marketing research. Supposing this to be true, discuss why (at least in recent years) Apple could remain very well tuned to what customers need and want.

A key argument would be that Apple created new customer needs and wants rather than fulfilled existing needs and wants. Products like iPhones and iPads took mobile communications and computing to new heights that consumers themselves might not even have realized that they would desire so much. In addition, the company managed to turn those products into social phenomena so that people could buy them simply due to the need to conform to their social contacts' product choices.

3 (a) Describe the “traveller’s dilemma”. State the theoretical prediction regarding the decisions of strategic consumers in this dilemma, and briefly explain your answer.

The student may suggest any reasonable stylised version of the game. Here is an example which was discussed in class: Two travellers who do not know each other are on the same flight returning from a remote Pacific island. Upon landing, they find that the airline has damaged the identical handicrafts that each had purchased. All agree that the handicraft is valued between \$5 and \$50. The airline manager then asks each of them to write down an integer between 5 and 50 independently without conferring together. If the numbers are equal, he will pay each of them that amount in dollars. If not, he will pay them the lower of the two numbers in dollars, but the person who wrote the lower (higher) number will in addition get a reward (penalty) of \$5.

The theoretical prediction is that both travellers will write down the lowest number in the range (5 in the example above). The reason is that each traveller will try to slightly undercut each other to get the reward and also to preempt the other's attempt to undercut him/herself; this thinking process will iterate itself until reaching the lowest number in the range.

(b) How may real people's decisions in a traveller's dilemma differ from the theoretical prediction? Suggest possible reasons for such differences.

Real people would often write down considerably higher numbers than theoretically predicted (as many experiments have shown). Some possible reasons are: (i) they are not able to cognitively construe the iterations that lead the "undercutting" argument to its logical conclusion, or think that the other traveller would not do so; (ii) they have a sense of "cooperativeness" (akin to collusive behaviour among firms) to achieve a decent outcome for both travellers, and expect the other traveller to have the same sense, so that neither would undercut too much.

(c) Describe one more example of strategic consumer behaviour that is different in nature from the traveller's dilemma.

For example, consumers may strategically expect and wait for future price cuts, in the sense that, even though the current price of a desired product is already (perhaps even considerably) lower than the consumer's valuation of it, the consumer might still withhold purchase in anticipation of further markdowns in the future.

4 (a) What is brand equity?

Answers that make sense in relation to the discussion in the major reading Capon et al. (2001) would be given credit. For example, a widely accepted definition is "a set of brand assets and liabilities linked to a brand, its name and symbol, that add to (or subtract from) the value provided by a product or service to a firm and/or that firm's customers." (p. 218, Capon et al. 2001, citing David Aaker's writings). More credit would be given to more in-depth discussion of different possible definitions.

(b) “Brands have personalities.” Discuss this statement and its managerial relevance to brand-owning companies.

People often attribute human traits to brands as if they are persons. This is especially true with brands that have managed to communicate consistent brand messages and establish a unique identity that is clear, personal, and distinctive. For brand-owning companies, this highlights the importance of brand image building. If brands are perceived like humans are by consumers, then they are liable to evoke love/hate emotional attachment among consumers, and their “personalities” in the public’s mind would be hard to change once established.

(c) “The image of a brand is shaped not only by the brand-owning company.” Discuss this statement and suggest hypothetical or real examples that illustrate how the image of a brand may turn out to be not what the brand-owning company intends.

First, the image of a brand can potentially be shaped by retailers that do not own the brand but sell its products. How the brand’s products are being shelved, which other brands they are shelved together with (if any), how the retailers’ sales staff describe the brand to consumers, can all affect its image.

In addition, the image of a brand is often shaped by the consumers too. An example is the alcoholic beverage Zima discussed in class: accordingly, it had come to acquire a “feminine” image among consumers through its consumption by females – an image that turned many male consumers away. That was definitely not a development that the manufacturer intended or would like to see. Another set of examples could come from multinational consumer giants like Starbucks. Exactly because Starbucks has become a universally known brand with branches in many countries, it has also acquired an unintended image (at least to some segments of consumers) of an “evil empire” that forces many smaller local competitors out of business.

