

3E2 CRIB 2013

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- 1 (a) Discuss how a marketing channel with intermediaries could increase market efficiency over a scenario in which manufacturers always sell directly to consumers.

The economic argument discussed in class can be used as answer, namely that with intermediaries the total transaction cost could be reduced. For example, in a market with three manufacturers and three consumers, in which each consumer has demand from all three manufacturers, direct selling would involve nine transactions; but if there is an intermediary which buys from all manufacturers and then sells to all consumers, only six transactions would be needed to satisfy all demands and clear the market.

- (b) With reference to the major course reading “What is the right supply chain for your product?” (Fisher, 1997, *Harvard Business Review*), describe functional products and innovative products. Explain the type of supply chain that is most appropriate for each of these two categories of products.

Fisher (1997)'s distinction is that functional products have stable, predictable demand and long life cycle, while innovative products have unstable, unpredictable demand and short life cycle. Functional products are staples with low profit margins, while innovative products may lead to higher profit margins than functional products. Functional products are best matched with efficient supply chain that supplies predictable demand efficiently at the lowest possible cost with an inventory-minimising strategy. Meanwhile, innovative products are best matched with market-responsive supply chains that respond quickly to unpredictable demand in order to minimize stockouts and obsolete inventory. Excess buffer capacity and buffer stocks would be deployed at appropriate points of the supply chain in order to cope with demand uncertainty; other measures that can be taken include mass customization and investment in accurate demand forecasting.

(c) Some famous global brands, such as Apple, set up and manage their own retail stores in many international locations to sell directly to consumers. From the perspectives of supply chain management and other aspects of marketing, discuss the pros and cons of such a practice.

Some possible points are:

Pros: first of all, this mitigates coordination problems in the supply chain. This also allows more control of brand management at the retail level. As can be seen in the case of Apple, the design and layout of the retail stores can be used effectively as a means to reinforce brand image. At another level, the fact that the company could set up retail stores at an international scale might be seen as a signal of its popularity and financial strength – in other words, there can be a handicap effect as a means of marketing communications. Lastly, the brand can gauge demand at local levels more accurately than through external retailers.

Cons: it is costly to set up and manage directly an international network of retail stores. The brand is also at a dilemma as to whether it should sell its products through external retailers at the same time. If it does not do so, it might fail to reach some profitable markets. If it does so, there may be cannibalisation effects between the direct retail outlets and the other retailers that harm overall profits.

2 (a) Describe the three pillars of integrated marketing communications proposed in the major course reading “Towards a new definition of Integrated Marketing Communications (IMC)” (Kliatchko, 2005, *International Journal of Advertising*).

The three “pillars” proposed by Kliatchko are:

- (i) IMC is audience-focused: it is directed at, and tailored for, the multiple markets of target audiences. These include consumers but also stakeholders at a more general level.*
- (ii) IMC is channel-centred: it involves an integrated approach that coordinates various channels including advertising, public relations, sales promotions, etc., in order to reach target audiences effectively.*

(iii) *IMC is results-driven: IMC programmes should be measurable and accountable for business results. This requires a systematic process that yields reliable financial estimates, by which the management can track the effectiveness of the programmes over time.*

Note that credit will be given to answers that are conceptually correct, even if the student fails to reproduce the exact terms in the reading (such as “audience-focused”, “results-driven”, etc.).

(b) “Websites with user-generated content, such as social networking sites, in general do more harm than good for marketing communications.” Discuss.

One possible argument in support of this statement (nevertheless note that there is no need to answer with a particular stance for or against the statement) is the following: user-generated content is, in essence, a form of word-of-mouth (WOM) communications. WOM can be positive or negative, and the WOM for any firm or marketing offering would be highly uncertain in the decentralised and uncontrollable contexts of websites with user-generated content. If it is negative and is spread quickly through those websites, it could do much harm for the firm. In addition, negative WOM generally has a larger impact than positive WOM partly because it stops trial of the product concerned. Thus we may argue that websites with user-generated content in general do more harm than good for marketing communications.

(c) Coca-Cola is one of the most popular brands in the world. We may assume that Coca-Cola the drink – the flagship product of the company – is effectively universally known, and there is no need to communicate to consumers what it is. Discuss why, in spite of that, the Coca-Cola company continues to launch expensive marketing communication campaigns for its flagship product.

A possible point is that Coca-Cola thrives on brand image and brand loyalty, and both of these are emotional in nature. Therefore the marketing communications are transformational rather than informational, and aim at reinforcing brand image/loyalty at an emotional level with consumers. In addition, the mere

expensiveness of the campaigns could work as handicap signals to imply that the brand is still highly profitable and popular, so that it can afford expensive marketing communications campaigns. Yet another point is related to competition: if Coca-Cola cuts down on advertising while rivals such as Pepsi continue to launch major advertising campaigns, Coca-Cola may suffer from an erosion of brand awareness advantage over those rivals and lose market share to them.

- 3 (a) Describe ethnographic research as a type of marketing research.

Ethnographic research is an observational, qualitative marketing research method. It involves immersing the researcher into target consumers' lives so as to tap into unarticulated needs or behaviour which may lead to new product ideas and marketing opportunities.

- (b) "Ethnographic research is necessary in marketing Western products to the 'bottom of the pyramid'." Discuss.

One possible argument in support of this statement (nevertheless note that there is no need to answer with a particular stance for or against the statement) is the following: Western companies would find it hard to intuit the needs of the markets in developing countries (which form a major part of the poorest strata or "bottom of the pyramid" of the global economy) as living environments there are typically very different from those in the West. Ethnographic research is therefore necessary for Western companies to have in-depth understanding of consumer needs in those markets.

Another possible point is to describe the Nokia 1100 example discussed in class: the mobile phone was able to sell massively in India because it has features that cater very well to lives in slums, including torch, dust flap, and non-slip grip. The company came up with those features because of ethnographic researchers who went to live in slums in India to understand the needs of the consumers there at an in-depth level.

- (c) Consider the following scenario: a new unit of a UK-based medical apparatus company has developed a new "autoinjector", a painless and safe drug-delivery device that could replace common syringe injection. At present the company aims to sell the device in

the UK market only, and has targeted a drug that usually needs to be injected once every day in the arm of patients recovering at home from bone surgery. Currently the injections are either done by the patients themselves, or by nurses who visit them daily just to do the injections properly. Describe how ethnographic research might be carried out for this product, and discuss the pros and cons for the company of carrying out such ethnographic research before launching the product in the UK.

Any reasonable answer that offers an outline of the methodology will be given credit. One possibility is that the research will involve close observation of target patients, especially when receiving injections from nurses or administering injections by themselves. This can potentially provide product ideas that further improve the autoinjector.

Regarding the pros and/or cons of the research: A possible "pro" is that such research will help further improve the product and also ensure that patients can use the product effectively and safely to administer the drug, so that nurse visits can truly be reduced. The research can also provide "case studies" that can be used in marketing communications when the firm tries to make a case for hospitals to recommend the product to their patients. A possible "con" is that such research takes time, so that competitors may enter the target market ahead of the company to establish first mover advantage.

- 4 (a) Describe how prospect theory characterises people's perceptions of gains and losses.

There are three major points: (i) People perceive gains and losses relative to a reference level; in other words, a person's value function is always defined with respect to a reference point. (ii) Losses loom larger than gains, that is, given the same magnitude (such as monetary amount) of gain and loss, people's magnitude of feeling, or utility, is stronger for the loss than the gain. (iii) The perception of an outcome (be it loss or gain) exhibits diminishing sensitivity as the magnitude of the outcome increases.

(b) Give two substantially different marketing-related examples that illustrate how an alternative in a choice task can become more attractive after a change in the framing of the alternatives.

Two possibilities are (note that the question does not require explanation of what you suggest):

(i) This was discussed in Session 7 in the course. Gas Station A sells gasoline at £3.00 per gallon and gives a 30p per gallon discount if the buyer pays in cash; Gas Station B sells gasoline at £2.70 and charges a 30p per gallon surcharge if the buyer pays with a credit card. Supposing payments can only be made in cash or credit card, then the two gas stations have identical pricing schemes in effect. However, the offers of Gas Station A would be perceived as more attractive than their counterparts from Gas Station B.

(ii) This was discussed in Session 2 in the course. Suppose a consumer tastes a sequence of wines. It has been found in consumer research that the same wine, if placed at the beginning or end of the sequence, could be perceived by the consumer to taste better than if it is placed in the middle of the sequence.

(c) “Customer satisfaction is reference dependent.” Discuss this statement and its marketing implications.

Customer satisfaction is based on the difference between the perceived quality of the transaction and the customer’s expectation. Expectation depends on the customer’s prior experience as well as the market communications that the customer has received. The customer is satisfied if and only if the perceived quality exceeds or is equal to expectation. The more the perceived quality exceeds expectation, the more satisfied the customer is. Thus it can be said that customer satisfaction is reference dependent – the reference point being the customer’s expectation.

A marketing implication is that, if, in a transaction, a firm provides high quality service that exceeds the customer’s expectation, the customer’s expectation will be raised the next time he/she patronises the firm, because the customer’s experience

this time will become his/her prior experience next time. This means that the firm will have to strive to raise its quality further in order to make the customer satisfied. In other words, a firm must continuously improve the quality of its offerings in order to maintain high customer satisfaction.