



EXAMINATION: MANAGEMENT III: MARKETING (ENGLISH PROGRAM) SS 2001

EXAMINER: PROF. DR. B. ERICHSON/DR.J. BRENNAN

You are allowed to use a pocket calculator (in accordance with the instructions given by the examination office) and a translating dictionary from your native language to English (without any notes written in it).

All of the twelve exam questions must be answered (the estimated time for each question is given).

This examination has three pages.

Question 1 (8 Minutes)

The term *marketing*, which has even entered the non-English vocabulary, is a word heavily loaded with meaning. It is often said that marketing is a business philosophy as well as an action oriented process.

- (a) What should the term *marketing* mean to the modern corporation?
- (b) If you were asked to determine whether a company had implemented the marketing concept, what type of things would you look for when investigating the company?

Question 2 (10 Minutes)

A sales analysis, measuring sales volume or revenue, can be misleading since it does not reveal how your brand is doing relative to competing brands in the relevant market. For that reason, sales analysis must be complemented by a market share analysis.

- (a) Using panel data, market share can be decomposed into three main components using a model presented in the lecture. What is the name of the model that was presented?
- (b) Consider a brand with a 25 percent penetration rate and an 80 percent repeat purchase rate. Buyers of this brand usually purchase the same quantity when buying it as do customers of competing products in the relevant market. What is this brand's market share?
- (c) What can you tell about this brand? Do you have any advice for this company concerning its marketing strategy for this brand?

Question 3 (8 Minutes)

The General Electric Corporation has used the slogan, "We're not satisfied until you are."

- (a) Explain this statement of business philosophy in the context of the marketing concept.
- (b) What is the difference in focus between the selling concept and the marketing concept?

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**Question 4 (14 Minutes)**

A popular consumer product that is sold through a chain of stores in Germany has the following price response and cost functions:

$$x = 3,900,000 - 100,000 p \quad \text{where: } x = \text{sales quantity}$$

$$C = 10,000,000 + 10 x \quad p = \text{unit selling price}$$

$$C = \text{total cost}$$

- Calculate the revenue maximizing price and the profit that could be expected at that price.
- Calculate the profit maximizing price and the profit at that price.
- Calculate the profit maximizing price elasticity.

Question 5 (10 Minutes)

According to Professor Michael Porter of Harvard University, there are five forces that need to be considered when determining the profit potential of a product market.

- Name and briefly explain each of these forces.
- The center point of this analysis is the degree of direct competition that a firm faces from its competitors. Which factors determine this competition and how do they effect a company's profitability?

Question 6 (8 Minutes)

Market research often uses two types of data sources in its work.

- Explain the difference between primary and secondary data.
- What are the advantages and disadvantages of each type of data?

Question 7 (14 Minutes)

A multi-national soft drinks company is considering the launch a new brand of diet lemon in a southern European country. Market research has reported that at a launch price of 0.60 EUR approximately 1,800,000 cans can be sold in the first year. This sounds very positive to the company's management. The company has recently paid cash for five new trucks costing 175,000 EUR that will help with the distribution of the product. The marketing department estimates that product launch advertising and promotional expenses will amount to 550,000 EUR and engineering estimates that direct variable cost for this new product will be 0.35 EUR. Research and development for this product has cost the company a total of 2,500,000 EUR. No new additions to the manufacturing capacity will be necessary, however, a new computer will be required for the accounting department to keep track of billings for the product. This computer together with the required software will cost 15,000 EUR. As General Manager you must decide whether to launch this product or not.

- Using a break-even analysis determine the minimum quantity that must be sold before profits can be earned in the first year.
- Explain the concept of "sunk costs" within the context of this problem.

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**Question 8 (10 Minutes)**

Gaining the support of merchants in the distribution channel to enthusiastically handle our product is a key factor in the firm's marketing objectives. To gain this cooperation, two very distinct strategies have been adapted.

- (a) Explain the push strategy in distribution.
- (b) Explain the pull strategy in distribution.

Question 9 (8 Minutes)

Markup pricing is a commonly used business practice.

- (a) Name the advantages and disadvantages of this price setting method.
- (b) Is it possible for the markup price to equal the profit maximizing price? Show mathematically under what conditions this might or might not be true

Question 10 (12 Minutes)

There is a medium sized brewing company that also owns a producer of snacks located in the black forest region of Germany. The brewery has discovered that the profit maximizing price for its premium beer is 0.85 EUR per bottle. They have also discovered that on average when they sell six bottles of this premium beer they also sell a package of the salty pretzels produced by their wholly owned snack company. The profit maximizing price for the pretzels is 1.89 EUR per package (direct variable cost of 0.62 per package). It is also known that the cross price elasticity between the beer and the pretzels is -4.1 (the price elasticity of the premium beer is equal to -3.9).

- (a) What do we know about the relationship between the demand for the pretzels and for the beer? Discuss the factors to be considered in an appropriate pricing strategy.
- (b) Do you think it is the best policy for this brewing company to charge the profit maximizing price of 0.85 EUR per bottle for its premium beer? Based upon the Niehans Formula, what price would you recommend to the brewery for its premium beer?

$$p_1^* = (\varepsilon_1 / 1 + \varepsilon_1)(v_1) - M, \text{ where: } M = (p_2 - v_2)(\varepsilon_{21} / 1 + \varepsilon_1)(x_2 / x_1)$$

Question 11 (8 Minutes)

The Bass Adoption Model assumes that the demand for a product comes from two groups of consumers.

- (a) Name these two groups of consumers and explain how their buying behavior differs.
- (b) Explain how the communications strategy of a company can exploit the differences in the buying behavior of these two groups of consumers.

Question 12 (10 Minutes)

An important tool in marketing strategy is positioning.

- (a) How do we construct a perceptual map to highlight differences between competing brands?
- (b) What is the difference between property space and perception space in positioning analysis? What are the advantages and disadvantages of using each of these?

GOOD LUCK !