

Examination: Management III (5073)

Marketing Management

Summer Semester 2003

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You are allowed to use a non-programmable 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 into it). **All** of the **twelve** (12) exam questions must be answered (the estimated time to spend on each question is provided). This examination consists of **three** (3) pages.

Question 1 (10 Minutes)

People often ask, "What is the Wal-Mart secret to success?" In his 1992 book entitled "Made in America," Sam Walton wrote about ten key "Rules for Building a Business." Rule eight was, "Exceed your customers' expectations. If you do, they'll come back over and over. Give them what they want and a little more. The two most important words I ever wrote were on that first Wal-Mart sign, **Satisfaction Guaranteed.**"

- (a) Explain these statements of business philosophy in the context of the Marketing Concept.
- (b) Discuss in detail the concepts of relationship marketing and Customer Satisfaction.
- (c) Outline a method that could be used by this company to measure Customer Satisfaction.

Question 2 (8 Minutes)

Consumer behavior is the branch of Marketing where we attempt to discover how customers form their buying decision. It is guided by theories borrowed from psychology.

- (a) Outline the key elements of the Theory of Classical Conditioning and explain how these findings were discovered by Nobel Prize winner Ivan Pavlov in the 1920's. How do they relate to Marketing?
- (b) Discuss the extension made to this theory by B. F. Skinner called Operant Conditioning.

Question 3 (8 Minutes)

The Percentage of Sales Revenue Method is commonly used to determine advertising budgets.

- (a) Is it possible for this method to produce the profit maximizing advertising budget?
- (b) Are there any disadvantages to using this budget setting method?

Question 4 (10 Minutes)

The Bass Model is the most popular diffusion model that is used in Marketing

- (a) Two groups of consumers are included in the model. Describe differences in their consumption behavior and how a communication strategy might take this into account.
- (b) Consider a product called GAP ($p = 0.18$; $q = 0.48$) and another called GIP ($p = 0.02$; $q = 0.46$). Which of these products, GAP or GIP, will require the longest amount of time to exhaust their market potential. Explain your answer in detail.

Please turn to page 2

Question 5 (15 Minutes)

A local household appliance store is currently spending 25 on advertising by utilizing two different advertising media, newspaper (z_1) and radio (z_2). The product sells for 7.5, direct variable cost is 5.25, and total fixed cost is 4.0.

(z_1 and z_2 represent units of the media employed; p_1 and p_2 are the unit prices of these media)

$$S = 5.1 + 5.9 z_1 - 0.5 z_1^2 + 15.1 \sqrt{z_2}, \text{ where } S = \text{Sales Quantity}$$

$$z_1 = 1.0; p_1 = 5.0 \text{ and } z_2 = 4.0; p_2 = 5.0$$

- (a) Is this company allocating its advertising expenditure of 25 optimally between these two available media? Explain and justify your answer in detail (Yes / No answers are not sufficient).
- (b) Calculate the profit earned by this company.
- (c) What would be the profit maximizing amount of z_1^* and z_2^* to use and how large of an advertising budget would be required?

Question 6 (10 Minutes)

Dr. M. Porter is a Professor at Harvard University and an authority on competitive business strategy. He has written extensively and has outlined five forces that must be considered when assessing the profitability of any industry.

- (a) Name the five forces that must be considered when performing a situation analysis.
- (b) Explain how each of these five forces could adversely affect a company's ability to earn above average profits.

Question 7 (12 Minutes)

A certain drug retailer sells four popular brands of shampoo (A - D). Sales have been tracked using scanner data and the following concepts have been calculated.

Brands	Penetration	Repeat Purchase Rate	Buying Intensity Rate
A	0.4382	0.4258	1.0592
B	0.2811	0.5432	0.9643
C	0.8526	0.2264	0.9903
D	0.5759	0.7968	1.0112

- (a) Which of these brands of shampoo is the market leader? Explain your answer.
- (b) Which of these brands is experiencing the most difficulty penetrating the market? Outline and explain a marketing strategy that might be appropriate for this company.
- (c) Assume that you are a product manager with responsibility for brand "C". Tell as much as you can about the performance of this brand from the data given in the table above and outline a strategy to increase the market share of this brand.

Question 8 (8 Minutes)

All companies are constrained in their ability to set price by several important factors.

- Explain what is meant by the term "price ceiling" and "price floor".
- If $x = 20 - 0.5p$, calculate the revenue maximizing price, the maximum revenue, and the price ceiling.

Question 9 (8 Minutes)

Decisions concerning the Channel of Distribution are important for Marketing Management.

- Explain the advantages and disadvantages of using marketing intermediaries.
- What is the difference between the use of Merchants and Agents in the channel?
- What do we mean by Direct Marketing? Does it have any advantages?

Question 10 (15 Minutes)

The Niehans Formula for the two products A and B is:

$$P_A^o = [\epsilon_A / (1 + \epsilon_A)](v_A) - M, \text{ where: } M = (P_B - v_B)[\epsilon_{BA} / (1 + \epsilon_A)](B / A)$$

Consider a retailer that has fixed costs of 1413 and sells two products (W and Z) that are complements, $\epsilon_{WZ} = -1.9$. The price response function for product W is:

$$S_W = 2000 - 110P_W, \text{ where } S_W = \text{Quantity Sold of product W}$$

The direct variable cost of product W is 10.8. On average 4.1 units of product Z are sold with each unit of product W. The price of product Z is 2.8 and its direct variable cost is 1.6.

- Calculate the profit maximizing price of product W, P_W^* , when no consideration is given to product Z sales.
- Based on the prices P_W^* and the given P_Z , calculate the total profit earned by the retailer.
- Considering sales of product Z, now calculate the best price, P_W^o , for product W.
- If the retailer were to charge the prices P_W^o and P_Z , the total profit earned would increase (decrease) by how much?

Question 11 (8 Minutes)

The communication process is the transmission of information from place to place.

- In the Communication Model what is meant by the term Competitive Clutter? Explain.
- Give an example of Two Step Communication.

Question 12 (8 Minutes)

The "push" and "pull" strategies have been used to manage the Distribution Channel.

- Explain the difference between these marketing strategies.
- Explain these strategies as they are related to the "Inside Intel" advertising campaign.

This is the End of the Examination - GOOD LUCK!