Examination: 5073
# Management III
Marketing Management
Winter Semester 2004 / 05
Dr. John E. Brennan

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) examination questions must be answered (the estimated time to spend on each question is provided). This examination consists of **four** (4) pages and must be completed within 120 minutes.

Question 1 (10 Minutes)
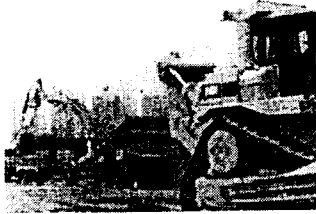
For more than 75 years, Caterpillar Inc. has been building the world's infrastructure and is the leading manufacturer of construction and mining equipment. Chairman & CEO Jim Owens has said, "Caterpillar's reputation for making a difference in the world is something we are proud of as a company and we are fully committed to good corporate citizenship. We are doing well by 'doing good' all around the world."

(a) Explain this statement of business philosophy in the context of Relationship Marketing.

(b) What is the difference in focus between a company that follows the Selling Concept and one that follows the Marketing Concept?

(c) Is there any relationship between Business Ethics in general and corporate profitability?

Question 2 (8 Minutes)

Most manufacturing companies do not sell directly to end-use customers. Between producers and the final users of the product stands the Distribution Channel. Two very different strategies were presented in the lecture to manage this distribution channel.

(a) Explain the Push Strategy.

(b) Explain the Pull Strategy.

(c) Which of these Distribution Strategies best explains the success of the Marlboro brand, the best selling brand of cigarettes in Germany.

Question 3 (8 Minutes)

The concept of Market Segmentation attempts to divide a large heterogeneous total market into groups of relatively homogeneous potential buyers called market segments.

(a) Name several of the criteria that could be used to segment markets and explain the advantages and disadvantages of each.

(b) What is meant by the term "lifestyle" and explain why it has significance to marketers who are engaging in market segmentation?

Question 4 (15 Minutes)

A well-known Australian company is considering the launch of a new product in the eastern part of Germany this summer. They commissioned a well-known German marketing research firm to collect the following information for them. The marketing research firm projected that at a selling price of 2.60 €, 640,000 units could be sold in the first year. The company had previously expected a higher level of sales and based on the findings of the market research firm they are now a bit concerned about the prospects for this new product. Nevertheless, they have already spent 5 million € on a new distribution center in Sachsen-Anhalt very near Magdeburg. It is estimated that the product launch advertising and promotion for this product will cost 550,000 €. The direct variable production cost will be 1.86 € per unit produced.

(a) Based on a first year break-even analysis, what would be the minimum quantity necessary before this product could earn any profit?

(b) Based on this result would you advise them to launch the product? Explain your answer.

(c) Explain the concept of "sunk costs" within the context of this problem.

Question 5 (10 Minutes)

Harvard Business School Professor Michael E. Porter is one of the world's most influential thinkers on completive strategy. Dr. Porter provided a framework that models any industry as being influenced by five main forces. Strategic business managers can use this model to better understand the potential profitability of industries within which they operate.

(a) Name the Five Forces and explain how they affect an industry's profit potential.

(b) Explain how the buyers of the product in a market could limit the profitability of the seller.

(c) Is it possible for suppliers to have the same effect on profitability? Explain your answer and use some examples in both part (b) and (c) of this question.

Question 6 (8 Minutes)

The Bass Adoption model is used to explain the first purchase of a new product.

(a) Name the two groups of consumers studied by the Bass Model and explain how their buying behavior differs.

(b) Explain how knowledge concerning these two groups of customers could affect the marketing strategy of the company.

Question 7 (8 Minutes)

Market research requires data in order to make market sales projections for new products. This data could come either from primary or secondary sources.

(a) Explain the difference in these two types of data.

(b) What are the advantages and disadvantages of using each of these types of data?

Question 8 (15 Minutes)

Consider a popular consumer product that has the following price response function:

$$x = 4,200,000 - 95,000 \, p$$

The product has a total cost of production and distribution given by the following function

$$C = 50,000 + 7 \, x$$

where x = sales quantity, p = unit selling price, and C = total cost.

(a) Calculate the revenue-maximizing price for this product. If the company were to charge this price, how much profit would they earn?

(b) Calculate the profit-maximizing price for the product. Again, if the company were to charge this price, how much profit would they earn.

(c) How many fewer units would the company sell by using the profit maximizing price rather than the revenue-maximizing price?

(d) Calculate the profit maximizing price elasticity.

Question 9 (8 Minutes)

In the retail business, markup pricing is a commonly used business practice.

(a) Explain why this method is often used to make pricing decisions.

(b) Are there any disadvantages to using this method?

(c) Is it possible for the markup price to equal the profit-maximizing price? Demonstrate mathematically under what conditions this might be possible.

Question 10 (10 Minutes)

An important tool that is used in the planning of marketing strategy is positioning.

(a) Explain how to set up a perceptual map that can be used to highlight differences that exist between competing brands in the market place.

(b) What is the difference between property space and perception space in positioning analysis? Explain your answer by giving the advantages as well as the disadvantages.

Question 11 (10 Minutes)

An important tool in marketing planning is market share analysis.

(a) Using panel data, market share can be broken down into three main components using a model presented in the lecture. What is the name of this model?

(b) Consider a brand with a 72 percent repeat purchase rate and a 38 percent penetration rate. Buyers of this brand usually purchase 90 percent of the quantity when buying it, as do customers of competing brands in the relevant market. What is this brand's market share?

Question 12 (10 Minutes)

A wholesaler is selling two industrial products (A and B) and has discovered that they are complements to each other. The profit maximizing price of product A is 185 EUR per unit and on average two units of product B are sold every time a unit of product A is sold. The profit-maximizing price of product B is 95 EUR and its direct variable cost is 46 EUR. It has been estimated that the cross price elasticity between these products is equal to (– 5.3) and the price elasticity of product A is (– 2.8).

(a) Discuss the factors that must be considered when pricing product A.

(b) Is it optimal for the company to charge the profit-maximizing price for product A? Based on the Niehans Formula, what price would you recommend that they charge for A?

$$p_A^* = [\varepsilon_A / (1+\varepsilon_A)](v_A) - M, \quad \text{where} \quad M = (p_B - v_B)[\varepsilon_{BA} / (1+\varepsilon_A)](x_B / x_A)$$

This is the end of the examination

GOOD LUCK!