MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SAMPLE PAPER

SUBJECT: **MARKETING**
PAPER: **II**
DATE: **xxxxxxx**
TIME: **xxxxxxx**

Answer ALL questions in Section A and ANY TWO [2] questions from Section B.

Section A: Case Study

<u>Some of the most familiar ways to market consumer goods are proving to be costly failures</u>

"HALF my advertising is wasted—the trouble is, I don't know which half." Generations of after-dinner speakers have seized on Lord Leverhulme's words. But they may soon need to find a new quip. Recent research has begun to tell the makers of consumer goods which types of marketing actually work. At the same time, new ways to monitor sales are helping firms to refine promotions and special offers. Marketing is not about to become a science, but it will henceforth be easier to tell one half of the marketing budget from the other.

One surprise concerns price cuts. Packaged-goods firms spend some $70 billion a year on various promotions. These include giving away new products and doling out extra quantities of detergent or peanut butter. But the most common ploy—roughly half of all promotions in, say, Britain—is simply to cut the price for a few weeks. Among marketing men, however, price cuts remained as popular as ever. It is an article of faith that they both reward loyal customers and woo new ones.

Now even this is in question. For a start, consumers say they prefer incentives other than price. Price cuts also appear to have little lasting effect on sales volumes. In an unpublished study, a team at Purdue University led by Doug Bowman spent eight years scrutinising how almost 1,600 households in America bought a typical household product such as detergent. The study found that consumers exposed to repeated price cuts learn to ignore the "usual" price. Instead they wait for the next discount and then stockpile the product. They also tend to become discount junkies, stimulated into buying only by ever steeper discounts. As Mr Bowman explains, price-promotions not only cut margins, but also leave manufacturers to cope with costly fluctuations in stocks. Although sales were higher during a price cut, when it was withdrawn they soon fell back to earlier levels. It seems that brands are built in other ways: price cuts are simply a gift to loyal customers. Little wonder that only a third of all promotions pay for themselves.

Another trick is to dazzle the jaded consumer with variety. At one time, Procter & Gamble was selling 35 variations of Crest toothpaste and different nappies (diapers) for girls and boys. The average supermarket in America devotes 20ft of shelving to medicine for coughs and colds. Most of this choice is trumpery. New-York-based Market Intelligence Service found that only 7% of the 25,500 new packaged products launched in America in 1996 really offered new or added benefits.

In fact, more choice does not translate into more sales. Ravi Dhar, of Yale University, examined how students decided what to buy, based on the number of versions of each product-category on offer. As the choice increased, so did the likelihood that students would not buy anything at all. John Gourville at Harvard Business School believes that some types of choice are more troublesome than others. His research suggests that consumers like to be offered choices in a single dimension: different sizes of cereal packet, say. If they are asked to make many trade-offs, such as whether to buy a computer with a modem or speakers, consumers start to feel anxious or even irritated.

This being the complex world of consumer products, solutions for marketing misery are miraculously to hand. One is to change the incentives for brand managers.

The traditional custom in marketing departments of moving managers off a brand within two years has rewarded those who boost sales, even if their favoured marketing strategy achieves no lasting good. Some firms, such as Coca-Cola and AT&T, now employ brand equity managers to oversee the long-term health of their brands.

There are also new ways of using detailed information to target promotions. Buzzwords abound—relationship marketing, key-account management, and in the world of packaged goods, efficient consumer response (ECR), which has become a marketing mantra in America in the past few years. There are two novelties about ECR. One is the sheer detail of the information that can be gathered about consumers, made possible by the declining cost of computer power. The other is that this detail is not guarded by retailers, but shared across all stages in the supply chain. Ultimately such a system helps suppliers to devise precise promotions and provides the feedback needed to refine them.

Supermarket chains in Europe see the benefits in ECR. Tesco in the UK is piloting a software system allowing selected suppliers to monitor sales of any of their products at any time in any store. Thus they can quickly see how a promotion is doing and whether the intended customers are buying it. Joe Galloway, the firm's head of supply-chain systems, reckons that such information can save 30% in promotion costs alone.

Such systems are still in their infancy. First, they will work only if suppliers and retailers give up the habit of a lifetime and start to see each other as allies. The second risk is that attempts to reach the consumer will begin to seem intrusive.

References

The Economist (1998) Some of the most familiar ways to market consumer goods are proving to be costly failures.

Answer ALL questions in Section A

1. On the basis of the case study, discuss the merits and challenges faced by a company when it employs a policy of discounts and price allowances. (16 marks)

2. With reference to the companies in the case study, what are the factors to be considered when deciding on the extent of variety within a brand? (10 marks)

3. What are some of the solutions proposed to remove the problems faced in marketing of ineffective product promotions? (12 marks)

4. What are the main points a brand manager should consider when evaluating advertising effectiveness and the return on investment of communications campaigns. (12 marks)

Section B

Answer ANY TWO (2) questions. All questions carry equal marks (25 marks each).

5. a. How are products (goods and services) classified? Discuss using examples of your choice. (15 marks)

   b. What are the criteria this car maker needs to adopt in selecting an appropriate channel? Discuss with examples. (10 marks)

6. By relating to the marketing process, explain how a company can create value for customers and, in return, capture value from customers. (25 marks)

7. What are the elements of the communication process from the point when a marketing message is sent out to the point when it is experienced by the consumer? Discuss with examples. (25 marks)