**Unit 4 Test – Marketing**

1. FOO Skateboards Ltd

FOO Skateboards Ltd makes skateboards for the amateur enthusiast that are sold under the FOO brand name. Up to the present time they have sold through Skate-Sport wholesalers into the German retail market. Their reputation for high quality at a low price means that their sales have been rising steadily over the six years since they were established. Recent excellent reviews in a prominent skateboard magazine have prompted them to reconsider their marketing strategy with a view to expanding sales in the home market and perhaps extending sales into the growing international market.

Alternatively, they could extend their product range into specialist areas such as Swing boarding,

freestyle or pipe, and so increase their market share of the Skate-Sport market. It has been suggested that market research should be done to help FOO find out particular product features that could be improved prior to this expansion effort.

The Skate-Sport market is an extremely competitive one. Because of this, product orientation has been advised against when developing new products. The market leader OLE is well established, has a significantly dominant market share and has the advantage of considerable economies of scale. On the other hand, FOO outsource their boards to a manufacturer in Taiwan and so they have limited German indirect costs and are also able to benefit from a strong euro currency. They hence use a competitive pricing strategy, which slightly undercuts the prices of most of the major competitors. Despite the volatility of the German economy at the moment, FOO benefit from the fact target customers are fairly income inelastic.

Questions

a. Define ‘Market Share’ **[2 marks]**

b. Define ‘Market Research’ **[2 marks]**

c. Define ‘Product Orientation’ **[2 Marks]**

d. Define ‘Income Inelastic’ **(HL) [2 Marks]**

e. Explain two types of primary research that FOO could use to help them to identify the perceived strengths and weaknesses of their product **[4 marks]**

f. Explain two problems that FOO could face if they continue to use their competition pricing strategy **[4 marks]**

g. Draw and fully label the Boston Matrix and explain where OLE and FOO’s skateboards would be placed on the matrix **[6 Marks]**

h. Discuss the importance of branding for the marketing of FOO skateboards **(HL)[8 marks]**

**Total Marks = 30 Marks (HL) / 20 Marks (SL)**

**HL Extension**

2. Budget Airlines

Many loss making national airlines (such as British Airways and Air New Zealand), that

recently concentrated on business-class travellers, have started to compete directly with

low cost airlines. They plan to significantly reduce fares, remove restrictions on bookings and set up new websites dedicated to attracting cost-conscious travellers back to national airlines. The quality of the service on-board will not be affected.

While the national airlines are shrinking, cutting costs and capacities, the low cost airlines are racing ahead. Industry analysts expect the low cost airlines share of the market to rise from 7 % to 30 % in the next five years. As a result low cost airlines have seen their share prices more than double, whereas the shares of national carriers have fallen in value. They believe that weak airlines will eventually disappear and leave space for others to expand. The smaller of the national airlines will have to give up their ambition to be global players. Squeezed by the low cost airlines and their larger national rivals, they will either go out of business, get swallowed up by rivals, or shrink to become niche players.

Questions

a) Draw and fully label the Product Life Cycle and explain what stage the national airlines such as British Airways are at on the life cycle in the face of low cost airline competition **[4 Marks]**

b) Evaluate possible pricing strategies airlines (both national and budget) could adopt to increase their revenues **[7 Marks]**

**Total Marks = 11 Marks**

**Markscheme**

(all definitions must show full, detailed knowledge for 2 marks)

**a** Describe what is meant by market share. **(2)**

Market share = Sales value of products sold by a particular business × 100%

Sales value of the whole market for the product

b. Definition needs to include the ways of carrying out market research through primary/secondary to show full understanding. This is the process of doing primary or secondary research to find out market data or opinions. Primary research is up to date and focused on exactly what businesses need to know. It includes surveys, discussion groups, tele-research and e-based research. Secondary research is based on existing data from diverse sources, e.g. government reports, magazines, newspapers, trade journals.

c. Product Orientation - a belief by a company in the product itself and that its excellence will gain it customers, rather than relying on customer demands/wants dictating what the company produces

d. Income inelastic – the change in quantity demanded is of less proportional change compared to the proportion of the change in income of consumers.

e. Explain **two** methods of primary research that FOO could use to help them to identify the perceived strengths and weaknesses of their product. **(4)**

* surveys
* board trials/focus groups/observations
* telephone surveys
* online survey on skateboard sites
* email surveys via skateboard clubs

any other viable suggestion. Two marks to show how these would apply to FOO and their situation, i.e. competitive market, help them expand internationally, help them decided whether to bring out new board products such as swingboards. Two marks for explaining what each method of primary research is.

f. Explain **two** problems that FOO could face if they continue to use competition pricing.  **(4)**

* erosion of profit margin if competition forces prices down – competitive market so this ah very well happen
* erosion of profit margin if foreign exchange rates inflate the cost of imported boards – volatile economy so this may well happen
* market recognition of FOO boards as cheap and therefore of low quality – even if quality is comparable to or better than competitors, if lower quality is perceived then competitive advantage may be lost
* any other relevant point
* 2 Marks for logical suggestions of problems, 2 marks for applying this possible problem to the situation/market FOO are in in case study.

g. ‘Growing international market’ so FOO would be a question mark, with growing market share but not high market share as no indication of this. Will also accept ‘rising star’ as sales have been increasing. OLE will be a star as it is the market leader so we can deduce that it has high market share and the market is growing internationally so they are still in a high growth market. 2 marks for correct drawing of matrix, 2 marks each for correct explanation of where FOO and OLE are on matrix

h. Discuss how branding may be important for the marketing of FOO’s skateboards. **(8)**

Define branding: use of a name, logo or design, or a combination of these, to distinguish a company’s products from competitive products. FOO are using corporate branding, i.e. use of the company name to help distinguish the products. This means that the name can easily be extended to encompass specialist versions of the base product or even later expansion of the product range.

Ideas that may be discussed include:

* Used as a legal instrument to protect patents/trademarks from infringement from competition especially in a competitive market
* brand recognition may help extend market share particularly if they are going abroad it will make the transition internationally easier as the brand will be well known
* increased brand reputation may enable FOO to charge premium prices – may be difficult in current circumstances with current competition but in international part of the market this may be possible
* price may become more inelastic (sales become less sensitive to price changes) – brand loyalty will reduce the risk of demand sensitivity if price increases or if new products come out will enable them to enhance sales because of loyalty despite whatever price is set
* may inspire brand loyalty when boards are replaced – will help gain repeat purchases if consumers feel they are getting good value from the brand
* any other logical/theoretical point applied to FOO

Conclusion should look at most important role of branding for this particular company

7 – 8 Marks must have theoretical branding importances and each well applied to FOO’s situation with correct terminology showing full understanding of importance of branding. Conclusion must be based on importances given in body of argument and must look at most important reason

Question 2

a) PLC correct drawing for 2 marks, and 2 marks for full explanation of why they are in decline/extension strategy phase – must show indication that sales are falling from information in the case ‘national airlines are loss making’

2b) Possible pricing strategies may include

* cost-based strategies –cost-plus pricing
* consumer-oriented pricing: price discrimination, penetration pricing
* competitor-oriented pricing – competitive pricing/going rate, destroyer pricing

Positive/negative of each pricing strategy suggested for either budget or national and conclusion of which pricing strategy best for budget/national airlines based on arguments. All strategies suggested must be logically applied given the case study scenario. I.e. Penetration pricing will not make sense for budget airlines as they are already established in the market, or loss leader pricing will not really make sense for national airlines as they are already making losses as says in the case.

Main Issues coming out of the Exam:

Not defining the key terms in the question enough at the start of the answers

Not fully labeling the axis of Boston Matrix or Product Life Cycle

Not reading questions properly – if the question has the business name in it then you must apply to the situation

Not using the age old method of picking out points from the case to use as application – how competitive is the market? Who are the stakeholders involved? How successful is the business currently? Need to be constantly using these points to help you develop your answers in context of the case

Not fully explaining points. Can’t assume the examiner knows what a survey is. You must explain what they are.