

Q1

Marketing and promotion techniques are used to encourage clients to purchase goods and services.

- a) Marketing information can be communicated by a variety of media
Discuss various communication media and evaluate how they could be employed.
(6 marks)
- b) Advertising is often used as a promotional tool.
Explain the reasons a company may choose to fund an advertising campaign
(5 marks)
- c) A company are producing a new vehicle instrument pack and data logger for the club racer and performance road car market. The company intend to advertise the data logger in a national magazine. Using the AIDA model discuss the strategy and content of the advertisement.
(9 marks)

Q2

For an organisation to be successful the purchasing process must function efficiently.

- a) Explain why a company could benefit from having a purchasing strategy and what factors should be included when developing that strategy.
(6 marks)
- b) Explain the concept of life cycle costing.
(2 marks)
- c) A small motorcycle race team is considering purchasing a new panel van and three bike trailer before the beginning of the race season. The van and trailer are expected to be used for 4 years before being replaced. Evaluate the factors that should be considered to generate a life cycle cost for the purchase. Use examples and numbers to illustrate your points.
(12 marks)

Q3

Modec have recently launched an electric powered van. The van of medium size, primarily urban, delivery van. The van currently retails at £56,000 +VAT. Whilst sales are currently strong, especially to supermarket and local government fleet operators the management at Modec wish to analyse their current and potential future market position.

- a) Describe the Porters Five Forces – Analysis of competitive position.
(4 marks)
- b) Apply the model to the Modec delivery van.
(8 marks)
- c) Select four issues effecting the competitive position and suggest and describe possible changes that could improve the competitive position of the Modec delivery van.
(8 marks)

Q4

The price set for a product or service is often related to supply of, and demand for, that product.

- a) Explain the relationship between supply and demand and pricing.

(2 marks)

- b) Analyse the relationship between price and demand for.

- i) A brand of chocolate covered wafer snack bars
- ii) Vehicle fuel

(4 marks)

- c) A company have developed an innovative crash helmet for road and track use. The helmet is about to be released to the market and the company need to set a price for the product. Naturally the company wish to set a high price. What factors should the company consider in deciding on the price to the potential consumer for the helmet?

- i) What factors should the company consider in deciding on the price to the potential consumer for the helmet? **(8 marks)**

- ii) What pricing strategies could the company consider when entering this mature and competitive market? **(6Marks)**

Model Answers

Q1 Marketing and promotion

a) The student should identify and discuss alternative methods of marketing and promotion communication including :

- ☐ Advertising
Print, TV, Posters, eMarketing
- ☐ Direct marketing
Surveys, cold calling, mail shots, email
- ☐ Sponsorship
Teams, events, people, (sport, arts, charity)
- ☐ Word of mouth
Gossip, rumour, 'cult status'
- ☐ Merchandising
Freebies (badges, hats etc), discounted trial products/complimentary products
- ☐ Public relations
Press releases, papers, conference attendance
- ☐ Product placement
Celebrity endorsement, in films, on TV

b) The student should explain why a company would employ the following techniques :

- ☐ Inform potential customers of a new offering
- ☐ Announce a modification or an enhancement of the product
- ☐ Announce a price change
- ☐ Announce a special offer
- ☐ Maintain sales/remind customers
- ☐ Retrieve lost sales
- ☐ Increase frequency of purchase
- ☐ Increase the use of a product
- ☐ Increase quantity purchased
- ☐ Attract a new generation of customer

c) The student should describe the overall strategy of an advertising campaign. Ideally the AIDA model would be used.

A – Attention

I – Interest

D – Desire

A – Action

Attention

- ☐ The advertisement needs to stand out from the rest of the crowd
- ☐ Needs to 'breakthrough the clutter' and this may be achieved through words, position of the advertisement, type of illustration and typography

Interest

This needs to achieve five key points. These are:

- ☐ Originality – to differentiate from other ads/competitors
- ☐ Focal point – major points of interest, provides clarity
- ☐ Comprehensibility – easy to understand what the Co is selling
- ☐ Logical sequence of events – buyers are carried through the advert, appreciate what is on offer
- ☐ Unity – union between all the elements, text, logos, tunes, illustrations/pictures

Desire

This is the translating of a liking for a particular product or the desire to want to watch a band or film, into the wish to own it or watch the band in concert. The flow of reading should not be interrupted, thus it is important to consider the wording and presentation of the text or copy. The adverts should satisfy four criteria:

- ☐ Attractive copy: - text needs to be legible through the use of appropriate typeface, type sizes and layout
- ☐ Interesting copy: - a large body of text can be uninteresting to read and potential clients may 'switch off'. The use of italics, bold, indents and colour can break up the text. Again, making it eye catching helps to retain interest
- ☐ Writing style: - make words and phrases more interesting, or more powerful. It should not be difficult to read.
- ☐ Using slogans: - the right slogan can make both the advertisement and product memorable. There are various slogans that can be successful. Slogans (simple, memorable, support the selling point, be characteristic with the product/service)

Action

The advertiser needs to create some form of response mechanism. This may take the form of:

- ☐ A direct purchase
- ☐ Request for further information by e-mail or post, reply slip.
- ☐ Request for a visit
- ☐ Request for a quotation
- ☐ A direct telephone conversation

The student should suggest, strategies to direct the reader to the company website,

Q2 Purchasing

- a) The student should define 'purchasing'.

Example 1

Obtaining from external services all goods and services, which are necessary for running, maintaining and managing the company's primary and support activities.

The student should identify and discuss the beneficial elements of a purchase strategy, including:

Example 2

- ☐ To obtain material or services
 - Of the right quality
 - From the right source
 - At the right price
 - Delivered to the right place

The student should discuss the advantages of having a purchasing strategy.

- ☐ The purchasing function must support the corporate strategy
- ☐ Providing added value, which is the process of improving business performance.
- ☐ Cost efficient purchase system
- ☐ Purchasing staff should contribute to corporate strategy by provision of intelligence on the basis which a decision can be made through competitive advantage.

The student should discuss the factors that a strategy should include:

- ☐ Review of purchasing procedures (esp financial and compliance with accounting procedures)
- ☐ Standardisation (ensure consistent procedures, contracts etc)
- ☐ Reduction in the number of suppliers (to minimise costs and develop relationships)
- ☐ Strategy for different products/services (analyse the importance to the company of the purchased item)
- ☐ Supplier development programmes
 - Supplier development and audits for
 - commercial approach
 - quality
 - Processes (technical and commercial)

R&D provision etc
 Combined IT systems (CAE. etc)
 Code of ethics, alignment with purchasing company mission statement i.e. ISO14001.

b) The student should define/discuss life cycle costing

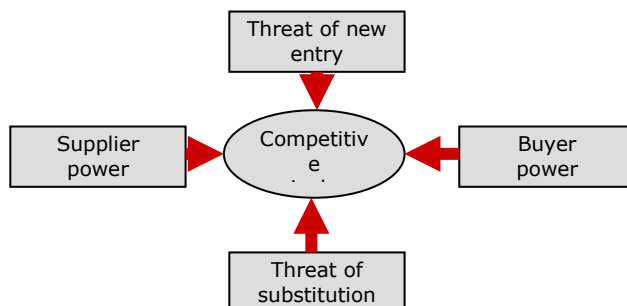
- ☐ The practice of obtaining over their lifetime the best use of the physical assets at the lowest cost to the organisation. This is achieved through a combination of management, financial, engineering and other disciplines.
- ☐ Discuss the advantages
 - Accurate comparison of competing options (broad options buy v lease days)
 - Good awareness of total costs (ref last week, total cost of project)
 - Accurate forecasting of cost patterns (cash flow esp, running costs)
 - Allows assessment of performance trade off against cost
- ☐ Outline the main disadvantage of not really knowing what will happen in the future.

The students should analyse important factors, which could include:

- ☐ LCC gives two main costs
- ☐ Acquisition costs
 - Initial cost
 - Transports costs (i.e. ex works)
 - Installation / commissioning costs
 - Spares package
 - Training costs
 - The time cost of money
- ☐ Running costs
 - Operation, speed of travel, licence limitations.
 - Energy costs (fuel consumption)
 - Material/consumable cost (Tyres etc)
 - Insurance
 - Servicing
 - Taxation, road tax, congestion charging.
 - Maintenance,
 - Disposal – residual value (depreciation factors) or costs of scrapping.

Q3 Porters Five Forces

a) The student should describe the generic five forces model



b) The student should apply the model to the electric delivery van, listing such issues as :

Supplier Power:

Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the

supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are. Esp Batteries, bespoke electronics, body panels, glass etc

Buyer Power:

Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, they are often able to dictate terms to you. Esp fleet purchase power, desire of purchasers for green technologies, effect of legislation to purchase decision.

Competitive Rivalry

What is important here is the number and capability of your competitors – if you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation. If suppliers and buyers don't get a good deal from you, they'll go elsewhere. On the other hand, if no-one else can do what you do, then you can often have tremendous strength. Esp are there any competitors ? Stephens?

Threat of Substitution

This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power. Esp Alternative green vehicles, hybrids, small petrol/ethanol/bio diesel delivery vans.

Threat of New Entry

Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favourable position and take fair advantage of it. Esp electric versions of current carbon fuel products from eg PSA, GM etc could choose to undercut price, reduced cost due to large volume tooling, dealer networks etc.

- c) The student should recommend some strategies to improve the competitive position by either enhancing the product or limiting potential threats.

Examples include

Supplier power

Multi-source lead acid batteries, pursue other battery technology

Multi source glass and panels, or own the bespoke tooling

Buyer power

Set up fleet sales and support structure

Lobby authorities to maintain or extend tax and congestion charging benefits.

Competitive rivalry

Review journals and published info on potential competitors

Secure any IP generated

Threat of substitution

Lobby authorities to maintain or extend tax and congestion charging benefits.

Enhance any unique selling points

Reduce initial purchase price by offering battery rental deal.

Threat of new entry

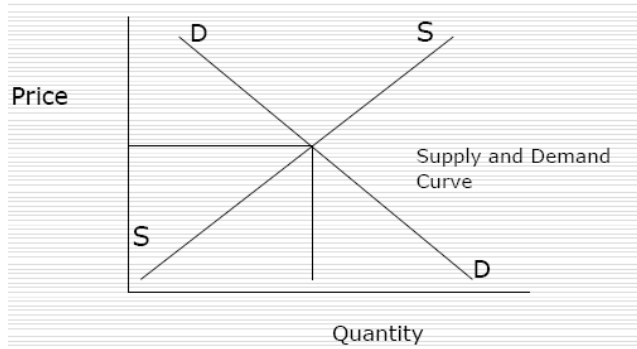
Be scared, attempt to link up with a large vehicle manufacturer to offer dealer network.

Establish service contracts with fleet buyers.

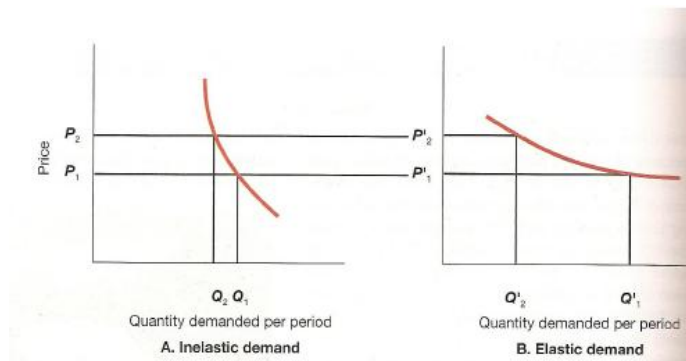
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(2 marks)



- iii) The student should analyse the relationship between price and demand for the chocolate and fuel by comparing the different elasticity.
Consumption of fuel generally independent of price
If kit kats are dear consumers would select another snack or brand. (4 marks)



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(8 marks)

The student should suggest two approaches.

Understanding the consumer

Understanding the costs of production and sale.

Costs cannot be ignored, but pricing must be consumer or customer orientated, hence

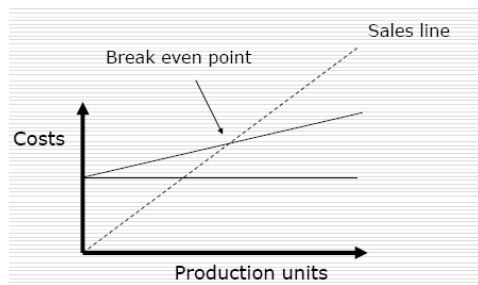
1. Identify the potential consumer or market, market survey, potential alternative products.
2. Demand estimation, potential volumes, competitive environment
3. Anticipating competition prices and reactions, discounting.
4. Market share analysis, what is acceptable

Cost analysis

The student should explain that to ensure profitability, prices must ultimately exceed costs

All costs must be considered, production, marketing etc

The student could sketch a cost volume diagram



- Pricing strategy should begin with the consumer and work 'backwards' to the company

What pricing strategies could the company consider when entering this mature and competitive market?

(6Marks)

For pricing strategies the student could suggest and explain the relevance of

Cost plus pricing

Market skimming if the product is sufficiently innovative or novel

Penetration pricing to establish some market share