

UNDERSTANDING MARKETING



Multiple choice

Select the alternative A, B, C or D that best answers the question. Write your answer in the box provided. Remember to use a pencil so you can try again later!

- 1. C** – Uranium is a raw commodity that producers transform into finished or intermediate goods. As it is a raw input into the production process it is sold in resource markets.
- 2. A** – Relationship marketing focuses on encouraging repeat business by managing customer relationship, long after the initial purchase. Relationship marketing differs from the other three answers in that it is not only concerned with maximizing customer satisfaction with a single purchase but also aims to convince customers to make further purchases in the future.
- 3. B** – At the maturity stage of the product life cycle a product will be achieving high sales as a result of high consumer awareness and a well-established distribution network. As there is little scope for increasing sales or distribution in the future, the market is said to be saturated. Hence, (B) is the correct answer.
- 4. B** – During the introduction and growth stages of the product life cycle, demand is rising as product awareness increases. During the maturity stage, the product's market becomes saturated and demand is at its highest. When demand for the product begins to fall, it enters the decline phase. Hence, (B) is the correct answer.
- 5. B** – The teen, elderly and youth markets are all examples of small groups of consumers in society with specific characteristics. This is the definition of a niche market.
- 6. D** – Demographic market segmentation involves dividing customers on the basis of personal characteristics such as age, sex or nationality.
- 7. D** – Gothic clothing appeals to only a small group of people in society and is unlikely to be desired by a wider cross-section of people. Hence, stores selling gothic clothing will be operating in a niche market.
- 8. A** – A business that adopts a production orientation will attempt to maximize its output, regardless of customer demand. It is still common in some developing countries where output is never sufficient to satisfy customer demand.
- 9. B** – Businesses that adopt relationships marketing aim to increase the likelihood of repeat purchases. One of the most effective ways to do this is to produce products that satisfy consumer wants even if that means customizing products to meet a particular consumer need.
- 10. C** – A new product will be at the introductory stage of the product life cycle. During this stage a business should focus on increasing consumer awareness of the product in order to increase sales in the future. Answer (B) is incorrect as it is a sales objective, not a marketing objective. Marketing is about more than sales, and marketing objectives should reflect this. Hence, (C) is the correct answer.

11. A – A target market is the specific market the product is aimed at. In some situations a product may not appeal to its target market and may be bought by other customers. Nevertheless, (A) is the best answer.

12. A – Primary data collection is research done to fulfill a specific information need. It often takes place in the form of surveys designed to uncover consumers' opinions and desires about particular products.

13. C – The goal of market research is to fulfill a particular information need, not to collect as much information as possible. Market research is a very expensive process and it is important for businesses not to subject themselves to unnecessary costs by collecting irrelevant data. Hence, (C) is the correct answer.

14. D – Psychological factors affecting consumption decisions include innate personal attitudes. They reflect the different opinions and preferences of individuals without regards to economic, government or sociocultural factors.

15. B – It is important for businesses to select appropriate target markets. Households, religious organisations and firms would not be appropriate target markets for a bridge construction company as the government commissions and pays for the majority of public infrastructure projects in Australia. Hence, (B) is the correct answer.

16. A – SWOT analysis seeks to determine the strengths, weaknesses, opportunities and threats to a business at a particular point in time. Factors such as past financial performance, return on capital or management style might be incorporated within SWOT analysis but they do not represent its primary purpose.

17. C – Niche markets represent small groups of people desiring products that do not have mainstream appeal. Businesses operating in a niche market will often differentiate their products from those of their mainstream competitors.

18. C – If a business is profitable there is no reason for it to leave the industry. Instead, the business should determine why consumers preferred competitors' products and tailor its marketing strategies to increase sales in the future.

19. A – Price skimming involves setting a product's price at a relatively high level and then reducing it over time. It serves to create a status or prestige for a product based on its exclusiveness. Hence, it is best suited to the introductory stage of the product life cycle when sales are low and the business is trying to create a positive consumer perception of its product.

20. C – As Victor's Burger Barn increased sales without changing its products at all, we can conclude that price is an important factor in determining consumers' purchasing decisions. Clearly, consumers are influenced by economic factors and, hence, (C) is the correct answer.

Short answer questions

Write your answer in the space provided.

Question 1 (6 marks)

Marks

Katrina recently opened a bowling alley. Her friends tell her that this form of entertainment is most enjoyed by teenagers and retirees. She is unsure as to what her target market is and feels some investigation is required.

- (a) Describe TWO factors that Katrina may consider when selecting her target market. **2**

Katrina could consider the existing recreational activities of various groups in society. Those groups who are already keen bowlers, such as young people and retirees would form a likely target market. Katrina may also consider other factors relating to her location. She may be able to devote certain marketing strategies such as discounts to groups in her locality such as schools or local shopping malls.

- (b) Identify TWO ways market research data could assist Katrina, and for each, explain how Katrina could obtain relevant data. **4**

Market research could help Katrina to determine the demographic features of the suburbs surrounding her bowling alley, such as the age and income levels of the local population. This kind of information could be found in secondary sources such as government publications, newspaper articles or information published by the Australian Bureau of Statistics.

Market research can also help Katrina to identify which groups of people are most interested in visiting her bowling alley. This kind of information would best be determined by primary research such as telephone surveys or through direct observation of customers. Alternatively, a local market research data may have previously obtained such information on which she could purchase.

Question 2 (10 marks)

Marks

Dasworth Ltd is a small Australian manufacturer of backpacks. It has a large number of competitors offering a range of similar products. Most of the business's backpacks are small, sturdy packs that work well in all types of weather and are affordably priced.

- (a) Identify TWO possible factors influencing customers when they buy Dasworth backpacks. **2**

Price and Quality

- (b) Identify TWO possible target markets for Dasworth. 2
- **Hiking enthusiasts**
 - **School students**
- (c) Explain how Dasworth can benefit from relationship marketing. 2
- By instituting relationship marketing strategies, Dasworth Ltd can enhance customer loyalty towards its products. This will increase the likelihood that existing customers will buy Dasworth's products in the future. Studies have shown that it costs a business far more to attract new customers than to maintain existing ones. For Dasworth, maintaining a relationship with a school, for example, to ensure repeat business, will most likely be a cheaper exercise than trying to convince a school to use Dansworth backpacks – creating a higher return for the business.**
- (d) Discuss the benefits to Dasworth of operating in each of the following types of consumer markets: 4
- (i) **Niche market: Because niche markets are relatively small, Dasworth is likely to face fewer competitors if it chooses to operate in these markets. Moreover, because of the relatively specialised nature of the market, Dasworth will be able to charge higher prices for its products, increasing its profit margins and generating strong brand desirability.**
- (ii) **Mass market; Operating in a mass market means that Dasworth will have the potential generate a large number of sales. Not only will this increase Dasworth's market share, but it can also increase profitability as higher production runs often lead to lower per-unit costs owing to economies of scale.**

Question 3 (10 marks)**Marks**

The makers of 'White'n'Bright' toothpaste have provided the information below.

Brand	Market Share 1992	Market Share 1997	Market Share 2002
White 'n' Bright	15%	15%	16%
Cleanfresh	55%	35%	20%
Minty Mate	5%	35%	60%
Orthochoice	25%	20%	4%

SWOT Analysis of White'n'bright toothpaste.

Strengths:	High customer satisfaction, significant price advantage.
Weaknesses	Poor brand recognition, poor customer relationships.
Opportunities:	Two other competitors have lost significant market share recently.
Threats:	White'n'bright market share has barely changed over last decade.

- (a) Identify which stage of the product life cycle 'Cleanfresh' toothpaste is in. 1

Cleanfresh toothpaste is in the decline phase of the product life cycle.

- (b) Outline the difference between primary and secondary data collection, and how each type of data could be used to generate the market share table above. 4

Primary data collection is original data, collected by the business itself or a third party, where the collected data is designed to answer a specific information need. The SWOT analysis could have been generated by primary data collection involving a survey of customers to determine the market share of each brand. Secondary data is data that has been collected previously by the business or a third party. This data is unlikely to have been designed to solve the specific information need of the business, but is still valuable as it is often available for a fraction of the cost of primary data. For example, a market research company could have conducted research on consumer purchases of a range of hygiene products, and the table above could form one fraction of their findings.

- (c) Outline ONE way in which the makers of White'n'bright could use this information to formulate and monitor their marketing strategies. 2

This information could help White'n'Bright to determine what type of products and marketing strategies are currently popular with consumers. White'n'Bright could then tailor its own marketing strategies to more closely resemble those of its competitors. At the same time, White'n'Bright must ensure that they retain a distinct image in order to improve consumer awareness of their brand.

- (d) Propose and justify ONE appropriate marketing objective that White'n'bright could aim for in the next five years. 3

White'n'Bright should aim to improve its customer relationships over the next five years. The business may have a stable market share, but may only be achieving this by replacing lost customers with new ones. Improved customer relationships will ensure that White'n'Bright retains existing customers over the next few years and does not lose market share. The significant loss of market share suffered by Cleanfresh and Orthochoice over the last few years indicates the importance of retaining existing customers. Improved customer relationships may also help to increase consumer recognition of the White'n'Bright brand.

Question 4 (10 marks)

Marks

Two Sydney based publishing companies have recently adopted very different strategies to increase their share of the lucrative dictionary market:

- Timco Ltd, publishers of the Balmain Modern English Dictionary, hired 20 new employees to work as door-to-door booksellers.
- John Ltd, publishers of the Newtown Word Book, conducted extensive market research to determine which features their customers wanted from a dictionary.

- (a) Identify TWO groups of consumers who would be interested in buying dictionaries. 1

Schools and libraries.

- (b) Identify and outline the marketing orientations of Timco Ltd and John Ltd. 2

Timco Ltd has clearly adopted a sales orientation, meaning that its marketing is aimed at convincing consumers to buy Timco's products instead of competitors'. John Ltd has adopted a marketing orientation, aiming to produce a dictionary that conforms to consumers' needs and desires.

- (c) Discuss ONE drawback of Timco Ltd's marketing orientation. 2

By not consulting potential customers, Timco Ltd is at risk of producing dictionaries that do not satisfy consumer needs. Timco Ltd is then faced with the task of trying to sell products that are not particularly desired by consumers. Not only will this make it difficult to sell existing products but also, because the Timco brand name may become damaged, it may also reduce future sales.

- (d) Assess TWO benefits to society and TWO benefits to business when businesses adopt a marketing orientation similar to that used by John Ltd. 5

Society will benefit from the production and sale of goods and services that correspond to consumer needs and desires. Society will also benefit because resources are being put to their most efficient use and are not being used to produce goods and services that are not in demand. This will reduce excess production costs and could lead to lower prices. For businesses, the uncertainty of lost production costs on goods that do not sell is removed. Additionally, as the company is producing according to demand, its marketing costs will be reduced as it will be concentrating on creating market awareness more than just creating demand.