Activity 17.1 – answer provided on Student’s CD-ROM.

Activity 17.2 (page 317): Ad spending in the USA to rise by 4.8% in 2008 – but could fall in 2009

1 Why do you think internet advertising is now more important in the USA than radio advertising? [4]

A number of reasons may be suggested including:
• the global reach of the internet – potentially a small firm in the USA can advertise its products to a global audience
• younger generations spending more time on the internet
• improved internet access, allowing more sophisticated messages to be conveyed on the internet, making use of sound and image
• increased shopping through the internet – consumers attracted by a display advertisement can click and spend.

2 Explain why the Olympic Games led to a boost in advertising spending by companies, especially on TV. [4]

A number of reasons may be suggested, including:
• The Olympic Games are a global sporting event which is largely consumed through television media. Television audiences are large.
• Firms compete to be associated with the Olympic Games and to be official sponsors.

3 Is it a good idea for a business to cut costs during a recession by reducing advertising expenditure? Give reasons for your answer. [10]

Definition of a recession: two successive quarters in which the value of the output of the economy, gross domestic product (GDP), falls.

Answers will need to balance the issue of cutting costs in order to survive against the impact of reduced advertising on sales (advertising elasticity of demand will be important). Firms will also have to consider cash flow – often a key cause of bankruptcy during a recession.

Answers may also contrast the short-term impact of cutting costs against the long-term impact on sales.
Firms should cut advertising expenditure

- Firms need to control costs in a recession in order to remain price competitive.
- Advertising is a luxury that can only be afforded when sales and profits are high.
- Evidence suggests that advertising expenditure falls in recessions.
- Advertising represents a financial drain on business; to reduce cash outflows and protect liquidity, expenditure should be reduced.
- Firms may benefit from better targeting of advertising expenditure. For example, switching from high-cost broadcast network TV to cable TV, which is cheaper and easier to target relevant market segments.

Firms should maintain advertising expenditure

- In a recession, there is downward pressure on prices. Advertising can help retain brand loyalty and thus avoid price discounting.
- Advertising is essential to attract customers. Competition in many markets is fierce and it is essential to communicate effectively with potential customers through advertising.
- As advertising expenditure generally falls in a recession, it may be beneficial to be the firm that is prepared to continue advertising. This will provide a competitive advantage.
- Advertising media are cheaper in times of recession and, therefore, it is a more efficient time to communicate your message.
- Cutting advertising expenditure on brands in a recession may cost more in the long term. When the economy turns, a firm may have to spend more in order to regain its position in the market.

Activity 17.3 (page 320): Does sales promotion work?

1. Explain why it is important for shop managers to compare the cost and effectiveness of sales promotions. [8]

Reasons include:
- There are limited budgets. Shop managers are faced with a choice between a wide range of sales promotion techniques. It is important that limited budgets are spent in the most effective way possible.
- There is little point spending money on a sales promotion technique if it does not deliver the desired benefits; that is, it is essential that marketing objectives are met by the chosen form of sales promotion.
- Different techniques offer different potential benefits. For example, in-store displays were felt by shoppers to encourage consumers to try a product for the first time, whereas loyalty cards encouraged consumers to purchase from just one store. Therefore, shop managers need to compare cost and effectiveness in achieving their particular goals.
- Sales promotions cost money and the expenditure may need to be justified in terms of the outcomes they achieve. Shops aim to make a profit, therefore budgets need to be justified.
Assume you are a supermarket manager. You have been asked by head office to promote one very profitable brand of breakfast cereal. Which sales promotions would you use for this product? Explain and justify your answer. [12]

A wide range of sales promotions may be discussed. Answers should try to evaluate options in terms of cost to the supermarket against the achievement of the objective set.

The table below considers a number of potentially relevant techniques.

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| Price promotions: The supermarket offers a temporary reduction in the price of the cereal. | • The price discount will encourage existing consumers to buy more of the cereal and new customers to purchase, as it now appears more competitively priced. New customers may continue to purchase the product in the long term, even after the discount is removed.  
  • Existing consumers will bring forward their purchase of the product. After the discount, sales may be lower as customers have stocked up on the product.  
  • A price discount will reduce the gross profit margin on each box of cereals sold.                                                                                      |
| Money-off coupons: The supermarket offers coupons in newspaper adverts. The coupons can be used as part payment for the cereal. | • Existing consumers may buy what they would have done anyway, but benefit from the lower price. The supermarket, therefore, loses some profit.  
  • There may be a low take-up of the coupon offer, as it depends on consumers seeing the advert and feeling motivated to retain the coupon.  
  • If a newspaper advert is used, then there is the cost of the advert to take into consideration.                                                                        |
| BOGOF – ‘Buy one, get one free’: This encourages multiple purchases. | • The major disadvantage of a BOGOF offer is the impact on gross profit margins. It will cause a substantial reduction in gross profit.  
  • Current sales are likely to increase substantially and revenue in the short term will be higher. However, future sales are likely to be lower as consumers have stockpiled the cereal. As cereals have a relatively long shelf life, there is little danger of the cereal passing its best-before date, thus consumers are unlikely to over-purchase the product.  
  • As the cereals are highly profitable, BOGOF may be justified as a strategy, as profit can still be made. The offer may draw customers into the supermarket and lead to an increase in spending on other products. |
| Point-of-sale displays: The cereal may be relocated, e.g. at the end of aisles, and use made of attractive displays. | • There will be cost of developing the displays, but no reduction in the gross profit margin.  
  • Displays will attract consumers to try the product for the first time.  
  • May be more effective at generating long-term sales growth of the brand, assuming that the survey of Hong Kong shoppers is accurate. The lower cost of this approach is also an advantage. |
Activity 17.4 (page 322): Can Gap win back lost customers?

1. Explain why Gap's managers should be worried about the sales trends shown in the table and the loss of market leadership to Zara. [8]
   - The decline in sales represents a threat to profits and the long-term survival of the brand.
   - It suggests that customers are dissatisfied with the product and/or that promotional campaigns have been ineffective.
   - Loss of market leadership is of psychological damage to the brand image. Being the market leader gives increased status to Zara.
   - Shareholders may become impatient with the existing senior management team and seek to replace them.
   - There will be an increased threat of takeover, as competitors will view the current management as failing to deliver shareholder value.

2. Recommend a new promotional strategy for Gap in your own country that could reverse this decline in sales. Consider advertising campaigns, displays in shops, special offers and the image that you think the business should try to create for its products in your country. [14]

Possible promotional techniques could include:
   - Sponsorship – this involves associating the Gap brand with an event. The chosen event would need to be one with which the target market identifies. For example, if Gap wishes to reposition itself as a brand for younger people, then it may choose to sponsor a musical awards event.
   - Celebrity endorsement – many products have built sales through securing celebrity endorsement. Gap would need to be careful to recruit a celebrity who matches the core values of their brand. Gap has used Sarah Jessica Parker (famous for her role in the TV drama *Sex In The City*) and Joss Stone (a British singer) to promote its products in the past. For a promotional strategy aimed at revitalising sales in a particular country, it would be necessary to choose a celebrity who has a specific appeal to the country in question. A recent and very successful example of this approach was the drinks endorsement deal between Diageo and the rap artist P Diddy which helped treble the sales of Ciroc (a grape-based vodka) in the second half of 2008. However, celebrity endorsement can be a very expensive form of promotion.
   - Public relations – this is aimed at gaining free publicity provided by the media as opposed to paying for advertising. As part of a relaunch of the Gap brand, journalists would be targeted with details about Gap and its objectives. Celebrity endorsements and sponsorship will frequently result in free publicity.

Evaluation may consider:
The three techniques described above can be combined to provide a consistent message about Gap. However, it is important that marketing identifies a clear target market for the core Gap brand. Market research would be required before undertaking a promotional strategy.

It is also necessary to support the promotional strategy with other elements of the marketing mix. For example, it may be critical that Gap makes distinctive and desirable clothes. The article refers to the fashions being less appealing and the stores being dated. These are fundamental problems that need to be addressed.
The answer to this question should reflect the local circumstances of the country to which it applies.

A promotional strategy should present a coherent promotional mix. A strategy is more than just one technique. It will need to reflect the marketing objectives and available resources of the firm.

### Activity 17.5 (page 323): Olympus targets youth with i-snap

1. **Explain the term ‘point-of-sale displays’.** [2]

   A point-of-sale display is a visual aid to promote the product in the retail outlet. In the case of the Olympus i-snap, it included window displays to attract attention from passing shoppers and in-store displays to focus attention on the camera. Point-of-sale displays not only attract attention, but can be used to convey key information about the product.

2. **Do you think it was a good idea not to use above-the-line promotion in the first few months after the launch of this product? Explain your answer.** [10]

   **Definition of above and below the line:** above-the-line promotion communicates information about a product through the media, such as radio, TV and newspapers. Below-the-line promotion indicates promotional activity other than main media advertising.

   Answers may include some of the following points:

   - Above-the-line promotion can be relatively expensive, although it does provide high coverage of the market. For example, an advertising campaign focused on children's television will incur the high costs of producing an advert, and to have impact it will need to be repeated many times on national networks. A costly advertising campaign could have resulted in Olympus having to charge a higher price for the product.
   - There is concern in some countries that children are susceptible to TV advertising. It might, therefore, be argued that a well-planned campaign using TV is potentially a very effective way of selling a product.
   - Avoiding paid-for communication through the media may have acted as an effective PR exercise, which would draw the attention of the media and generate free publicity for the campaign.
   - The approach taken by Olympus would appear to be a much cheaper promotion strategy. Thus, sales would not need to be as high to cover the costs.
   - The use of point-of-sale displays, window displays, floor stickers and the high-profile packaging represents a consistent promotion mix that matches the camera's colourful design and should appeal to children.
Assume that this camera is launched in your own country. Prepare a fully justified recommendation to Olympus for the promotional mix they should use. [10]

Suitable promotional techniques may include:

Above-the-line promotion:

- Advertising campaign on television – the adverts will need to be placed during children’s programmes. For example, in the UK, children’s programming includes early evening on ITV and at weekends. There are also dedicated children’s channels such as CITV which take adverts. Using TV enables the camera to be shown in action and is more engaging than adverts in a magazine. TV advertising can effectively target different age groups and has good coverage of the population. The camera could be advertised during art programming, as the audience may be more likely to be interested in the product. However, the cost is relatively high and there are controls enforced by the ASA regarding advertising.
- Using magazines – they have a clear idea who their readers are; the adverts can, therefore, be targeted at children or parents.

Below-the-line promotion:

- Direct mailing could be used to target families with young children. This would depend on the availability of a suitable database. Direct mailing is cheap, but there would be problems with targeting children in the UK. Mail would need to be sent to parents.
- Leaflets could be distributed in areas offering the right demographic profile.
- Elements of the promotional mix described in the article could be assessed in relation to the circumstances of your country.
- Olympus could market the product through sponsorship of a suitable website, e.g. mumsnet.com or askamum.co.uk. This would attract the attention of parents to the product.

Evaluation may consider:

Justification for the promotional mix identified may comment on the relative merits of the mix in terms of:
- cost
- ability to target children and their parents
- the extent to which the promotional campaign should be informative or persuasive
- effectiveness in attracting attention.
- The promotional mix should reflect that the target market is children. The particular market conditions within a country will influence the promotional mix chosen.

Top tip
When faced with discussion questions such as this it is often useful to identify approaches that are not suitable as part of your answer. For example, it might be argued that newspapers are not a suitable vehicle for advertising a children’s camera, as children are unlikely to read a newspaper.
Activity 17.6 (page 325): How much should we spend on promotion?

1 Identify the method of setting the promotional budget suggested by each manager. [3]

- marketing director – competitor-based budget
- finance director – percentage of sales
- managing director – what the business can afford

2 Should the promotion budget for Panther Sports Shoes be spent just on advertising or on other forms of promotion too? Explain your answer. [10]

Answers may include reference to some of the following issues:

- The finance director believes that the $300,000 spent on TV advertising to children last year was largely wasted. Has Panther Sports Shoes monitored the effectiveness of its TV advertising? If the TV advertising is having a low impact, then Panther should consider focusing on other forms of promotion.

- A key element of promotion for sports goods is through sponsorship and endorsement deals. If Panther is able to secure a suitable sports star to endorse its sports shoes, then this can have a significant impact on younger consumers; answers may refer to real-life endorsements, such as David Beckham’s association with Adidas.

- This depends to some extent on the size of the promotional budget. If the managing director’s view is adopted, then Panther will have very limited funds for promotion. A budget of $500,000 will provide only limited advertising – particularly if TV is used. In this case, the marketing director may prefer to spend the money on below-the-line promotion.

- Whichever form of promotion is chosen, Panther will have to ensure that the communication effectively reaches the target audience. If advertising is used, then the choice of media will be important in terms of cost per person, the profile of the target audience and the message to be communicated.

- With sufficient resources, Panther may be advised to consider using a balanced promotional mix rather than just spending on advertising alone.
Which manager do you agree with? Recommend which method of promotion budget setting should be used by this company, explaining your answer fully. [12]

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<thead>
<tr>
<th>Method of setting the promotional budget</th>
<th>Commentary</th>
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<td>Advantages</td>
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| Competitor-based budget                  | • Expenditure at this increased scale would allow Panther to raise its profile.  
• It would offer more opportunity to use a variety of promotional techniques, including a major advertising campaign.  
• With a bigger budget, Panther would be able to employ a better marketing agency to create a more effective promotional plan. | • $3m is twice the budget of the previous year and thus represents a very significant increase in costs.  
• Benefits may not be immediate and, therefore, could cause cash-flow problems in the short term.  
• Panther may not have this amount of money to spend.  
• It may require Panther to cut back in other vital areas, such as product development.  
• It is not guaranteed to work – effectiveness depends on the quality and creativity of the promotion. |
| Percentage of sales                      | • This would help control the marketing budget and keeps it in proportion to the size of the business. | • If sales are not rising, then this will lead to a stagnating or falling budget for marketing.  
• This does not take account of the objectives that marketing has to achieve. |
| What the business can afford             | • This will allow the business to focus resources on product development. The managing director considers this to be crucial to success – a good product will sell itself.  
• ‘If advertisers spent the same amount of money on improving their products as they do on advertising, then they wouldn’t have to advertise them.’ Will Rogers. | • Even if a great product is developed, marketing support may still be required to inform and persuade consumers to purchase.  
• The marketing budget would be just $500,000. Consideration would need to be given as to whether this was enough to communicate Panther’s marketing message to the consumer. |

Answers may consider alternative methods of setting budgets, in particular objective-based budgeting. This has the advantage of setting a sufficiently large budget for the achievement of a particular sales target.

Evaluation should include a justified recommendation based on the arguments above.
Activity 17.7 (page 326): Controls on advertising

1. Find out which authority in your country judges the honesty and decency of advertisements, Make notes on its main powers. [6]

Answer will be dependent on particular country, but the authority will probably undertake some or all of the following:

- will investigate any complaints made about ads, sales promotions or direct marketing
- will publish decisions on a regular basis
- will enforce standards and codes of practice set by the advertising industry
- will ensure that advertisements do not mislead, cause harm or offend
- Will ensure action is taken if a company persistently flouts the rules.

2. In this case, do you think the company is right to advertise a soft drink that some people consider damaging to children’s teeth, on television? Explain your answer by analysing the arguments for and against advertising. [10]

Answers may include reference to the following issues.

Arguments for advertising:

- Advertising helps inform consumers of choices available in the market.
- Advertisements give valuable information to consumers.
- Advertisers are responding to the needs, wishes and attitudes of consumers.
- The industry is a major employer.
- The revenue from advertising earned by TV, radio, magazines and newspapers is crucial to their financial viability.
- As long as advertising does not breach the established codes within a country, it is a legitimate method for businesses to use to try and gain sales.

Arguments against advertising:

- It adds to the costs of marketing products. This cost has to be recovered through higher prices.
- The money spent on advertising could have been spent on improving the product.
- Advertising encourages the purchase of products that people would not otherwise have purchased. It contributes to the creation of an overly materialistic society.
- Children are vulnerable to TV advertising and are not in a position to make informed decisions. Children will put pressure on parents to buy the products they see advertised.
- A court ruling had found in favour of the ASA’s action against GlaxoSmithKline; the claims made about Ribena Toothkind were alleged to be misleading.

Evaluation may consider:

Evaluation may focus on the issue of advertising aimed at children. Is this ethically correct? Children may lack the maturity to make informed choices for themselves. This particular case appears to depend on whether or not the claims made about the product were misleading.
Activity 17.8 (page 327): 'Hot when you want' Nescafé

1  Suggest another name for this product that you think would be popular in your country. [2]

Any suitable suggestions acceptable.

Names likely to include the Nescafé brand name as this is an important element of the product’s appeal, e.g. Nescafé On The Go

2  Outline two ways in which below-the-line activities might be used to support the launch of this product. [4]

Methods of below-the-line promotion that might be considered include:
- Direct mailing – this provides the opportunity to inform consumers in detail about the product.
- Free samples – these can be distributed within supermarkets or at sporting events to encourage consumers to try the product.
- Point-of-sale displays – these will attract consumer attention within retail outlets.
- Price discounts – these can lead to more sales in the future.
- BOGOF – this encourages consumers to trial the product, by giving two for the normal price of one.
- Public relations – this is important in generating media interest, given the innovative nature of the product.

3  Explain why the packaging of this product is likely to be an important factor determining its success. [6]

- As an innovative product idea, the packaging has to communicate clearly how the product works.
- The packaging has to protect the consumer against the heat of the drink once activated.
- Packaging needs to be attractive to make the product stand out against competitor products. This is still the case even though the product is unique.
- Is the packaging reusable or can it be disposed of in an environmentally friendly way?

4  Evaluate the most important factors, apart from packaging, that might determine the sales success of this product. [8]

- Price – the price will need to be competitive when compared with the cost of coffee from a coffee shop.
- Taste/quality – if the product does not taste as good as instant coffee / filter coffee, people will quickly desert the product; the novelty value of the product will not guarantee long-term sales. Reliability will also be important in terms of delivering a hot cup of coffee in three minutes.
- Portability – the weight of the product will also be a factor.
- Distribution – Nestlé will need to get the product into a broad range of retail outlets, including supermarkets and possibly coffee shops.
• Level of promotional spending – is $10m sufficient to launch the product nationally? The quality of the advertising campaign will contribute to success.
• Patent – Nestlé will need to protect its innovation with suitable patents to make copying the idea difficult.

All aspects of the marketing mix will be important and must be effectively integrated. There will also be external factors that affect the likely success of the product, such as the reaction of competitors.

**Activity 17.9 (page 332): Coke chief’s latest Daft idea – a cola tap in every house**

1. **Explain the importance of the Coca-Cola brand name to the company. [6]**

Answers may include reference to the following benefits:

**Definition of brand:** a brand is the name given by a company to a product or range of products.

• Branding aims to aid consumer recognition of the product. Coke’s distinctive use of colour on packaging and writing make the product instantly recognisable and this increases the effectiveness of promotion.
• It clearly differentiates the product from competitors, such as Pepsi.
• It will help reduce the price elasticity of demand of the product; therefore, Coke will be less sensitive to price.
• It helps increase consumer loyalty.
• Development of the Coca-Cola brand has created a personality for the product and positive images in the consumer’s mind; Coke is synonymous with refreshment.

2. **This is an example of direct selling from the manufacturer to the consumer. Discuss the advantages and disadvantages of this channel of distributing Coca-Cola from the point of view of both the company and consumers. [10]**

The advantages of selling direct to the consumer are:

• By eliminating intermediaries, e.g. the retailer, Coca-Cola can absorb some of their profit margin.
• The product can be sold at a lower price to the consumer and, therefore, there will be an increase in demand (assuming that the consumer accepts this approach by Coca-Cola).
• Coca-Cola will save on cost of water as the consumer will be buying the syrup rather than the finished product. This offers the opportunity for a higher profit margin or a lower price to be offered.
• Coca-Cola will have complete control over the marketing of the product. They will no longer be affected by retailer decisions on where the product is placed.
• Coca-Cola will now have direct contact with the consumer. This can provide useful data and feedback.
• The consumer will receive a cheaper product.
The disadvantages of selling direct to the consumer are:

- Coca-Cola will have to store more of the syrup to meet demand. This represents a stock cost and will, therefore, counterbalance the benefit of eliminating intermediaries.
- There may be higher distribution costs as Coca-Cola is delivering individual orders rather than mass orders to wholesalers and retailers.
- Consumers are not currently ready for this approach to buying Coke.
- As Douglas Daft comments, consumers still like to ‘physically go and buy things’.
- It reduces the focus of Coca-Cola on production, as they now have to pay more attention to selling the product to consumers.

3 Outline three other methods Coca-Cola could use to ‘place’ or distribute their product to more consumers more often. [9]

As a successful MNC, Coca-Cola already uses a variety of successful distribution methods. Comment should be made on some of these approaches:

- Channel intermediaries such as retailers and wholesalers help to break down bulk. For example, wholesalers will buy Coca-Cola in large quantities and then sell on to smaller retailers. This is an effective way for Coca-Cola to ensure distribution to small retailers.
- By supplying vending machines to suitable outlets, e.g. airports, hotels etc., the product will be available to consumers at all times of the day.
- Coca-Cola could open its own shops/cafés. This is known as ‘vertical marketing’, where the business owns another link in the distribution chain.

Activity 17.10 (page 334): E-tailing on the increase

1 Outline three reasons for the recent growth in online retailing. [9]

- Increased broadband usage enables consumers to browse more easily.
- There will be potential cost savings to businesses in terms of reduced administration costs and theft.
- It is relatively easy for new businesses to set up as online retailers. Costs are relatively low as no retail premises are needed.
- Ability of the internet to reach a large and even global audience makes it an attractive medium for business.

2 Evaluate the potential advantages and disadvantages to an electrical and computer retailer such as Dixon’s of going exclusively online. [10]

Advantages include:

- A major cost faced by Dixons is in securing suitable retail sites, many of which are in city-centre locations with high rentals and taxes. As an online business, Dixons will be able to warehouse products in much cheaper locations.
- There will be a reduction in theft. A significant problem for any high-street retailer is the loss of stock due to theft.
- Dixons will benefit from administrative cost savings of £3 million.
- There will be a reduction in the number of staff needed.
- Cost savings will enable Dixons to be more price competitive. Price is an important element within the marketing mix in determining decisions to purchase.
Online selling offers good opportunities for collecting data about customers. The growth in broadband usage supports the move to be an e-tailer. The text identifies that the market is expanding relative to retailing. Online retailing increased by 32% in 2008 compared with high-street sales growth of 1.2%, according to industry analyst Verdict Research. E-tailing now accounts for almost 7% of total retail spending. Verdict forecasts that by 2012 this share will double to 14%.

Disadvantages include:
- Consumers may still prefer to see and handle electrical products and will, therefore, be reluctant to purchase online.
- Product returns may increase as consumers are dissatisfied with their purchase once it has arrived.
- Consumers may feel more comfortable with purchasing from a shop, because if the product is faulty, it can be physically returned to the shop and the consumer is able to speak to someone face to face.
- Retail outlets benefit from one-to-one interaction with consumers. Shop assistants can demonstrate products and give advice. This will encourage sales. To what extent is this more important for retailers dealing with complex electrical equipment and computers?
- Dixons will have to ensure that it has a good website. This may be expensive to develop.
- Dixons needs to ensure that when internet users conduct searches, the search engines bring up the Dixons website. Dixons will have to pay to become a sponsored link with companies such as Google.

**Evaluation may consider:**
Evaluation will have to weigh these advantages and disadvantages, e.g. whether the costs savings outweigh the problem of customers not being able to touch and feel the products.

**Activity 17.11 (page 335): What went wrong?**

1. In each case, identify which marketing mix decision seems to be ‘out of place’ and not integrated with the other decisions. [4]

Mix A: advertised on radio only – radio may be poor at conveying the qualities of a sports car.

Mix B: sold only over the internet – low-income families are less likely to have access to the internet and/or the ability to pay using credit cards.

Mix C: low price – this is a fashion hairdressing salon in a rich part of the city. The rest of the mix points to high prices.

Mix D: product – a fast-food restaurant is less likely to support the other elements of the mix.
2 In each case, recommend a change to one of the marketing decisions to create an integrated mix. Explain and justify your recommendations. [16]

Mix A: an expensive sports car sold through exclusive dealers should be advertised in business magazines or car magazines that focus on high-performance cars. The target market is high-income earners, such as leading businessmen and women.

Mix B: a range of furniture for low-income families should be sold through discount furniture suppliers or other discount outlets.

Mix C: a hairdressing salon using well-known stylists should be charging high prices and not offering discounts to large family groups. The customers need to feel that they are receiving an exclusive service and will be put off if large numbers of people have the same hairstyles. Large family groups may undermine the atmosphere of a salon located in a rich area of the city.

Mix D: a restaurant in an expensive business district using a price-skimming strategy is not well suited to serving fast food. The product needs to match the price being charged; it may be more suitable for an upmarket à la carte menu offering distinctive cuisine.

Revision case study 1 (page 336): Promoting golf equipment

1 Explain two ways in which the company could have decided on the size of the total marketing budget of $1 million. [6]

- Objective-based budgeting – a marketing budget is set based on an analysis of the supporting expenditure required to achieve a particular sales target.
- What the business can afford – having looked at all other expenses of the business, a budget is set based on what can be afforded.
- A percentage of sales – a budget is set in relation to current sales or expected sales during the year ahead. The budget would then be divided between promotion for the new product range and existing marketing needs.
- Competitor-based budget – this budget is set in relation to promotional expenditure of competitors in the youth market.

2 Using all of the data and any other information you have, prepare a fully supported recommendation to the marketing manager concerning the promotional mix that could be adopted for this range of products. [12]

Recommendations may consider the following issues:

Newspaper advertising:
- The quality daily with its high-income readership appears preferable to the popular daily. Penang Golf is keen to maintain its image in the market.
• The popular daily has a larger circulation and readership than the quality daily. Readership is 6 million compared to 4 million. It also offers ten adverts compared with just six.

• The total cost of newspaper advertising is $520,000. The cost per potential reader is, therefore, under $0.09 for the popular daily and $0.13 for the quality daily. However, a large proportion of readers of both papers will not be interested in the golf range.

Golf Magazine:
• Total cost is $350,000, including production of the advert.
• This option has the advantage of being more specifically targeted at golfers. Readers are likely to be interested in the adverts for equipment and clothing – less likely to ignore the advert. The readership of the magazine is 300,000 people. The cost is, therefore, just over $1 per potential reader. However, readers will be of all ages.

TV advertising:
• This would use up virtually the whole budget as five minutes of airtime costs $0.5 million and the production costs are $0.4 million. However, the advert, once produced, could be reused at a later date.
• The budget would secure up to 30 adverts. However, that assumes using only 10-second slots. Penang Golf may prefer to include some longer 30-second adverts to convey their advertising message.
• Coverage during the Saturday football match of the under-21 age group is 1.25 million and for the Friday evening slot it is 1.5 million.
• Viewers are likely to be sports fans, but football may appeal to a slightly different demographic population than golf.
• TV offers the benefit of moving image and sound. This can make the message more effective, particularly as it is sports related.
• Channel hopping reduces the impact of TV adverts as viewers switch channels.

**Evaluation may consider:**
Evaluation will need to balance the cost, coverage of the target audience and likely impact of each form of advertising. Given the limited budget, the choice appears to be between a campaign focused purely on TV or a combination of magazine and newspaper advertising.

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**Other options could be discussed such as radio, posters, direct mailing and sales promotion.**
3 Explain two other pieces of information that would help you in coming to your recommendation. [4]

- Age profile of the readership of the golfing magazine – as the new range is aimed at the youth market, it would be beneficial to know the proportion of the estimated 300,000 readers of the golf magazine that are aged under 21. This would give a clearer indication of whether the promotion was reaching the target market.
- The country’s average per capita income – this would help to further evaluate the TV advertising options as the business wishes to maintain a prestige image. Measures of income dispersion amongst TV viewers would also facilitate a judgement as to whether the TV audience is sufficiently upmarket.
- Size of the population – this would give a clearer indication of the coverage of each method.
- Radio and poster advertising – the costs of these two media should be ascertained.

Revision case study 2 (page 337): Apple opens more of its own stores

1 Two channels of distribution for computers and other electronic equipment are referred to in the passage apart from Apple's own shops: other retailers and the internet (website). Outline two advantages and two disadvantages to Apple of using each of these channels. [8]

<table>
<thead>
<tr>
<th>Channel</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>• global reach</td>
<td>• greater stock-holding costs</td>
</tr>
<tr>
<td></td>
<td>• lower fixed costs than Apple owning retail outlets</td>
<td>• higher rate of returns</td>
</tr>
<tr>
<td></td>
<td>• control over marketing maintained</td>
<td>• higher costs of distribution, as products sent to customers individually</td>
</tr>
<tr>
<td></td>
<td>• 24-hour shopping – internet convenient for consumers to use if they have</td>
<td>• no advertising or promotion costs are paid for by intermediaries</td>
</tr>
<tr>
<td></td>
<td>access to a computer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• no intermediaries, so no mark-up or profit taken by other businesses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• direct contact with the consumer offers useful market research</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Internet shopping – increasing sector of the market</td>
<td></td>
</tr>
<tr>
<td>Retailers</td>
<td>• high-street presence – customers can see product demonstrated</td>
<td>• profit margin taken by the retailer</td>
</tr>
<tr>
<td></td>
<td>• after-sales service by retailer to consumers</td>
<td>• some control over marketing lost</td>
</tr>
<tr>
<td></td>
<td>• reduced stock-holding costs for the manufacturer</td>
<td>• product directly competing against other brands, such as Sony</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• delivery costs to the retailer</td>
</tr>
</tbody>
</table>
2  Suggest how Apple might promote the opening of its new shops. Explain your suggestions.  [8]

Any reasonable answer.

Answers may include reference to the following:

- The stores are in Las Vegas and Chaoyang. Promotion will, therefore, need to be local/regional.
- Advertising in the local media, using radio and local newspaper, would provide effective coverage of the local population. Sale promotions such as coupons might be used in order to assess effectiveness.
- Las Vegas attracts a large number of tourists and, therefore, promotion at the local airport might be effective in raising tourist awareness.
- Leaflets could be delivered to target consumers in the local area.
- A competition could be run offering free Apple prizes to attract short-term interest in visiting the store.
- Advertising from the Apple website would not incur additional costs for the business.

3  Evaluate the decision by Apple to open more of its own retail stores – analysing the advantages and disadvantages of a manufacturer operating its own shops.  [12]

Advantages of Apple owning its own retail stores:

- Retail outlets can focus on Apple products alone.
- Apple has more control over the way its products are sold, e.g. positioning of in-store displays and the design and layout of the retail stores. This provides a good brand-building platform for Apple.
- Apple is able to ensure that staff are trained to demonstrate products and give consumer advice. The 'Apple Retail Store Experience' gives consumers the chance to test drive all products. Apple is able to offer highly trained staff to deal with technical questions – this enhances customer service and offers significant added value to the business.
- Retail stores offer a new route to market as Apple has, in the past, focused on internet sales and sales through intermediaries.
- Apple can absorb the profit margin that would normally go to the retailer.
- Retailing its own products can be used as leverage in negotiations with other retail partners as Apple is making itself less dependent on them.
- Apple will gain access to consumer data.

Disadvantages of Apple owning its own stores:

- Direct retail experience of the company is limited. Apple will have to recruit and train staff for the retail outlets. Apple's expertise is in innovative products and manufacture, not retail.
- There will be an impact on established intermediaries used. Companies selling Apple products will now face direct competition from Apple stores. The article refers to the danger of Apple coming into conflict with retail partners, such as CompUSA.
- The Apple stores may cannibalise sales from their retail partners.
• There will be the cost of acquiring suitable retail outlets and refurbishing them to Apple’s design standards. The store will have to look innovative to match the image of the business.
• There will be the high fixed costs of running the stores.

Further reading
The following is a link to a useful article on the importance of retailers.

Revision case study 3 (page 338): A promotion budget for T and T Clothing

1. Calculate this year’s marketing expenditure budget based on all three proposed methods. [6]

Incremental budgeting: $15,000 × 1.10 = $16,500
Budget linked to sales: $250,000 × 0.05 = $12,500
Budget linked to competitor spending: ($30,000 × 1.05) + ($38,500 × 1.05)
= $31,500 + $40,425
= $71,925
Average expenditure = $71,925 ÷ 2 = $35,962.5

2. Considering all of the evidence in this activity and this chapter, make a justified recommendation to the board of T and T Clothing regarding the budget-setting method that you consider to be most appropriate in this case. [14]

<table>
<thead>
<tr>
<th>Budget method</th>
<th>Commentary</th>
</tr>
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</table>
| Incremental budgeting linked to inflation | • This incremental approach ensures that the promotion budget rises gradually and is thus more likely to be affordable to the business.  
• However, it fails to take account of any increase in the level of sales of the business and, therefore, it is possible that, as a proportion of sales, the promotional budget will be decreasing.  
This may negatively affect the ability of T & T to build future sales.  
• The approach does not require the marketing department to justify the size of its budget from year to year.  
• It is also appropriate to question whether the owner’s belief that the products should ‘do the talking’ for T and T is an appropriate approach to marketing in the 21st century. |
| Linked to sales                       | • If the promotion budget is linked to sales, then it ensures that the budget rises in line with sales. This should ensure that the budget remains affordable. However, if sales are not rising, then this will result in a stagnating or declining promotional budget; this could be undesirable, particularly if the sales figures are falling due to a lack of promotional expenditure.  
• The finance director’s objective is to control expenditure and setting a budget at just 5% of sales would result in a cut in the promotional budget. |

(Continued)
<table>
<thead>
<tr>
<th>Budget method</th>
<th>Commentary</th>
</tr>
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</table>
| Linked to competitor spending | • Raquel's preferred budgeting method – to match competitor spending – would result in the promotional budget increasing by approximately 120%. Can T and T Clothing afford such an increase in promotional expenditure and would the marketing department have the skills to utilise the money effectively? Such an increase in spending could lead to cash-flow problems for T and T as the impact of the increased promotion could take time to take full effect.  
• T and T might have to cut back expenditure in other areas to finance the promotional activity. A reduction in expenditure in other areas of the business, e.g. design, could affect sales negatively.  
• However, the increased budget would make it more likely that T & T would achieve its objectives to enter the new market segment. Without appropriate marketing support, it may not be possible to establish a foothold in the new segment.  
• An appropriate question to consider is how big T and T is compared with its two major competitors. If it is much smaller, can it really justify spending as much on promotion as them? |

**Evaluation may consider:**
This may contrast the affordability of each option with the potential consequences for sales. For example, can T and T finance the level of promotion suggested by Raquel? In contrast, is it possible to enter the new market segment without increasing the budget substantially?

**Essay**
1 a  
*Explain the differences between advertising and sales promotion.*  
[10]

Context may be provided by describing relevant example of advertising and sales promotion used by companies of which you have direct knowledge.

Advertising is above-the-line promotion and makes use of media to communicate the promotional message. The media used for advertising include:

- television  
- cinema  
- radio  
- magazines  
- newspapers.

Advertising can be categorised as being either informative or persuasive.

- Persuasive advertising tries to create a distinct image for the product and contains little or no information about the physical aspects of the product. Many car adverts contain limited information about the car, instead focusing on creating desire within the viewer to own the product. Will Rogers commented that ‘Advertising is the art of convincing people to spend money they don’t have for something they don’t need.’
- Informative advertising provides information about the product. Adverts for computers often focus on technical details, such as memory size and processor speed.
Sales promotion is a form of below-the-line promotion offering incentives directed at consumers or retailers to achieve short-term sales increases and repeat purchases by consumers. Sales promotion techniques include:

- discount pricing
- loyalty reward programmes, e.g. Tesco’s Clubcard scheme in the UK
- money-off coupons
- point-of-sale displays – often used to promote new DVD film releases
- BOGOF – ‘buy one, get one free’ offers.
- games and competitions.

b Examine how a marketing department could determine whether ‘half of our promotional spending is wasted’. [15]

There are a number of techniques that can be used to determine whether promotion campaigns have been successful, including:

- Sales should be analysed before, during and after the campaign. However, an increase in sales does not mean that the campaign has been successful as there are many other influences on demand, including the behaviour of competitors (the pricing, product and promotion decisions they make). It is important to consider the trend in sales before the start of a campaign, as a rise in sales may be a continuation of a trend rather than the result of the campaign.
- Market research should be undertaken. Firms can use consumer panels to monitor the views of a small group of consumers over time. This will enable changes in consumer opinion to be identified.
- Response rates to advertisements:
  - Money-off coupons in magazines and newspapers can be tracked to identify the take-up of a particular offer. This provides a direct measurement of the impact of the promotion. However, it does not identify whether those consumers using the voucher would have purchased the product anyway. Websites can record the number of ‘hits’ received. Websites such as YouTube will record how often an advert has been viewed, e.g. the Cadbury’s Gorilla advert – over 2.5 million views, or the T-Mobile Dance advert with over 4 million views as of February 2009! However, just because an advert has been viewed does not mean that it will lead to a purchase.
  - Consumer awareness data are published by market research agencies based on consumer recall tests of advertisements. This gives good feedback on whether the advert has been seen and remembered.

Despite these techniques it remains difficult to quantify the success of promotion due to the large number of external factors, including:

- changes in the economic environment
- changes in consumer tastes
- promotional activity of competitors
- changes to price and product of competitors.

The success of promotion cannot always be judged on the basis of short-term sales; promotion may have much longer-term benefits for the business.
Further reading

Search the archive of *Marketing* magazine and find data on change in a wide range of industries: [http://www.marketingmagazine.co.uk/home/](http://www.marketingmagazine.co.uk/home/)