University of California, Riverside
A. Gary Anderson Graduate School of Management

BSAD 113
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Marketing Institutions
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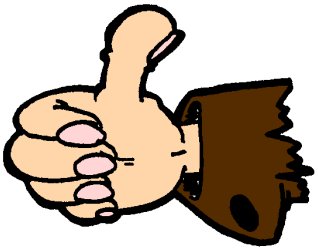

INCREDIBLY BEAUTIFUL FINAL

Version 1G

Exam #: _____

Last 4 Digits of Your ID#: _____

PLEASE BE SURE TO SIGN THE EXAM NUMBER SHEET CIRCULATING!

Part I: Short Answers (Please answer ANY 6 of the following 8 questions. If you answer more than six, only the first six questions will count toward your grade. If you start on an answer and decide to abandon it, please make sure that your answer is crossed out). [20 points per question for a total of 6*10=60 points. Suggested time allocation: 7 minutes per question for a total of 42 minutes for Part I].

BEFORE TURNING IN THIS FINAL, PLEASE CHECK THAT YOU HAVE:

____ Signed the exam number sheet by the number indicated in the top right corner of this exam.
____ Indicated the last four digits of your ID number on the blank on the top of this page.
____ Answered six short answer questions.
____ Crossed out writing on questions you started but subsequently abandoned.
____ Answered one of the two cases and
- ___ **Emphasized issues related to CHANNELS AND DISTRIBUTION**.
- ___ Applied course ideas to the specific firm in question.
- ___ Discussed issues in significant detail to be meaningful.
- ___ Added value by not merely restating the case.
- ___ Demonstrated that you truly understand the meaning of any technical word(s) used.

____ Picked up your grade progress report and checked for any errors.

1. The President of Young Air Force Clothiers has been looking at competing clothing retailers and has observed that there are a number of stores like Wal-Mart that offer low prices and relatively low service while a number of other stores, such as Nordstrom's, offer high service and high prices. She suspects that her chain might be better off by trying offering a "happy medium"—having more service than Wal-Mart but not quite as high prices as Nordstrom's. She has asked you to consult on this issue.

   The "happy medium" strategy leaves the retailer open to the "stuck in the middle" problem: it will face competition both from "above" (e.g., Nordstrom's, Macy's) and "below" (e.g., Wal-Mart, Target). This limits the firms ability to charge higher prices while at the same time increasing costs. Consistent with the "polarization" trend in retailing, firms that emphasize either cost *or* service tend to be more effective (within reasonable limits, of course: there are limits to how much anyone can charge and the minimum service needed to stay in business).

2. Please discuss your impression of the balance of the U.S. retail market for furniture. You may make any reasonable assumptions so long as these are clearly stated.

   The U.S. furniture market is one of the best balanced ones. Some retailers sell low price, low quality furniture (e.g., Wal-Mart) while expensive furniture stores provide a great deal of choice among expensive brands. Different stores and manufacturers cater to different tastes (e.g., Ikea offers Scandinavian design), so competition is not based primarily on price in this market.

3. The folks at Vengeful Visions have noticed that handguns are being purchased in increasing numbers by women and have developed a very neat and aesthetically appealing handgun for fashion conscious female consumers. However, VV has found through research that the traditional gun stores frequented by male customers do not appeal to this new segment—they tend not to be located in safe neighborhoods and often do not observe sufficient standards of cleanliness. VV does have a catalog division where a number of units are sold, but the marketing department still dreams of getting into fashion stores, many of which also carry fashionable purses with gun compartments. What might you suggest?

   Vengeful Visions can attempt to arrange reciprocal piggy-backing with a manufacturer of upscale purses. The purse manufacturer would use its channels to bring the handguns to the purse stores. In return, Vengeful Visions can offer the purse manufacturer's models with gun compartments through its catalog division. (It is, of course, not at all certain that the purse stores would want to carry the guns, so it may be necessary to offer a very high margin as an incentive).

4. The CEO of Napa Auto Parts is rethinking the firm's strategy and has asked you to discuss the "wheel of retailing" in this context.

   The "Wheel of Retailing" describes the trend of retail stores to start out with a low cost, low service structure and gradually evolve toward offering more services while charging higher prices. Given current retail polarization trends, Napa may be

better off either emphasizing low prices *or* high levels of service. Being an intermediate level store offering a bit of both leaves the firm open to more competition.

5. Please discuss how a ski manufacturer can use parallel (dual channel) distribution, indicating advantages and disadvantages to this approach.

   The ski manufacturer can attempt to simultaneously distribute through full service retailers and its own network of factory outlet stores which sell at lower prices. It can also operate a catalog or Internet sales division. The benefit is that more units may be sold in that both full service and more price sensitive consumers can be targeted. A disadvantage is that the full service retailers will tend to resent this channel competition—consumes may go to their stores for service and information and then buy more cheaply at the outlet—and may thus drop the product or push it less, which may eventually lower total sales.

6. In the United States, the *Encyclopedia Brittanica* is probably the best known and most respected encyclopedia on the market. Please discuss how its publisher may have *referent* power with respect to publishers and what kinds of retailers may have referent power with respect to the publisher.

   Referent power involves the edge that the holder of a strong brand name holds. The owner of such a brand can demand higher prices from retailers because carrying the product increases the store's stature. Because *Brittanica* is regarded as the leading encyclopedia on the market, retailers are likely to be very motivated to be able to carry it and will thus be willing to pay higher prices and/or provide more prominent shelf-space or other displays.

7. <u>According to the text</u>, what is the significance of performance ambiguity, and how might vertical integration be useful here?

   Performance ambiguity comes about when it is difficult to assess how good a job an intermediary is doing on a task—e.g., it may be difficult to assess the job that a supplier does in ensuring the long term durability of a part supplied or the service that delivery service is providing to the end-customer. If the firm controls this function itself, the quality can be better monitored. Vertical integration may raise costs, however.

8. <u>According to the text</u>, in an intensive distribution setting, how can the benefits of exclusivity be simulated

   (1) Building of strong brand equity—even high service retailers will be motivated to carry the product. (2) Frequent introduction of new products with a record of success. (3) Lead generation—high service retailers receive more value from the manufacturer to make the product profitable. (4) "Branded variants"—although many retailers carry essentially the same product, this is made less obvious by making smaller, "cosmetic" changes to models sold to different channels.

Part II. "Issue spotter" case (80 points=40%.). Please apply course concepts to **one** of the two cases below. You must (1) identify which course issues are *relevant and important* to the firm and then (2) *apply* those concepts to the *specific situation of the firm*. Grading will be based on:

- the *significance* to the firm of the issues that you identify (you must decide which issues are applicable and are genuinely important for the specific firm);
- how well you relate the ideas to the specific *situation of the firm in question* (merely regurgitating class notes in the abstract will yield no credit);
- the extent to which in-depth knowledge of the ideas applied is expressed (note that your reasoning must be evident and explicit); and
- the extent to which the answer is well organized.

PLEASE BE SURE THAT YOU RELATE YOUR ANSWERS TO THE SPECIFICS OF THE FIRM—
GENERAL ANSWERS ARE NOT OF INTEREST!

There will be no credit for:

- "*No brainer" observations*, such as the need for the firm to take culture into consideration (you must discuss likely cultural influences *in context* of the firm situation) or the need to do research (you must justify the issues and methods that you explicitly indicate);
- *Outside knowledge* (what you happen to know about this particular firm, beyond what was covered in class, readings, or in the case);
- *Ideas which are too vague* to be meaningful;
- ***Ideas not related to issues discussed in this course* (e.g., issues not related to channels or distribution);**
- *"Buzz" words whose meaning is not discussed*; or
- *General ideas not tailored* to the needs of the specific firm.

A. e-Machines is a manufacturer of low cost microcomputers. Although less well known than competing brands such as HP, Dell, and Compaq, E-Machines are often significantly cheaper, even in a market that is already very price-competitive. A large proportion of retailers that carry the better known brands do not carry E-machines, and the firm would very much like to increase its unit sales.

e-Machines is competing in a market where price is important but not the only variable. Since higher quality positions have been preempted by other manufacturers, price competition may be the only viable option left.

Since e-Machines is not currently carried by many stores, it is essential to motivate more stores to carry the brand. One option may be to try to provide greater margins for the retailers—if they buy in bulk, they can have large price discounts, only part of which they would pass on to their customers. Manufacturing "store brand" computers—which would allow firms such as Wal-Mart to put their own Sam's Choice brand on the computers made by e-Machines—would allow these retailers to position the brand against the name brand competitors.

e-Machines can try a parallel distribution system, maintaining its own outlet stores and/or Internet sales. This, however, may not be cost effective.

e-Machines can attempt to offer retailers incentives to provide favorable display and shelf-space in the stores.

e-Machines can attempt piggy-backing with manufacturers who make complementary but not competing products. For example, Xerox makes printers and copiers but not many computers, so at the right margin, Xerox might be willing to distribute the product through its channels. The sales force that sells copiers to large organizations might push e-Machines computers at the same time.

B. Samsonite makes products such as suitcases and briefcases. Although the firm likes to think of itself as having a solid brand name built up over the years and recognized widely by consumers, Samsonite relies on sales volume to make its profits. Samsonite products cost somewhat more than bargain brand competing products, and often new suitcases and briefcases need to have a combination lock set and/or to have monograms affixed in the store. Samsonite makes a large number of different briefcases so that customers with various needs (e.g., sturdiness, roominess, compactness, light weight, and stylishness) can be accommodated.

Samsonite competes across a broad spectrum of the market. It manufactures high quality products that are sold through full service stores, the firm also would like to take advantage of the large market that is available through discount and other lower price stores.

To reduce channel conflict, Samsonite might make different models for the different stores. Then, although consumers can buy a cheaper model at discount stores without service, they would only be able to buy the upscale models in full service stores that would provide desired service.

Samsonite might also consider selling its Samsonite branded products mostly to full service stores while creating another brand for lower priced merchandise. The problem here, of course, is that the equity of the Samsonite name is then not realized within the discount stores. Another option is to make products that the discount stores will be able to brand—e.g., a Target suitcase.

The large selection means that only full service retailers will be likely to carry the full line, and these stores may greatly resent that other, lower priced stores carry the best selling models at significantly lower prices. Thus, it may be necessary to provide the full service retailers extra incentives—e.g., lower prices, co-op advertising, employee training, equipment, and/or faster access to new products released. Even with such concessions, however, there is likely to be conflict, and Samsonite must weigh the relative importance of each channel.

BEFORE TURNING IN THIS EXAM, **PLEASE GO THROUGH THE CHECK-LIST ON THE FRONT PAGE.**

HAVE A GREAT RECESS!