The Chartered
Institute of Marketing

Professional Postgraduate Diploma in Marketing

Planning and Control

53: PLANNING AND CONTROL

SPECIMEN ANSWERS FOR JUNE 2005 EXAMINATION PAPER

Examination Papers

Each subject differs slightly from the other, and you need to make sure that you are familiar with the style of question and the requirements of the different examinations.

There are three basic question types:

1. The mini case or scenario or article

Part A of all papers (except Analysis & Decision) has a mini case, scenario or article, with compulsory questions. This represents only part of the paper, but students are required to make marketing decisions based on the information given. Spend time evaluating the material given in the case, but do not rewrite this for the examiners. You will gain credit for the decisions and recommendations you make on the basis of the analysis, but nothing for the analysis itself. This is a compulsory part of the paper designed to evaluate practical marketing skills. Make sure you allocate enough time to it, but do not ignore the other part of the paper.

2. The straightforward exam question

You are expected to make a choice from a number of questions. There is some skill necessary in selecting the questions which you are best prepared to answer. Read the questions through carefully before making your choice. Think about how you will tackle the question. Check you are answering the question in the context in which it has been set, then make a rough plan before you start writing. Remember that examiners are interested in quality answers.

3. Strategic Marketing in Practice

This final paper is a closed book examination. The Case Study is sent out 5 weeks before the paper is sat. Students should complete their analysis and preparation before the examination takes place. The questions asked will include extra information about the case which will have to be used to obtain best marks.

Common Mistakes

Reports from examiners are published regularly and are available to students. Even a casual look through these reveals the same concerns and problems coming up time and time again across all subject areas. Most of these common mistakes are caused by a lack of exam technique and examination practice.

Not answering the question set

The examiners are looking for both relevant content and its application in an appropriate context. You must be able to work flexibly with the material you have studied, answering different questions in different ways, even though the fundamental theory remains the same.

Presentation and style

Both of these essential business skills are of great importance to a marketing practitioner. The examiners expect work to be presented in a well-written, professional manner. 'Report' style, using sub-headings and indented numbering for points etc is not only acceptable, but looks much more commercially credible than academic essays. This approach allows you to break the work up, highlight the key points, and structure your answer in a logical way. Take care with your grammar and use of language; small errors can change the sense considerably.

Timing

The scarce resource in an examination is time. You must control the allocation of this resource carefully. Read the instructions to the paper carefully, and identify what has to be done and how the marks are allocated. Spread your time proportionately to the mark allocation, ie if the mini case = 40% of marks, allocate 40% of your time to it. Allow a few minutes at the end to read through your work.

It is no good only completing four questions when you should have done five. It is so much harder for you to pass on just four questions. Have a clock or watch with you and be ruthless in your timekeeping. If you find you are spending too long on an answer, you are probably not answering the question specifically enough.

Theory without application

The examiners expect relevant theory to be illustrated with practical examples and illustrations. These can be drawn from your own marketing experience, or observations, or your reading. A theory paper without evidence of practical application is unlikely to be successful.

Introduction

The specimen answers provide examples of answers that can be reasonably written within the allocated time. The answers demonstrate what is required to achieve a good pass mark, unless otherwise indicated in the Comments.

Remember when revising from these examples that there are no right or wrong answers. The examiners are looking for you to apply your own marketing knowledge and skills to the question set. These answers should be indicative of the content and format that the examiners expect to see.

To give you the best chance of passing your exams, these specimen answers can be used in conjunction with the examiners' reports, in which the senior examiner for each subject outlines best practice. The examiners' reports are available from CIM Direct and on the CIM student website, www.cim.co.uk/learningzone

We hope you find these specimen answers useful and informative. Although we cannot enter into correspondence, we would welcome comments or feedback, which should be sent to cimdirect@cim.co.uk or to CIM Publishing at the Moor Hall address.

CIM Specimen Answers

Postgraduate Diploma in Marketing

Planning and Control – June 2005

Part A

Answer - Question 1

Background
The case study is based on Sony, a major consumer electronics company. The candidate is asked to adopt the role of a marketing consultant asked to advise the board on Sony's future marketing strategy. Sony has lost its position as market leader, profits have reduced and it is facing fierce competition from existing and new competitors. It appears that Sony has lost sight of its core business and their unique competitive advantage. The Marketing Consultant is specifically asked to identify the reasons as to why Sony is suffering from strategic wear-out and to give recommendations as to how they can avoid this in the future. The second question asks the Marketing Consultant to critically evaluate the alternative strategies that Sony could employ to regain their previous dominant position.

a.

Report To: Sony Executive Board
From: Ace Marketing Consultancy
Date: 8th June 2005
Regarding: Sony's Strategic Wear-out

Founded nearly 60 years ago, Sony is a global company whose brand is recognised by millions worldwide. Sony's heritage is built upon innovative and technologically advanced products, however over the last few years Sony's revenues and profits have started to fall.

Sony is showing signs of strategic wear-out. This is a term used to describe the loss of competitive advantage as a result of the corporate strategies no longer being relevant to the environment Sony is operating in.

This means that the environment in which Sony is competing has changed, and Sony has not changed with it. Reasons for strategic wear-out can be identified in three areas:

- Macro-environmental changes
- Micro-environmental changes
- Internal business

Firstly, if we look at the macro-environment, which is the broad market over which Sony has little control (political, economic, social/cultural and technological) we can see that technology is the key change in this area. For example, Sony has either ignored or underestimated the demand for LCD displays such as televisions by failing to invest in this technology until recently.

Secondly, by looking at the micro-environmental forces at work we can identify a number of key reasons for strategic wear-out.

Competition

Apple – New Products

Apple's iPod products totally dominate the digital music marketplace, a situation that Sony appears to have ignored or not seen. iPods have been the key driver in Apple's recent profit's announcement.

Converged products/ new competition

New players who traditionally were not seen to be competitors to Sony such as HP have 'sneaked up' on Sony, by offering a simple and connected range of products that deliver a 'digital home' including 'new products' such as home projectors and LCD televisions. Again Sony seem up until recently to have largely ignored these moves.

Finally, yet by no means any less important, we must look at the internal business of Sony to see how this has contributed to strategic wear-out. This can be seen in two area:

Inertia/complacency

As discussed previously, Sony seems to have remained constant in a rapidly changing world. This is mainly due to management complacency – a belief that 'if it ain't broken don't fix it ', but unfortunately it is broken and now it's time to play catch-up to regain the competitive position previously enjoyed.

Lack of investment/ poor cost control

Fortunately, Sony has already taken steps to improve the poor cost control by announcing the restructuring programme in 2003. Lack of investment in New Product Development means that customer needs for new products are not satisfied.

Fortunately, steps have already been taken to address some of the causes of strategic wear-out, indicated by the cost cutting measures and the alliance with Samsung, but to ensure thoroughness, let us visit the main ways to avoid strategic wear-out.

How to Avoid Strategic Wear-out

Market-orientation

Market –orientation says that the shareholders requirements for profits and a return will be met through the satisfaction of customer needs by beating the competition. The result of this market-orientation will be visible at every level of the organisation including NPD/ investments/ competitor awareness. However, please be mindful that this is not achieved overnight – investment in NPD won't deliver new products to market tomorrow, it can take years as I am sure you are aware. Also, you can expect internal resistance to change, for which internal marketing will be necessary to relieve these barriers.

Management Commitment

Needless to say that a top-down management commitment is required to achieve this market orientation which will include regular strategic planning empowering teams and managers and also helping to create the right culture in which staff are willing to embrace change.

To summarise, we have briefly looked at the reasons for strategic-wear-out and how to avoid them by becoming marketing orientated. We have only touched upon this topic today and I would welcome the opportunity of a further meeting where I can deliver a proposal for some programmes that will ensure that your company regains its competitive advantage.

Comments

This part of the compulsory question consisted of two separate parts. The first required candidates to discuss the reasons as to why Sony was suffering from strategic wear-out. The second part asked candidates to give recommendations as to how strategic wear-out could be avoided in the future. It was hoped that candidates would make reference to relevant literature to support their discussion and utilise the information provided in the case study to exemplify their points. Question 1a is based on the section of the syllabus on Approaches to creating a strategic advantage: strategic wear-out and renewal.

This was a solid A grade answer that covered the majority of the key issues that the examiner was looking for. The candidate clearly addressed both parts of the question: reasons for strategic wear-out and ways to avoid it in the future. The answer was well presented, adopted an appropriate style i.e. report format and was well structured. Headings and sub-headings were effectively used to highlight key issues. The first part of the answer, reasons for strategic wear-out, was approached in a very structured manner by splitting the answer into 3 key areas: macro-environmental changes, micro-environmental changes and internal factors. The answer was grounded in the case study and information gleaned from the case study was used to substantiate the points raised.

An answer that had simply listed general reasons for strategic wear-out and ways in which strategic-wear-out could be avoided without referring specifically to Sony would have lost marks.

Despite this being a high quality answer it could still have been improved if the candidate had elaborated further on the ways in which strategic wear-out could be avoided in the future.

b.

To: Sony Board
From: Marketing Consultant
Date: 8 June 2005
Subject: Marketing Strategy

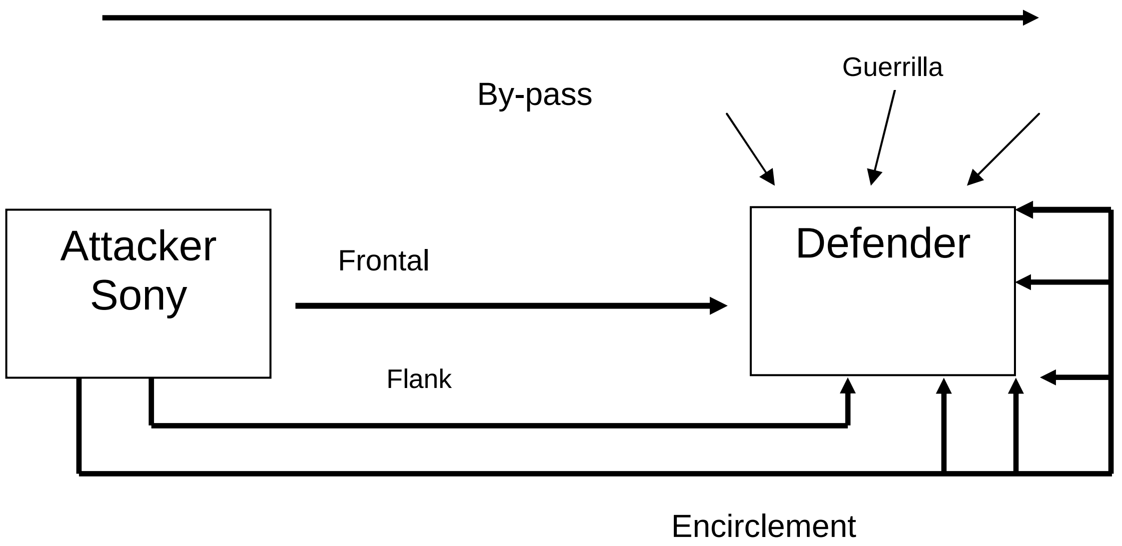
Sony was previously a strong market leader and benefited from such status and power with high sales, high marketing share and an enviable reputation. Sony, however failed to notice changes in its environment and is now becoming a market challenger or follower.

Challenger and Strategies

As a market challenger there are a number of options available to Sony in order to compete and regain its market position. Market challengers however must have a sustainable competitive advantage for which to compete on. This can be innovation, reduced costs or perceived superior performance, rather than actual performance or product attributes in terms of quality and durability. Sony will just have to decide and focus on its competitive advantage perhaps through using models such as Porter’s generic strategies , where companies can compete on a cost leadership basis, focus or differentiation. Sony is more likely to focus on differentiation due to escalating costs which will take time to lower.

Attacking Strategies

If Sony decides on challenger strategies this will require attacking competitors and there are a number of options available. Sony could begin by attacking smaller/weaker companies in order to build market share gradually or companies of a similar size. If Sony should decide to attack the leader they will require significant resources, approximately three times more than the leader. This is unlikely at the moment due to company downsizing, redundancies, decreasing sales. However, if Sony were adamant to regain their previous leadership position there are several attacking strategies, as advocated by Kotler and Singh, to achieve this:



Kotler – Attack/offensive strategies

Sony could use any of the above attacking strategies:

Frontal – requires significant resources as it requires competing head to head with the market leader. A strong competitive advantage would be required and Sony would have to realise this is a long-term strategy and initial losses are likely to be heavy. It would also involve Sony dramatically improving their innovation stance.

Guerrilla – random, sporadic attacks to surprise competitors as they will not know what is happening nor where or how they will be attacked. Price discounts could be a good strategy to attract customers.

Flank – requires taking on a competitor by identifying their weaknesses and seizing upon these. As Samsung etc are relatively new to the market, Sony could compete on reputation and experience. They have been in the marketing a long time and still have a strong brand name and image.

Encirclement – this is when a competitor is surrounded and attacked on all sides. Again this requires significant resources and investment. It often requires several products to be developed and pushed to compete in all segments. Sony could achieve this using all their existing products, but as the market has moved away from this it would require significant NPD.

By-pass – this is more a policy of avoidance than attack. Sony could find new opportunities and areas to compete in, new markets geographically where competitors do not compete or leapfrogging competitors by producing new technologies that by-pass existing ones. This may not be possible as increasingly technology based companies are global companies operating around the world.

Follower

If Sony felt that it had insufficient resources for a challenger strategy they would adopt a follower strategy through duplication and imitation of competitor's product offerings. According to Kotler and Levitt this can be an option for innovation which may well be appropriate for Sony at this moment in time.

Conclusion

Sony has several options available and all would need to be carefully evaluated in terms of matching internal competencies with external opportunities and threats.. Alliances may well be needed at the beginning if they do not have the assets and competencies necessary to compete at such a high level, this will reduce the risks involved and increase their knowledge base.

Comments

This part of the compulsory question required candidates to critically evaluate the alternative strategies available to Sony to regain their previous dominant position. This question examines the content of the section of the syllabus on approaches to creating a strategic advantage.

This candidate achieved a low level grade A for this answer.

This candidate produced a well-structured answer that addressed clearly the challenger strategies open to Sony. There was a good balance of theory and practical application based on information gleaned from the case study. The candidate demonstrated a good understanding of this key issues involved and in particular acknowledged the importance of matching internal competencies with external opportunities and threats.

The answer could have been improved had the candidate integrated some discussion of other theoretical frameworks such as Davidson's approach and Ansoff. The candidate could possibly also provided a more in-depth discussion of the criteria that could be used to evaluate the strategies such as Aaker or Johnson and Scholes approach.

Part B

Question 2

Background

This question is set to assess candidate's knowledge and understanding of market follower strategies. Candidates were expected to critically evaluate a market follower strategy and then using examples to identify the benefits and limitations of the strategy.

This question draws on material in the syllabus on approaches to creating strategic advantage: Strategies for market followers.

<u>Introduction</u>

The strategy of being a market follower is evaluated using examples.

Market Follower

A market follower is a company/brand that holds a lower market share than the market leader and its main rivals (market challengers). They follow the competitive rules and copy the products developed by market leaders. For example Safeway and Sainsbury's follow the market leaders Tesco.

Strategy Options

Market followers can either be 'me-too' i.e. copy-cat in terms of strategic focus. For example supermarket own-brands are often copies of market leader's brands. They imitate existing products or are simply content to survive with what they have and are not highly innovative in the ways the market leaders/challengers may be. Alternatively they may adapt competitor's products in the hope they can improve them.

Benefits of this Strategy

There are some benefits of a market follower strategy:

<u>Save On Costs</u>

New product development and innovation is expensive and requires financial, physical, experiential and knowledge assets that are built up over time. A follower can avoid this expensive and time consuming task and simply piggyback on other's work. This is seen in the pharmaceutical industry after patents expire.

Low Risk

Failure risk of any change is high. Market followers avoid this risk of losing money, time and damage to their reputation. Being a follower is a 'safe' strategy as things have been tried and tested by leaders and challengers. Many ISP waited to see AOL's successes and failures, including customer dissatisfaction with service and page upload times. Followers then launched competing products building on AOL's weaknesses and were able to gain market share. A follower can benefit from watching and learning from market leaders/challengers mistakes before market entry.

Get Market Share

A fast follower can gain market share by targeting those customers at the bottom end of the scale who will not pay leaders' premium price.

Limitations

Reputation

A follower strategy influences customer perceptions and the price they are willing to pay. We expect to pay much less for a Hitachi TV than a Panasonic as they are not seen as being at the cutting edge of technology. It is also hard to change a follower image.

Lack of internal competencies

A follower normally copies ideas so lacks their own internal skills and capabilities. They will be in trouble if market leaders/challengers exit the market as they are unable to survive alone. This leads to a survival strategy that may not be sustainable.

Competitive advantage

This is forfeited by adopting this strategy unless the follower can develop a cost leadership or differentiation strategy. They must have internal skills to do this so will be under threat if they are unable to do this. British Airways went from leader to follower when low cost airlines emerged but they could not compete on low price but chooses to differentiate via added value services but were therefore still not able to compete directly with them.

Competitive Blocking

This can be achieved via patents, copyrights and other intellectual property rights. A change in the law towards more stringent protection will leave a follower out of the race as they will have to wait-out the time lag for the Intellectual Property Rights to expire before they can imitate. This is seen with pharmaceutical products. Nurofen and others could only enter when Ibuprofen came out of patent protection.

High Risk

You cannot base a company's success on another competitor as all markets are increasing in their dynamism. It is too risky to sit back as this position could be lost easily.

Conclusion

This strategy choice is often based on internal resource constraints and the management philosophy within the organisation. It does have low risk benefits but consumers often look down on followers compared with market leaders and challengers. However, in some sectors with powerful players e.g. the IT sector with Microsoft, many companies are simply pushed into this competitive position.

Comments

This was an excellent answer that achieved a high level A grade pass. The candidate addressed all the key issues: provided a good explanation of market follower strategies, highlighted the benefits of such a strategy along with its limitations and combined this with reference to some relevant examples. The answer was presented in an appropriate manner and headings were used to highlight key issues.

One minor improvement could have been made. The introduction could have been a little more engaging.

Question 3

Background

This question was set to assess candidate's knowledge, understanding and application of tools that are available for developing a view of the future i.e. forecasting techniques. The question was set in the context of a photo-processing company which operates in an ever changing environment.

This question is based on the section of the syllabus that relates to techniques for developing a view of the future.

To:	Managing Director Eastman Kodak Inc
From:	Marketing Manager
Subject:	Forecasting Tools
Date:	8^{th} June 2005

Introduction

In this fast changing environment in which we operate decisions have to be taken on what little information is currently available. Forecasting helps to fill in some of these information gaps. The photographic market is currently experiencing rapid change with the increased interest in digital photography and the subsequent demise of traditional cameras. It is essential that Kodak tries to anticipate the future trends in order to remain competitive in this rapidly changing market.

Forecasting Tools

There are many different forecasting methods available for developing a view of the future. This report will outline the various tools and provide recommendations on which tools will be the most appropriate for the market in which we are operating.

Short term

Trend Extrapolation is a statistical method whereby past relationships are extended into the future. It is often used to predict the future when short time horizons are important. For example, it is assumed that the pattern of sales of digital cameras will continue in the same manner in the future. Such assumptions are too dangerous to make in our industry given the fast digitisation of consumers and the merging with other technologies like mobile phones.

<u>Various Time Horizons</u>

Some tools can be used to forecast over the short, medium and longer term.

Modelling is a simplistic representation of the nature of inputs and outputs – i.e. if the input is known the outputs can be modelled. This is sometimes used to anticipate responses to advertising campaigns, but the complexity and evolving nature our industry makes this task all the more difficult.

Individual forecasting is when an expert is consulted on the likely developments in the industry. While the expert's opinion may be sound, important strategic decisions should be further supported by other methods.

Longer Time Span

Consensus forecasting is an attempt to reinforce individual forecasting by buying in a panel of experts, not just one, which may be drawn from both inside and outside the company. There are two types of such forecasting:

- ***Jury forecasting*** in which the panel convenes and discusses the outcome. There is the danger, however, of "group think" symptoms i.e. that important minority views might not be given a voice.
- ***The Delphi method*** tries to avoid groupthink by co-ordinating the forecasts separately. This is obviously time consuming and expensive.

Scenario Planning is an attempt to arrive at a number of possible views of the future, not just one. Present variables are identified and then checked whether they hold true in future situations. This is useful for us, and can be used to determine:

- Future demand (will photos be printed, kept on disc, on the PC or on mobile devices)
- Potential growth areas – maybe through new applications of current technology
- Future competition – current weak players might join forces to create a sizeable threat, analysis of current competition and possible new entrants
- Future basis of our competitiveness – should we compete on price, quality, service?

In scenario planning, the following steps are undertaken:

1. Identify critical variables
2. Plot possible string of events
3. Refine the scenarios
4. Identify and evaluate matters arising

Other Forecasting Tools

War gaming

This involves people taking up roles as potential or current competitors and stating how they would act in given situations. This is ideal for team building and some valid issues may come forth.

Synthesis reports

These involves continuously reviewing market, competitor and customer information and integrating this information into the planning sequence.

Market Sensing

Developed by Piercy, this term refers to a philosophy rather than a forecasting tool. It entails having decision makers constantly in touch with customers and the market, so they may develop a better understanding of future direction.

Recommendations

In view of the above evaluation I recommend that Kodak undertakes a one-off Delphi forecast combined with scenario planning. In addition, the techniques outlined in section 3, on other forecasting tools, should be incorporated into day-to-day operations.

In view of the wide range of marketing sensing, this is not a simple, one-off exercise it requires a change program for management and employees.

Comments

This is a good grade A paper. The candidate approached this question in a highly structured and appropriate manner. It was good to see that the candidate had given thought to the appropriateness of the forecasting tools for different timescales. This was particularly relevant for a photo-processing company that is experiencing rapid change in the external environment.

The candidate produced an insightful answer that demonstrated a good understanding of the various forecasting tools available. Weaker answers tended to describe each tool without either applying them to the scenario, or without providing some comment on how appropriate they may be given the nature of the industry in which they were operating. This answer made reference to the photo-processing industry and also offered some comments as to the suitability of each tool.

Question 4

Background

This question is set to assess the role of the innovation audit when undertaking internal analysis. Candidates should be focusing specifically on the innovation audit and its role in internal analysis rather than producing a generalised answer about innovation.

This question covers material covered In the syllabus on Internal Analysis: Innovation Audit.

To: Mr Jones, Marketing Manager
From: Mr Green, Marketing Planner
Date: 8th June 2005
Subject: The Role of the Innovation Audit when undertaking internal analysis

The innovation audit is a critical assessment of a company's innovation record, by identifying any internal obstacles to innovation and finding ways to enhance performance. The innovation audit is needed by companies to ensure that they are delivering the required level and type of innovation needed to meet customers' needs and expectations.

The innovation audit is necessary to guarantee organisational success in a dynamic and changing environment. It will help a company in the following ways:

- The quality of products/ services provided
- To adopt a leaner structure
- To provide solutions to problems
- Produce less formality in structure and culture, thus improving communication within a firm
- To provide greater confidence in coping with change

Drummond and Ensor (1999) identified the four key areas of an innovation audit which includes:

- Analysis of the company's current organisational climate
- Analysis of the company's current performance, with regards to innovation
- Analysis of the company's policies and practices in supporting and facilitating innovation.
- Scrutiny of the company's management leadership styles

There may be barriers to innovation within an organisation:

- Resistance to change; fear of change, or fear to learn and adapt accordingly.

- Old planning systems which may hinder the company by delaying operational production due to being outdated systems
- Old structures; a bureaucratic organisational structure which results in poor communication
- Centralised control
- External agencies; which may be carrying out certain specialist activities
- Cost considerations; ensuring the company allocates adequate funds to project management

Once the above barriers to innovation are identified it is essential to overcome these by ensuring:

- Top management commitment – ensuring management encourages creativity, idea generation, reward systems and flexible communication with the organisation.
- Marketing re-organisation – ensuring the organisation is market-orientated by satisfying its customers needs
- Training and development – training existing employees and ensuring expert employees are recruited
- Communication – as a means of competitive advantages; encourage two-way flow of communication
- Producing the results – when the company achieves excellent results this should be communicated within the company, especially to employees at lower operational levels – to motivate them since companies tend to communicate generally negative feedback e.g. client complaints and unreached targets.

Drummond and Ensor (2001) identified the need to increase the speed and pace of innovation by adopting the following:

- Customer Involvement – this will enable the firm to take an outside in perspective, whilst the customer will be at the centre of all of the firm's activities.
- Top management commitment – management must support new product innovation and apply reward systems to motivate and reward those employees who achieve outstanding results.
- Managing the environment – this involves scanning the environment and the overall external environment to keep up with changes in the market.
- Parallel processing – this involves carrying out NPD activities concurrently rather than sequentially.
- Multi-functional teams – it is necessary to employ people form different cultures and backgrounds to encourage the generation of different ideas and opinions.
- Strategic direction – ensure that the company invests in long-term innovation, to ensure long-term profitability and success.
- Knowledge management - it is necessary to enhance continuous learning and invest in efficient and effective management information systems.

It has been identified that innovation is not merely about new product development but as stated by Drummond and Ensor (2001) it is about 'changing established products, processes and practices'. This can be achieved by being market-orientated and continuously meeting the consumers/ market needs.

Comments
This was a grade A answer because the candidate identified the key issues: explanation of an innovation audit, why it is necessary, what it involves and also some of the barriers to innovation and how these barriers can be overcome. The candidate demonstrated a good understanding of the role of the innovation audit when undertaking internal analysis. However, they could have improved their answer by providing a more in-depth discussion of what is involved in an innovation audit and spent less time discussing innovation generally. There was some overuse of bullet points without adequate explanation of the points. The answer could also have been improved had the candidate used headings and sub-headings to highlight the key issues to a greater extent.

Question 5

Background
Market share gains are often seen as a key marketing objective. However, few companies understand the reasons for this. This question was designed to assess candidate's knowledge of the PIMS research and its contribution to our understanding of the importance of market share in marketing strategies. This question examines material covered in the syllabus on Auditing Tools: PIMS.

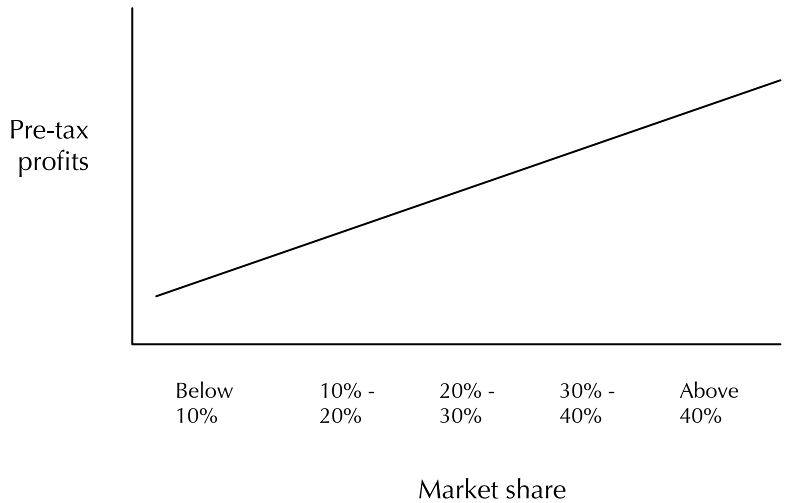
To:	Managing Director
From:	Marketing Manager
Subject :	Contribution of PIMS research
Date:	8th June 2005

1. **Introduction**

Profit Impact of Market Strategies (PIMS) is a study by the Strategic Planning Institute. It covers more than three thousand business units, measuring the correlation between pre-tax profits and market share.

2. **PIMS Findings**

The PIMS research revealed that there was a linear relationship between market share and profitability as illustrated in the diagram below.



The research revealed that companies with a market share over 40% enjoyed three times more profit than companies with a market share of less than 10%.

This correlation seen in the above diagram has been attributed to the following factors:

2.1 Economies of scale

The spreading of production and marketing costs over a wider unit base (through higher sales) results in a lower cost per unit.

2.2 Bargaining Power

Buying in bulk to service large market share invariably bestows negotiation power on the buyer. For example, Walmart has not only negotiated low prices but it has also demanded (and obtained) electronic invoicing and settlement from its suppliers – all to reduce paper processing costs and thus strengthening its lowest cost strategy.

2.3 Quality of Management

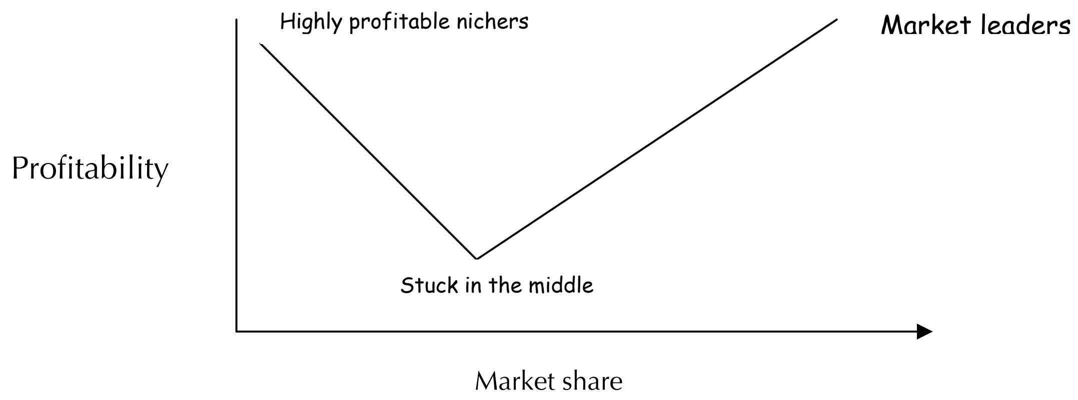
Big companies attract quality managers and staff due to the status of being regarded as the market leader.

Market leaderships is also regarded as being attractive because of the status of being number one in the market.

3. Criticisms of PIMS

3.1 'V'-Shaped Curve

The PIMS research has been criticised because an alternative relationship between profitability and market share has been identified. This 'V' shaped curve is illustrated in the diagram below.



Companies with very low market share were found to be highly profitable through their ability to charge premium prices for meeting their niche's needs closely. For example, niche companies operating in the financial services industry. The least profitable companies were those that were stuck in the middle. There appeared to be a point at which further attempts to increase market share would result in lower profits – through increased PR, lobbying and legal costs.

3.2 Anti-trust Action

Market share gaining by companies in an already dominant position are sure to draw some anti-trust action by competitors or governments. The classic example is that of Microsoft coming under fire on both sides of the Atlantic for, among others, its media player in Windows issue.

3.3 Market Definition

It is extremely important to define correctly the market in which companies are operating when making market share statements. Although both operate in the same industry, Mercedes and Suzuki do not share the same market – the former the luxury car market and the latter, the cheap, entry level car market. Mercedes has a very small share of the total car market but a large share of the luxury car market.

3.4 Measurement Difficulties

It is also not always possible to measure the markets in which relevant companies are operating, especially in the case of a fragmented market with many minor companies. Extensive research would need to be commissioned.

4. Conclusion

In view of the above it is safe to say that PIMS takes a simplistic and generalised view. Companies should focus on the needs of their particular segments – for example less market share and more quality may be required.

Comments

This was a good quality grade A answer that addressed most of the key issues. It was well structured and adopted a logical approach i.e. explained the PIMS research and why market share was seen as desirable, provided a good critique of the research and an appropriate conclusion.

The use of headings and sub-headings clearly highlighted the key issues.

Despite achieving an A grade the answer could have been improved further had the candidate discussed the factors that should be taken into account when evaluating whether or not a company should be pursuing market share gains e.g. level of maturity of market, customer loyalty, competitive reaction and the affect it would have on other areas of the business.

Answer - Question 6

Background

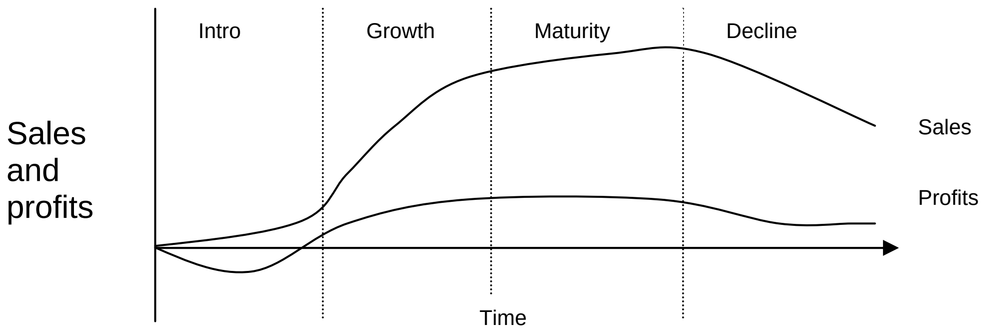
This should have been a very straightforward question that assessed candidates understanding of the product life cycle and its contribution to marketing planning, particularly in light of the rapidly changing environment in which companies are operating. It was expected that candidates would adopt a critical stance rather than just providing a description of the model. This question covers material in the syllabus on auditing tools and also approaches to creating strategic advantage: PLC.

To: Managing Director, Roche
From: Marketing Manager
Subject : Product Life Cycle
Date: 8th June 2005

1. **Introduction**

The product life cycle (PLC) is a model that shows a product as passing through different stages throughout its lifespan, each stage necessitating a different strategy. This report evaluates its contribution to marketing planning.

2. **The PLC**



The above diagram shows that when products are launched, sales are initially low and profits are actually falling. This is especially true for the pharmaceutical industry due to the extensive R&D and testing costs which have to be recouped.

Sales hopefully pick up at the growth stage, with profits breaking even and starting to climb. As competition or substitute products increase and demand levels off it is the maturity stage. In the end it's the decline stage where the decision has to be taken as to whether to take the product of the market or not.

3. **Contribution of the PLC to Marketing Planning**

There are several ways in which the PLC can help in marketing planning and these include:

3.1 It forces management to adapt a different strategy for each stage, rather than using a standard strategy throughout a product's life. For example, awareness raising among doctors and pharmacies during introduction, securing channels to widen distribution in the growth stage etc.

3.2 By plotting products on the PLC it helps us to maintain a balanced portfolio. Too many drugs at the decline stage means that we will have to launch new ones quickly, too many at the introduction stage will be a burden on cash-flow. In view of the considerable time to market for pharmaceuticals, given the R&D testing and awaiting approval form regulators, this is an especially valid and important point.

3.3 The PLC can be applied to just not products but also brands, product forms, product classes and industries. This can help companies to review their whole business.

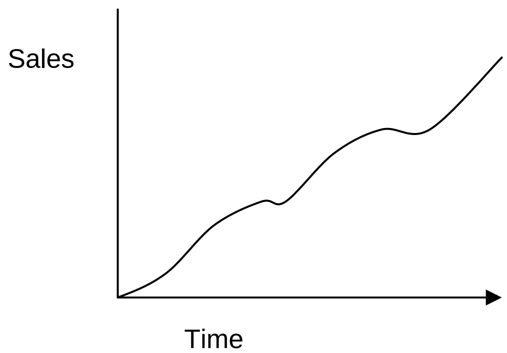
3.4 The diffusion of innovation model can be applied or superimposed on the PLC to help us with communication strategies – targeting innovators at the introductory stages and laggards at decline. This holds true especially for our over-the-counter (OTC) drugs, where we target the end consumer directly with pull strategies.

4. Limitations of the PLC

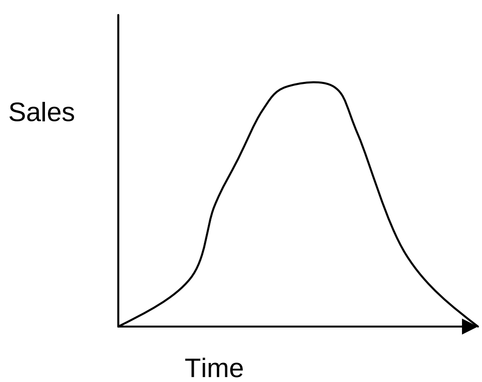
There have been may opposing views to the applicability of the PLC model with the following being the main arguments against its usefulness:

4.1 The PLC is dependent on, not independent of, management decisions. If during the maturity stage promotional support is withdrawn the product will obviously enter decline i.e. the self-fulfilling prophecy.

4.2 PLC can have a myriad of shapes. Half-way through the maturity stage it can be relaunched, or the product might be a fad moving from introduction to decline almost immediately.



Re-launched products



Fad

4.3 It is difficult to know the length of each stage, or when exactly one has ended and the next stage started.

4.4 It is also difficult to know the length of the whole PLC, as traditionally, the product can be extended and maintained ad infinitum. However, due to the expiry of patents, the life of breakthrough drugs can be to some extent planned.

5. <u>Conclusion</u>

While the contributions that the PLC model makes to marketing planning are valid it should not be followed prescriptively as it is too product based. It should be used in conjunction with other models such as the GE policy matrix, the BCG matrix, analysis of the competitive environment using Porter's five forces models, extensive customer research and to some extent management judgement.

Comments

This was an A grade answer that addressed many of the key issues. The candidate provided a useful introduction that included an overview of the model. They then went on to critically evaluate the model by discussing both its contribution to marketing planning and also its limitations. Weaker answers consisted of a detailed description of the model, and its various stages, without actually evaluating its overall contribution to marketing planning.

One slight improvement that could have been made was the inclusion of some discussion, in the introduction, as to the reasons why companies are increasingly operating in unstable and unpredictable environments e.g. PEST factors etc. This issue could also have been referred to more specifically in the conclusion.

Question 7

Background

Too often people become preoccupied with the models, tools and techniques used to produce marketing plans without actually thinking about how they might actually implement the plan. This question was designed to assess candidates understanding of the importance of the implementation stage in marketing planning, in particular the role that people play in the ultimate success of the plan.

This question draws on the section of the syllabus that covers Key elements of Implementation.

To: Board
From: Marketing Manager
Subject: Planning
Date: 8^{th} June 2005-09-17

Introduction

Marketing Planning is made up of 3 main elements/dimensions – analytical , behavioural and organisational. Some say that the analytical dimensions are the most important when putting together a marketing plan, including techniques and formal methods. On the other hand behavioural dimensions are often the most important in terms of commitment and ownership of the plan and process.

<u>Which Dimension?</u>

Analytical Dimension

The analytical dimension incorporates elements such as the techniques, analysis, models etc that are the building blocks and foundations for any marketing plan. These elements underpin the plan and give it its structure and format in terms of key models and so aids direction and strategy development.

However, there is more to a plan than models, analysis and research. Often plans fail because of a lack of ownership and implementation. There is little point in developing a plan if it is to be filed away in a drawer and never used or worst still no one knows it's there any way! Plans therefore need careful implementation and resources dedicated to this purpose. A successful plan will often be successful not because of the techniques that were used to put it together but because of the commitment, management ownership and skills that actually delivered the plan.

		Plan/strategy	
		Appropriate	Inappropriate
Execution skills	Good	Success	Chance
	Bad	Problems	Failure

As can be highlighted from this model a plan has more chance of being successful if it is executed well in terms of implementation, direction and ownership. If a fantastically detailed plan has been put together by the marketing manager in isolation from the rest of the company, with lack of management support, the plan is likely to fail.

Key elements required for success of a productive plan include, commitment from management, enough resources to put the plan together and implement it, management by exception and ownership, as well as control of the plan and the objectives it seeks to deliver. In addition to these critical elements are systems, structure and strategy.

Organisational Dimension

The organisational dimension includes factors already highlighted such as appropriate systems for example MKIS, structures in place to support a marketing orientated culture, creativity and action, strategy that will work is built upon core evidence, statistics, research and sound knowledge. These are internal sources that must be present when planning to aid the process and to ensure the plan is filtered through the organisation.

Behavioural Dimension

This includes factors such as culture, management style and leadership. For a plan to work, it must be supported throughout the organisation. This requires a supportive culture that embraces change. Often people, especially staff oppose plans because of the fear of change and its implications. However, if effective communication and open structures exist the plan can be explained to all staff, including the rationale behind it so that they can understand how their commitment to the plan can result in success for all. Management can contribute to this process through ownership and support displayed at all levels within an organisation. Often change agents are appointed for preparing and delivering plans within organisations. This can ensure that additional resources are made available to help support the process. However, the plan must not be produced in isolation, by using cross-functional teams across the organisation this can aid commitment and ownership by everyone. Buy in by all employees is essential if new strategies are to be effectively implemented.

Internal Marketing

Internal marketing can be a useful technique for gaining ownership and commitment to marketing plans and strategies in general. By treating staff as internal customers and 'marketing' the plan to them they are more likely to feel involved. Segmentation can be carried out internally to identify potential opposers, those likely to oppose the plan, neutrals, those that will potentially neither oppose nor support the plan and supporters who are likely to benefit from the plan. This can help to target key individuals by communicating key messages in hope that they will 'buy into' the plan. By using either negotiation, politics or persuasion techniques hopefully all members of the organisation will understand the importance of the plan and want to play a role.

Conclusion

In conclusion, Piercy's statement regarding a trade-off between planning techniques is partially incorrect. A good plan requires consistency and integration of the 3 key aspects of planning: analytical, behavioural and organisation. A plan requires commitment and ownership without doubt but it also requires a structure and factual underpinning delivered through formal planning techniques such as situation analysis and competitor and industry analysis. In essence good plans have management and organisational support in order to motivate and communicate its importance to all employees. Evidence and techniques are required to show that the plan is thorough and based on both fact and intuition (gut feeling).

Comments

This candidate produced an A grade answer that acknowledged that the success of the a plan relies not only on the quality of the plan but also the way in which it is implemented. They explained that marketing planning is made up of three dimensions: analytical, behavioural and organisational and discussed the implications of this. They correctly referred to the Bonoma (1984) model that effectively illustrates the factors that contribute to the success of a strategy. The candidate provided an insightful discussion of the role that internal marketing can play in implementation. The concluding comments demonstrated a good understanding of the key issues and provided a succinct conclusion.

The answer was presented in an appropriate manner. However, a few more headings could have been used to further highlight the key issues.