UNIVERSITY OF LONDON | INTERNATIONAL PROGRAMMES

Course information 2015–16
MN3141 Principles of marketing

This course introduces students to the fundamental principles of marketing and marketing management. The approach taken in this course will enable students to gain a broad understanding of the theoretical and practical issues surrounding marketing decision making..

Prerequisite
If taken as part of a BSc degree, courses which must be passed before this course may be attempted:

EC1002 Introduction to economics ***or***
SC1021 Principles of sociology ***or***
SC1179 Contemporary sociology in a global age ***or***
MN2079 Elements of social and applied psychology.

Aims and objectives
This course aims to:

- introduce students to the fundamental principles of marketing.
- give students a broad understanding of consumers and the marketing behaviour of firms.
- explore the relevance of other academic disciplines to marketing.
- encourage students to question the limitations of marketing management and to suggest ways of overcoming its many problems.
- develop students' practical skills by applying learned theories to real-world organisational problems.

Assessment
This course is assessed by a three hour unseen written examination.

Learning outcomes
The course is ideally suited for those who wish to develop a sophisticated and critical understanding of marketing. At the end of this course and having completed the essential reading and activities students will be expected to:

- discuss the function and effect of advertising/promotion from an
- organisational perspective
- describe the pricing behaviour of firms in an uncertain environment
- where information may be limited or wrong
- describe and analyse the marketing behaviour of firms and consumers

Essential reading

Dibb, S. and L. Simkin 'Implementation problems in industrial market segmentation', *Industrial Marketing Management* 23(1) 1994, pp.55–63.

Gaski, J.F. 'The theory of power and conflict in channels of distribution', *Journal of Marketing* 48(3) 1984, pp.9–29.

Kotler, P. and G. Armstrong *Principles of marketing*. (Upper Saddle River, NJ: Pearson, Prentice Hall, 2012) fourteenth international edition [ISBN 9780273752431].1

Mitchell, V-W. 'Buy-phase and buy-class effects on organisational risk perception and reduction in purchasing professional services', *Journal of Business and Industrial Marketing* 13(6) 1998, pp.461–78.

Ring, P.S. and A.H. Van de Ven 'Structuring cooperative relationships between organisations', *Strategic Management Journal* 13(6) 1992, pp.483–98.

Wilson, D.F. 'Why divide consumer and organisational buyer behaviour?', *European Journal of Marketing* 34(7) 2000, pp.780–96.

Syllabus

This is a description of the material to be examined, as published in the *Programme handbook*. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading.

General introduction
An overview of marketing history and theory
The marketing environment
Consumer behaviour.
Organisational buyer behaviour.
Market segmentation, targeting and positioning
Customer relationship marketing (CRM).
Branding and product development.
Product innovation and the life-cycle approach.
Promotion
Pricing
Distribution
Corporate social responsibility (CSR)

Students should consult the *Programme Regulations for degrees and diplomas in Economics, Management, Finance and the Social Sciences* that are reviewed annually. Notice is also given in the *Regulations* of any courses which are being phased out and students are advised to check course availability.

Examiners' commentaries 2015

MN3141 Principles of marketing – Zone A

Important note

This commentary reflects the examination and assessment arrangements for this course in the academic year 2014–15. The format and structure of the examination may change in future years, and any such changes will be publicised on the virtual learning environment (VLE).

Information about the subject guide and the Essential reading references

Unless otherwise stated, all cross-references will be to the latest version of the subject guide (2013). You should always attempt to use the most recent edition of any Essential reading textbook, even if the commentary and/or online reading list and/or subject guide refers to an earlier edition. If different editions of Essential reading are listed, please check the VLE for reading supplements – if none are available, please use the contents list and index of the new edition to find the relevant section.

Comments on specific questions

Candidates should answer FOUR of the following EIGHT questions. All questions carry equal marks.

Question 1

a. **What does the term marketing orientation mean? (5 marks)**

b. **Explain why firms that undertake differentiated marketing and value based pricing may be considered to be marketing oriented. (10 marks)**

c. **Will differentiated marketing and value based pricing always be in customers' best interests? (10 marks)**

Reading for this question

Section 2.5 of the subject guide contains material on the marketing orientation that is relevant to this question. Kotler and Armstrong's coverage of market targeting covers material relevant to answering the question about differentiated marketing and their coverage of major pricing strategies covers material relevant to answering the question about value-based pricing.

Approaching the question

The answers to this question would be based on the argument that the marketing orientation assumes that different groups of customers have different needs and wants. Differentiated marketing is one of the methods firms can follow when they undertake market targeting. Firms that undertake differentiated marketing target several market segments and design different offers for each of them. This corresponds to the marketing orientation. In contrast, an alternative to differentiated marketing is undifferentiated marketing and that approach targets the whole market with one single offer. This assumes that customers in the market have similar needs and wants. Value-based pricing focuses on customers' perceptions of value and, given this emphasis on customer needs and wants, rather than on the seller's costs, it can as a result be argued to be marketing oriented.

Clearly value-based pricing (i.e. a marketing oriented approach) need not be in customers' bests interests where it leads to prices being substantially higher than if a marketer took a cost-based approach. This can happen where customers have a high price inelasticity of demand, for example where there are few substitute goods. In terms of the customers' best interests and differentiated marketing, these will not always be in the customer's best interests. However, you need to argue clearly, drawing on relevant material and examples.

Question 2

a. **Define both advertising and public relations, discuss the key differences between them and the impact that the internet has had on them. (15 marks)**

b. **Discuss the credibility and control challenges that marketers may have with these elements of the promotion mix. (10 marks)**

Reading for this question

Advertising and public relations are covered in Chapter 15 of Kotler and Armstrong. Advertising credibility is addressed in Section 10.3.1 of the subject guide.

Approaching the question

Advertising – any paid form of non-personal presentation and promotion of ideas, goods or services from an identified sponsor.

Public relations – building good relations with companies' various publics by obtaining favourable publicity, building up a good public image and handling or heading off unfavourable rumours, stories or events.

Key differences are:

- advertising is paid for
- PR can be free or indirectly paid
- advertising sponsor is identified, PR not necessarily
- advertising has a high level of control and PR has a higher level of credibility.

Impact of the internet.

- Advertising can be linked to individual's behavior on the internet and expressed preferences.
- Advertisers may only be charged for the customers' actual engagement with their advertising (e.g. click-throughs).
- Customer engagement not just in terms of purchase or request for more information but also in terms of 'likes' etc.
- Public relations now has outlets (e.g. in terms of bloggers; websites linked to causes).

Advertising has relatively less credibility than PR.

- Viewers discount claims made in advertising.
- Marketers can address this via use of credible/celebrity endorsements.
- Two-sided claims.
- Usage of facts, research in the message.
- Use in media that is more likely to be trusted.

Public relations has less control than other forms of promotion.

- Marketers can't ensure that it will generate coverage or whether the coverage generated will be of the type expected.
- Use of celebrities.
- Linked to campaigns that can become viral.
- Advertorials.
- Integrated marketing campaigns.

Part a. answers were generally stronger, especially the definition and the differences. A subset of these answers also elucidated the impact of the internet (e.g. better effectiveness and measurement). Part b. had a higher variation with answers not being able to completely justify the control and credibility discussion.

Question 3

a. **Define and distinguish between search, experience and credence goods. (10 marks)**

b. **Explain what is meant by the term information cascade. (10 marks)**

c. **Discuss the methods marketers can use to market credence goods. (5 marks)**

Reading for this question

Information cascades and are covered in Section 9.5 of the subject guide. The difference between search, experience and credence goods is explained on page 134 of the subject guide.

Approaching the question

a.

Search goods are those about which information can be gathered before purchase.

Experience goods are those about which information can only be gathered following use. All products are said to contain search and experience attributes. Search refers to the assessment of product quality without the customer interacting with the product. Experience refers to situations where product quality can best be assessed by actually using the product. The impact of the internet on consumer information search can be considered in terms of search and experience. For example, a well-designed website that sells premium cameras can provide much richer information about the cameras, such as their specifications, how they can be used and the resulting photographs, expert opinions and consumer feedback, than the information available from a salesperson in a traditional retail shop. In addition, consumers shopping for cameras can read extensive product reviews from other consumers and thus can 'experience' these products before purchase.

Credence goods are goods in which even after purchase, a typical consumer requires expert opinion to determine quality (for example, financial investments, medical operation, car mechanic repair).

b.

Information cascades refers to the notion that rather than go through a costly process of searching to try to find out whether a product is of high quality or not, it may make sense instead to observe what others do in the market and follow their behaviour. This is especially true if the information about whether the decision is correct or not is costly to obtain and the consumer believes that others are more informed about the decision. Answers here may cite the example in Section 9.5 of the subject guide.

c.

For credence goods, marketers can make it easier for customers to become members of 'brand communities' and co-create value with other customers. Information about the product/service can be made more easily available (e.g. via websites). Also, information transfer between users and non-users is important so as to improve a prospect's ability to evaluate the quality of the credence good.

Question 4

Pepsico (a manufacturer of carbonated soft drinks) bought Tropicana, a manufacturer of premium fruit juices. Sales of fizzy drinks are falling, while sales of fresh fruit juices are rising. Despite the ownership, Tropicana packaging has no reference to Pepsico.

a. Describe the brand strategies model. (5 marks)

b. Discuss the implications of corporate social responsibility for Pepsico in its marketing of carbonated soft-drinks. (5 marks)

c. From a marketer's perspective, explain why Pepsico may have bought this product and pursued this branding strategy. (15 marks)

Reading for this question

The brand development strategies model is covered in Chapter 8 of Kotler and Armstrong. Corporate Social Responsibility is covered in Chapter 13 of the subject guide.

Approaching the question

a.

The brand strategies model has two axes, product category (new/existing) and product name (new/existing). The model shows how firms may choose to either have an existing brand name or a new brand name according to whether they are marketing products in new or existing product categories.

b.

- These drinks meet customers' needs and wants.
- However, there are long-term health implications for consumers, particularly children.
- The company may be facing pressure from regulators and others due to the soft drink products that it sells and their perceived links with tooth decay and obesity, for example.

c.

- Pepsico may have bought Tropicana because it wants to have a product at the growth stage of the plc.
- It may want to reduce its reliance on carbonated fizzy drinks whose sales are falling in some countries.
- Pepsico may not want to add its brand to this new product in a new category because the brand equity of Pepsi may damage a product competing in the fresh fruit juice category.
- Pepsi may feel that Tropicana already has a strong enough brand equity to compete in that category.

Question 5

a. **Critically analyse the three basic feedback loops that social psychologists use to explain consumer behaviour. Use real life examples wherever appropriate. (15 marks)**

b. **Explain the term cognitive dissonance. Describe the steps marketers can take to reduce cognitive dissonance and negative post-purchase behaviour in general. (10 marks)**

Reading for this question

The three basic feedback loops are covered in Section 4.4 of the subject guide. Kotler and Armstrong cover cognitive dissonance in the context of consumer buyer behaviour in the section on the buyer decision process (namely, post purchase behaviour).

Approaching the question

a.

This question was looking to elicit your understanding of the social-psychological approach to consumer behaviour, especially the basic feedback loop, dissonance theory feedback loop and the influence of social norms feedback loop.

The basic feedback loop is where a person has a well-defined self-concept or personality, and makes choices and undertakes actions based on this set of psychological characteristics.

The attributions are the reinforcing part of the feedback process, and these usually can be both external and internal, meaning that they are either made by a third person observing some action or by the person undertaking the action.

Answers would state that there are also alternative specifications of the above feedback loop such as dissonance theory. This is where people take actions and only later construct reasons for their actions. Here the personality or self-concept is solidified after the action is taken.

Finally, there is the case where culture and social forces can play a big role on the individual's personality and actions. This is where the self-concept is actually the result of a set of social roles or norms.

b.

A marketer's job does not end once exchange has taken place. After the purchase, consumers will either be satisfied or dissatisfied and will engage in certain types of post purchase behaviour. This behaviour, whether positive or negative (for the marketer), depends on consumer expectations and the perceived performance of the product. The larger the gap between expectations and performance, the larger is the level of consumer dissatisfaction.

Cognitive dissonance is normally associated with products that are major purchases, risky, purchased infrequently or expensive (making them high-involvement goods). This dissonance causes discomfort related to post purchase conflict. Kotler and Armstrong elaborate further on the importance of managing/controlling/reducing this dissonance and offer various examples related to this concept.

Answers would reflect on ways by which dissonance can be addressed. These include:

- advertising that reassures customers that their purchases were the correct ones
- service and support staff/helplines

- information on product use
- existing customers/brand communities who can reassure new buyers
- the opportunity to return the goods for a refund.

Here, candidates would be able to enhance the quality of their answer by discussing measures that brands have actually taken to manage cognitive dissonance.

Part a. on the feedback loops was answered reasonably well, though the examples in some cases could have been more robust. Examples cited were stronger for the third loop related to social norms than for the other loops.

The main weakness was the discussion of dissonance, which had the weakest coverage of the three feedback loops. A number of answers illustrated Fig. 4.4, 4.5 and 4.6 to help in their explanations.

Part b. was generally addressed well by a fair number of candidates, although some were able to discuss the concept but were not able to provide examples that would help explain further.

Question 6

a. Briefly explain the concepts of the 'Rogers Diffusion Curve' and the 'Product Life Cycle'. Discuss the relationship between these two concepts and the importance of this relationship to marketers. (10 marks)

b. Describe the closed and open innovation models and discuss the reasons why the open innovation approach has become popular in the past few years. (15 marks)

Reading for this question

Rogers' Diffusion Curve and the Product Lifecycle are covered in Chapter 9 of the subject guide. They are also covered in varying detail in Kotler and Armstrong. Chapter 9 of the subject guide also deals with open and closed innovation.

Approaching the question

a.

Rogers classifies adopters into five overall categories and these categories, according to him, reflect the overall market. As successive groups of consumers adopt a product, its market share will eventually reach a saturation level. These adopters are 'ideal types' and the classifications are based on demographic, socioeconomic, personality characteristics and in some way are analogous to the clustering of consumers in a market segmentation study (Wright and Charlett, 1995). Rogers further adds that people can fall into different categories for different innovations – an avid smart phone user may be an early adopter of the latest mobile phone, but may be a late majority adopter of another innovation (for example, electric cars). Section 9.3 of the subject guide elaborates in sufficient detail about the concept and answers are expected to elaborate on the material covered there.

The PLC on the other hand assumes that every product launched in the market follows a certain path. This path can be short or long, but according to researchers follows five distinctive stages.

- **Introduction:** The uptake of a new product is often slow. There are several reasons for this, for example, technology is new and uncertain. Distributors still have contracts for older products. Buyers are still unaware of the new product or are uncertain of its benefits.

- **Growth phase:** Growth of sales occurs at an accelerating rate. More competitors enter but actually help in expanding the market.
- **Shake-out phase:** Demand is still increasing but at a slower rate.
- **Maturity:** Market penetration is now very high. There is little room for growth but neither is there much decline.
- **Decline:** New, more technologically-advanced products make their appearance and substitute for the original product.

In this part, candidates are expected to explain the concepts in general but the second half of this question requires them to reflect on the relationship between the two concepts. These two concepts are based entirely on very different metaphors (the diffusion curve on the spread of disease and the PLC on the biological lifecycle).

However, reflective answers can examine the relationships between the two. A product could reach its decline stage even without having penetrated to the early or the late majority segments. For example, a fad may not diffuse into all the adopter categories and could remain restricted to early adopters. Candidates here could use examples to increase the impact of their answers. A number of answers were able to explain the two concepts but were not able to sufficiently elaborate upon the relationship. There were other answers where candidates were able to link the two concepts, for example, during the introduction stage, the focus should be on converting the innovators/early adopters.

Such a question also demonstrates the importance of looking at linkages and interconnections between the concepts and thus enabling greater depth in understanding.

b.

The underlying assumption of the closed innovation model is that 'successful innovation requires control'. It is a logic that is strongly internally focused, since it is not guaranteed that others' technologies or ideas are available and of sufficient quality. This self-reliance is rooted in certain implicit rules as stated below (as mentioned in the subject guide).

- A company should hire the best people.
- To ensure profits, a firm should discover, develop and market everything itself.
- Being first to market requires that research discoveries originate within the firm.
- Being first to market also ensures that the firm will beat the competition.
- Leading the industry in R&D investments results in coming up with the best and greatest number of ideas and eventually in winning the competition.
- Restrictive intellectual property management must prevent other firms from profiting from the firm's ideas and technologies.

However, time to market and speed is now of the essence and adopting a closed innovation model may slow down the process for many firms. Firms such as Apple, acting in an environment of rapid technological change, are often dependent on external enterprise in order to generate radical innovations. Until recently, many firms (for example, pharmaceutical firms) were completely reliant on a closed innovation model since there was a fear that if they allowed external people access to their drug innovation process, it would lead to intellectual property related problems. However, many innovative firms have successfully adopted open innovation, which can be defined as an approach to innovation management which involves 'systematically encouraging and exploring a wide range of internal and external sources for innovation opportunities, consciously integrating that exploration with firm capabilities and resources, and broadly exploiting those opportunities through multiple channels'.

A number of answers demonstrated understanding of the concepts and provided relevant examples as well. Some others made use of Fig. 9.1 and 9.2 to elaborate. By and large, candidates had a fair grasp of these two concepts. Some others provided a generic understanding of innovation and this was not enough to warrant a good mark.

Question 7

a. **Identify and describe** four **different behavioural bases for market segmentation.** **(10 marks)**

b. **Using appropriate examples, explain how marketers can use** three **of these bases for designing the elements of the marketing mix.** **(15 marks)**

Reading for this question

Behavioural segmentation is covered in detail in Chapter 7 of Kotler and Armstrong.

Approaching the question

a.

Behavioural segmentation divides buyers into segments based on their knowledge, attitudes, uses or responses to a product. Many marketers believe that behavioural variables are the best starting point for building market segments.

For this part, any four of the following need to be elaborated upon:

- Occasions – buyers divided in terms of the occasions when they get the idea to buy, actually make their purchase or use the purchased item.
- Benefits sought – dividing buyers in terms of the different benefits that they seek from a product.
- User status – markets segmented in terms of nonusers; ex-users; potential users; first-time users and regular users of a product. Marketers would like to reinforce and retain regular users, attract targeted nonusers and reinvigorate relationships with ex-users.
- Usage rate – users segmented in terms of light, medium, heavy users etc.
- Loyalty status – segmenting a market by consumer loyalty and/or their degree of loyalty. Customers with a high level of loyalty will buy the brand all the time.

b.

For any three of the above, candidates needed to explain how the elements of the marketing mix can be used. This part of the question required candidates to be aware of the practical application of behavioural segmentation.

In terms of **occasion**, greetings card companies, for example, create cards for different occasions such as Mothers' Day and Christmas. Segmenting on the basis of **user status**, firms offer samples to customers who are potential users, but have no experience of actually using the product. In contrast, firms use the concept of **usage rate** to offer existing light users incentives to buy more (e.g. 3 for the price of 2). Such a promotion incentivises customers who would previously have bought one unit, to double their purchase in return for the incentive of getting a third item free of charge. There are a number of other examples that could be used to elucidate your answer.

There was quite a lot of variation of marks for this question. Some candidates clearly do not know this fairly basic topic. In a number of scripts a candidate who may otherwise have been heading for a good mark was not able to achieve that because they performed weakly in this question. Behavioural segmentation is a conceptually relatively simple concept and there are plenty of examples in the textbook. A number of candidates discussed the overall parameters for segmentation (i.e. demographic, behavioural, psychographic etc); this was not what the question had asked.

Question 8

a. **Explain what is meant by the terms, value chain and value delivery network. (5 marks)**

b. **How does a distribution channel add value? (10 marks)**

c. **How has the internet modified marketers' distribution strategies? (10 marks)**

Reading for this question

The concept of the value delivery network is explained at the start of Chapter 12 of Kotler and Armstrong. Value chains are explained in Chapter 2 of Kotler and Armstrong. How distribution channels add value is covered in Chapter 12 of the subject guide and Chapter 12 of Kotler and Armstrong.

Approaching the question

There was some confusion about the value chain and value delivery network, but that part of the question was only worth 5 marks. Answers to part b. were generally acceptable, however some candidates were unclear about what the notion of value delivery means.

- Value chain: series of internal departments that carry out value-creating activities to design, produce, market, deliver and support a firm's products.
- Value delivery network: a network composed of the company, suppliers, distributors and ultimately customers who 'partner' with each other to improve the performance of the entire system in delivering customer value.

A distribution channel adds value by bridging:

- time (allowing consumers to buy smaller quantities when it suits them)
- place (allowing customers to buy in locations that are convenient)
- possession gaps – reference to – promotion; contact; matching; negotiation; physical
- distribution; financing; risk-taking.

The internet has modified marketers' distribution strategies by:

- disintermediation – the removal of intermediaries in the supply chain. Better answers provided good explanations of the concept and how the internet facilitates it.