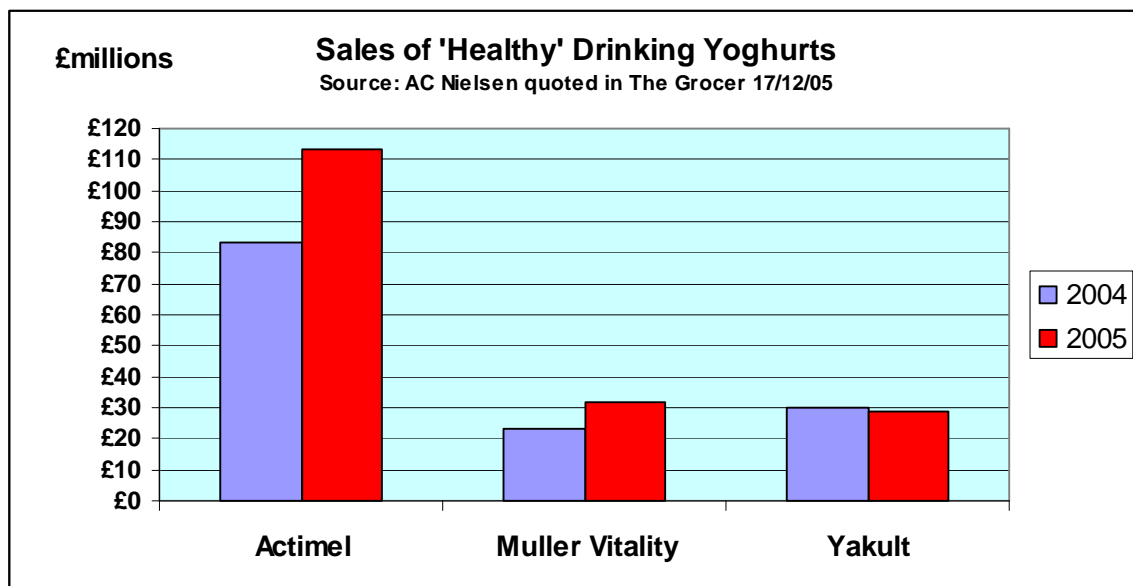


Yakult was the originator of the market for 'healthy' yogurt drinks, more than 30 years ago. It was designed to be healthy rather than to taste good. This was also a feature of the advertising, which used the slightly scary claim that the product contained 'good bacteria'.

The market grew steadily but slowly, until the French company Danone brought out Actimel. Heavily advertised, and with various sweetened fruit flavours, Actimel was promoted as a fun, enjoyable product rather than a serious one. At first, the advertisements for Actimel helped sales of Yakult, but by 2005 sales started to slip. Consumers wanted the fun, healthy lifestyle promoted by Danone. Also, in 2005, Yakult sales were hit by a new Muller product, Vitality, featuring the 'brain-food' Omega 3. All the clever new products were pushing Yakult to one side.

The bar chart shows the changes in the sales of these three products in 2005 compared with 2004. They are the top three brands in a market with total sales worth £260 million a year.



1. Outline one good and one bad thing about the determination of Yakult's managers to stick to the product they believe in. (6)
2. Look carefully at the bar chart, then decide whether the following statements are true or false. Briefly explain your answer.
 - 2.1. Muller Vitality went from third place in 2004 to second place in 2005. (2)
 - 2.2. Actimel's 2005 sales were more than 50% of the total market size of £260 million. (2)
 - 2.3. Actimel's sales were £83 million in 2004 and £113 million in 2005, so they rose by 26.5%. (2)
 - 2.4. Actimel's sales in 2005 grew by more than the total sales of Yakult. (2)
3. Discuss the responsibilities of the management of Danone to its shareholders and its customers, when selling profitable 'healthy lifestyle' products such as Actimel. (6)

Mark Scheme - Yakult

1. Outline one good and one bad thing about the determination of Yakult's managers to stick to the product they believe in. (6)

Good thing

Up to two marks for general explanation of a point; up to three marks if applied to context

- A consistent message to consumers will be helpful - especially if other claims prove to be short-lived fads such as Omega 3 'brain-food'
- Sticking by what they think is right does them credit in terms of their ethical stance; this may make Yakult staff more committed to their jobs; Yakult has been around for thirty years and will seek to stay successful for 30 more (whereas Danone may just switch to a new Rising Star)

Bad thing

Up to two marks for general explanation of a point; up to three marks if applied to context

- Ultimately, the consumer decides on the future of a business in a competitive market such as this. In a fast-growing market such as this, Yakult will not stay Number 3 for long. It will be pushed aside by new stars, and may find that shops stop bothering to stock it.
- Being overly-product focused is very risky in a faddy market such as this.

2. Look carefully at the bar chart, then decide whether the following statements are true or false. Briefly explain your answer.

2.1. Muller Vitality went from third place in 2004 to second place in 2005. (2)

True, it overtook Yakult.

2.2. Actimel's 2005 sales were more than 50% of the total market size of £260 million. (2)

False, Actimel's sales were not as high as £130 million.

2.3. Actimel's sales were £83 million in 2004 and £113 million in 2005, so they rose by 26.5%. (2)

False, they rose by $\frac{£30m}{£83m} \times 100 = 36\%$

2.4. Actimel's sales in 2005 grew by more than the total sales of Yakult. (2)

True, as Actimel's sales rose by £30m - more than Yakult's total of £29m

3. Discuss the responsibilities of the management of Danone to its shareholders and its customers, when selling profitable 'healthy lifestyle' products such as Actimel. (6)

Level 3. Applies knowledge to context and reaches some conclusion/shows some judgement

5-6 marks

Level 2. An answer that applies knowledge to the context

3-4 marks

Level 1. A knowledge-based answer (only describing responsibilities to stakeholders)

1-2 marks

- Management responsibility to shareholders is being fulfilled by finding a rising star such as Actimel, and making it highly profitable
- Responsibility to customers could be achieved if the product genuinely helps people lead more enjoyable, active lives; yet are the products genuinely helping people, or is it largely a matter of hype; if the managers were sceptical of the effectiveness of the products, they would be acting unethically towards their customers; if they believe in the products, their consciences are clear (how many of the managers' families consume Actimel every day? It would be interesting to know)

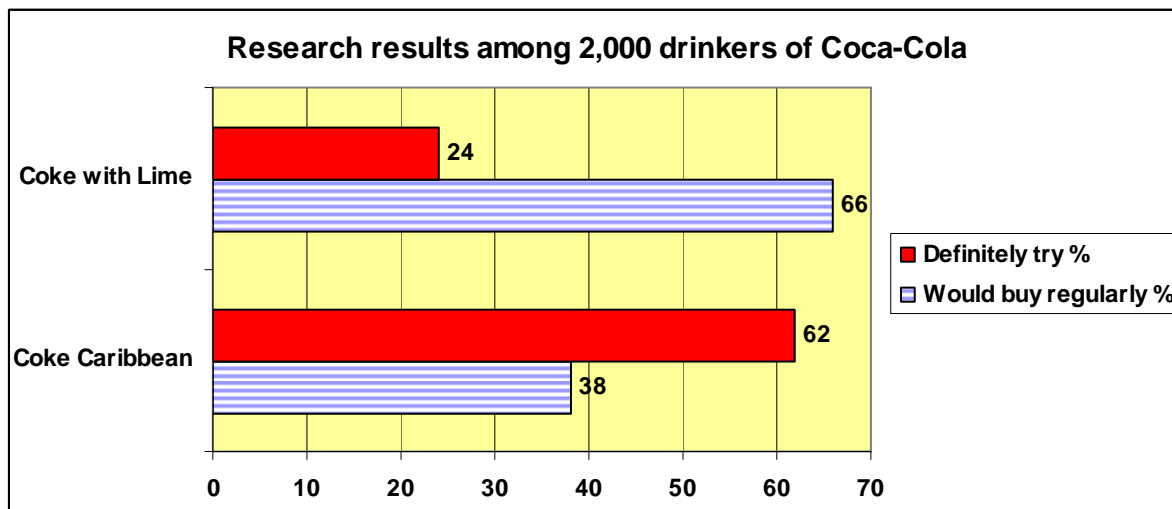
72. Product Trial and Repeat Purchase

1. Missing words

Every day's sales for every single business could be broken down into two: those buying for the first time (product trial) and those making a _____ purchase. This is obvious but very, very important for two reasons: 1. The factors leading to first-time purchase are different from those leading to repeat purchase (I buy a new Cadbury *Shazan!* Bar because of the _____; I buy Cadbury's Dairy Milk because I love the product quality); 2. It is cheap - free, even - to get people to make repeat purchases; but usually expensive to get them to make a product trial. Folklore says people are more likely to get divorced than switch their bank account. Gaining trial is a result of good marketing; turning trialists into repeat purchasers requires high product quality, good _____ service and genuine value for money.

Missing words from: advertising, customer, repeat

2. Data Response. Coke has carried out research into two new Coke varieties for a Limited Edition run for next summer only. They will either launch Coke with Lime or Coke Caribbean. Which should it be?



2.1 The bar chart shows that although not many people would try *Coke With Lime*, those that try it are very likely to buy it regularly. Briefly outline two possible reasons for *Coke With Lime*'s high % of 'Would Buy Regularly'

2.2 Which one of these two products should Coke launch for next summer? Explain why you say that.

3. Objective test questions

3.1 Identify two reasons for a low rate of trial on a new Sat Nav product.

- a) Customers recognise and like the brand name
- b) The product is a lot like others on the market already
- c) The product has unique features, but they are very complicated
- d) The product is well designed, and comes in a range of colours
- e) The product is priced just below the market-leading brand

3.2 Which business term or phrase is explained by each of the following?

a) Sales that come from people who have bought the product before. _____

b) People choosing to buy the same brand regularly. _____

c) Buying a product or service for the first ever time. _____

72. ANSWERS: Product Trial and Repeat Purchase

1. repeat ... advertising ... customer

2.1 The trialists probably love the taste, and see it as distinctly different from rivals

2.2 Coke Caribbean, because although its rate of repeat purchase is poor, the fact that this is a Limited Edition product means that a high rate of trial will probably keep sales high over a short period.

3.1 b) c)

3.2

a) repeat purchase

b) brand loyalty

c) Product trial

Apple's Cash Machine

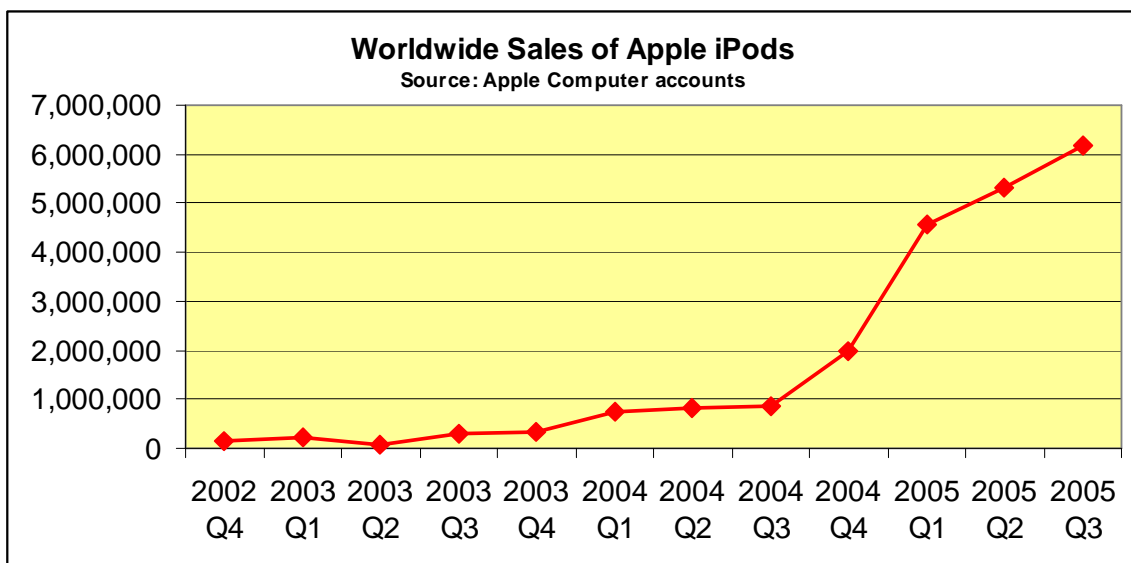
Why is Apple's iPod such a massive success? Even in Japan, where 75% of the music played is Japanese (and not available on iTunes), the iPod is a sensation. Yet few experts believe it is easier to use or has better sound than other MP3 players. So what is at the heart of this marketing triumph?

First, the success itself. Sales in the 3rd quarter of 2005 were up by 616% on the previous year. Not only is the iPod making huge profits (probably more than \$1,000 million in 2005), but its reputation is making more people buy Apple computers.

As the graph shows, only in late 2004 did iPod sales go crazy. This was partly due to the launch of the iPod Mini, but also coincided with the start of the brilliant 'silhouette' advertising campaign. In fact, Apple has handled iPod's marketing mix very cleverly.



A real Product Life Cycle graph - showing sales over 3 month periods



Notes: 1. The Apple accounts only started to mention the iPod in the 4th quarter of 2003. Before that it was regarded as too trivial to be worth mentioning to the shareholders.

2. The iPod was launched in 2001, but it was only the establishment of iTunes in 2002 that made sales start to move.

iPod Marketing Mix

Product: quick product development, from iPod 2001, to iPod Mini 2003, iPod Photo 2004 to iPod Shuffle 2005. As with all its competitors, the iPod is made (very cheaply) in China, so the key to its success is the stylish design, not high quality manufacture.

Price: always startlingly high; at launch, the iPod was over £200; even today the iPod Mini 2 is £139, whereas other MP3 players can cost as little as £20. Apple has managed the business dream of achieving market penetration at prices that skim the market.

Place: nothing new here; Apple have distributed the iPod through the normal mixture of department stores, electrical shops and on-line retailers

Promotion: brilliant and lavish use of posters and TV, featuring one of the all-time great images, the 'silhouette'.

So what will happen next to iPod? Sony and Nokia are desperate to win some of this incredibly profitable business. Why carry a mobile phone *and* an iPod, if you could get them combined into one?



The problem for its competitors is that Apple can see this as well, so it has been working with Motorola to produce the ultimate portable device, the *iPhone*. If it gets this right, there may be no stopping the iPod.

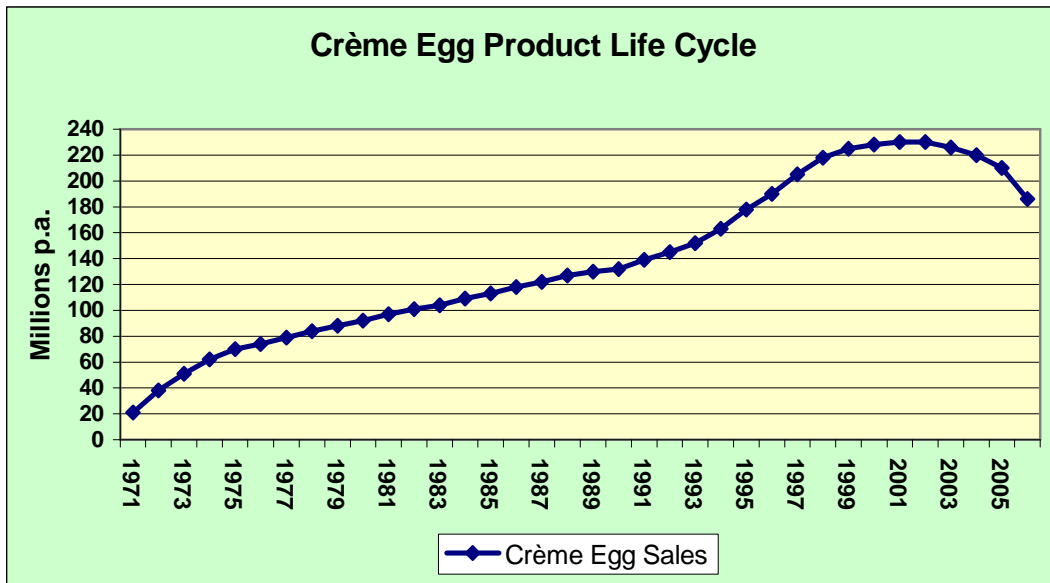
Questions (30 marks; 40 minutes)

1a)	What is meant by the term 'product life cycle'?	(2)
1b)	Explain what the graph shows about iPod's product life cycle up until now.	(4)
1c)	Outline two factors that might cause iPod sales to reach maturity and therefore stop increasing.	(4)
2.	Explain what is meant by: 'Apple has managed the business dream of achieving market penetration at prices that skim the market'.	(6)
3.	Explain the benefits Apple could expect to receive from advertising on:	
	a) TV	(4)
	b) Posters	(4)
4.	Which do you think has been the most important element of iPod's marketing mix and why?	(6)



An Eggciting new product

What do you do when a successful product suffers a fall in sales? Cadburys Crème Eggs enjoyed sales growth throughout the 1990s, but maturity set in after 2001 and in 2005/6 sales fell by more than 10%.



The cause of the decline is not yet clear. Is it because of competition? A huge number of new 'egg' competitors such as the Mars Egg and the Smarties Egg have arrived in recent years. Or is the problem more fundamental - that the Crème Egg is seen as too indulgent and too unhealthy (all that lovely goo) for today's health-conscious consumers.

According to the product life cycle, when sales have peaked the correct approach is to look for an extension strategy. And that is exactly what Cadburys has done. In April 2006 it launched the Cadburys Crème Egg Bar. This will enable the company to sell the product through its general 'Happiness = Cadburys' advertising campaign. And, of course, make it easier to sell it all year round.



For many years Crème Eggs have been the country's top-selling chocolate between January and Easter. Now there can be 12 months of sales.

The seasonal sales of Crème Eggs have been a unique characteristic of the brand. In 2001, over 200 million Crème Eggs were sold in Britain during the 3 months of winter. To produce this number, Cadburys had to choose whether to manufacture the eggs all-year-round, stockpiling them in cool conditions; or to produce on a Just In Time basis, with zero production in the period May to Christmas. As the automated production line is dedicated to producing Crème Eggs, mass production year-round is hugely more efficient than batch production in the winter. Therefore the eggs are 'laid' all year round and more than 100 million are in the stockpile by Christmas, ready for distribution to shopkeepers on January 1st. After Christmas, the factory gears up to full production, which can reach 66,000 eggs per hour (1.5 million in a day).

How Cadbury Creme Egg is made

Cadbury Creme Egg is manufactured by making a chocolate shell in a half-egg shaped mould, which is then filled with white fondant and a dab of yellow fondant to simulate the yolk. Two mould halves are closed very quickly and cooled to allow the chocolate to set. When the moulds are opened, the eggs fall onto a conveyor which transports them, first to the foiling machines and then to the finished packing.

Source: www.cadburyschweppes.com/EN/Brands/About/Confectionery/factsheet_cremeegg.htm

The big question is whether the Crème Egg bar can rebuild the growth of the brand. Since its launch in 1971, the Crème Egg has become part of the British way of life in the winter. Do we want goo all the year round? And what of the health issues? Cadburys will be hoping that we tell ourselves, when buying the Crème Egg bar, that we can have a bit now and some later (rather than all-down-in-one with the egg). If we do that, maybe we will worry less about the combination of greed and calories implied in buying the usual Crème Egg.

For information, a Crème Egg has 175 calories and the Crème Egg bar has 210. Very enjoyable they are too.

Questions (40 marks; 50 minutes)

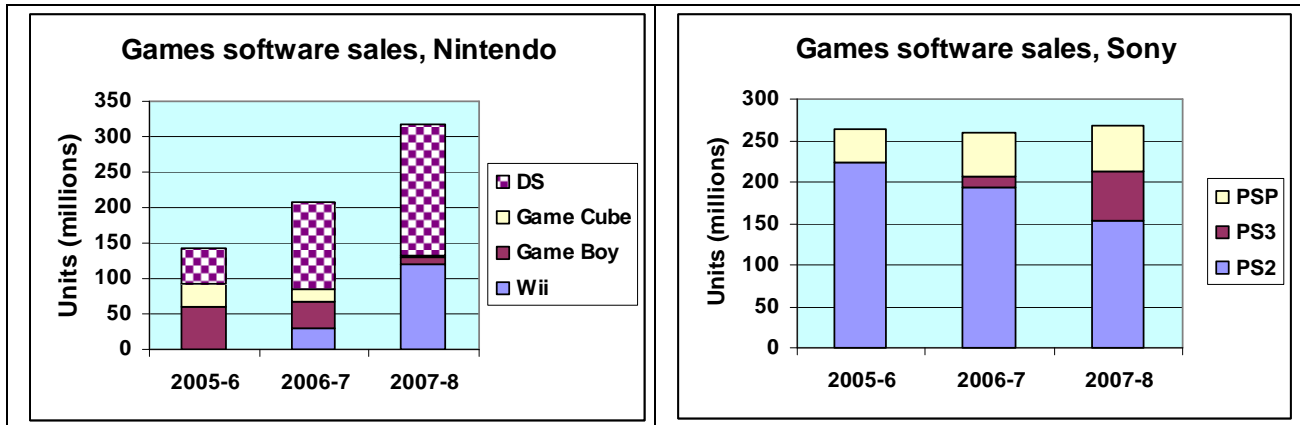
1a)	At what stage of its life cycle was Crème Egg during 2001 and 2002?	(1)
1b)	Assuming Cadburys was receiving 20p per Crème Egg sold, what revenue was generated in 2001 from the sales of Crème Eggs.	(2)
2a)	Explain the meaning of the term 'extension strategy'.	(3)
2b)	Apart from launching the Crème Egg bar, outline two other extension strategies Cadburys could have used.	(4)
2c)	Examine one point in favour and one point against Cadburys decision to launch the Crème Egg chocolate bar.	(6)
3a)	What is the meaning of the term 'Just In Time'.	(2)
3b)	Examine two ways Cadbury might have benefited from producing Crème Eggs on a JIT basis.	(8)
4.	Discuss the difficulties for a firm such as Cadbury of having a brand with sales as seasonal as Crème Eggs.	(8)
5.	Health concerns are affecting the sales of many products. Is it fair for consumers to blame firms for their own poor eating habits?	(6)

Marking Suggestions - Crème Eggs		
1a)	At what stage of its life cycle was Crème Egg during 2001 and 2002?	(1)
	Maturity or saturation (1 mark)	
1b)	Assuming Cadburys was receiving 20p per Crème Egg sold, what revenue was generated in 2001 from the sales of Crème Eggs.	(2)
	Revenue = Quantity x price (1)	
	Quantity is approximately 230 million eggs (1)	
	230m x 20p = £46 million (1)	
2a)	Explain the meaning of the term ‘extension strategy’.	(3)
	A plan (1) for extending the profitable lifetime (1) of a product. It must be more than a sales gimmick that boosts demand temporarily, eg BOGOF. (1)	
2b)	Apart from launching the Crème Egg bar, outline two other extension strategies Cadburys could have used.	(4)
	<ul style="list-style-type: none"> • Change the target market, e.g. aim for a wider age range (it’s always been aimed at younger chocolate eaters) • Change the image, e.g. try to make it a more everyday purchase 	
2c)	Examine one point in favour and one point against Cadburys decision to launch the Crème Egg chocolate bar.	(6)
	<p>Possible points in favour:</p> <ul style="list-style-type: none"> • Extend the sales to year-round • Counter the sales decline shown by the parent brand <p>Possible points against:</p> <ul style="list-style-type: none"> • Will surely ‘steal’ sales from the parent brand, the Crème Egg • It may make the Crème Egg’s image rather fuzzier; chocolate buyers like their originals left alone 	
3a)	What is the meaning of the term ‘Just In Time’.	(2)
	Getting supplies in just in time to avoid running out of stock. (2)	

3b)	Examine two ways Cadbury might have benefited from producing Crème Eggs on a JIT basis.	(8)
	<p>Possible answers include:</p> <ul style="list-style-type: none"> • Cutting stocks of Eggs would have freed up warehousing space that could have been used for other things, perhaps for increasing production; in turn, extra output may have made it possible to find new export markets for the brand • JIT would ensure fresh produce, not only eliminating the risk of deterioration over such a long lead time (such as 9 months) but also making it easier to cope with unexpected surges (or falls) in demand during the winter sales period. 	
4.	Discuss the difficulties for a firm such as Cadbury of having a brand with sales as seasonal as Crème Eggs.	(8)
	<p>Possible answers include:</p> <ul style="list-style-type: none"> • Extreme cash flow pressures during the summer and Autumn (resolved, of course, by the strength of the Cadbury's overall business) • Sales are always hard to forecast, but the need to look at sales in 9-12 months time makes forecasting virtually impossible • As mentioned, the stockpiling of Eggs will be expensive and take up a great deal of room. 	
5.	Health concerns are affecting the sales of many products. Is it fair for consumers to blame firms for their own poor eating habits?	(6)
	<p>Possible reasons to blame firms include:</p> <ul style="list-style-type: none"> • Their advertising may have affected our judgement on which products are - or are not - good for you (especially true for children, who may trust Lucozade more than fresh fruit) • Product positioning (close to checkouts) and the use of promotions (4 choc bars for 99p) preys upon our greed. The manufacturers exploit our weaknesses. <p>Possible reasons not to blame firms include:</p> <ul style="list-style-type: none"> • They are making indulgent, enjoyable foods; it is our job to be self-disciplined and eat sensible quantities • The packaging has the calorie level on, such we should be able to make sensible decisions. 	

In Business there are many head-on clashes: Coke and Pepsi, Cadbury and Mars and Boeing v Airbus. And then there's Sony v Nintendo. This is an interesting one because it appears to be straightforward: electronics giant Sony versus the relatively small Nintendo.

As recently as 2005/06, most analysts would have been sure that Sony would always win this battle.



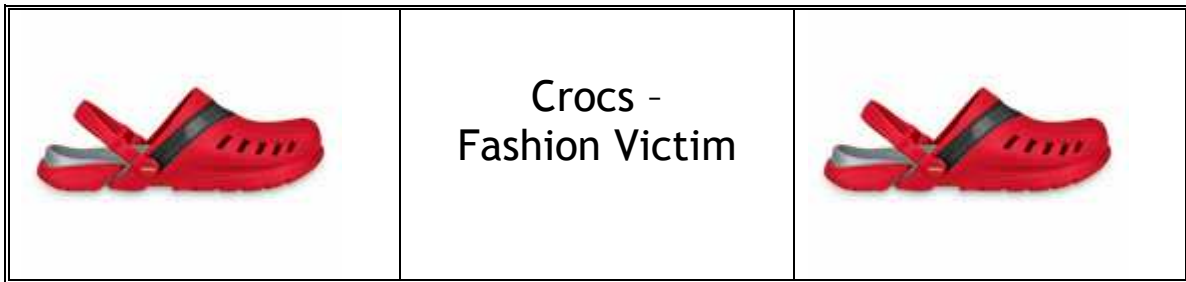
But as the bar charts show, Sony has struggled, while Nintendo has been shooting ahead. The bar charts also show the product life cycle, i.e. how some products hit a decline phase that means they must be replaced by something new.

A disappointment to Sony has been the relatively weak performance of the PS3. Fortunately for the business, the PS3 helped Sony win a different battle, in the market for High Definition DVDs. Sony had included its own HD DVD (the Blu-Ray) in every PS3, which helped force Toshiba to withdraw its HD DVD from the world market in early summer 2008.

Big businesses always have to think 3-5 years ahead. Sony's strategy has meant that they won one battle, but seem to have lost the other. Is there any way back for Sony in games consoles?

Discussion Points:

1. Use the bar charts to identify one product in its growth phase, one in its maturity phase, and one in its decline phase from within the Sony and Nintendo brands.
2. Discuss how Sony might set about recovering sales growth in the games console market, in order to halt the growth of Nintendo.

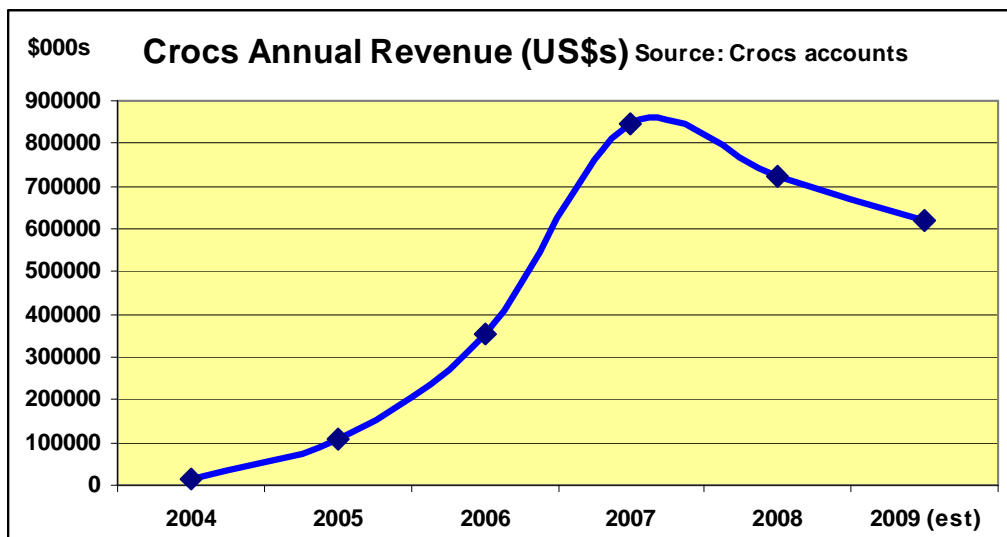


Everyone starting a business dreams of hitting the big time: Hollywood stars flaunting your products, articles in OK, Heat and The Sun and - of course - making a lot of money. Crocs was founded in America in 2002 by George Boedecker. He was quite pleased with sales of \$13.5 million by 2004, but then Crocs hit the big time. He and his team were suddenly struggling to cope with massive orders, as Crocs became hot. The following three years saw a sales and profit bonanza:

	Sales Revenue	Operating profit
2004	\$13,500,000	(\$1,500,000)
2005	\$108,500,000	\$26,900,000
2006	\$355,000,000	\$95,000,000
2007	\$847,000,000	\$238,000,000

During 2007 Crocs management geared up for what they expected to be further growth in 2008. The company accounts say that: 'During this period we significantly increased production capacity, warehouse space and stock levels in an effort to meet demand'. In fact sales collapsed in 2008. In the U.S. they fell by 28% compared with 2007. Eventually the company had to write off more than \$70 million for unsold stock.

Every company enjoying the growth period of its product life cycle knows that, one day, sales will slow down, stabilise and then perhaps decline. The problem for Crocs was that nothing makes sales fall as quickly as being yesterday's fashion. Quite suddenly, wearing Crocs was a sign of being out of touch. Since then, the business has managed to avoid a complete sales collapse by bringing out many new shoe styles - but if the brand name 'Crocs' puts people off, does it have any future?



The graph shows Crocs' classic product life cycle. Now management must find an extension strategy that either takes it away from the Crocs brand, or successfully reinvents Crocs to mean something more than yesterday's shoe. New management has been brought in; it faces a huge marketing and financial challenge. From the huge profits of 2007, the financial collapse was startling.

	Sales Revenue	Operating profit
2008	\$721,500,000	(\$188,000,000)*
2009 (1 st half)	\$332,500,000	(\$47,000,000)*

*A figure in brackets means a negative number, i.e. these are losses not profits)

Three important conclusions can be drawn from the story of Crocs:

1. Beware in business of overly rapid growth; it is always extremely hard to manage
2. Try to avoid being completely dependent on one product line or one brand (and worst of all is when your one product is sold under one brand name - and that is the same as the company name)
3. Take the product life cycle very seriously, recognising that no-one knows the length or shape of the cycle until after the event. In the great quote attributed to the US baseball player Yogi Berra: 'It's tough to make predictions, especially about the future.'

Questions (30 marks; 40 minutes)

1. Explain why Crocs management spent 2007 planning for increased production capacity. (4)
- 2a) Calculate the % sales increase for Crocs between 2004 and 2007. (3)
- 2b) Outline two reasons why that rate of increase might hit Croc's cash flow. (4)
3. Examine why it may prove especially difficult for Crocs to achieve a successful extension strategy. (9)
4. To what extent should management be blamed if they fail to anticipate when a product's growth phase fades into maturity or decline? (10)

Crocs - Mark Scheme

1. Explain why Crocs management spent 2007 planning for increased production capacity. (4)

- They saw the dramatic growth that had occurred in the period 2004=2007 and , very naturally, assumed it would continue; in the banking and property sectors, very highly paid people were doing the same at the time
- If sales had continued to rise, and they had not prepared for extra capacity, the managers would rightly have been criticised for missing out on a huge opportunity
- Product Life Cycles are easy to read when looking back; impossible to know when looking forward (who would have thought that a sweet, fizzy drink made of coca leaves would have a 100-year growth phase in its life cycle?)

2a) Calculate the % sales increase for Crocs between 2004 and 2007. (3)

$\% \text{ increase} = \text{INCREASE} / \text{ORIGINAL} \times 100 \quad (1)$

2004 sales: £13.5m

2007 sales: £847m

$\text{Actual change} = £847 - £13.5 = £833.5m \quad (1)$

$\% \text{ change} = £833.5 / £13.5 \times 100 = +6,174\% \quad (1)$

2b) Outline two reasons why that rate of increase might hit Croc's cash flow. (4)

- Very rapid growth puts strains on cash flow, as business always means money is paid out before cash comes in from customers
- It implies a frantic rate of staff recruitment (plus induction, plus training) which would have big up-front costs for the business, ie create high cash outflows

3. Examine why it may prove especially difficult for Crocs to achieve a successful extension strategy. (9)

2	3	4
CONTENT	APPLICATION	ANALYSIS
2	3	4-3
Good understanding shown of relevant terms	Relevant issues applied in detail to the case	Analysis of question set, using relevant theory
1	2-1	2-1
Some understanding of the relevant terms	Relevant issues applied to the case	One or two points applied in a limited way to analyse the Q.

Possible answers include:

- If a brand name becomes synonymous with being out of fashion, it is very hard to change people's minds (in Britain the same happened to the French Connection clothing chain - super-hot for its FCUK slogan one minute; cold as stone the next); and if the Crocs name yields negative value added, the only future can come from inventing new brand names - in which case Crocs should close down and a new business take over its place in the market
- The losses made by the company in 2008 and 2009 must lead to doubts about whether the business has the finance to afford a meaningful extension strategy; survival may be the only affordable objective (or perhaps cutting back to the point that the Crocs brand only targets small children)

4. To what extent should management be blamed if they fail to anticipate when a product's growth phase fades into maturity or decline? (10)

MARKING GRID (Out of 10)			
CONTENT	APPLICATION	ANALYSIS	EVALUATION
2	2	3	3
Understanding of relevant terms/issues	Relevant issues applied in some detail to the case	Analysis of question set, using relevant theory	Judgement shown in discussing the issues raised, reaching a balanced conclusion
1	1	2-1	2-1
Some understanding of the relevant terms	Relevant issues applied to the case	An attempt at building an argument, but weakly	Some judgement shown in text or conclusions

Possible answers include:

- Generally, as the Yogi Berra quote articulates, there's no shame in being unable to predict the future; even if the business had been conducting monthly research surveys into its brand image, Crocs' management would probably not have been able to see what was about to hit it. If the image dips for a month, perhaps due to bad-mouthing by a couple of fashion-writers, who can tell whether that is the start of a new trend or just a small blip in an upward march? (Again, the parallel with the property market is a fair one. Wasn't Sarah Beeny the Channel 4 presenter who said she'd eat her hat if property prices fell over a 12-month period?)
- Nevertheless, the very fact of this unpredictability means that management should have had a Plan B; they should have known that, at some time, fashionability would switch to yesterday's story; instead the management seems to have been taken completely by surprise; for that, they can and should be blamed

71. Product Portfolio (Boston Matrix)

1. Missing words

The Boston Matrix is a way to analyse how well a firm's brands are doing. For example, sales of the Sunday Express newspaper have been falling for 20 years (it used to be Britain's biggest seller). Clearly it's a bit of a _____. The Matrix measures a brand's market _____ in comparison to the trends in the market as a whole. For the Sunday Express, the awful truth is that it's losing share in a declining market. So it's definitely a dog. If, like Cadbury, you have lots of brands, the Matrix helps you decide which brands are the big ones for the future, and are therefore worth supporting heavily with _____.

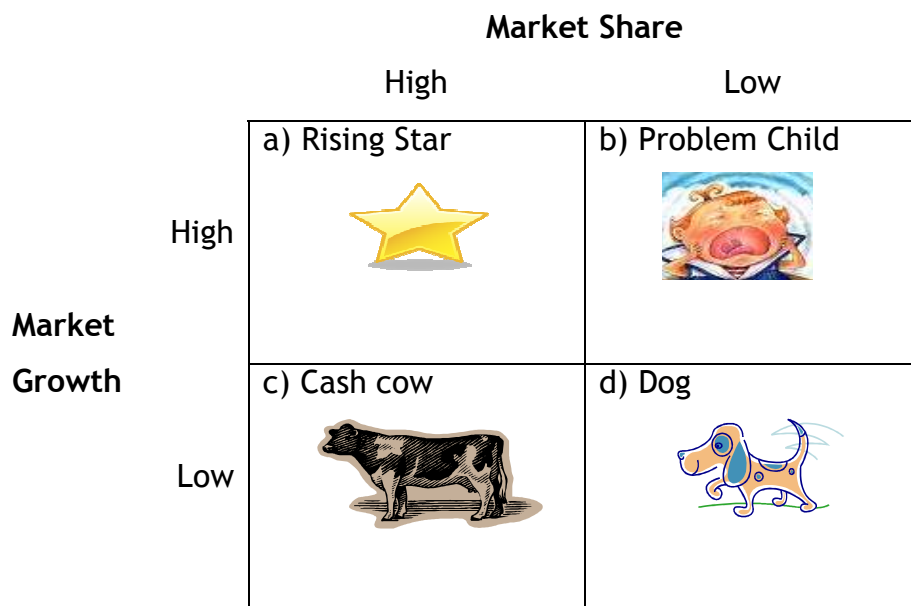
Words from: advertising, dog, share

2. Multiple Choice

From the list below identify the **one** drawback to a business of using the Boston Matrix.

- a) Able to plan when new products should be introduced or developed
- b) A business may decide not to invest in a product which could have been revived.
- c) Can decide whether it is worth investing in existing products
- d) Knowledge of the markets that their products are in and what their market share is.
- e) To ensure that they have range of products available at each stage to ensure a future for the business.

3. Look at this product portfolio then answer the questions below:



3.1 From the list below match up the definition with the categories above.

i) Poor market share; need to be “put to sleep”

ii) Difficult to be sure of its future; needs lots of investment.

iii) Steady market; well established products.

iv) Likely to give good cash return in future; worth backing with advertising. _____

3.2 Explain why a cereal company would want a range of brands in its product portfolio, not just one.

4. Rearrange the following phrase.

growth and market provides a framework sales share the boston matrix to assess

71. ANSWERS - Product Portfolio

1. dog ...share ... advertising

2. b

3.1

i) d

ii) b

iii) c

v) a

3.2 To ensure that they have a range of products that allows them to be making profits and being the market leader in their field. To allow them to have the funds to research and develop new products and support new products.

4. The Boston Matrix provides a framework to assess sales growth and market share.

WATER, WATER EVERYWHERE ..

At the July 2005 Live8 Hyde Park concert, performers such as Coldplay were drinking from an unusual bottle. It was water from the Welsh Radnor Hills called 'One'. This is its remarkable story.

In 2003 Duncan Goose was chatting in a pub with friends about what they could do to make the world a better place. The idea emerged of a not-for-profit bottled water, in which all the surplus from trading would go to charity. When, soon after, Duncan stumbled across the South African charity 'Roundabout', he gave up his job to work full time on bringing this idea to life.

In remote areas of less developed countries, a huge amount of time and effort is spent collecting water. Usually it is women's work.

It may involve walking several miles to a well, then hand-pumping the water into flasks or plastic bottles, then carrying it home. 'Roundabout' is a charity that provides villages (free) with water pumps powered by children's roundabouts! As the kids push the roundabouts round and round, the energy pumps water into a water tower. Then people can simply draw the water from a tap instead of having to pump it themselves. This is not just a matter of convenience. One billion people in the world have no running water, and 2 million a year die from contaminated water.

Duncan spent time on holiday devising a business plan to show how selling bottled water could generate the funds to build more roundabout pumps in Africa. His sister Claire (an actress who made her name on 'Casualty'), has helped to get publicity for the project. Other friends and contacts have given their time freely to build a website that makes it easy to order the bottled water on-line.



The bottling plant started operating in the Spring 2005, and 'One' started to be made available to shops in July. Now Duncan, who has been living on his savings since giving up his job, is trying to achieve distribution through enough shops to make the whole business work.

For Business Studies students, there are some important issues here.

1. Not all businesses are based upon an individual's desire for profit. Here, Duncan and Claire are determined to build an organisation that makes enough money to keep itself going and to keep ploughing money into the Roundabout charity. If low-cost water can be sold for a high price, the surplus helps achieve this social objective.
2. Dreamers dream, but entrepreneurs act. Any of Duncan's friends could have started up this business, but only Duncan got on with it. He used initiative - and found out how to write a business plan - in order to get 'One' off the ground.
3. Good ideas need good marketing. Not-for-profit water and the wonderful 'Roundabout' charity are enough to make people love this idea. Yet Duncan wants sales not love! Only by effective marketing will he make sure that supermarkets want to try the product out - and that customers want to buy it regularly.

Questions (20 marks; 25 minutes)

1.	An entrepreneur is someone who is willing to take risks in bringing a new idea to life. Outline how well Duncan has performed as an entrepreneur.	(4)
2a)	Explain what is meant by the term business objective? Give an example.	(3)
2b)	Outline the evidence that Duncan is motivated by social rather than business objectives.	(4)
3.	Discuss how Duncan could try to persuade teenagers to buy 'One' instead of the more familiar brands such as Evian and Highland Spring.	(9)

Mark Scheme for One Water

1. An entrepreneur is someone who is willing to take risks in bringing a new idea to life. Outline how well Duncan has performed as an entrepreneur. (4)

Valid points include:

- Showed great initiative and creativity in putting together the ideas of not-for-profit water and the Roundabout charity
- Took the huge risk of giving up his job - living off his savings
- Has made things happen - entrepreneurs act, they don't just talk

Two marks per point, identified and given a brief outline

One mark per point identified

2a) Explain what is meant by the term business objective? Give an example. (3)

A goal that can be measured, such as to make a profit of £100,000.

Clear definition: 2 marks

Vague wording: 1 mark

Example: an additional mark

2b) Outline the evidence that Duncan is motivated by social rather than business objectives. (4)

- Early references to making 'the world a better place'
- Willing to give up an income to do something for charity
- Wants the 'business' to become self-sustaining, so that it can keep on ploughing more money into Roundabouts

Two marks per point, identified and given a brief outline

One mark per point identified

3. Discuss how Duncan could try to persuade teenagers to buy 'One' instead of the more familiar brands such as Evian and Highland Spring. (9)

Valid points include:

- Consider redesigning the bottle and label - it looks very drab; a new label might make it stand out more on shop shelves, or give it a classier image
- Use more publicity such as the Live8 concert - perhaps focus on getting every pop artist to flash their One Water while they're on stage
- Alternatively, concentrate on the charitable purpose; do not glamourise the water and do not follow Evian, but put the Roundabout picture and story on the label. Just as some people wear bracelets saying 'Make Poverty History', so some people may be pleased to walk around carrying One Water.

Level 3

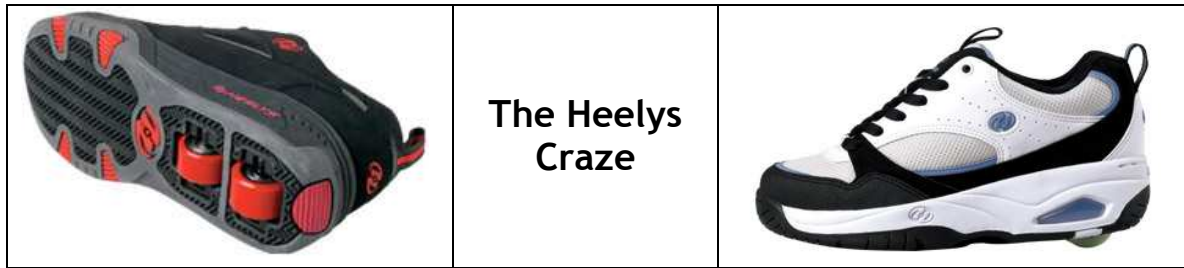
Candidate makes relevant judgement using a two-sided argument 7 - 9

Level 2

Candidate applies sound knowledge to the business context 4 - 6

Level 1

Candidate applies basic knowledge 1 - 3



In America, 2006 was the summer of the Heelys. Skateboards were abandoned as kids sped along pavements on their heels. The Texan company Heelys have a patent on 'wheeled footwear' so they are the ones benefiting from the craze. Sales rose from \$21 to \$44 million last year and should beat \$65m in 2006. Profits are forecast to rise this year from \$1.6m to \$5.8m.

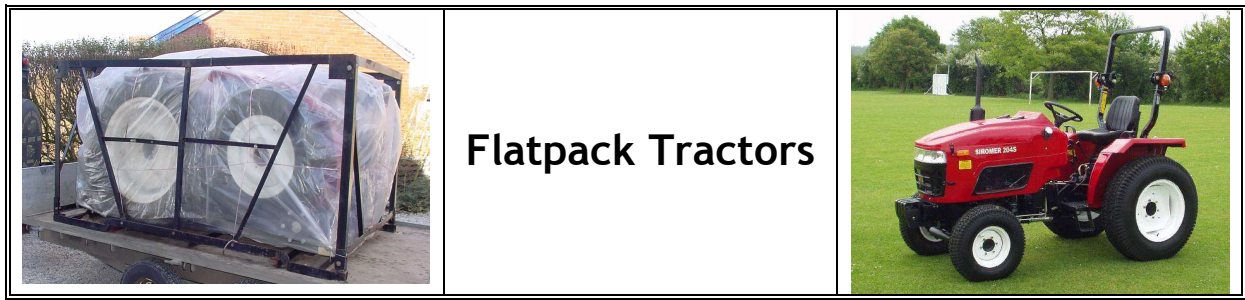
The market for Heelys is mainly in the age group 6 to 14. Some schools ban them, as they can end up with 'children barrelling down corridors at up to 30 mph' ('The Guardian, Sept 4th 2006) The product was launched in 2001 and have sold over 4 million pairs in America. Launched in Britain in 2005, they are expected to sell 200,000 pairs here this year. Chief Executive Mike Staffaroni says that 'The UK is one of our fastest growing international markets'.

In the future, two things concern Mr Saffaroni the most. First is the constant battles to protect the patent, as Far East companies keep copying the shoes. Second, and perhaps more fundamental, is that hot crazes can cool down very rapidly, especially when the next new thing comes along. No wonder the shareholders are planning on floating the business onto the US stock market for \$60 million. It's time to cash in.

Activities

1. Discuss whether Heelys could become a really big craze in the UK. What are the main factors that might help or hinder the chances of Heelys becoming a big craze?
2. In Britain, Heelys are priced - on average - at about £65. This is over 40% more expensive than in America. Identify 3 possible reasons for this.
3. Discuss why it's so important for Mr Saffaroni to protect the patent on Heelys 'wheeled shoes'.
4. Do you think investors would be wise or foolish to invest in Heelys?

For more information on Heelys, go to www.heelys.com



In 1999, Jeff Howard spotted a business opportunity. He needed a tractor, and found that a second hand Massey Ferguson could cost over £25,000. He thought China must be able to do better than that. He found a Chinese tractor working in Britain but it was far below western standards. So he did some research. He tracked down a factory outside Shanghai and went to visit it. He met the bosses of the ‘Siromer’ tractor factory and gave them a list of 50 production line changes that would be needed to succeed in Britain. His hosts proved receptive and within six months he received his first UK delivery of the Siromer flatpack tractor. It would be priced at £2,995 +VAT and take just one day to build.

Suddenly this opened up a whole new market. Now small-holders (farming up to 5 acres) could afford a tractor, as could stables and rowing or yacht clubs. The Siromer flatpack would be the tractor for everyone.

For your £2,995 you get power steering, 12 forward and four reverse gears and a comfortable, well-sprung seat. The flatpack comes with 150 separate parts, but Howard claims that most customers find that friends rush round to help. Everyone has tried to build a flatpack wardrobe, but building a tractor is a real novelty. Apparently some people hold ‘tractor parties’; you help to build the tractor, then help to empty the fridge.

To build the tractor takes two people about 7 hours, though Howard maintains that it has been done in 2 hours. In fact the internet is now full of people who offer to deliver the tractor ready built, for about £500 extra.

Flatpack or pre-built, the Siromer has widened the market for tractors, selling over 1,000 so far in Britain. Jeff Howard’s business has the crucial website address of www.siromer.co.uk and is benefiting hugely from his initiative. The farming press claims that the tractors have sold so well that they are depressing the second-hand prices for tractors such as Massey Ferguson.

One thing is clear: Jeff Howard has shown a terrific understanding of marketing, and the enterprise to fill a market gap.

Questions (20 minutes; 20 marks)

1. Jeff Howard decided to set up his tractor business as a private limited company. Outline two reasons he may have decided on that form of business organisation. (4)
2. When he started up, Howard had little money to spend on marketing. Examine two ways that he might have chosen to promote the Siromer flatpack tractor. (6)
3. Howard showed great faith in the ability of farmers and others to build the tractor for themselves. How might he have checked that out before embarking on the project? (3)
4. Discuss how Howard might choose to develop his tractor business in future. (7)

Mark Scheme

1. **Jeff Howard decided to set up his tractor business as a private limited company. Outline two reasons he may have decided on that form of business organisation.** (4)

1 mark per valid point + 1 for development

Possible answers include:

- Such an innovative business is quite risky; will UK farmers trust in a cheap Chinese tractor? If the business is risky, it's wise to form a limited liability organisation
- He may have needed extra capital to help fund the idea; he could get this from selling shares in the limited company

2. **When he started up, Howard had little money to spend on marketing. Examine two way that he might have chosen to promote the Siromer flatpack tractor.** (6)

1 mark per point or for relevant knowledge

Up to 2 marks for effective application to the context of this business

Possible answers include:

- Marketing direct to farmers, eg by direct mail; also target other possible customers, such as yacht clubs
- By a website backed by a PR campaign to get people to hear of the site
- Advertise in relevant magazines, eg Farmers' Weekly

3. **Howard showed great faith in the ability of farmers and others to build the tractor for themselves. How might he have checked that out before embarking on the project?** (3)

1 mark per point

Up to 2 marks for effective application to the context of this business

Possible answers include:

- A market research survey among farmers, eg sending a postal questionnaire to 400 farmers, asking them about their practical skills, eg how often do they do maintenance or repair work on the vehicles and machinery on the farm?
- A number of small-scale group discussions held in different parts of the country to get a good feel for the practical skills of farmers.

4. **Discuss how Howard might choose to develop his tractor business in future.** (7)

1 mark per point + up to 1 extra mark for more detailed knowledge

Up to 2 marks for effective application to the context of this business

Up to 3 marks for a balanced discussion with conclusions

Possible answers include:

- Replicate the business idea in different countries in Western Europe (France has lots of small farmers)
- Diversify into other ideas, eg a flatpack motor lawnmower, for use by institutions such as colleges, or by wealthy people with big gardens
- He might simply develop it by making it more and more efficient, i.e. not grow or change, but simple perfect what he's been doing already. Growth is not always an appropriate objective. He may feel he's making enough profit to live well, and prefer to keep everything under control

Naked Pizza

In 2006 a pizza takeaway opened in New Orleans. It called itself 'The World's Healthiest Pizza'. It attracted attention, but - as co-founder Jeff Leach puts it: 'People thought it would taste like the side of a tree'. It struggled. Then a local advertising specialist advised a name change. He recommended 'Naked Pizza'. Since then, sales have shot ahead and - in 2009 - two wealthy backers invested in making the business grow. In a country obsessed by food, Naked Pizza's message is 'keep buying the pizza you love, but buy ours because it's better for you'. Clever. Very clever.



The thinking behind the business was to do 'an Activia' in the pizza market. In other words to create a probiotic pizza dough that can be friendly towards stomachs. Leach and partner Randy Crochet say they spent \$750,000 on research and experimentation to find the perfect dough. It is made from 12 different whole grains and contains probiotic bacteria - just like Activia. Leach says that - until Naked Pizza - the usual American pizza was 'nothing more than a doughnut with tomato sauce'. Sceptics have questioned whether these friendly wee bacteria can survive a 400° pizza oven, but Leach is sure they can.

Now the race is on to spread the Naked Pizza concept nationwide, then worldwide. At present (September 2009) the company is accepting requests from potential franchisees. The plan is to announce the results later this Autumn, then set about making Naked Pizza grow to 300 outlets by next year, then on to grow to as many as chains such as Papa John's, with 2,500 stores in America alone.

The Naked Pizza website suggests that an investment of \$250,000 is required per franchisee, but it is not clear what fee and royalty Naked Pizza will demand. In its day, many early franchisees in McDonalds became millionaires. The same hopes will be true in this case.

Naked Pizza Menu

SUPERbiotic: Artichoke, Spinach, Arugula, Bell Peppers, Mushrooms, Garlic, Onion & Cilantro

Veggie Combo: Onions, Tomato, Bell Peppers, Black and Green Olives, Mushrooms

BBQ: Chicken Hickory-smoked BBQ sauce, Onions, Chicken

Omnivore: Pepperoni, Hamburger, Ham, Bell Peppers, Mushrooms, Black Olives

Meat Combo: Pepperoni, Sausage, Hamburger, Ham

Creole Cajun Throwdown: Alligator Sausage, Shrimp, Chicken, Garlic, Bell Pepper, onions

Soon enough Naked Pizza will come to Britain. There may be a huge rush to become a franchisee. Recent years have seen the rise and rise of Subway. Perhaps it is time for something new on the High Street.

Class Discussion

1. Examine why Naked Pizza's management might prefer to grow through franchising instead of by setting up and managing more of their own stores?

2. Explain how Naked Pizza makes use of these important marketing concepts:

2a) Adding value

2b) Product differentiation

3. In Britain, Domino's charges £10.49 for a medium pizza such as the Meat Combo and Papa John's charges £12.49. Discuss what prices Naked Pizza should set for delivered pizzas in the UK market.

4. Do you think Naked Pizza will be a super-sized success or not? Justify your view.



Look - from Posh to Primark



The UK already has 30 women's weekly magazines. Yet February 5th 2007 saw the launch of another weekly - *Look* magazine. The front cover of the preview issue featured pictures of Posh, Kate, Lindsay and Angelina (plus Brad) plus an insert shouting 'Just In At Primark!' Fewer than 1 in 8 new magazines becomes successful - will *Look* be lucky?

Owners IPC magazines are said to have invested £18 million in 18 months of planning for the launch, and have a further £9 million to spend on marketing. *Look*'s editorial staff is 40-strong, which is more than national papers such as the Daily Star. This is an expensive commitment to a high quality magazine. The target is to sell 250,000 copies a week within 12 months.

Editor Ali Hall is very clear about her target audience. She sees the reader as a 24-year-old, keen on celebrities, even keener on shopping, and with a Saturday High Street ritual of Topshop, H&M, Primark and Dorothy Perkins. Others have accused Ali Hall of producing a 'me-too' of the successful 'Grazia' magazine. She replies by saying that Grazia is for 30-year-olds who are into brands such as Burberry and Chloe. *Look* is about youth, celebrities and style - not brands. Managing Director Evelyn Webster believes that *Look* 'has tapped into a fundamental social change'. She says that women in their twenties 'see celebrities as their friends ... talk about them in first name terms ... and take most of their style tips from what celebrities wear.'

At the heart of the product is the promise that *Look* will give readers the quickest insights into what's hot and what's not. Sections will include 'High Street's Hottest' and 'High Street Spy'. The latter will track down what celebs are wearing and where to buy it (or buy the High Street imitation).

For £9 million of marketing spend, IPC is launching a huge promotional programme, giving away 1.2 million free copies at supermarkets plus shopping malls such as Bluewater and the Trafford Centre. There will also be a big launch TV campaign.

A key decision has been over pricing. Unlike celeb magazines such as Heat and OK, *Look* is produced on high quality gloss paper. It will look as good as rival Grazia and monthlies such as Marie Clare. Despite the expensive gloss paper, *Look* is to be priced at £1.30, significantly below Grazia's £1.80. This is probably essential as *Look* aims for sales of 250,000, more than the established Grazia, with sales of 175,000 copies a week. To add to the launch onslaught, *Look* was given an introductory offer price of just 80p for the first week.

IPC is clearly trying to make sure that *Look* is here to stay.

Questions (25 marks; 25 minutes)

1. Outline the way in which IPC has segmented the market in its plans for the new *Look* magazine. (3)
2. Explain two possible reasons why 7 out of 8 newly launched magazines prove to be flops. (4)
3. Identify and explain the pricing method used by IPC in its launch of *Look*. (3)
4. Outline *Look*'s marketing mix. (6)
5. Using the evidence in the case plus any other information available to you, discuss whether *Look* is likely to be a success. (9)

Mark Scheme

1. Outline the way in which IPC has segmented the market in its plans for the new *Look* magazine. (3)

One per benefit + one for development applied to the context

Possible answers include:

- ✓ Aiming at women in their twenties ... this distinguishes it from Grazia
- ✓ And moving from Burberry to Primark implies a move downmarket

2. Explain two possible reasons why 7 out of 8 newly launched magazines prove to be flops.(4)

One per benefit + one for development applied to the context

Possible answers include:

- ✓ Readers may become very attached to 'their' magazine, therefore they are reluctant to try something new
- ✓ With 30 women's magazines competing, it must be very hard to make sure that a new mag stands out from all the existing ones

3. Identify and explain the pricing method used by IPC in its launch of *Look*. (3)

One mark for identification; 2 for explanation

- any from: penetration; competitive; loss-leader; less likely but not unreasonable: predatory or destroyer

4. Outline *Look*'s marketing mix. (6)

Up to 2 marks for each of 3 elements from the 4Ps; or up to 6 marks for an intelligent appraisal of the mix as a whole

Possible answers include:

- ✓ Well thought-through in that the target audience, the low pricing and the give-away promotion all make sense for young women; this approach may stretch the customer base to 16-29 y-olds
- ✓ Product is carefully targeted, and based upon good understanding of the market
- ✓ Price is low enough to provoke a high level of product trial; then it's up to the product to impress the reader
- ✓ Promotion is designed to generate a high level of consumer awareness and interest (though if relatively little is spent on TV advertising, it may be hard to establish a clear brand image)

5. Using the evidence in the case plus any other information available to you, discuss whether Look is likely to be a success. (9)

Level 3: candidate makes relevant judgement using a two-sided argument	7 - 9
Level 2: candidate applies sound knowledge to the business context	4 - 6
Level 1: candidate applies basic knowledge	1 - 3

Possible answers include:

- ✓ To be 'a success' its sales target will have to be met. This seems quite tough, as they have to beat the established 'Grazia'. Fortunately they have thought it through, and cut the price to a level where high sales are possible.
- ✓ One problem, though, could be Grazia's response; its managers will want to do what they can to stop Look from getting established; so they may choose to run a series of powerful special offers to keep their customers buying regularly
- ✓ Overall, the statistics make a success for Look seem unlikely; it may have a slightly better chance of success than 1 in 8, but it still seems likely that it will flop. There are clearly many things that can go wrong with a new magazine launch. Look seems to have been handled intelligently; that doesn't mean it's been handled intelligently enough!

A Truly Organic Experience

Sam's Saturday at Toni & Guy's was nearly over. She'd started at 8.30 that morning and now, at 5.30, was desperate to get home and slump in front of the X-Factor. Then she overheard a customer complaining: "But what's in these shampoos? I don't eat meat unless I know where it's come from. What are you putting on my head?" All the staff thought the customer was mad, but Sam kept thinking about it that evening.

She wondered what shampoo Sharon Osborne used: "Expensive and fancy, I bet....And probably Simon Cowell too...But Louis Walsh probably uses Tesco Value range".

Sam became convinced that there must be a market for a truly organic shampoo. Not like that joke brand on the TV, that pretends to be organic, but isn't. Sam wanted a shampoo made with real lemon, or perhaps real vinegar or real herbs. It wouldn't be cheap, but Sharon Osborne wouldn't want it to be.

Two years later, the 'Natural Luxury' range of shampoos was launched, at prices starting at £25 per bottle. Sam had identified a target of the wealthiest 1% in the country, all with incomes in excess of £150,000 a year. Harvey Nichols, Harrods and several other stores agreed to stock the range. Sam offered it to them at just £8 a bottle - giving the retailers a huge profit per bottle sold. Her target was to sell 80,000 bottles in the first year. On every label it said: 'Freshly made, all-natural shampoo'.

Prices of 250ml bottles of shampoo, Harrods

	Price per bottle
<i>Natural Luxury</i>	£25
<i>Sacred Locks</i>	£22
<i>L'Oreal Kérastase</i>	£14
<i>L'Oreal Professionnel</i>	£5.75
<i>Organics</i>	£1.79

1.	Do you think this new product could succeed? Explain why.	
2a)	Identify three factors you think are really important, if Sam is to make a success of this product launch.	
2b)	Decide which <u>one</u> of the three is the most important, and why.	
3a)	As there are 43 million adults in the UK, how many people are in the target market Sam is aiming at?	
3b)	Having made this calculation, does her sales target seem realistic? Explain your answer.	