

South Tuen Mun Government Secondary School

Business, Accounting and Financial Studies

Delicious Burgers

Delicious Burgers is an American-based fast food chain with outlets worldwide. The company has recently opened two outlets in Beijing.

Delicious Burgers sells only burgers in the US and other countries. The CEO is now wondering if it is a good idea to sell Chinese dumplings at their Beijing outlets. He believes that dumplings may suit the eating habits of those living in the northern part of the country, thus allowing the company to boost its sales revenue. However, the marketing director challenges his idea.

New employees are needed for the two outlets. While the managerial positions are filled by staff assigned from the US headquarters, about 50 cooking staff are needed. The human resources director thinks that the company could recruit local people for these low-skilled posts.

- a. Explain one possible problem that you foresee concerning the introduction of Chinese dumplings at the two Beijing outlets. (2 marks)

- b. Is it appropriate for the company to offer food items other than burgers at the two Beijing outlets? Explain (4 marks)

- c. Suppose Delicious Burgers decides to develop its business in the Mainland. Suggest one segmentation method for the company. (2 marks)

d From your answer in part (c), suggest two locations for the company's new outlets. Explain your choice. (4 marks)

e Suggest two possible training programmes for the newly-recruited cooking staff (2 marks)

f Explain two reasons why Delicious Burgers fills its managerial positions with employees from the US instead of hiring them in the Mainland. (4 marks)

4.15 Delicious Burgers

4.15 a The major problems associated with the introduction of Chinese dumplings:

- Whether Delicious Burgers has the expertise to produce delicious Chinese dumplings: As local Chinese people are used to eating dumplings, they would be very **demanding** about the taste and quality.
- Whether consumers may confuse the positioning or image of Delicious Burgers: In other words, if most consumers already perceive the group as being an expert in providing Western fast food (i.e., burgers), the addition of some completely different items (such as Chinese dumplings) may **blur its global image** in the minds of consumers. Consumers may wonder if a Western fast food chain can really be good at making Chinese dumplings. They will also become **confused about the company's real specialisation** (i.e., burgers or dumplings?).

- b To **suit the unique needs** of Beijing customers and **differentiate** itself from other fast food chains, the two Beijing outlets may put new food items such as noodles or rice onto its menu and observe the market response. However, Delicious Burgers should make sure that the Beijing outlets have the ability to make quality food and that the new food will not confuse consumers.

(2 marks)

- c Delicious Burgers may segment the mainland market by **regions** because the eating habits of consumers differ across the country. (2 marks)

Or

Delicious Burgers may segment the mainland market by **psychographic characteristics** such as lifestyle. For example, consumers who like Western-style food would be more likely to dine at a fast food chain. (2 marks)

- d Shanghai, Tianjin, Guangzhou or Shenzhen.
(Any two of the above, 1 mark each)

The reason is that consumers in these cities are relatively **prosperous** and more **ready for Western-style food**. They are likely to dine at a fast food chain. (2 marks)

- e The training programme may include:

- **Classroom training:** This involves the use of equipment and the preparation of burgers. (2 marks)
- **Coaching:** The newly recruited cooking staff may be trained and led by an experienced chef. (2 marks)

- f This is because existing employees from the US are more familiar with the culture and operations of Delicious Burger. (2 marks)

Also, internal recruitment is quicker and less costly. (2 marks)

4.16 International mobile phone manufacturer

4.16 a The mainland of China is very **large and different regions** of the country **vary significantly** in terms of their telecommunications development, stage of economic development, and consumer purchasing power. Hence, consumers from different regions may also vary considerably in their demand for mobile phones. (2 marks)

Geographic segmentation may thus be used to segment the market. (1 mark)

Or

As consumers' **incomes** definitely affect their purchase of mobile phones or the replacement of old mobile phones, the company may consider using the **demographic** variable of income to segment the market (e.g., high, middle, low income segments). (2 marks)

Demographic segmentation thus may be one possible method for market segmentation. (1 mark)

Or

As both regions in which consumers live and **demographic** variables affect consumers' purchase of mobile phones, the company may consider using multiple bases to segment its market. 2 mark

The company can segment its market by both **region and income level**. (1 mark)

b The factors used to evaluate the attractiveness of a market segment are:

(i) **The size and growth of a segment:** A market segment is regarded as attractive if it has high levels of current sales, growth rates and expected profitability.

(ii) **The operating characteristics of a segment:**

- 1 If a segment already has many strong and aggressive competitors, it is less attractive.
- 2 If there are many substitutes for the product in a segment, that segment is less attractive.
- 3 If marketers in a segment need to deal with suppliers who have strong bargaining power, that segment will be less attractive.
- 4 If a market segment consists of buyers (consumers) with strong bargaining power relative to sellers, that segment will be less attractive.

(iii) **The objectives and resources of the company:** if operating in a segment requires a lot of resources and there is a long payback period, it may not be attractive for a small company or a company aiming at only short-term returns.

c Based on the discussion in part (a), the company may target higher income residents who live in China's first-tier cities (e.g., Shanghai, Guangzhou, Beijing and other coastal cities, etc.). (2 marks)

d The advantages are:

- The company can reduce production costs because labour costs are lower. (2 marks)
- As the production plant is near the consumer market (i.e., the Mainland), it can reduce the transportation time and quickly sell the mobile phones after they are produced. (2 marks)

e The plant may consider the following strategies:

- provide clear guidelines for workers.
- provide safety training to workers and alert them of potential dangers in the workplace.
- maintain reasonable working hours so that workers will not be exhausted and make mistakes.
- check the machines regularly and repair them as soon as possible.

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International mobile phone manufacturer

Owing to its rapid economic development in recent decades, the Mainland of China is the fastest growing market for information and communication technologies.

An international mobile phone manufacturer would like to enter the booming Mainland market. Instead of serving the entire Chinese market Edward, the marketing director of the company, has decided to select a promising market segment to enter in order to reduce the risk. He is going to consult his marketing manager for further ideas.

In addition, the company plans to set up a production plant in Hunan province. It would sell its finished products in the Mainland. However, considering the frequent accidents at mainland factories, the CEO wonders if it could reduce the incidence of accidents by risk management strategies.

a Suggest one type of segmentation to segment the Mainland market. Give your rationale. (3 marks)

b What factors would you consider in evaluating the attractiveness of various market segments derived from part (a)? Explain any three factors. (6marks)

c Which market segment(s) would you recommend to Edward? Explain.(2 marks)

d Explain two advantages of setting up a production plant in the Mainland.(4 marks)

e Suggest two risk management strategies for the Mainland plant that would reduce the incidence of accidents.(4 marks)

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Curry King

Mr Sharma is the owner of Curry King, a new catering company specialising in preparing and delivering Indian food to households on Hong Kong Island. Mr Sharma has hired a team of highly experienced motorbike drivers to handle the delivery. As such, his company can deliver the food to most residential areas on Hong Kong Island within 45 minutes upon receipt of a customer's telephone or on-line order.

After operating for a year, Mr Sharma has encountered two problems. First, he finds it difficult to further boost Curry King's sales. A group of loyal customers account for his main sales base. While these customers are highly satisfied with Curry King's food quality and delivery service, many residents on Hong Kong Island are not aware of Curry King. This has significantly limited Curry King's growth.

To deal with the stagnant sales, Mr Sharma is considering whether Curry King should also target Kowloon households.

Second, the turnover rate of motorbike drivers remains high. The drivers, who currently receive a base salary, complain about high work pressure. They are required to deliver cuisines on time, even in bad weather and during rush hours.

a Identify one of Curry King's competitive advantages. With reference to your answer, suggest one differentiation it may adopt. (3 marks)

b Should Curry King also serve Kowloon households? Explain one reason. (3marks)

c With any two of the marketing mix, suggest how Curry King can increase its sales. (4marks)

d Suggest two criteria that Mr Sharma can use to evaluate the performance of his motorbike drivers. (4 marks)

e Suggest two ways that will help Mr Sharma retain his motorbike drivers. (4marks)

4.17 Curry King

4.17 a The competitive advantage of Curry King is that it can efficiently deliver food to customers on Hong Kong island within 45 minutes of their orders. (2 marks)

As such, Curry King may consider using channel differentiation. (2 marks)

Or

The competitive advantage of Curry King is that it provides special and delicious Indian food. (2 marks)

As such, Curry King may consider using product differentiation. (2 marks)

b No. Curry King should not serve Kowloon households. (1 mark)

This is because:

- It takes a longer time to deliver food to customers in Kowloon. The cost of delivery will increase.
- It is rather difficult to keep the ordered food fresh and warm.

(Any one of the above, 2 marks)

(Any other reasonable answers)

c The marketing mix that can help increase sales are:

- Product: Curry King may launch new curry dishes.
- Price: Curry King may provide discounts for existing dishes. For example, it may provide a 10% discount for orders exceeding \$200.
- Place: Curry King may consider operating a kiosk in a food court or making packaged food and selling it in supermarkets.
- Promotion: Curry King may do cost-effective promotion on a social networking website such as Facebook.

(Any two of the above, 2 marks for each point)

(Any other reasonable answers)

d Mr Sharma may evaluate the performance of his motorbike drivers by:

- Timeliness: Whether they can deliver the food on time. (2 marks)
- Safety record: Whether they are involved in accidents or traffic disputes. (2 marks)

e Two ways that Mr Sharma can retain his motorbike drivers:

- He may provide a bonus or a commission in addition to the base salary. (2 marks)
- He may extend the time limit for delivery of dishes (e.g., from 45 minutes to an hour) to reduce work pressure on drivers. (2 marks)

4.18 German Car manufacturing Company

4.18 a The positioning of Eco-era:

- It is environmental friendly because it uses electricity as fuel.
- 'Made in Germany' implies that the car is durable, reliable and safe.
- The name of the car, Eco-era, suggests that it is an innovation.
- The size of the car, a five-seater, suggests that it is suitable for small families, i.e., married couples with or without children.

(Any two of the above, 2 marks for each point)

b Among all the demographic variables, income may be the most suitable to segment the car market in Hong Kong. (1 mark)

As Eco-era is quite expensive, i.e., \$350,000, only higher income Hong Kong people can afford to buy the car. (1 mark)

As such, using income as a segmentation base can help the company distinguish those who can afford to buy the product from those who cannot. The company can then select the appropriate target market. (2 marks)

c Yes. The company should use more than one demographic variable to segment the market. (1 mark)

In addition to income level, it may consider using family size to segment the market. (1 mark)

As Eco-era is a five-seater car, it especially suits the needs of small families (with a family size of three to four). (2 marks)

(Any other reasonable answers)

d The advantage of financing using retained profits:

- Less costly as it does not involve transaction costs or interest expense.
- Greater freedom in decision-making.

(Any one of the above, 2 marks)

The disadvantage of financing using retained profits:

- As the \$10 million needed is a large amount, the company may encounter liquidity problems. (2 marks)

e No. The company should not use a short-term bank loan. (1 mark)

This is because:

- It is unlikely that the company can earn back \$10 million from the sales of Eco-era in a short period of time. (2 marks)

- If the company uses a short-term bank loan, it may need to refinance frequently. (2 marks)

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German Car Manufacturing Company

Andy is the marketing director of a German car manufacturing company. The company is considering launching Eco-era, a brand-new electric car, in Hong Kong. Eco-era is a five-seater private car priced at \$350,000. Andy proposed to Bob, the CEO of the company, the idea of using a suitable demographic variable to initially segment the Hong Kong market. Andy further asserted that this segmentation would be an important step for the company in subsequently choosing to promote the new car to the right target market. However, Bob wanted to know if more than one demographic variable should be used.

Launching Eco-era in Hong Kong would require funds, an estimated \$10 million for expenses such as setting up a local office and promotion. Bob is considering using two sources of financing, retained profits or a short term bank loan. The company may choose either of them.

a Based on its product characteristics, describe any two positioning for Eco-era. (4marks)

b Assume the company finally decides to use one demographic variable to segment the Hong Kong market. Which variable would you suggest? Give your reasons. (4marks)

c Explain whether the company should use more than one demographic variable to segment the market. (4marks)

d Explain one advantage and one disadvantage of financing using retained profits. (4marks)

e Do you think the company should use a short-term bank loan to finance Eco-era's launch in Hong Kong? Explain any two reasons. (5 marks)
