South Tuen Mun Government Secondary School

Business, Accounting and Financial Studies

WS: Beverage manufacturer

Edward is the marketing manager of a beverage manufacturer. He is responsible for marketing a new Korean isotonic drink called Sporty in Hong Kong. The manufacturer is a nicher in the beverage market. As such, its marketing objective is profit maximisation rather than market share maximisation.

As Edward plans to target only fitness enthusiasts in Hong Kong, he considers selective distribution more suitable for this purpose. However, he is unsure of what possible strategies are available for him to price this new product.

a What is selective distribution? Suggest one way for Edward to implement this strategy in Hong Kong. (5 marks)

b Describe the two pricing strategies for a new product. Which one would you recommend to Edward? (6 marks)

c Assume that due to accidental contamination at the Korean plant following its launch in Hong Kong, Sporty is reportedly unsuitable for human consumption. What promotion mix tool should Edward employ to handle this incident? Suggest how Edward should handle the crisis. (4 marks)

d Edward plans to recruit new salespeople to market Sporty in Hong Kong. Suggest two methods which Edward can use to post job vacancies. Give reasons for your suggestion. (6 marks)

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a Selective distribution is somewhere between intensive distribution and exclusive distribution. In other words, the company only selects a number of channel members (more than one and less than all) to distribute the product. (2 marks)

To implement selective distribution, Edward can approach all of the major fitness centres in Hong Kong (e.g., California Fitness, Physical) and request that they stock and sell the product on the beverage manufacturer's behalf. (2 marks)
In return, the fitness centres can get a specified commission for each bottle/can of product sold. (1 mark)

b The two pricing strategies for new products are as follows:

(i) Market skimming pricing means that a company sets a high initial price in order to earn revenues from consumers who are willing to pay a high price for a new product. Over time, the marketer will gradually lower the price to attract other more price-sensitive consumers. (2 marks)

(ii) Market penetration pricing means that a company sets a low initial price in order to attract a large number of consumers to try its new product. It aims to build a large market share as quickly as possible. (2 marks)

Since the manufacturer is emphasising profit rather than market share maximisation, Edward should adopt market skimming pricing to reap higher initial profits from the market. (2 marks)

c Public relations would be a suitable promotion mix tool to handle this crisis. (1 mark)
Edward should immediately recall the product from the market. (1 mark)
He should then hold a press conference to explain the causes of the incident as well as take action to rectify the situation. All of these can help restore customers' confidence. (2 marks)

d Edward may use the following methods to post job vacancies:

- Advertising via the mass media or the Internet: Edward can post job advertisements in newspapers, job-recruiting magazines and on the Internet. These media have wide coverage and are thus cost effective.
- Job fair: Edward's company can participate in job fairs to recruit qualified salespeople. As many jobseekers attend job fairs, this job posting method enables the company to fill vacancies in a cost effective manner.
- Employee referrals: Edward may consider offering incentives to existing salespeople to recommend that suitable friends/relatives apply for the jobs. Presumably, existing salespeople have some basic information about the suitability of their friends/relatives, as well as the company's requirements. Hence, the quality of the new recruits can be more assured