

Towngas expands its business

Hong Kong and China Gas Company (also known as Towngas) provided quality gas service and launched its in-house stove utensil brands, including the medium-to-high-grade TGC and the popular (大眾化) Simpa. In 2013, the company introduced French premium kitchen appliance brand Scholtès, incorporating the products like coffee machine, refrigerator and so on, which can expand its product line.

Hong Kong and China Gas Company provides one-stop service (一站式服務) and 24-hour service hotline for customers. In addition, Scholtès cooking utensils with the parts include a 3-year warranty (保養期), which is longer than that provided by other brands.

Hong Kong and China Gas Company has developed its subsidiary Towngas China to expand business in the Mainland. The rise in sales business of stove utensils in the Mainland has been better than in Hong Kong, selling from only 30,000 units in 2006 to 500,000 units in 2012. Besides, it tends to offer interior decoration for actual flat to be handed over which creates opportunities to the company.

Since 2005, water supply project has been Towngas China's local major investment. As it only requires the construction of branch-pipe network for gas supply, the rate of return (回報率) of the natural gas project would be faster. To compare, the rate of return of the water supply project is longer due to the huge investment of constructing a water tank and then a pipe network.

Questions:

- (a) Point out which method of extending product line the introduction of Scholtès by Hong Kong and China Gas Company belongs to. (2 marks)

- (b) Based on EACH of the following product mix strategy, suggest ONE method for the Hong Kong and China Gas Company to expand its business:

- (i) Product mix width (2 marks)

(ii) Product line depth (2 marks)

(c) Give TWO examples that the Hong Kong and China Gas Company uses to raise customer loyalty. (4 marks)

(d) What factors did the Hong Kong and China Gas Company consider when it entered the Mainland market? List TWO of them. (4 marks)

(e) Apart from the towngas business, the Hong Kong and China Gas Company also supplies water in the Mainland.

(i) What factors are considered when the enterprise makes decision on capital investment? List TWO financial factors. (4 marks)

- (ii) Suggest TWO investment appraisal methods that the Hong Kong and China Gas Company can use for reference. (4 marks)

Marketing Revision test #4

Towngas expands its business

- (a) Upward line stretching (1 mark). The Hong Kong and China Gas Company introduced a high-end brand Scholtès (1 mark).
- (b) (i) The Hong Kong and China Gas Company can increase the sale of other electronic appliances, so as to increase its product lines (2 marks).
- (ii) The Hong Kong and China Gas Company can provide stoves made from different materials and in different colors for customers to choose from, so as to increase the version of its products (2 marks).
- (c) Examples:
- The Hong Kong and China Gas Company provides a 3-year warranty service to customers who purchase Scholtès cooking utensils, which is longer than other brands. This helps to differentiate the product from other products, and helps to raise customer's satisfaction and loyalty.
 - The Hong Kong and China Gas Company provides a 24-hour service hotline for its customers, which enables customers to make enquiry and complaint round the clock. This can alleviate the dissatisfaction of the customers and raise the customer loyalty.
- (2 marks for each relevant example, max. 4 marks)
- (d) Factors:
- The growth in the market: The growth in the Mainland market is faster than the local market.
 - The operating characteristics of the market: The actual flats to be handed over in the Mainland will be offered interior decoration. This provides business opportunity for the Hong Kong and China Gas Company.
- (2 marks for each relevant factor, max. 4 marks)
- (e) (i) Financial factors:
- Investment cost: The higher the cost of the investment, the lower its attractiveness.
 - Investment return: The more income the investment can generate, the higher its attractiveness.
- (2 marks for each relevant factor, max. 4 marks)
- (ii) Methods:
- Net present value: The present value of the future cash flow minus the initial outlay.
 - Accounting rate of return: This measures the profit gain per dollar invested.
- (2 marks for each relevant method, max. 4 marks)

Canon's survival strategy in DSLR camera market

Digital single lens reflex camera (DSLR camera) (單鏡反光相機) is getting more prevailing with leading brands include Canon and Nikon. Despite having a small number of competitors, DSLR manufacturers keep launching innovative functions (創新功能) and strong marketing promotion. For example, Canon's newly-introduced DSLR camera is equipped with touch screen (觸摸式屏幕) and its size is smaller than other similar products.

Besides, there are crucial differences men's and women's desires for photography. Male users focus on the functions of the camera, while female users tend to pay more attention to their feeling during photos taking and ask for a more handy camera. Therefore Canon has started to target female users since 2006, which accounted for 30% of the market.

In addition, the substantial depreciation (貶值) of Japanese Yen at the end of 2017 has greatly affected Canon's profit. Being a Japanese enterprise, Canon has many materials imported from foreign countries, and therefore the production cost has risen due to the depreciation of Yen.

Questions:

(a) There are many users of digital single lens reflex camera (DSLR camera) in the market, and the number of manufacturers tends to be constant.

(i) Which stage of product life cycle is the DSLR camera in? (1 mark)

(ii) Suggest ONE product strategy and ONE pricing strategy for Canon to increase its market share. (4 marks)

(d) Canon is a Japanese enterprise, and it needs to import raw materials from other countries for production. Japanese Yen started to depreciate at the end of 2017.

(i) Will insurance companies insure the risk of the change in exchange rate for Canon? (2 marks)

(ii) Suggest TWO ways for Canon to hedge against the risk of the change in exchange rate. (4 marks)

Marketing Revision test #5

Canon's survival strategy in DSLR camera market

- (a) (i) Maturity stage (1 mark)
- (ii) Product strategy:
- Canon can differentiate its product from its competitors by adding new features, such as producing DSLR camera with touch screen.
- (2 marks for each relevant product strategy, max. 2 marks)
- Pricing strategy:
- Canon should set a price similar to or even lower than its competitors.
- (2 marks for each relevant pricing strategy, max. 2 marks)
- (b) Methods:
- Product differentiation: Canon can differentiate its products by the distinctive product features, so as to show the advantages of its products.
 - Channel differentiation: Canon can differentiate its products by offering different delivery channels to the customers, for example, providing delivery services.
 - Image differentiation: Canon can differentiate its product by its established corporate or brand image.
- (2 marks for each relevant method, max. 6 marks)
- (c) (i) Differentiated marketing (1 mark). Canon launches products to satisfy the needs of male and female users respectively at the same time (1 mark).
- (ii) Advantages:
- Differentiated marketing enables Canon to suit the needs of different groups of photographers, this may help to increase its sales revenue.
- (2 marks for each relevant advantage, max. 2 marks)
- Disadvantage:
- Canon needs to separate production and marketing resources on different market segments, higher operating costs may be resulted.
- (2 marks for each relevant disadvantage, max. 2 marks)
- (a) (i) No (1 mark). Exchange rate risk is a kind of speculative risk, and only non-speculative risks can be transferred to insurance companies by insurance (1 mark).
- (ii) Methods:
- Purchase futures on foreign currency: After the futures contract is signed, Canon can exchange foreign currency with Japanese Yen at certain exchange rate at a certain time. Even when Japanese Yen depreciated against other currency, the amount of Japanese Yen paid will remain unchanged.
 - Purchase call options of foreign currency: If foreign currency appreciates against Japanese Yen greatly (Japanese Yen depreciates greatly), Canon can exercise the option to buy foreign currency at a certain exchange rate. This lowers the risk due to the fluctuation of exchange rate.
- (2 marks for each relevant method, max. 4 marks)

Nokia launching low-cost phone to explore new chances

Facing keen competition (激烈競爭) in the smartphone (智能手機) market, Nokia, a mobile phone manufacturer, had no intention to follow the market trend. It announced to launch the traditional phone (傳統手機) Nokia 105, which is the lowest-cost phone launched by Nokia, priced at US\$20 (around HK\$160).

Nokia 105 is based on Nokia's most popular phone model 1280, the sales volume of which was about 120 million. Nokia 105 only has basic calling function equipped with full-color screen as well as water-and-shock-and-dust-proof case while it can maintain standby mode for 35 days with one-time charging. Stephen Elop, the CEO of Nokia stated that Nokia 105 targets the emerging markets (新興市場) like South America, Africa, Russia and Asia-Pacific region, focusing on low-end market (低檔市場).

Analysts explained that Nokia launched inexpensive traditional mobile phone because the population without phones far exceeds the number of smartphone users, and the progress of its mission – allowing the 2.7 billion no-phone population to purchase an affordable phone – can be made. Yet, there is still a risk to launch a low-priced model as it is predicted that the low price of Nokia 105 may further bring down the gross profit ratio of the brand.

Questions:

The following are the data about the traditional mobile phone of Nokia:

	Third Quarter 2011	Third Quarter 2012
Sales (Units, Ten Thousand)	8,980	7,660
Profit (EUR million)	842	548

Source: Nokia's quarterly results

- (a) Based on the above data, illustrate which stage of product life cycle the traditional mobile phone is in. (2 marks)

- (b) Based on the stage of product life cycle mentioned in (a), state THREE characteristics of the market of traditional mobile phone apart from sales and profit. (3 marks)

(c) Nokia launched an inexpensive traditional mobile phone, Nokia 105, which based on the most popular phone model of the brand with basic calling functions. Comment whether the above product strategy is suitable for the stage of product life cycle mentioned in (a). (3 marks)

(d) Suggest the appropriate place and promotion strategies for Nokia 105. (4 marks)

(e) Give TWO reasons to explain why Nokia launched low-priced traditional mobile phones. (4 marks)

(f) An analysis pointed out that the launch of low-priced traditional mobile phones would lower the gross profit ratio of Nokia.

(i) Explain why this is possible. (3 marks)

(ii) Except adjusting the mobile phone prices, suggest ONE way for Nokia to raise its gross profit ratio. (1 mark)

Marketing Revision test #6

Nokia launching low-cost phone to explore new chances

- (a) Decline stage (1 mark). It is because both sales and profits were decreasing (1 mark).
- (b) Characteristics:
- Cost: Low cost per customer
 - Customers: Laggards
 - Competitors: A declining in number
- (1 mark for each relevant characteristics, max. 3 marks)
- (c) Yes (1 mark). Nokia produces mobile phone of popular models can help to gain as much profit as possible from traditional mobile phone business (1 mark), and thus achieve the goal of survival in the decline stage (1 mark).
- (d) Strategies:
- Place: Adopt selective distribution
 - Promotion: Reduce promotional budget and concentrate on retaining loyal customers
- (2 marks for each relevant strategy, max. 4 marks)
- (e) Reasons:
- Size of segment: The number of no-phone population (i.e. potential customers of traditional mobile phone) is greater than that with smartphone, and the former is more price sensitive.
 - To meet the company's target: The mission of Nokia is enabling no-phone population in the world to purchase an affordable phone.
- (2 marks for each relevant reason, max. 4 marks)
- (f) (i) The launch of low-priced traditional mobile phone would lower the average price (1 mark). If the decrease in cost of goods sold due to the launch of low-priced mobile phone is smaller than the fall in sales (1 mark), gross profit would decrease (1 mark). This lowers the gross profit ratio.
- (ii) Methods:
- Lower the cost of goods sold.
- (1 mark for each relevant method, max. 1 mark)