QUESTION 2: PROPOSED SOLUTIONS

A distribution channel consists of "a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user" (Kotler & Armstrong, 2004: 400).

Informally worded, it is the path that goods take between the point at which they leave the factory gates and enter the consumer's hands.

So, the challenge for Muffins Inc. it to get the goods from the manufacturer to the consumer in the most efficient (in order to lower costs) and effective (in order to create widespread distribution) manner.

The following is a representation of the classic supply chain: manufacturer → wholesaler → retailer → consumer

Thus, three possible routes to market exist.

(1) *Sell directly to consumers*. This would entail setting up one's own store front (whether physical i.e. bricks and mortar stores, or virtual i.e. an e-commerce enabled web site)

    This direct-to-market route (a phenomenon frequently referred to as 'disintermediation') has been undertaken successfully by the likes of Dell Computers - who are computer manufacturers themselves.

(2) *Use an intermediary (i.e. a wholesaler)*. The wholesaler therefore buys in bulk from the manufacturer and resells the merchandise, at a profit, to retailers.

(3) *Sell straight to retailers*. This often occurs when large retailers want to avoid the additional markups paid when buying through wholesalers. For instance, in South Africa, Pick 'n Pay would buy cereal directly from Kellogg's, and deodorant directly from Unilever, in order to reduce merchandising costs.

OK, so getting back to our example:

Muffin Inc. could either set up their own stores (e.g. as Levy's have done), or else sell their products to wholesalers or retailers.

In terms of launching their own stores, this would be a lengthy and expensive process. This route would require significant capital outlay (land needs to be bought or rented, stores constructed, etc.), but also necessitates a good knowledge of the local market place. Bearing in mind the Muffins Inc. is a foreign company, and that the brand is unfamiliar in the South Africa marketplace, this approach seems ill advisable.

Selling directly to retailers is also an arduous task. The large retailers in the country have long standing relationships with other suppliers and are reluctant to enter into business agreements with unknown suppliers. The reason: what happens if these suppliers suddenly renege on the contract or go bankrupt – this causes supply instability!

The best route to market therefore appears to be through wholesalers. Wholesalers typically have the will, and means, to cater for new and upcoming suppliers. Furthermore, many wholesalers have pre-existing relationships with the large retailers – this provides an avenue with which to get Muffin Inc. stock onto Pick 'n Pay, Checkers, Spar, Woolworths, etc. shelves.

QUESTION 3: PROPOSED SOLUTIONS

Price is an element of the marketing mix (i.e. one of the 4 P's).

Price is often perceived by consumers to be a signal of quality. Therefore the higher the price charged, the higher the perceived quality of the product or service.

It is important for a marketer to conduct research in order to determine the price points of competitors – it is obviously not advisable for Cape Sound to price themselves out of the market.

There are two possible long-term pricing strategies:

Market-skimming pricing:

This approach involves setting a higher price than the competition. This aims to grow profits ('skim revenues layer by layer from the market') at the expense of market share. Therefore, the company will have a lower sales volume, yet higher profits per unit sold. See page 371 in Kotler & Armstrong for further information.

Market-penetration pricing:

This approach involves setting a cheaper price than that charged by the competition. This aims to grow market share through low prices. It results in lower profit margins, but higher sales volume. See page 371 in Kotler & Armstrong for further information.

Neither is necessarily a better strategy – it depends on the state of the market i.e. competition, consumer characteristics, etc.

Three possible launch price strategies:

(1) Launch the products at the price that will be changed over the long-term

(2) Launch the products at a higher price than be will charged over the long-term. This initial move may create a (hopefully lasting) impression of quality. The price may then be reduced, later, to increase sales – however the notion of high quality should remain.

    e.g. launch of Pringles into the S.A. market

(3) Launch the products at a special price that beats that of the competition. To avoid the negative stigma of poor quality, marketers often use subtle means to add value to the initial offering. For example, the company may launch a 'two for the price of one' promotion or may include a coupon to reduce the face value of the merchandise.

    e.g. launch of deodorants into the S.A. market

QUESTION 4: PROPOSED SOLUTIONS

What is a brand?

Kotler & Armstrong (2004) define a brand as a "name, term, sign, symbol or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors".

A brand is therefore more than a product. A product is generic in nature, nameless and faceless, yet a brand embodies an image and personality of the respective product. Therefore, a chocolate is a product, but a Bar One is a brand!

Brands have typically been developed over a number of years. Within this period, *brand equity* (the economic strength of the brand) has had an opportunity to grow. This occurs as consumers become aware of the brand and start to trial and adopt it.

Hyundai started life as a South Korean automobile manufacturer and has subsequently expanded into the South African market. The cars destined for the S.A. market are assembled in Botswana and transported into South Africa.

The Hyundai brand has been around for about a decade in the South African market – not all of which has been smooth sailing for the company. A few years back the brand was on the brink of collapse, but has subsequently recovered.

Hyundai's new range of cars (e.g. Getz) appear to cater for those individuals looking for value-for-money (not necessarily 'cheap') cars. Arguably, it may be said that Hyundai cars offer the style and trimmings expected of the mainstay brand cars (e.g. Toyota, Opel, etc.), yet for a lower price.

So, it would appear that the position of the Hyundai brand is quite clear – automobiles, style, value-for-money, etc.

Now, focusing again on the case, it would appear that Hyundai have begun marketing their own range of televisions, radios, etc. This has therefore unsettled their brand positioning – it appears that these electronics goods are perceived as 'cheap' in nature (as opposed to value-for-money) and that they have little to do with automobiles.

The brand positioning has therefore been diluted and therefore brand equity eroded. This begs the question from the consumer: "What business is Hyundai really in? Do we trust them to manufacturer quality goods in **any** category, or are they just 'bleeding' the brand dry?"

This consumer doubt or uncertainty may cause consumers to think twice before purchasing a Hyundai car or a consumer electronics item. For example, it may cause embarrassment to an individual if he has just paid R 100 000 to buy a new Getz, and his friend laughs as he pulls out a R20 Hyundai calculator!

In conclusion, this diversification approach may well be foolhardy as it significantly sacrifices the value of the brand. There are exceptions to this rule, e.g. Virgin, but not many!

Lastly, Kotler & Armstrong (2004: 296) contend that line extensions "occur when a company introduces additional items in a given product category under the same brand name, such as new flavours, forms, colours, ingredients, or package sizes."

For example, the introduction of a new tikka-flavoured packet of Niknaks, or Coca-Cola's introduction of Coke Lite.

On the other hand, "brand extensions involve the use of a successful brand name to launch new or modified products **in a new category**" (Kotler & Armstrong, 2004: 296). However, this option is often fraught with risk as it could serve to weaken the 'umbrella' brand.

For example, I&J (manufactures of packaged fish and vegetable products) introducing a new range of spices to complete with that of Robertson's Herbs & Spices. Another example is Nestle launching a Bar One ice-cream to compete with Magnum.

So, relating this to the Hyundai scenario, their proposed diversification strategy would fall under the classification of a brand extension. This move is therefore considerably more serious, and risky, than a line extension. Before making a decision, it is advised that Hyundai conduct thorough marketing research and consult the opinion of brand experts. Of course, it would appear that they didn't do this ☹