

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
MSc IN MARKETING
MARKETING RESEARCH - CBU 5103

DECEMBER 2006 EXAMINATIONS

TIME ALLOWED : 3 HRS + 15 Mins

INSTRUCTIONS TO CANDIDATES

- The paper is made up of three sections, A, B and C
- Answer **all** questions in section A and **one** each from sections B and C
- Credit will be given for appropriate use of examples
- The extra 15 minutes is time allowed for reading the case

SECTION A
(Compulsory – Answer all Questions)

QUESTION 1



Online Edition

17 November 2006

OK Gets Psychological
Rangarirai Mberi Business Editor
New Tactics To Keep Nation Shopping

FOR years, OK Zimbabwe fed millions of shoppers its “where the nation shops and saves” mantra. Now, the retail giant says for the first time, it finds itself having to actually prove its claim.

With a mob of supermarket chains scrambling for what OK CEO Willard Zireva describes as “a diminishing cake”, the growing perception that OK is an expensive store has become a serious threat to the company’s legendary obsession with keeping a grip on its market share.

So executives have now worked out a new game plan to shake off the “expensive store” tag. They are changing their pricing policy, using a strategy that does not actually slash prices, but one that creates at least the image that its prices are lower than those of the competition.

So how does OK maintain an image of low prices? By actually making sure its prices are lower than those of its competitors, at least on key items.

“We are not abandoning replacement pricing. What we will do is select a basket of products, buy more of that stock at a lower price, and hold them at the same price for much longer than the current rate of increase. We’ve already started seeing results coming through,” explains Zireva

This new sales mix and managed approach to replacement pricing was responsible for a rare dip in gross margins at OK, down to 21.44 percent from 24.69 percent in prior year. But OK says this was a sacrifice necessary to keep its market share.

“The perception of OK as being an expensive shopping destination was too important to ignore,” says finance director Alex Siyavora. “We felt it was important to find a strategy that maintained our market share.”

OK are not exactly inventing the wheel here. Wal-Mart, the world’s largest retailer, has gone down the same road. Working on a common belief among retailers that the average consumer knows the “going price” of fewer than 100 items, Wal-Mart pulled one over consumers by selecting what retailers call “price-sensitive” items, mostly commodities that traditionally shift faster.

An average Wal-Mart sells 100 000 separate items (OK sells 10 000 different items). US retailers believe that the general public knows the going price of only 1 to 2 percent of these items. Therefore, each Wal-Mart store investigates the prices of about 1 500 items in their competitors’ shelves. If a competitor has a lower price on any one of these items than Wal-Mart, the store manager immediately lowers their own price so his store becomes the lowest.

So, OK are banking on the assumption that when a customer walks in and sees the items of which they know the price — the ones always priced lower in OK — they would then believe that everything else in the store is also priced lower than at other stores. Whether this assumption works out true or not will be revealed next April, when OK reports on its annuals.

According to OK’s chief operating officer, Albert Katsande, the new players that had appeared the biggest threat to its dominance just over a year ago “are falling off, they are no longer performing as well as they used to.” The trend is tracked in a competitor analysis OK does every quarter. So this leaves the field open for OK and TM, which beat OK on sales last year.

Zireva says the managed approach to pricing will not pose any serious damage to margins, as it will only be on a fraction of the 10 000 items it has for sale. The new strategy would instead shore up flagging volumes by “bringing more feet into our stores”. Despite the “diminishing cake”, OK had no plans to cut back on its branch network. Three new stores will in fact be added this financial year.

“The country is not coming to a halt. We do not believe we should now surrender and reduce the size of our operations. We will not become a small contributor to the economy by cutting down on the number of our outlets,” says Zireva.

“We don’t believe reduction will be in the interests of shareholders. Opening new outlets does not decrease shareholder value; shareholders will be rewarded in due course by our current strategy (of opening new stores).”

Stores would only be closed if they were not contributing meaningfully to the company, he says. If a store was performing poorly, the company would investigate the causes and

correct them.

“At one point, we were close to closing down Jason Moyo (Bulawayo). But we made some changes, moved the store down to the ground floor, and now it’s one of our top 10 performers.”

Each new store is given 12 months to show a return, says Katsande, but “they usually do so within a shorter period.”

Case Questions:

- a) Identify and discuss OK’s research needs in respect of the new pricing strategy being adopted. **[20 Marks]**

- b) Design a piece of research that could be used to effect research on some or all of the research needs you identified in (a) above. **[30 Marks]**

SECTION B
(Answer One Question)

QUESTION 2

Edwin Mwanza, the Director of a newly established Christian Radio Station is considering commissioning a qualitative research project to better understand the market. He does not have a formal marketing background, and him knowing you to be a NUST MSc Marketing student who has studied Marketing Research on the programme, has asked you to produce a memorandum for his attention, outlining which qualitative research method should be adopted and why.

Write the required memorandum.

[25 Marks]

QUESTION 2

A part IV Insurance student who never did a research course in his studies is conducting a national survey on a subject that has to do with insurance brokers in Zimbabwe as his final year project. He is wondering as to how he can best go about the administration of his survey given his limited financial resources.

Advise your colleague by appraising him on the main methods of survey administration and make a recommendation as to how he can best execute his survey.

[25 Marks]

SECTION C
(Answer One Question)

QUESTION 4

A local authority has a pool of cars for staff to use on official business. One particular make and model of car, of which the authority has a considerable number, claims to give 52km per 5-litre gallon of fuel for simulated out of town driving. Having drawn a sample of 20 cars, the transport manager has calculated that the actual kilometres per 5-litre gallon for such driving has been 47km, standard deviation of 7km.

- a) Based on this information, would you conclude that the car manufacturer's claimed mileage per gallon is unrealistic? Why? **[18 Marks]**
- b) What assumptions have you had to make to reach your conclusion in (a) above? **[7 Marks]**

QUESTION 5

In a survey of housewives on grocery shopping habits in Bulawayo, comprising 720 respondents, the following results were cross classified by social class (Upper ; Lower) and propensity to search for low prices (Low price searchers ; Non low price searchers) :
Upper social class : 67 Low price searchers ; 168 Non Low price searchers
Lower Social class : 303 Low price searchers ; 182 Non Low Price Searchers

- a) Develop a cross-tabulation from the above results and show both the row and column percentages for each cell. **[10 Marks]**
- b) What is the relationship, if any, that seem to be shown by the cross-tabulated results? **[5 Marks]**
- c) What statistic would you use to test whether there is indeed a statistically significant relationship or not and how is the statistic interpreted? (*The calculated statistic is not required*) **[7 Marks]**
- d) Suppose a stratified sampling technique was used to draw the sample, what basis of stratification do you think was employed? Why? **[3 Marks]**

End of Exam Paper
Good Luck!