NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

BACHELOR OF COMMERCE (HONOURS) DEGREE IN MARKETING

STRATEGIC MARKETING MANAGEMENT 1 CBU 4101

FINAL EXAMINATION - JANUARY 2013

TIME ALLOWED: 3 HOURS 30 MINUTES

INSTRUCTIONS TO CANDIDATES

Answer question **one** and any **three** questions in section B

INFORMATION TO CANDIDATES

(i) Question one carries **40** marks
(ii) Questions in section B carry **20** marks each
(iii) Questions may be answered in any order.
(iv) Credit will be given for the use of appropriate examples
(v) This paper contains **seven** questions

SECTION A

Apple's iPod

On January 9th, 2007, Steve Jobs, renowned CEO of Apple, announced that the company which he founded would no longer be known as Apple Computer, Inc. Its new name would just be Apple, Inc.This seemingly trivial change represents a fundamental shift with deep implications that were the result of many changes Apple had engineered over the past six or seven years; transitioning itself from a computer company slugging it out for a meager share of an increasingly competitive hardware and software market, to a business that promoted an entirely new concept: the digital lifestyle. Before we dig down into what this radical shift entailed, both for the company and the world, let's take a quick look at the history of Apple, a company already firmly rooted in several notions that allowed this transition to make sense. Apple made a name for itself by being instrumental in ushering in the home PC revolution. For millions of its aficionados, Apple was single-handedly responsible for this revolution by virtue of the fact that it created radical new features such as windows-type graphical user interfaces, pull-down menus and simplified computer control via the mouse. The history of the PC revolution is a history of war between Apple, a number of losers that no one remembers any more, and archrival Microsoft with its dubious counterclaims of having pioneered the concept of Windows. Frustrating to anyone who owned a Mac back in the 1980's is the knowledge that Apple did indeed pioneer the windows metaphor as a distinct feature of its operating system. This was at a time when Microsoft users were still struggling with text-based DOS commands, and yet the commercial success of Microsoft has served to rewrite history to some degree. Battles ensued over the years, but no matter whose side you were on, by the late 90's it was clear that Apple was not gaining any ground whatsoever as a computer and software manufacturer. In fact due to many external events, Apple's position was in clear threat.

First, huge numbers of consumers, particularly the business community, clearly preferred Microsoft. Apple's market share was tiny compared to the Redmond behemoth however Apple users were an ardent group of graphic designers, college students, and members of the urban hip known as The Digerati. This was a group of consumers who saw themselves as different from the mainstream; definitely cooler, and part of a community of like-minded people. They knew they paid more for to breathe this rarified air, but they didn't seem to mind. In these segments, Apple’s market share was relatively solid, even if it was comparatively small. Even so, by the end of 2000, with a downturn in the worldwide demand for PCs, Apple posted a $200 million loss, and analysts were not optimistic about Apple’s future. Undeterred, in January 2001, Jobs opened the annual Macworld conference in New York City with his usual brand of enthusiastic vision. He announced that personal computing, far from tailing off into irrelevance, was about to leap ahead into a new Golden Age. To support his vision he introduced several new Apple products that were intended to align the Mac with this new “digital lifestyle”.

Though the conference attendees may have nodded knowingly, few understood what he was talking about, for at this point habits which would later be hallmarks of the digital lifestyle—listening to music online, creating digital movies and sharing photos through networks of computers—were not widely practiced, except perhaps by the most innovative of consumers. Any such habits were still in their domain, as MP3 technology, and MP3 players specifically, were still quite new, and no one yet knew exactly what to do with them. Launched in 1998, MP3 players were initially seen as an alternative to portable CD players. They only held a couple hours worth of music, and there were still technical glitches such as transfer times and clumsy user interfaces that cast these new gadgets firmly into the realm of the geek.

Interestingly this is not too different from the situation that existed when Apple first entered the PC market; the concepts and technology existed, but they weren’t popular. Apple’s stroke of strategic genius was to create a way to simplify and popularize them through cool and innovative design. This approach became foundational to their business strategy as well as their corporate culture, and it can still be seen today, irrespective of the fact that so much has changed. In this regard, this company’s guiding principles have remained remarkably consistent. In 1998 as today, Apple’s strategy has been to release cool new products frequently accepting and capitalizing on the fact that computer products enjoy a short product life cycle. Apple popularizes difficult technology by making it fun and intuitive, and characteristically they wrap it all up in a super-hip package that makes consumers of their products feel as if they belong to an exclusive community. The company's commitment in 2006 differs from their commitment in 2000 only insofar as the addition of the words "portable digital music":

The Company is committed to bringing the best personal computing and portable digital music experience to students, educators, creative professionals, businesses, government agencies, and consumers through its innovative hardware, software, peripherals, services, and Internet offerings. Many have criticized this approach, particularly the more conservative elements within the business community whose view is summed up by Business Week who wrote when iPod was first introduced that "a few might pay a premium for good design, but it isn't a good business strategy." Those same people may today wish they had at least bought a few shares of stock as a hedge against possible shortsightedness, but more to the point, this type of thinking seems to miss exactly what it is that Apple has always sold.

Consider that last year, Norway, Denmark and Sweden challenged Apple in court over this limitation of their product, a case which Apple's competitors are following with great interest. Whole industries want a piece of Apple's pie, most notably mobile phone manufacturers. Nokia has announced that it is setting up a rival to iTunes in its purchase of the American digital music service Loudeye. Songs downloaded from the new Nokia subscription service will play on any digital music player, including iPod. Not coincidentally, handsets are one of the explosive new growth areas for portable digital music.

Apple continues to mitigate these risks by keeping it hard to substitute, and this gets to the heart of the matter, that iPod symbolizes more than just another MP3 player. If Apple wins all the chips, then iPod's halo effect will help Apple outmaneuver such threats, and future product offerings such as iPhone, which are being developed now in response to the competitive onslaught, will gain a critical head start. As it stands there is simply no substitute for an iPod. This is reinforced consistently across the technology, advertising, promotion, and accessory ecosystem. In this sense, buyers have strengthened Apple's competitive position because at sales of over 100 million units, and 70% of the market, iPod is the industry standard for MP3 players. In a mesmerizing feat of mental acuity, Apple helps consumers judge the efforts of its competition against a standard they themselves invented. In order to be part of the phenomena, buyers have shown that they will pay a premium, and that for the most part, there are no ready substitutes. This causes a significant problem for competitors when the global conversation about MP3 players invariably leads to all things iPod. Any competing product will certainly be judged against the gold standard of iPod, and because of Apple's early entry and subsequent early lead, MP3 players from today through forever won't be strictly judged by their technical merits, but rather on their value as a style accessory.

Thanks to iPod, any potential entrant has to now offer an augmented product that delivers an entire package of benefits far and above the simple core attributes most tech companies specialize in. We can reasonably infer that Apple did plenty of primary and secondary research about the types of people who would be interested in iPod, and crafted their message accordingly. Undoubtedly they owned mountains of data from their over twenty years being at the epicenter of the PC revolution as well as their relevance birthing its child, the Web revolution. Using laddering in interviews perhaps revealed that this new breed of high tech consumer had desires far and above the technical. Accordingly, they positioned the product's physical attributes in a way that was secondary to its contribution toward bettering the consumer's world. A tool for building high self-esteem, impressing your friends, and being part of a semi-exclusive club, that by the way happens to be beautifully designed and technically superior to the competition. What's not to love? Of course, they charge for this love, but they knew from the beginning where they were going, and they didn't get there by accident. Looking at the Christmas retail season of 2001, three months after iPod's release, we see a story that practically draws for us a perceptual map whose axes are price and technical capability. From that we can backwards-engineer possible research findings, conclusions, and recommendations.

The leading device at the time was Sonicblue RioVolt MP3 CD Player, which retailed for less than $100. Creative's Nomad Jukebox was selling its recently introduced 6GB hard drive for about $250, and e.Digital Corp. was touting its walloping 10GB palm-size Treo

10 for $ 249 Treo. Against these contenders, iPod's $399 price tag for a mere 5 GB of storage doesn't seem to make sense. Also, at this time, iPod was only compatible with Macs, which amused Bill Gates, and continued to do so even as late as 2005 when USA today quoted him as saying: I think you can draw parallels here with the computer — here, too, Apple was once extremely strong with its Macintosh and graphic user interface, like with the iPod today, and then lost its position. It is our contention that the initial release of iTunes 1.0, which as noted was practically laughed at, was a Trojan Horse that delivered quite a bit of business intelligence to Apple.

Adapted from Case Study on Apple's IPod: The Marketing of an Idea Project

REQUIRED:-

(a) Discuss the strategic initiatives undertaken by Apple to combat competition in the digital music industry.

[20 marks]

(b) Using Ansoff 's growth Share Matrix, discuss the new product development and extension strategies adopted by Apple.

[20 marks]

SECTION B

Question 2

'Companies and organisations spring up virtually on a daily basis and fold up at an alarming rate. Such failure and ineffectiveness has been attributed to many factors among which are vision, visionary leadership and mission statements'.

Validate the statement above. **[20 Marks]**

Question 3

Michael Porter a leading researcher in strategy formulation states that, no firm can successfully perform at an above average profitability level by trying to be 'all things to people'.

Explain the circumstances under which a company would employ each of the generic competitive strategies by Michael Porter, highlighting the benefits and drawbacks of each competitive strategy. **[20 Marks]**

Question 4

Analyse the usefulness of the marketing audit to marketing executives in business organisations.

[20 Marks]

Question 5

'Is Mercedes more concerned about Hundai or BMW?'

Evaluate the relevance of strategic group analysis in line with the question above.

[20 Marks]

Question 6

Mr. B. Ndlovu an entrepreneur has just received a loan from a local Small to Medium Enterprises (SMEs) funding scheme. Discuss how he could use Porter's five forces framework to decide on the best sector of the industry to venture into.

[20 Marks]

Question 7

(a) Analyse the factors that determine market attractiveness and competitive strength in relation to the General Electric/McKinsey business portfolio model.

[15 Marks]

(b) Critique the General Electric/ Mckinsey portfolio analysis model.

[5 Marks]

END OF EXAMINATION