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# UNIVERSITI TUN HUSSEIN ONN MALAYSIA

## FINAL EXAMINATION
## SEMESTER I
## SESSION 2021/2022

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| COURSE NAME | : | STRATEGIC MARKETING |
| COURSE CODE | : | JANUARY / FEBRUARY 2022 |
| PROGRAMME CODE | : | MPA 10303 |
| EXAMINATION DATE | : | JANUARY / FEBRUARY 2022 |
| DURATION | : | 3 HOURS |
| INSTRUCTION | : | 1. ANSWER **ALL QUESTIONS**<br>2. THIS FINAL EXAMINATION IS AN **ONLINE** ASSESSMENT AND CONDUCTED VIA **CLOSED BOOK** |

THIS QUESTION PAPER CONSISTS OF **FIVE (5)** PAGES

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**Q1** Global companies face a critical question when entering emerging markets: How far should they go to localize their offerings? Should they adapt existing products just enough to appeal to consumers in those markets? Or should they rethink the business model from the ground up? The typical Western approach to foreign expansion is to sell core products or services pretty much as they've always been sold in Europe or the United States, with headquarters watching closely to ensure the model is exported correctly. This often starts with selling imported goods to the ex-pat community or opening one or two stores for a trial run. Once such an approach is entrenched, companies are reluctant to rethink the model. U.S. retailers and food corporations that have spent years saturating the vast home market tend to cling to what has worked in the past. Domino's Pizza nearly failed in Australia because it underestimated the need to adapt its offerings to local tastes; only after it turned the country over to a local master franchisee did Domino's become the largest pizza chain.

A master of adaptation is the Swiss food giant Nestlé, which has created various products that incorporate differing regional flavors—and cater to local tastes—in coffee, chocolate, ice cream, and even water. Nestlé's country managers have been empowered to say no to the head office if a product or a campaign doesn't suit their locales for a hundred years. Perhaps the greatest tribute to the strategy is that many consumers worldwide believe Nestlé is a local company.

One of the most impressive stories of a U.S. multinational in an emerging market is unfolding right now in China: KFC is opening one new restaurant a day, on average (on a base of some 3,300), intending to reach 15,000 outlets. The company has achieved this success by abandoning the dominant logic behind its growth in the United States: a limited menu, low prices, and takeout. In 1987, when the first Chinese KFC opened in Tiananmen Square, Western-style fast-food restaurants were unknown in China. Many Chinese still wore the tunic suits of the Mao era, and bicycles were the primary means of transportation. KFC was a novelty, a taste of America. It was a place where residents with spending money could go for a special occasion. Although customers didn't like the food much, KFC made steady progress, according to Sam Su, now the chairman and CEO of Yum! Brands China Division, which owns KFC and many other brands in the country.

KFC China's success in winning over Chinese consumers grew out of a deep understanding of the differences between established and developing markets and a willingness to alter Western brands infused with Chinese characteristics radically. The company's managers sought to stretch the brand so that consumers would see KFC as part of the local community—not as a fast-food chain selling inexpensive Western-style items but as restaurants offering various foods and the traditional dishes that appeal to Chinese customers. They enlarged the outlets, which are about twice the size of those in the U.S., to allow bigger kitchens and more floor space for customers to linger. They made a special effort to welcome extended families and groups. By contrast, in the United States, KFC outlets are designed primarily for takeout—most of the dining is done at home.

KFC China's menus typically include 50 items, compared with about 29 in the United States. The menu variety adds traffic and encourages repeat visits. The company introduces about 50 new products a year (some are temporarily offered), compared with one or two in the U.S. This is considered a very aggressive program for new product development, handled by a committee of managers from marketing, operations, product safety, and the supply chain. Menus offer spicy chicken, rice dishes, soy milk drinks, egg tarts, fried dough sticks, wraps with local sauces, and fish and shrimp burgers on fresh buns. Spiciness levels are significant to customers. In the chain's early days, when the same recipes were served at all outlets, Shanghai customers complained that dishes were too hot, while diners in Sichuan and Hunan complained that they were too bland. So the company changed its recipes to suit the regions. It also offers congee, a famous rice porridge that is hard to make at home, KFC's number one seller at breakfast.

The extended menu means that food preparation is more complicated in Chinese KFCs than in American ones and requires more hands (thus the bigger kitchens). These outlets typically employ 60 people—nearly twice as many as in the U.S. One of those employees is often a hostess who greets customers and organizes pastimes, such as learning English songs, for young children in play areas. With all this activity to support, KFC can't position itself as the cheapest dining option—nor does it want to. Customers spend the equivalent of \$2.50 to \$3.50 per visit, a price point that puts KFC way above street vendors and local restaurants and even somewhat above other fast-food chains. Although young "white collars" in Shanghai might eat a KFC lunch with friends once or twice a month, a family in a smaller city might go once or twice a year to celebrate a special event.

KFC rushed to establish a presence in 16 locations from which it could grow and develop. By 1999 it was opening dozens of restaurants a year, and in 2002 it picked up the pace even further. (In 2008, Yum! Brands' annual opening rate in China surpassed 500 restaurants, most of them KFCs—compared with 103 new KFCs in the United States.) From site selection to the grand opening, it takes KFC China four to six months to bring a new restaurant into the world—about half the time required in the U.S. Some 700 Chinese cities now have outlets. With KFC as its flagship chain, Yum! has become China's largest restaurant company by far, with more than 250,000 employees and about 40% of the market for fast-food chains. KFC's rapid expansion in China has allowed the company to widen the gap between itself and competitors: McDonald's has about one-third of its outlets and 16% market share.

**(a)** Conclude KFC's internationalization approaches on its presence in China.

(15 marks)

**(b)** Suggest defensive strategies to the CEO of Yam! Brand China Division to protect its market from competitors, especially McDonald's.

(10 marks)

(c) If KFC faces a profitability gap at the initial stage of its presence in China, it will hinder its sales and gradually lose its customers to competitors.

Propose to the management of KFC the best strategies on how they can close these profitability gaps.

(15 marks)

Q2 The product life cycle shows the period over which customers will want to buy a product. It goes through different stages depending on the level of sales. ASOS is the U.K.'s market leader in online fashion retailing. It has more than 22,000 product items on its website and introduces 1,000 new ones each week. ASOS has to be aware of the product life cycle to ensure that the products it is offering continue to meet the needs of its customers. ASOS introduces new styles all the time because customers want the most up-to-date fashions. By understanding the product life cycle, ASOS can determine how long products are likely to continue selling and plan for future ranges.

Businesses can use extension strategies to prolong the life cycle of their products. Following a trend started by Apple, mobile phone suppliers now provide apps (short for applications) to extend the possible life cycle of its products. Apps are mini-programs that can be downloaded by the mobile phone user, often for free. Last week, Starbucks released an app that shows users their nearest outlet and the nutritional values of its drinks. U2 has also introduced an app. The U2 Mobile Album app provides the group's latest news.

By providing these additional features, more customers may be encouraged to buy the handsets that support them. Some products will have relatively short product life cycles, whereas other products may continue to sell for years. As ASOS is in the fashion industry, the life cycles of its ranges will be limited. However, it can use techniques to extend them, for example, using its newsletter facility to remind customers about specific styles. Technology also changes rapidly, and the mobile phone industry is no exception. The introduction of apps means that the same handsets will continue to sell, thereby extending the product life cycle, but the users can personalize them with their favourites.

(a) Analyse tactical implications which ASOS can pursue across its product life cycle to address the changes in the U.K market.

(16 marks)

(b) ASOS is planning to use extension strategies to prolong the life cycle of its products.

Outline **THREE (3)** elements of product development that ASOS can utilize to prolong its product life cycle.

(9 marks)

(c) ASOS uses new technologies such as mobile apps to increase how customers adopt its new products. Due to this, some customers are inherently more likely to adopt new technologies, and some are very unlikely to be innovative.

Explain to ASOS the **FIVE (5)** types of customers that may respond to its new technologies.

(10 marks)

**Q3** JcPenny II, the 110-year-old veteran retail chain, has been on a recent roller coaster ride. Years of stagnant and declining sales ushered a new era, a new CEO, a new strategic plan, and a significant price-based campaign to revamp JcPenny II's image. When that failed, the retailer followed up with multiple revisions to the pricing campaign. But nothing so far has revised JcPenny II declining sales. Competitive reactions, consumer demand changes, and cost require JcPenny II to adapt prices to changing circumstances.

(a) Analyse elements of pricing decisions that may help JcPenny II to determine its pricing strategies.

(10 marks)

(b) Develop adjusting prices strategies that JcPenny II can adopt to respond to its competitors' pricing strategies

(15 marks)

**-END OF QUESTIONS-**