VPM's
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Programme: PGDM (2014-16)
Fifth Semester Examination January 2016

Subject	**Marketing Strategy**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**3**	**Date**	**14/01/2016**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

How Starbucks Uses Pricing Strategy for Profit Maximization

Last Thursday, Starbucks raised their beverage prices by an average of 1% across the U.S, a move that represented the company's first significant price increase in 18 months. I failed to notice because the price change didn't affect grande or venti (medium and large) brewed coffees and I don't mess with smaller sizes, but anyone who purchases tall size (small) brews saw as much as a 10 cent increase. The company's third quarter net income rose 25% to $417.8 million from $333.1 million a year earlier.

Starbucks claims the price increase is due to rising labor and non-coffee commodity costs, but with the significantly lower coffee costs already improving their profit margins, it seems unlikely this justification is the true reason for the hike in prices. In addition, the price hike was applied to less than a third of their beverages and only targets certain regions. Implementing such a specific and minor price increase when the bottom line is already in great shape might seem like a greedy tactic, but the Starbucks approach to pricing is one we can all use to improve our margins. As, it only takes a 1% increase in prices to raise profits by an average of 11%.

Value Based Pricing Can Boost Margins

For the most part, Starbucks is a master of employing value based pricing to maximize profits, and they use research and customer analysis to formulate targeted price increases that capture the greatest amount consumers are willing to pay without driving them off. Profit maximization is the process by which a company determines the price and product output level that generates the most profit. While that may seem obvious to anyone involved in running a business, it's rare to see companies using a value based pricing approach to effectively uncover the maximum amount a customer base is willing to spend on their products. As such, let's take a look at how Starbucks introduces price hikes and see how you can use their approach to generate higher profits.

An Overview of the Starbucks Pricing Strategy

The Right Customers and the Right Market

While cutting prices is widely accepted as the best way to keep customers during tough times, the practice is rarely based on a deeper analysis or testing of an actual customer base. In Starbucks' case, price increases throughout the company's history have already deterred the most price sensitive customers, leaving a loyal, higher-income consumer base that perceives these coffee beverages as an affordable luxury. In order to compensate for the customers lost to cheaper alternatives like Dunkin Donuts, Starbucks raises prices to maximize profits from these price insensitive customers who now depend on their strong gourmet coffee.

Rather than trying to compete with cheaper chains like Dunkin, Starbucks uses price hikes to separate itself from the pack and reinforce the premium image of their brand and products. Since their loyal following isn't especially price sensitive, Starbucks coffee maintains a fairly inelastic demand curve, and a small price increase can have a huge positive impact on their margins without decreasing demand for beverages. In addition, only certain regions are targeted for each price increase, and prices vary across the U.S. depending on the current markets in those areas (the most recent hike affects the Northeast and Sunbelt regions, but Florida and California prices remain the same).

Product Versioning & Price Communication

They also apply price increases to specific drinks and sizes rather than the whole lot. By raising the price of the tall size brewed coffee exclusively, Starbucks is able to capture consumer surplus from the customers who find more value in upgrading to grande after witnessing the price of a small drip with tax climb over the $2 mark. By versioning the product in this way, the company can enjoy a slightly higher margin from these customers who were persuaded by the price hike to purchase larger sizes.

Starbucks also expertly communicates their price increases to manipulate consumer perception. The price hike might be based on an analysis of the customer's willingness to pay, but they associate the increase with what appears to be a fair reason. Using increased commodity costs to justify the price as well as statements that aim to make the hike look insignificant (less than a third of beverages will be affected, for example) help foster an attitude of acceptance.

Answer the following questions based on above case:

a) What do you understand by the concept of Value Pricing? How is it determined?
b) Discuss the key elements of Starbucks' pricing strategy to boost profits.
c) Suggest five different pricing strategies other than value pricing which can be used by Starbucks for profit maximization.
d) How is product versioning used in price hike communications?

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain the various components of Marketing Strategy.
b) What are Porter's Generic Strategies?
c) Explain four Product-mix strategies with examples from FMCG sector.

Q3) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) What are two basic market entry strategies? Mention advantages of both.
b) What are three strategic choices available for Pioneers? Give example for each.
c) Explain New Product introduction strategies based on their degree of newness.

Q4) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain various bases for demographic segmentation with examples.
b) How is Geographic segmentation applicable in telecom sector?
c) Discuss various bases of Product-related segmentation.

Q5) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Illustrate GE McKinsey 9-cell matrix, and discuss its strategic implications.
b) Discuss various steps in market opportunity analysis.
c) What are the various applications and uses of BCG matrix?

Q6) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Discuss the factors influencing 'business strength' and 'industry attractiveness' in GE matrix.
b) What are the five strategies available for share leaders in growth markets.
c) Discuss the difference between Fortress and Flanker strategies with examples.

Q7) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Discuss the five strategies for challengers in growth markets.
b) Differentiate between Leapfrog and Encirclement strategies with examples.
c) What are various types of appeals in advertising and communication strategies?

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