



UNIVERSITY OF RUHUNA
FACULTY OF GRADUATE STUDIES

No of Pages: 04
No of Questions: 04
Total Marks: 100

PDBA/MBA 106 – MARKETING MANAGEMENT

POSTGRADUATE DIPLOMA IN BUSINESS ADMINISTRATION (PDBA)

SECOND SEMESTER END EXAMINATION – JANUARY 2018

Three Hours

Instructions

➡ *Answer all questions.*

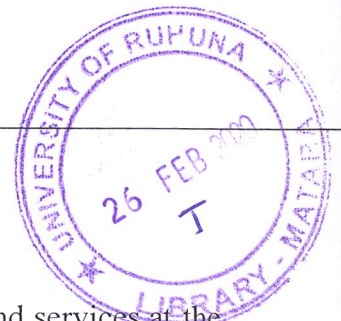
Question 01

Costco

Costco's mission is to continually provide its members with quality goods and services at the lowest possible prices. With nearly 60 million card carrying members and over \$71 billion in sales, Costco is now the largest warehouse club chain in the United States, the third largest retailer in the United States, and the ninth largest retailer in the world. Costco's success comes from years of building consumer loyalty through its dedicated merchandising and pricing strategy combined with no-frills, cost-cutting policies.

Costco's merchandising strategy focuses on offering a broad range of brand name and private label merchandise at extremely low prices. But, unlike a grocery store that carries 40,000 SKUs or a Walmart that can carry up to 150,000, Costco carries approximately 4,000 SKUs— only the fastest-selling flavors, sizes, models, and colors from a single vendor in each category. This efficient product sourcing results in several outcomes: high volume of sales, rapid inventory turnover, extremely low prices, and better product manageability.

Costco buys its merchandise directly from the manufacturer. Products are shipped directly to Costco warehouses or to a depot, which reallocates the shipments to Costco warehouses within 24 hours. This process eliminates several steps such as using a distributor and other intermediaries, eliminating costs associated with storage, additional freight, and handling. At the warehouse, shipments are often taken directly to the floor, unwrapped, and left on the pallet, ready to sell.



Over the years, Costco has expanded its products and services from simple boxed items such as cereal and paper products to more complex items such as fresh produce and flowers, which must be displayed attractively and managed more closely. Today, it sells dairy, baked goods, seafood, clothing, books, computer software, vacuums, home appliances, electronics, jewelry, tires, art, wine, liquor, hot tubs, and furniture.

Costco's services include pharmacies, optometrists, photo processors, food courts, and gas stations. The company's private label, Kirkland Signature, provides consumers with high-quality products at even more discounted prices than the comparable branded item. Kirkland Signature products range from diapers to bed sheets to coffee and makeup.

Of the 4,000 products sold, 3,000 are staples, found at Costco week after week, while the remaining 1,000 rotate as part of Costco's "treasure hunt." These special items are offered only temporarily and can be as exotic as Coach bags, Waterford crystal, and expensive jewelry. Costco believes its treasure hunt items create excitement and increase consumer loyalty, bringing back bargain hunters again and again.

Costco's pricing strategy is transparent: The Company limits the markup of any branded item to 14 percent and any private-label item to 15 percent. (Supermarkets and department stores mark up items anywhere from 25 percent to 50 percent.) If a manufacturer's price is too high, the company will not restock the item. Costco's CEO, Jim Sinegal, explained, "The traditional retailer will say: 'I'm selling this for \$10. I wonder whether I can get \$10.50 or \$11.' We say: 'We're selling it for \$9. How do we get it down to \$8?'"

Costco's cost savings tactics extend to its 560+ warehouse locations around the world. Most average 143,000 square feet with floor plans designed to optimize selling space, the handling of merchandise, and the control of inventory. Decor is simple: concrete floors, bare-bones signage, and product displays that consist of pallets right off the truck. Central skylights and day-lighting controls monitor energy usage, and Costco also saves by not supplying its own shopping bags. Instead, consumers use leftover boxes and crates stacked near cash registers to carry home their purchases. Costco spends little on marketing and promotions, except for the occasional direct mail to prospective new members and coupons to regular members.

The one place Costco does not cut costs is its employees. They are compensated well, and 85 percent have health insurance, more than twice the percentage at Target or Walmart. As a

result, em
is provid
empower
policy, e
anticipat

Costco's
\$74,000
business
Costco
benefits
Costco
wareho
costco.

Costco
numbe
to buy
many
Fortu
billio

(a

result, employee turnover and employee theft are extremely low. Additionally, the Company is providing a perfect training for their employees to deal with consumers and they are empowered to provide exceptional customer service whenever needed. As part of company policy, each employee is entitled to spend up to \$2,000 on a guest to help deliver an anticipated need or desire.

Costco's customers are not only loyal; many are affluent. The average household income is \$74,000; 31 percent earn more than \$100,000 per year. The majority of consumers tend to be businesses or large families with houses big enough to store bulk items. Membership at Costco starts at \$50 a year and can be upgraded to Executive levels that provide additional benefits. Costco accepts only debit cards, cash, checks, and American Express, which charges Costco a very large interchange fee. While consumers need membership to shop at the warehouse locations, they can shop online without it. In 2008, 58 million consumers visited costco.com and nonmembers paid an additional 5 percent fee for any purchase.

Costco's success has come from focusing on a handful of business practices: sell a limited number of items, keep costs down, rely on high volume, pay workers well, require consumers to buy memberships, and target both ultimate and business consumers. This vision has led to many achievements, including ranking number 24 in the *Fortune* 500 and number 22 on *Fortune's* Most Admired list. Costco also became the first company to grow from zero to \$3 billion in sales in less than six years.

(a) What is Customer Value Proposition? Strictly adhering to the case, discuss the elements included in Costco's Customer Value Proposition.

(15 marks)

(b) Discuss the major Pricing Objectives and the Basic Pricing Strategy adopted by Costco to win customer attraction.

(15 marks)

(c) Explain in brief, both Internal and External marketing strategies of Costco

(10 marks)

(Total marks 40)

Question 02

“Consumer behavior is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.”

- (a) A consumer's behavior is influenced by social factors, such as the consumer's small groups, family, and social roles and status. Explain the differences among these social factors.

(10 Marks)

- (b) Explain how the decision process in the business market and consumer market differ.

(10 Marks)

(Total marks 20)

Question 03

“Marketing communications are the means by which firms attempt to inform, persuade, and remind consumers directly or indirectly about the products and brands they sell”

- (a) Identify the elements of 6M model of Marketing Communications.

(06 marks)

- (b) By giving examples for each, briefly explain 07 modes of Marketing Communication Mix.

(14 marks)

(Total marks 20)

Question 04

“Today, almost every firm, large or small, faces international marketing issues. Advances in communication, transportation, and other technologies have made the world a much smaller place.”

- (a) Differentiate between standardized global marketing and adapted global marketing. Describe the advantages and disadvantages of each strategy.

(10 Marks)

- (b) Compare Conventional distribution channel with Vertical marketing system.

(10 Marks)

(Total marks 20)
