PGDM (RM), 2020-22

Marketing Management-II

RM-203

Trimester – II, End-Term Examination: January 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	All 3 Questions are Compulsory	10 Marks each	3*10 = 30
B	Compulsory Case Study	20 Marks	1*20 = 20
		Total Marks	**50**

Section A

Attempt any three questions. Each question carries ten marks.

Q1. A manufacturer is contemplating introducing a product that is inferior to its competition in its performance, design, and functionality. However, the manufacturer believes that "good brand marketing" can overcome these shortfalls. Why is this thinking incorrect? (CILO 3)

OR

Q1. You have been asked to devise an integrated communication plan for a new mobile phone that would be launched shortly by a new company. Explain how would you achieve this task by outlining the steps involved in developing effective marketing communications.

Q2. What are the different types of distribution channels you are aware of? Discuss the pros and cons of each channel? What are the criteria you can use to evaluate different channel alternatives? (CILO 2)

OR

Q2. Price discrimination, which occurs when a company sells a product at two or more prices that do not reflect a proportional difference in costs, is often practiced by companies. Briefly discuss how a company can use pricing discrimination with suitable examples? (CILO 2)

Q3. Where does the product 'wet wipe' fall on the product life cycle stage? Based on their position on the PLC, discuss the different strategies adopted by Grasim Industries Ltd. to be a market leader for its 'Kara' brand amidst the present competition. (CILO 1 & CILO 2)

OR

Q3. Which segmentation variables would you consider important for segmenting the market for a company that is planning to launch a 'tasty tooth powder' as its new product? Justify your answer giving specific reasons for choosing the segmentation variables. (CILO 1 & CILO 2)

Section B (20 marks)

Case study (compulsory)

Big Boom Beverages: Fight or Flight?

Randall Searls thought it was a particularly bad time for the partners to fight with each other. For three years, they had worked side-by-side; they had invested all their savings and thousands of hours of sweat equity in their startup, Big Boom Beverages (BBB). When faced with the prospect of going out of business years earlier, they had regrouped and achieved results beyond their expectations. Now they were contending with a threat that could destroy their business, and they sharply disagreed on how to respond. As the discussion dragged on, the decision became more urgent.

Crazy Idea

Three of us went to college together and around 2007, we began talking about starting a business. Randall, a mutual friend who had just gotten an MBA, was willing to help on the business side. He warned us that 75 percent of new businesses fail. Since there were four of us, he joked that we should each start a business because one of them would survive.

— Malik Evans (co-founder)

Malik Evans, Jaf Hallett, Denny Grocki, and Randall Searls had talked for months after receiving their undergraduate degrees about business ideas. They all had day jobs that gave them varying degrees of satisfaction, but they were united in the desire to create a business of their own. One day, Malik recalled a popular type of drink they had consumed when they were in college that combined an energy drink, vodka, and a lime-flavored soft drink. For college students in the late 1990s, energy drinks frequently replaced coffee for staying alert to study, attend classes, and take tests. They could also enhance athletic performance. The four friends discussed building a business around a premixed version of the drink they had consumed in college.

Randall had said at the time, "You're crazy to start a business in the beverage industry, but I'm willing to be crazy with you."

Adult Beverage Industry

Worldwide, thousands of companies were part of the adult beverage industry. They ranged from small local breweries to global companies such as Anheuser-Busch, Heineken, and Diageo. They generally had annual sales in the billions of dollars, which gave them various scale advantages over small producers, including marketing, manufacturing, and distribution.

Spirits such as vodka and gin had been the largest segment of the alcoholic beverage market in the 1970s, but beer and malt liquor displaced them in the 1990s. Major beverage companies depended on that category to drive yearly growth and cash flow. Between 1995 and 2009, beer consumption declined, wine consumption increased substantially, and spirits consumption increased modestly.

Separately, the industry experienced changes in its distribution channels. Many states in the United States relaxed their laws regulating liquor sales, and the distribution channels for beer and wine broadened to include supermarkets, discount stores, and convenience stores. (**Exhibit 1** shows changes in the number of retailers by type from 2001 to 2008.) These retailers demanded frequent deliveries of small quantities to keep shelves stocked and to reduce warehousing costs. In addition, convenience stores wanted packaging that supported their business model. They wanted adult beverages supplied in single containers because of limited shelf space and the purchasing behavior of their customers. For convenience stores, young single males were the largest market segment. Tobacco was their best-selling product, followed by food, packaged beverages such as soft drinks and energy drinks, snacks, and beer. The three product categories with the highest store margins were food, packaged beverages, and alcoholic beverages.

Small beverage companies were often innovators in alcoholic beverages, as they were in the thriving segment of craft beers. They could experiment with different formulations because they produced in low volumes and could easily adjust their manufacturing processes. These companies offered products that ranged from flavored spirits to craft beers with signature tastes to combinations of alcoholic beverages and sweet fruit flavors that became known as alcopops. The sugary fruit flavors masked the taste of alcohol. They were particularly palatable to young people, especially females, who were new to alcoholic beverages.

Rise of Canned Energy

Canned energy drinks combined caffeine with other ingredients like taurine or carnitine (amino acids), herbal ingredients like ginseng and guarana, B vitamins, sugar, and green tea extract. They were first sold in Europe and Asia. In the early 1960s, Taisho Pharmaceuticals of Japan marketed a product called Lipovitan D, which was still the best-selling energy drink in Japan. Energy drinks were not sold in the United States until 1997, when an Austrian company introduced Red Bull. The drink was a modified version of Krating Daeng, first developed and sold in Thailand. Red Bull packaged its product in a slim, 8.4-ounce aluminum can with a design that served as a frame for the dramatic graphic of two bulls charging each other. The company later introduced larger containers.

Red Bull's marketing plan targeted young men through brand associations with sports. It also exploited the potential of web-based media. Red Bull eschewed large expenditures on traditional media and instead sponsored auto racing and vigorous sports such as the X Games, snow thrill skiing competitions, and the Red Bull cliff diving tour. Particularly memorable was the Red Bull–sponsored Stratos jump on October 14, 2012, in which Felix Baumgartner jumped from a balloon that was 24 miles above the surface of the earth and reached a speed of 844 miles per hour before opening his parachute. The event generated many news stories and was popular on social media.

Starting in 2006, Red Bull began to build an online presence with YouTube videos and launched its own channel in 2008.[4] Eventually, the channel attracted a huge following of YouTube subscribers. The channel featured short videos on topics such as soccer ball tricks, skateboarding, snowboarding, and motocross. Red Bull developed an in-game island for the PlayStation Home platform in 2009. The company also bought soccer teams around the world, including teams in the United States (New York Red Bulls in Major League Soccer), Germany, and Brazil. In the United States, including a brand name in the name of a major league professional team had not been done before.

Between 2000 and 2010, sales of energy drinks in the United States grew roughly 3,500%, while coffee sales remained flat. Red Bull maintained the largest share of the energy drink market, although Monster, owned in part by Coca Cola, closed the gap overtime.

Researchersestimatedthatintheearly2000s, 34 percent of 18-to24-year-olds regularly consumed energy drinks. The authors of one research paper stated that the target market of energy drinks comprised adolescents and young adults and that many energy drink companies used promotions in social media such as YouTube and Facebook to reach their target audience. These companies often used provocative product names such as Full Throttle, Ammo, and Havoc.

Multiple studies on the impact of moderate energy drink consumption found improvements in focused, sustained attention and reaction speed. Excessive consumption could lead to adverse effects, including fatal cardiac arrest. Several European countries banned sales of energy drinks but later relented after research showed that the drinks were generally safe when used in moderation.

Launch of Big Boom Beverages, LLC

After a few months of discussion, the four partners decided that their product would not contain hard liquor such as vodka. Instead, it would use malt liquor so that it could be sold by retailers such as convenience stores, which many states and localities now allowed to sell beer and wine. Randall cautioned them that their company would be last movers in the competitive space. Several large beverage companies had already introduced caffeinated alcoholic beverages, including SABMiller (Spark), Anheuser-Busch Inbev (Tilt), and United Brands Company (Joose, Max Vibe, and Max Fury). Many smaller producers sold similar products.[16] Randall continued to have doubts, but he said, “David can beat Goliath. I read a case study in school, ‘Nantucket Nectars,’ about two guys who did that, but it’s a long shot.”

“Well,” said Malik, “no one would ever start a business if they thought like that. Remember, guys, we know the customer better than the big boys do! We were once those customers.”

The partners established Big Boom Beverages (BBB) and funded it from their savings and contributions from family members and friends. They first shared responsibility for all the business functions, but informal roles soon evolved. Malik emerged as the marketer and chief motivator; his partners started calling him CMO for “chief motivating officer.” Denny focused on distribution. Jaf shared product management with Malik and served as operations manager for manufacturing. Randall took care of finance and strategy; he had also insisted that the group register as a limited liability corporation (LLC) to provide personal financial protection in the event of bankruptcy.

BBB found a consulting firm that helped startups develop beverages that could be produced commercially at a low unit cost. The cost of the consulting service was modest (around $20,000), the inputs for the proposed beverage were inexpensive, and the mixed drink could be produced and packaged by a contract brewer. They settled on a product formulation of malt liquor, a caffeinated

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energy drink, and fruit-flavored sparkling soda. The product had an average alcohol by volume (ABV) content of 8%, higher than the typical 4% to 6% ABV of beer. The volume of the can was 12 ounces, the most common size of beer containers. They settled on the product name Highbrid, which was a pun on both the composition and effect of the beverage, but they thought it was less blatant than some competitors’ brand names such as Havoc or Ammo.

“We should test the product formulation with people in our target market and develop a marketing plan,” said Randall. “We need to know whether people like the product and figure out the best way to get it to them.”

Malik, Denny, and Jaf teased him for being an MBA who wanted to “follow the rules.” They were confident of the beverage ingredients, the target market, and the price they were going to charge.

They had defined their principal target market as male students attending Midwestern universities with large enrollments in relatively small towns. (**Exhibit 2** shows the ten largest state universities ranked by enrollment.) They set a retail price of $2.29 per container, close to that of energy drinks. The product would be sold in single cans rather than in six packs like beer. They would consider packaging in six packs or cases when they were more confident of demand. The package design imitated the subdued graphics of Red Bull containers. Because they would be producing in low volumes, they decided to customize their cans with banners connecting the product to the college towns where they would be selling. Examples of the banners were, for the University of Illinois in Champaign–Urbana (whose sports teams were known as the Fighting Illini), “What do Illini do? They fight!” and for the University of Indiana in Bloomington, the banner read “Who’s a Hoosier? You are!” (*Hoosier* is a nickname for people from the state of Indiana in the United States.)

BBB’s biggest obstacle was distribution. Large distributors had little interest in a low-priced product from an unknown, undercapitalized startup. The low retail price of a single unit product was not attractive to liquor stores, but grocery, discount, and convenience store chains were used to selling single energy drinks suchasRedBullandMonsterwithretailpricesjustover$2.00percan.

Through Denny’s industry contacts, BBB negotiated deals with liquor distributors that served college towns in the Midwest. The partners themselves promoted the product mostly to convenience stores in the same towns. Denny promised convenience store owners that he and his partners would make sure the stores would not run out of the product. Bars and liquor stores were a harder sell. Bars could make more money by mixing a drink from Red Bull, house vodka, and a fountain soda.

The sales effort was received positively, but production, distribution, and payroll costs soaked up cash. BBB had little money for marketing other than promotional sheets printed on an inkjet printer and reproduced at a copy shop.

BBB's Near-Death Experience

In the next six months, sales of Highbrid grew, and retailers and customers responded positively. Nevertheless, cash flow was not sustainable, and Randall warned of a looming liquidity crisis. With capitalization of another $100,000, BBB could survive in the short run, but the founders had limited resources and thought they had no chance of finding a bank willing to loan them money for a startup business when they were still paying off their own student loans. They felt angel investors would not be interested in a no-tech new business that sold an adult beverage. They had a glum meeting in which they discussed spending their remaining personal savings (and risk defaulting on their student loans) and asking for more money from relatives and friends.

Randall and Denny did not want the company to sink further into debt. Jaf was undecided about what to do. Only Malik was confident that BBB could succeed—if it made four specific decisions:

- Increase the alcohol and energy drink content of the product.
- Change the brand name to connect better with target customers.
- Change the packaging design to reinforce the connection with customers.
- Launch a low-cost promotional effort centered on social media.

The vote was 3 to 1 to accept Malik's plan, with only Randall opposed. Randall said that he would continue to donate his time, but he would reduce his hours to pursue his own consulting projects and would not make any additional cash investment in the company.

BBB increased the ABV of the product to 14%, which was higher than that of any competitive product. Some smaller brewers marketed products with up to 12% ABV, while the products of big beverage companies were in the 6% to 8% range. BBB also increased the percentage of the energy drink in the formulation, the size of the container from 12 to 23.5 ounces, and the retail price to $2.99. Consuming one can of the new drink would be the alcohol equivalent of drinking four 12-ounce beers and the caffeine equivalent of drinking four cups of coffee.

Malik proposed a new product name: Totaled. BBB then hired a professional graphic designer to create a package design. The product name Totaled was positioned in the middle and was printed in large black type in the Hobo typeface. Above the product name and below the lip, was a round face with squiggled lines. See **Figure 1** below.

Figure 1 Sample Totaled Beverage Can

BBB quickly launched a no-frills website that included announcements of marketing events such as Totaled-themed parties at bars and clubs, photos and videos that the company had taken at marketing events and contact information for distributors and retailers. It set up a Facebook page that it used to recruit young people to try Totaled and post their impressions. Users could have friends and customers like the comments. On the page, they announced marketing events in the Midwest suchascompany-sponsoredperformancesoflocalbandsandmotocrossandoff-roadpickupraces.

At these events, they made videos of audience members endorsing the product and posted them on the company Facebook page and on YouTube.

The BBB partners did not anticipate the viral effect of online media. The company's promotional videos apparently motivated avid Totaled customers to create a YouTube channel where users uploaded videos that mostly showed the effects of drinking Totaled, including inebriated behavior and blacking out in homes, yards, and public places such as malls and parking lots. The founders debated whether to discourage these videos and decided that they and BBB were not responsible for their customers' behavior. Malik admitted that his view was influenced by his belief that the videos would help promote the product. Randall was upset that they were potentially taking advantage of risky individual behavior and said so to the others.

Over the next six months, the customer videos became more elaborate than the earlier ones, which typically involved two or three young people, usually men, sitting on a tattered basement couch under stark florescent lights drinking cans of Totaled and becoming incoherent or passing out. One showed a large group of males and females in bathing suits drinking Totaled on a beach in a snowstorm and then plunging into frigid ocean waters. Another featured skiers and snowboarders drinking Totaled at the top of a ski run. Riders with small video cameras mounted on their helmets recorded the group's high-speed runs, hazardous tricks, crashes, and the intervention of the ski patrol. The video drew over 200,000 views in the two months after it was uploaded, and it triggered Tweets with links to it, as well as posts on the company's Facebook page. A third customer video showed a large group of young people, primarily male, drinking Totaled and driving aggressively in off-road vehicles on dirt roads and trails. Several trucks collided and one hit a tree broadside. The company demanded that the people responsible for the video add a disclaimer at the beginning: "No one was injured in the making of this video." The company did not verify the disclaimer when it was added to thevideo.

Success

Within a year, Totaled sales increased 150 percent, to 500,000 units, and in the second year, sales soared to 750,000. A national convenience store chain reported that Totaled had the second-highest sales growth among the alcoholic beverages it sold. In two years, the BBB partners grossed more than $2 million. Distributors and retailers were calling them with requests to carry their product. Several banks and private investors inquired about BBB's financial needs. BBB hired an experienced sales manager to handle distribution. Following the example of Red Bull, they discussed expanding sponsorship of low-cost events such as Totaled vehicle races and motocross nationally and possibly internationally.

Twist in the Road

As Totaled became a popular drink for young people, binge drinking led to troubling incidents. The Centers for Disease Control and Prevention (CDC) defined binge drinking as consuming four or more drinks per occasion for women or five or more drinks per occasion for men.[17] In the year after Totaled was introduced, 35 students at two colleges were reported to have been hospitalized because they were incapacitated after drinking multiple cans of an unidentified alcohol and caffeinated- energy drink. Widespread media coverage blamed Totaled, but later reports clarified that Totaled had not been one of the beverages the students consumed. However, reporters quickly found the Totaled YouTube videos, and cable news channels showed clips of them.

The media reports created a chain reaction. Physicians at hospital emergency rooms noted a spike inthenumberofpatientswhohadconsumedbeveragesthatcontainedalcoholandanenergydrink.

The CDC was concerned that a significant percentage of high school students and about a third of young adults 19 to 28 years of age said that they had consumed a caffeinated alcoholic drink at least once a year. The medical community warned that the caffeine in alcoholic drinks could mask the depressant effects of alcohol, causing drinkers to mistake alertness for sobriety. Consumption of the beverages made drinkers more likely to report engaging in "unwanted or unprotected sex, driving drunk or riding with a driver who was intoxicated, or sustaining alcohol-related injuries."[18]Administrators at several colleges and universities said that the consumption of caffeinated alcoholic beverages had been implicated in sexual assaults on their campuses.

BBB had no public relations (PR) specialist or outside PR firm. Speaking for the company, Malik objected to reports that Totaled was responsible for the two college incidents that received national coverage. Subsequently, reporters contacted BBB for comment about incidents that involved Totaled. Depending on who answered the phone, the partners expressed concern (Denny and Randall), pushed back (Malik), or simply said no comment (Jaf). As the controversy continued and doctors criticized beverages like Totaled, BBB issued a statement that the company had no control over how its customers used the product and that it discouraged consuming more than one or two cans at a time. BBB disavowed any responsibility for underage drinkers, saying that it was not responsible for retailers' sales practices.

As reporters dug deeper into the story of caffeinated alcoholic beverages, they found that drivers who had consumed them to excess had been involved in fatal accidents that killed five people. Parents and relatives of the victims decried the sale of the drinks. The critical media coverage and the condemnations of doctors and parents eventually led to calls for state and federal public health agencies to review the entire class of caffeinated alcohol drinks. In several states, attorneys general began the process of banning sales of the products.

BBB received offers from PR firms to help it with crisis management, but the founders rejected them, mostly because of the high fees. They reiterated their earlier statements that they were powerless to restrict sales to legal drinkers or to control how much people consumed. A special focus on Totaled, they asserted, was unfair because there were similar products on the market. They noted that, if all the products were taken off the market, the problem would persist because customers could simply mix their own. They announced that BBB would create a new section on its website devoted to responsible drinking, reinforce the message at their promotional events, and add warnings to their product packaging. The partners were adamant that the only effective solution to the problem was educating consumers.

The Reckoning: Fight or Flight?

After continuing reports of traffic accident injuries and deaths and of sexual misconduct linked to the consumption of caffeinated alcohol drinks, rumors circulated that the federal Food and Drug Administration (FDA) had launched a review of the beverages. The FDA could order harmful products off the market, but the process could take years. More worrisome for BBB was the FDA's ability to issue a formal warning letter demanding corrective action. The letter could not be challenged in court. It could dry up loans from banks and investors, scare away distributors and retailers, and make BBB more vulnerable to lawsuits.[19]

SABMiller and Anheuser-Busch Inbev did not wait to see whether the FDA would act. They quickly withdrew their caffeinated alcohol products without protest. For BBB, the stakes were different.Withdrawingitsproductcoulddestroythecompany.Thepartnerstriedtoidentifyoptions during a series of tense meetings. After several days, Randall insisted that they had to act. Reading from notes, he asked four questions:

- Should they try to head off a possible FDA warning letter?
- If so, what did that mean in practical terms?
- Should they wait to see whether the FDA acted?
- What would they do if the warning letter was issued?

He then asked each partner to respond.

"I'm disgusted by the YouTube binge videos about Totaled," said Denny. "The reports about binging that tie it to deaths and sexual assault are sickening. This isn't what I want to do."

Malik said, "We've all put a lot of money and work into the company, and none of us want it to hurt anyone. It's the opposite: We want people to have fun! Would it make a difference if we stopped making Totaled? No. Bars would still mix drinks with the same ingredients we use. Lots of products arepotentiallydangerouswhenyoudon'tusethemthewaythey'resupposedtobeused."

Jaf said, "That makes sense to me."

"I think we should find a lawyer with experience dealing with the FDA," said Malik. "We've got money in the bank now. We can afford it."

Randall broke the prolonged silence that followed these comments. "I agree with Denny, but I'm not willing to give up. I think we all bear responsibility. Back in college, we knew the energy drink– alcohol mixes we had in bars could lead to some really stupid behavior. I also agree with Malik that none of us intended to make money from the abuse of Totaled. So, is there a way we can lower the risks of Totaled enough to get people off our backs and save the company?" He added, "We can't wait much longer to decide."

Exhibit 1 Change in Number of U.S. Retailers by Type, 2001 and 2008

Retailers	2001	2008
Warehouse clubs	907	1,187
Supercenters	1,583	3,253
Mass merchandise stores	6,421	6,594
Supermarkets	30,682	32,304
Drugstores	39,660	37,700
Convenience stores	124,516	144,875
Liquor stores	41,169	43,080

Source: "US Retail Channel Trends Since 2001 Major Shifts and More Expected," Newswire, The Nielsen Company, 2009,

Exhibit 2 Ten Largest Public Universities in the United States, 2009 and 2010

University	Location	Enrollment
Arizona State University	Tempe, Arizona	68,064
The Ohio State University	Columbus, Ohio	55,014
University of Central Florida	Orlando, Florida	51,659
University of Minnesota	Minneapolis–Saint Paul, Minnesota	51,569
University of Texas at Austin	Austin, Texas	50,995
University of Florida	Gainesville, Florida	50,691
Texas A&M University	College Station, Texas	48,702
Michigan State University	East Lansing, Michigan	47,071

University of Washington, Seattle Campus	Seattle, Washington	45,943
Pennsylvania State University	College Station, Pennsylvania	44,832

Discussion Questions:

1. Analyse and evaluate the market for a potentially profitable but controversial new business-a high energy alcohol drink. The competition seems inhospitable to startups but may offer niche opportunities, as for craft beers. (CILO 1)
2. Evaluate the decisions the founders made and their decision-making process. (CILO 2, CILO 3)
3. Assess the company's use of social media publicity. (CILO 2, CILO 3)
4. Consider any alternatives to avoid public health issues and regulatory problems. (CILO 3)