PGDM, 2013-15 / PGDM (IB), 2013-15

Digital Marketing

DM-432 / IB-410

Trimester – IV, End-Term Examination: September 2014

Time allowed: 2 Hrs and 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. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

ANSWER ALL THE QUESTIONS ONLY TO THE POINT USING BULLET POINTS. IRRELEVANT AND LONG ANSWERS WRITTEN FOR THE SAKE OF FILLING UP PAGES WILL ATTRACT NEGATIVE MARKING.

Section A (answer any 3 questions)

Q1. What are the four segments identified by MIT Centre for Digital Business & Capegemini consulting based on the digital maturity of organizations? Discuss each in brief.

Q2. Briefly discuss the McKinsey's model of consumer decision journey.

Q3. Briefly discuss how speech analytics are used by marketers?

Q4. Free versions of digital goods are common. Discuss in brief why savvy marketers offer free versions of their products & services?

Q5. Discuss some of the characteristics of digital products that may impact their cost and pricing structures.

Section B (answer any 2 questions)

Q6. What is viral marketing? Discuss the process followed by Mekanism in producing and propagating viral ads. What are the critical factors behind the success of Mekanism?

Q7. What is versioning? Discuss different versioning approaches used by marketers while pricing digital products.

Q8. What is SEO? Discuss the role of different categories of SEO in improving the rank of a web page in organic search.

Section C

Read the case "Zopa, Prosper and P2P Lending and answer the following questions.

INSTRUCTIONS: WRITE YOUR ANSWERS POINT WISE USING BULLET POINTS. YOUR ANSWERS SHOULD BE BRIEF AND TO THE POINT. DO NOT REPRODUCE WHAT IS WRITTEN IN THE CASE.

Q1. Discuss the differences in revenue and operating models of Zopa and Prosper.

Q2. Discuss the risks involved in such ventures and the methods to overcome them.

ZOPA, PROSPER, AND P2P LENDING: WILL THEY DISRUPT BANKING?

Any industry making a huge profit margin off its customers is a good candidate for disruption. Banking is a classic case—just think of the 19 percent interest you pay on credit cards and the 2 percent you earn on your savings account.

In this section, we will introduce two Web 2.0 companies that are trying to disrupt the banking industry—Zopa in the United Kingdom and Prosper in the United States.

The Innovation: Person-to-Person Lending

Individuals who want to borrow money may be required to pay 10 to 20 percent interest if they use their revolving credit cards. At the same time, they receive 2 percent to 5.5 percent interest on their savings. The banks take the difference, but they also take the risk from being the lenders. Now assume that an individual lender can negotiate directly with an individual borrower. It is likely that each can be better off than with the bank. Suppose they agree on 8 percent interest. The lender will get much more. The borrower will pay much less. The problem is how do they find each other and negotiate and secure loans? This is where innovative sites such as Zopa enter the picture. The basic idea is that of **person-to-person lending,** meaning you lend money directly to a consumer rather than "selling" your money to the bank, which the banks then loan to consumers.

person-to-person lending
Lending done between individuals circumventing the bank's traditional role in this process.

The Zone of Possible Agreements in Negotiation

Exhibit W7.2.1 illustrates a typical negotiation situation. Suppose you want to sell your used car. Usually, you have some range of expectation within which you are willing to settle. You know that you will never get more than $10,000 for your car, but in the worst case, you will accept $6,000 (these numbers may be changed with the time and the experience of offers). The buyer also has a settlement range, for example, $5,000 to $7,000.

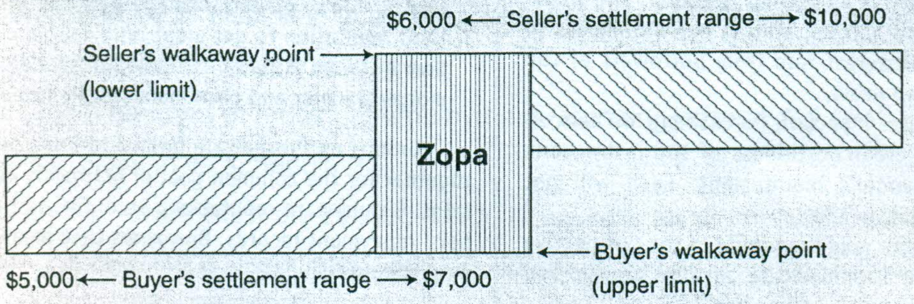
Notice that in such a case there is an overlap between the ranges, which means that a deal is possible. The seller will start with $10,000 and reduce the price slowly, and the buyer will start with $5,000 and increase it slowly. If the ranges do not overlap, there will be no deal. Otherwise, you will sell your car with a price in the overlapping zone. This overlapping range is called the "Zone of Possible Agreements" (Zopa), and this is also the name of the pioneering company. Agreement in this zone must also be more beneficial to both sides than what they can get in the bank. Note that Zopa has a lower limit, which signifies the seller's walkaway position ($6,000 in our example). If an offer is less than $6,000, the seller will not entertain it. Similarly, the buyer's walkaway point is $7,000; therefore, he or she will not consider any higher price.

The same idea applies to lending. However, this time you need intermediation, and this is where Zopa and Prosper enter the picture. These (and similar companies) are using the Web to allow personal lending on a massive scale. Zopa was the first company to introduce such peer-to-peer lending. What Skype did to telecoms and Amazon.com did to retailers is being done here to traditional banks, namely—disintermediation.

Zopa Ltd.

Zopa (*zopa.com*) was founded in London in March 2005, and by January 2007 it had 40 employees and 105,000

EXHIBIT W7.2.1 Zopa's Zone of Possible Agreements



(*continued*)

registered member users (lenders and borrowers). Zopa arranges for more than $100,000 worth of loans every day. In 2009, Zopa expanded to include other countries including the United States, Italy, and Japan.

Securing the Loans

Zopa tries to check the background of the borrowers in the following ways:

- Conducting a credit rating investigation at Experion, Equifax, or a similar company
- Checking people's eBay rating (if available)
- Checking the borrower's profile (if available online)
- Permitting only one account for each borrower
- Checking the possibility of identity theft by a borrower by asking questions about past borrowing, demographics, etc.

In addition, Zopa advises lenders to spread out the risk by lending from one individual to several borrowers. In addition, if you like to sleep better, you can get insurance (for a fee) on the amount you lend. The risk, however, is not large; the actual bad debt rate is less than 0.05 percent. A possible explanation of the low default rate is that borrowers are more likely to pay back real people than a faceless bank. The unlucky lenders can use a collection agency as in any other unpaid debt.

Finally, Zopa covers any damage from fraud done to your Zopa account by intruders, provided you have kept your personal account details secure.

The Revenue Model

Zopa takes 0.5 percent of the loan amount from both the lender and the borrower. There are no hidden fees, and the only other (optional) cost to the lender is the insurance (plus the fees that Zopa takes for arranging the insurance). At the moment, there are no advertisements on the site. But it is likely that in the future vendors will try to sell related products or services to either the lenders or the buyers.

The Lending Process

Step 1. Let's say that a lender has $20,000. She transferred it to her Zopa account stating her willingness to get a 7.5 percent interest rate from borrowers of top credit rating, for two years.

Step 2. Zopa organizes a pool of, for example, 40 borrowers with a similar creditworthiness of top rating, one that meets the lender's requirement. Each will get $20,000 divided by 40 = $500.

Step 3. The lender can read the profile of the prospective borrowers and the intended use of the money. The borrowers can read the lender's profile as well. This fosters a personal relationship between borrowers and lenders and helps in reducing default(s).

Step 4. Zopa arranges the contracts.

Step 5. Zopa collects interest payments and mails the lender a monthly check.

Step 6. Zopa arranges repayment of the loan after two years.

Prosper

Prosper (*prosper.com*) is the first U.S. P2P lender. Started in February 2006, it was created to make consumer lending more financially and socially rewarding for everybody. In January 2009, Prosper reported 830,000 members and outstanding loans of $178 million. It operates somewhat similar to Zopa, but its revenue model is different. Prosper collects a 1 to 2 percent fee of the funded loan from the borrowers. In addition, lenders pay .5 percent loan servicing fees annually. Because of the higher fees, the company can assume more risk. Thus, they check only credit scores and borrowers' group affiliation.

The way Prosper works is intuitive to people who have used eBay. However, instead of listing (by sellers) and bidding (by buyers) on items, lenders here bid and borrowers list needs using Prosper's online auction platform. For details see Steiner (2007). Here are the major steps of the process:

Step 1. Borrowers create a loan listing on Prosper, specifying the amount needed, the purpose of the loan, and the interest rate they are willing to pay.

Step 2. Prosper displays borrower credit grade (from AA to higher risk).

Step 3. Borrowers provide photos of themselves, their children, and even their pets. They also provide the purpose of the required money and how they plan to pay it back.

Step 4. Lenders review loan listings and bid to fund only the ones they choose using a bidding process.

Step 5. Group leaders manage borrower groups and use their reputation to get great rates for borrowers.

Step 6. When a match is found, Prosper arranges for the money transfer and then manages the loan.

Groups on Prosper are formed to bring people together for the common goal of borrowing at better rates. Groups earn reputations according to their members' repayment records. Borrowers that organize groups earn rewards.