

ETHICAL AND LEGAL ASPECTS OF MARKETING



Multiple choice

- | | | | |
|----|---|-----|---|
| 1. | B | 6. | C |
| 2. | A | 7. | B |
| 3. | D | 8. | D |
| 4. | C | 9. | D |
| 5. | D | 10. | C |

- 1 B Using recycled products reduces waste and is far more environmentally responsible than using non-biodegradable products such as plastic.
- 2 A Numerous forms of advertising aim to create a need that really does not exist amongst consumers. By offering large discounts for immediate purchases, consumers can get a "I had to have it, it was on sale" mentality. Although children are highly susceptible to advertising (B), we do not know enough about the advertisement itself - thus A is the most correct answer.
- 3 D Selling under the guise of research is the definition ofugging.
- 4 C Bob is claiming that his computers can achieve a certain level of performance, equal to a Pentium 4. In reality, these computers can only achieve a lower level of performance, equal to a Pentium 3. Therefore, Bob is deceiving and misleading his customers.
- 5 D Price discrimination involves selling identical products for different prices depending upon the consumer.
- 6 C This manufacturer has elected to severely restrict the number of intermediaries involved in the distribution of its products. Therefore, it has adopted an exclusive approach to distribution.
- 7 B This manufacturer is trying to fix the price at which a distributor can sell its products. It is therefore illegally trying to set the resale price of the products and ban discounting.
- 8 D By promoting its products in print media, this business is using advertising as its primary method of marketing.
- 9 D This business is trying to divide its market between knowledgeable consumers who read trade journals and ordinary consumers. The business charges different prices to consumers in these two different market segments. Thus, the business is engaged in price discrimination.
- 10 C If a clock does not have an hour hand it is unfit for the purpose for which it was bought. In this situation, the business must replace the product. Businesses do not have to replace products if consumers damage them or simply change their mind.

Short answer questions

Question 1

- (a) **Customers**
- (b) (i) **By adopting a penetration pricing strategy, Pizzaman is lowering the revenue it receives from each sale without reducing its costs. This will lower the net profit ratio of the business in the short run and hence will also lower its per unit profitability. However, the strategy might lead to increased sales in the long run which will increase the business's total profit.**
(ii) **Pizzaman should achieve increased sales because of its penetration pricing policy. This will provide an immediate cash inflow, improving the business's liquidity. However, if the business maintains the price in the long run, this could lower the business's liquidity levels as it receives lower volumes of cash payments per sale without any corresponding decrease in costs.**
- (c) **Pizzaman could launch a range of high-quality gourmet pizzas and clearly state that delivery was free. Producing quality pizzas is an excellent way to restore consumer loyalty. In addition, this strategy would help Pizzaman to differentiate itself from its competitors, allowing the company to increase its prices and restore its profitability.**
- (d) **In order to engage in relationship marketing a business must maintain strong-long term bonds with its existing customers. However, by engaging in deceptive advertising, Pizzaman has already damaged these relationships. Those customers whom Pizzaman has deceived are likely to purchase their pizzas from other businesses in the future. Pizzaman will have to adopt innovative and costly marketing strategies to win these customers back in the future before it can even begin to contemplate engaging in relationship marketing.**

Question 2

- (a) **Interpersonal skills to deal with different stakeholders affected by the proposal. Conceptual skills to analyse and plan solutions for any difficulties that may arise during the implementation of the proposal.**
- (b) **Being in a high-income suburb, Sabo Ltd can expect its new shopping centre to attract a large number of customers with high disposable incomes to spend. This will increase revenue but also allow management to charge higher rents to shops in the centre. Further, the lack of competition in the area means that Sabo Ltd will have a monopoly in providing many of the services in the area.**
- (c) **As Sabo Ltd already has substantial amounts of free capital it would be best for it to fund its new development using a mix of existing equity capital and debt. By using debt financing, the business is limiting the amount of profits that will have to be paid to external stakeholders - limited to principal and interest payments - and allow Sabo to reap the benefits if the centre is successful.**

- (d) **The construction of this new shopping centre development is likely to have substantial negative implications for the local community. The small competing shops near the proposed centre will likely find it difficult to compete. Many will be forced to move into the larger centre or close down. The lack of public transport access will likely lead to a substantial increase in traffic, disrupting local residents. Further, the increase in traffic could result in accidents given that a child-care centre is located directly opposite the proposed new shopping centre.**

However, local consumers will benefit from a greatly increased range of shopping options at a convenient, close location.

Question 3

- (a) **It uses renewable energy sources and produces little damaging waste thanks to the use of biodegradable packaging.**
- (a) **Being environmentally friendly provides tremendous marketing opportunities for Yannick as it improves consumer perceptions of his business and should also lead to strong customer loyalty. Further, the notoriety of the business has led to increased consumer awareness of the store and its brand.**
- (c) **If Yannick floats his business then there could be conflict between the shareholders of the business and the general public. The shareholders will be looking to maximise the profitability of Yannick's business. However, the drive for profits might result in the adoption of environmentally unfriendly practices, to the detriment of the general public who benefit from Yannick's current eco-conscious approach.**

Question 4

- (a) **Tek's marketing strategy was largely a failure last year. Marketing costs were \$15,000 over budget. While this cost-blow out appears to have led to a greater than expected consumer awareness of Tek's products, this did not translate into the forecast level of market share. As a result, Tek's sales increased by just \$60,000, which was not even sufficient to cover the advertising budget.**
- (b) **Tek should arrange a sponsorship deal with a leading professional golfer. This person could then act as an opinion leader for the business and will encourage other golfers to purchase Tek's products. In addition, this should create a strong brand image through its products - an image associated with success (if the pro is successful) and allow Tek to charge higher prices. This strong brand image and higher price will enhance consumer perceptions of the exclusivity of Tek's products and will encourage them to go out of their way, and pay high prices to acquire these products.**