UNIVERSITY OF SWAZILAND
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION PAPER MAY 2008

TITLE OF PAPER	:	**MARKETING MANAGEMENT**
COURSE CODE	:	**BA 321**
DEGREE AND YEAR	:	**DIPLOMA IN COMMERCE III & IDE - LEVEL 4**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS :

1. **TOTAL NUMBER OF QUESTIONS IN THIS PAPER (5)**
2. **SECTION A IS COMPULSORY. ANSWER ANY TWO QUESTIONS FROM SECTION B**
3. **THE MARKS TO BE AWARDED FOR EACH QUESTION ARE AS INDICATED ALONGSIDE THE QUESTION**

NOTE: **MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH AND FOR ORDERLY AND NEAT PRESENTATION OF WORK. FURTHER MARKS WILL BE AWARDED FOR THE USE OF RELEVANT EXAMPLES**

SPECIAL REQUIREMENTS: **NONE**

THIS PAPER SHOULD NOT BE OPENED UNTIL PERMISSION TO DO SO HAS BEEN GRANTED BY THE INVIGILATOR.

SECTION A CASE STUDY AMAZON.COM: STRATEGIC EVOLUTION
Source: Kotler, P. & Armstrong, G. (2006), Principles of Marketing, Upper saddle River, New Jersey, 11th edition, (pp. 548-549)

THE BEGINNING OF TIME

In the beginning, there was the Internet. In the mid-1990s, visionary entrepreneurs began to see the birth of an entirely new marketplace - the online marketplace. They believed that the Internet would allow customers and businesses the opportunity to search for, find, and purchase goods and services online. Internet shopping would bring buyers increased selection and convenience. Further, because the Internet-based companies would not have traditional store locations, they could pass these savings along in the form of lower prices.

Jeff Bezos was one of those visionaries. With degrees in electrical engineering and computer science from Princeton, the 28-year-old Wall Street whiz began looking for Internet-based business possibilities. After much research, Bezos settled on books. His strategy was simple. He'd create a "virtual" bookstore - a bookstore without a store. Even more, there'd be no books! Bezos envisioned an Internet-based business that would essentially be a clearinghouse. The company would create a Web site at which consumers could search for and purchase books. Bezos would then transfer the book orders to independent book wholesalers who would have the book in stock or have the ability to get it. The booksellers would then package and ship the order to the customer, with Bezos' company making money on the difference between the retail price it charged customers and the wholesale price the booksellers charged, and perhaps on the shipping. In July 1995, Bezos was present at the birth of his baby, naming it Amazon.com - a "river of books."

GROWING PAINS

The rest, however, is not just history. Millions of investors poured billions of dollars into Internet start-ups like Amazon. Intoxicated by the logic of e-commerce and the lure of huge profits, thousands of entrepreneurs took investors' money and launched online businesses offering everything from pet food and groceries to diamond. At first, everything worked well. Soon, twenty-something Web pioneers were becoming overnight millionaires, or even billionaires, based on the promise of future earnings. Amazon.com went public in 1997. In 1999, its stock price soared to over $100 a share and *Time* Magazine crowned Jeff Bezos as its "Man of the Year."

Then, the Internet bubble burst as market realities punctured the illusion of profits. Companies found that many consumers were reluctant to place orders and give credit card numbers online. Some customers still wanted the ability to see, touch, and try some items before purchasing. Others wanted the experience of going into a store and having clerks coddle them. Some online companies found out that shipping costs ate up their profits.

FINDING A REMEDY

Like the others, Bezos and Amazon.com learned things. They learned the value of an easy-to-navigate Web site and the importance of convenient "add-to-cart" purchasing and checkout procedures. However, they realised that although not physically owning the inventory of books did

save money, it also meant that they could not guarantee delivery times to customers or assure accurate order fulfilment. Customer satisfaction suffered.

So, Amazon, unlike some other Web start-ups, made a fundamental change in its strategy - it began to build massive warehouses in which it could store and manage its own inventory of books and CDs. It also put systems in place to guarantee delivery times and to make sure that it filled orders correctly. The changes allowed Amazon.com to control its transactions from beginning to end. However, the warehouses, inventory, and staffing brought high infrastructure and fixed costs that Amazon.com needed to cover. Because it doubted that it could cover those costs just selling books and CDs, especially with increasing competition from other online booksellers, it began to expand its product selection and to offer free shipping on orders over $49 to encourage purchases.

The expanded product selection, however, brought new problems. Although Amazon.com understood how to run an online business, it did not understand the ins and outs of particular product categories, such as toys. So, in 2000, it executed an agreement with Toys "R" Us, making that company its exclusive source for toys sold on its Web site. This arrangement had the advantage of letting Toys "R" Us worry about what toys to buy and when to buy them, while Amazon.com managed the Toys "R" Us Web site, which the toy seller had struggled to do itself.

This led Amazon.com to develop two new programmes. First, Merchants@Amazon allows established retailers in search of incremental sales, like Gap or Nordstrom, access to Amazon.com's customers. The retailer is the seller of record and handles order fulfilment, with Amazon.com earning a commission on each sale. Second, Merchant.com allows a retailer, like Target, to control the "look and feel" of its Web site while letting Amazon.com handle technology services, fulfilment, and customer service.

Amazon.com realised the possibilities in these arrangements and began its Amazon Web Services (AWS) operation. AWS allows any qualified seller to create its own Web applications and use Amazon. Com's database. Amazon.com takes a 15% commission on merchants' AWS sales. Amazon.com also started an Amazon Services subsidiary that sells a turnkey, outsourced e-commerce product incorporating Amazon.com's shopping features and technology, allowing small businesses to launch their own e-commerce platforms, which Amazon.com runs for them, taking a commission of 10% or more on sales.

During this period, Amazon.com stayed true to its philosophy of "start with the customer and work backward." It realised that some of its customers wanted used, not new, products. So, it began allowing individuals to list used goods for sale on its site. Thus, if you go to Amazon.com looking for a particular book, you may find Amazon.com's price for a new copy, but you may also find several other sellers who are offering used copies. By clicking on each seller, you will find that seller's price, the condition of the book, and other customers' ratings of that seller.

THE END OF EVOLUTION?

By the end of 2003, Amazon.com reported its first-ever, profit of $35 million on $5.3 billion in sales, 75% of which came from its ten warehouses located worldwide. 40% of its sales came from outside the United States. Amazon.com's stock price had zoomed from an Internet-meltdown low of $6 in late 2001 to $58 in early 2004. The online pioneer had 39 million active customer accounts and an

inventory turnover ratio of 20 versus about 7.5 for typical store-based retailers. Moreover, Amazon.com had established one of the most widely recognised brands and superior customer satisfaction ratings.

Amazon has achieved its success by focussing on and enhancing the customer's experience and offering selection, convenience, and price. Jeff Bezos envisioned a place where customers can find and buy anything they want online. Yet, even as Jeff Bezos and his management team celebrate their successful evolution, they know they face many challenges. Some analysts are still not convinced that Amazon can sustain profitability, even questioning the accounting decisions that led to 2003's reported profit. Others question whether it can continue its policy offering free shipping on sales over $25. Others argue that it should consider taking the next step and opening Amazon retail stores to take advantage of its brand name and reputation.

Some analysts also suggest that increased competition from Yahoo, Google, MSN, and others will challenge Amazon.com., especially as it launches its new Internet search service, A9. Others wonder about the potential impact on all of these companies of a change in Internet tax policies. Finally, others argue that allowing almost anybody to sell almost anything on Amazon.com will dilute the value of Amazon.com's brand, while crowding and complicating its Web site.

Amazon.com has many course corrections in its brief 10-year history. What strategic changes should it make as it enters its next phase?

QUESTIONS

a) How does Amazon.com create value for its customers? **(5 marks)**

b) From your understanding of customer delivered value, illustrate how an Amazon.com customer can gain total customer value. **(10 marks)**

c) Who are Amazon.com's competitors and how has it created its competitive advantage? **(10 marks)**

d) Discuss Amazon.com's competitive strategies in relation to Porter's generic strategies as well as Treacy and Wiersema's competitive strategies. **(15 marks)**

e) What marketing mix strategy would you recommend to Amazon.com? **(10 marks)**

SECTION B ANSWER ANY TWO QUESTIONS FROM THIS SECTION

QUESTION TWO

Discuss the marketing management functions. In your discussion, include the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing.
(25 marks)

QUESTION THREE

"You are as strong as your weakest link," is something that is often said about a company's value delivery. Use the value chain to discuss this statement, and show how a company can make use of the value chain to deliver maximum value to its customers. **(25 marks)**

QUESTION FOUR

Discuss the criticisms levelled against marketing with regard to individual customers, society, as well as other businesses. **(25 marks)**

QUESTION FIVE

"Saying that goods and services are the same except for intangibility, is just like saying that apples and oranges are the same, except for their appleness." Discuss this statement with reference to the unique characteristics of services that distinguish them from physical goods. In your discussion, highlight the marketing solutions that are applied to each of the characteristics. **(25 marks)**