UNIVERSITY OF KWAZULU-NATAL, PIETERMARITZBURG
SCHOOL OF MANAGEMENT, POSTGRADUATE PROGRAMMES
EXAMINATIONS: MAY/ JUNE 2009
PROGRAMME:  Post Graduate Diploma in Marketing Management, Marketing Management A, and Finance Marketing Management
CODE: MGNT603P1 / MARK6JOP1 / FBIM611P1

DURATION: THREE (3) HOURS
+ half an hour reading time
TOTAL MARKS (200)

Internal Examiner: Prof. D. Vigar-Ellis, Mr S. Soni
External Examiner: Mrs J Eustace

NB:
STUDENTS ARE REQUESTED IN THEIR OWN INTEREST TO WRITE LEGIBLY AND IN INK.

INSTRUCTIONS:

1. ENSURE THAT YOUR STUDENT NUMBER APPEARS ON EACH ANSWER SHEET/BOOK
2. ANSWER EACH SECTION IN A SEPARATE BOOK
3. SECTION A : COMPULSORY
4. SECTION B: ANSWER TWO (2) QUESTIONS
5. SECTION C: ANSWER TWO (2) QUESTIONS
6. EXAM PAPERS MUST BE HANDED IN

THIS EXAMINATION PAPER CONSISTS OF 5 PAGES (INCLUDING THIS COVER PAGE AND A CASE STUDY). PLEASE ENSURE THAT YOU HAVE ALL OF THEM.
Section A

This section is compulsory.

Read the attached case “Prius: Leading a Wave of Hybrids” and answer the questions which follow:

Company Case

Prius: Leading a Wave of Hybrids

Americans love their cars. In a country where SUVs sell briskly and the biggest sport is stockcar racing, you wouldn’t expect to find a hybrid, sluggish vehicle to sell well. Despite such expectations, Honda successfully introduced the Insight in 1999 as a 2000 model. Toyota closely followed Honda’s lead, bringing the 2001 Prius to market one year later. Introducing a fuel sipper in a market where vehicle size and horsepower reigned led one Toyota executive to profess, “Frankly, it was one of the biggest crapshoots I’ve ever been involved in.” Considering these issues, it is nothing short of amazing that a mere five years later, the Prius is such a runaway success that Toyota Motor Sales U.S.A. President Jim Press has dubbed it “the hottest car we’ve ever had.”

THE NUTS AND BOLTS OF THE PRIUS

Like other hybrids currently available or in development, the Prius (pronounced FRIH-us, not Pry-us) combines a gas engine with an electric motor. Different hybrid vehicles employ this combination of power sources in different ways to boost both fuel efficiency and power. The Prius runs on only the electric motor when starting up and under initial acceleration. At roughly 15 mph, the gas engine kicks in. This means that the auto gets power from only the battery at low speeds, and from both the gas engine and the electric motor during heavy acceleration. Once up to speed, the gas engine sends power directly to the wheels and, through the generator, to the electric motor or battery. When braking, energy from the slowing wheels—energy that is wasted in a conventional car—is sent back through the electric motor to charge the battery. At a stop, the gas engine shuts off, saving fuel. When starting up and operating at low speeds, the auto does not make noise, which seems eerie to some drivers and to pedestrians who don’t hear it coming!

The original Prius was a small, cramped compact with a dull design. It had a total of 114 horsepower—70 from its four-cylinder gas engine and 44 from the electric motor. It went from 0 to 60 in a woeful 14.5 seconds. But it got 42 miles per gallon. Although the second-generation Prius, introduced as a 2004 model, benefited from a modest power increase, the car was still hardly a muscle car. But there were countless other improvements. The sleek, Asian-inspired design was much better looking than the first-generation Prius and came in seven colors. The interior was roomy and practical, with plenty of rear legroom and gobs of storage space.

The new Prius also provided expensive touches typically found only in luxury vehicles. A single push button turns the car to life. A seven-inch energy monitor touch screen displayed fuel consumption, outside temperature, and battery charge level. It also indicated when the car was running on gas, electricity, regenerated energy, or a combination of these. Multiple screens within the monitor also provided controls for air conditioning, audio, and a satellite navigation system. But perhaps the most important improvement was an increase in fuel efficiency to a claimed 60 miles per gallon in city driving.

A RUNAWAY SUCCESS

Apparently, consumers liked the improvements. In its inaugural year, the Prius saw moderate sales of just over 15,000 units—not bad considering Toyota put minimal promotional effort into the new vehicle. But for 2005, more than 107,000 Priuses were sold in the United States alone, making it Toyota’s third-best-selling passenger car following the Camry and Corolla. Perhaps more significantly, Toyota announced that as of April 2006, the Prius had achieved a major milestone, having sold over 500,000 units worldwide. The rapid increase in demand for the Prius has created a rare automotive phenomenon. During a time period when most automotive companies have offered substantial incentives in order to move vehicles, many Toyota dealers have had no problem getting premiums of up to $5,000 over sticker price for the Prius. By June 2004, awaiting lists for the Prius stretched to six months or more. At one point, spots on dealers’ waiting lists were being auctioned on eBay for $500. By 2006, the Prius had become the “hottest” car in the United States, based on industry metrics of time spent on dealers’ lots, sales incentives, and average sale price relative to sticker price. In fact, demand for new Priuses is currently so strong, that Kelley Blue Book puts the price of a used 2005 Prius with 20,000 miles at $25,970, more than $4,500 higher than the original sticker price.

There are many reasons for the success of the Prius. For starters, Toyota’s targeting strategy has been spot-on from the beginning. It focused first on early adopters, techies who were attracted by the car’s advanced technology. Such buyers not only bought the car, but found ways to modify it by hacking into the Prius’s computer system. Soon, owners were sharing their hacking secrets through chat rooms such as Priusenvy.com, boasting such modifications as using the dashboard display screen to play video games, show files from a laptop, watch TV, and look at images taken by a rear-view camera. One savvy owner found a way to plug the Prius into a wall socket and boost fuel efficiency to as much as 106 miles per gallon.

By 2004, Toyota had skinned off the market of techies and adopters. It knew that the second-generation Prius needed to appeal to a wider market. Toyota anticipated that environmentally conscious consumers as well as those desiring more fuel efficiency would be drawn to the vehicle. To launch the new Prius, Toyota spent more than $40 million spread over media in consumer-oriented magazines and TV. While the accuracy of a Fortune teller, Toyota hit the nail right on the head. In the summer of 2004, gasoline prices began to rise—going to over $2 a gallon in some locations. By the sum- mer of 2005, gas prices had skyrocketed to over $3 a gallon. As a result, buyers moved toward smaller SUVs, cars, and hybrids while sales of full-sized SUVs such as the Ford Expedition, Chevy Tahoe, and Hummer H2 fell significantly.

In addition to Toyota’s effective targeting tactics, various external incentives have helped to spur Prius sales. For example, some states allow single-occupant hybrids in HOV (High Occupancy Vehicle) lanes. Some cities, including Albuquerque, Los Angeles, San Jose, and New Haven, provide free parking for hybrids. But the biggest incentives con- tribute real dollars toward the price of the Prius, making it more affordable. Currently, the federal government gives a tax break of up to $3,150. This tax break will expire under the
current rules in 2007, but there are various efforts to extend
tax incentives for the Prius and other hybrid vehicles.

Some state governments are also getting in the game. West Virginia, New York, and various other states are offering tax breaks over and above any IRS kickbacks. The most generous is Colorado, giving a tax credit of up to $3,434. And if a chunk of money from these two sources isn’t enough, employees of certain companies can cash in for even more. A select few companies are anteing up in order
to do their bit for the environment. Eco-friendly Timberland contributes $3,000 as well as preferred parking spaces. Google and Hyperion Solutions, the California-based software company, each give employees a whopping $5,000 toward hybrids such as the Prius.

FUELING THE HYBRID CRAZE

Although Honda’s Insight was the first to market in the United States, its sales have been miniscule compared to the Prius. Thus, after the 2006 model year, Honda will drop the Insight. And although Toyota’s Japanese rival has had much better results with its Civic hybrid, its sales goal of 25,000 units for 2006 is less than one-fourth of the Prius’s anticipated sales. The overall category of gas-electric vehicles in the United States appears to be hotter than ever, with unit sales up 140 percent from 2004 to 2005, to a total of 205,749 units. The Prius alone commands over 50 percent of the market and is largely responsible for category growth.

It appears that consumers like their green cars very green. Whereas sales of the ultra-high-mileage Prius and Civic have grown significantly each year since their introductions, less efficient (and more expensive) hybrid models such as the Honda Accord, Toyota Highlander, Ford Escape, and Mercury Mariner have had flat or even declining sales. Some analysts believe it is because consumers are doing the math and realizing that even with better fuel efficiency, they may not save money with a hybrid. In fact, a widely publicized report by Consumer Reports revealed that of six hybrid models studied, the Prius and the Civic were the only two to recover the price premium and save consumers money after five years and 75,000 miles.

However, although car makers are scaling back on some models, almost every automotive nameplate wants a piece of the growing pie. Ford blames the lack of success with the Escape and Mariner on a boggled promotional effort. With a lofty goal of producing 250,000 hybrids per year by 2010, it plans to put more money into campaigns for its existing models as well as introduce new models. General Motors also has big plans, beginning with the Saturn Vue Greenline, which will have the advantage of a low $2,000 price tag for the hybrid option. GM plans to extend the Saturn hybrid line to almost every vehicle in the lineup. It also plans to introduce hybrids in other divisions, including full-size trucks and SUVs. And while Subaru, Nissan, Hyundai, and Honda are all promoting upcoming hybrid models, Audi, BMW, and numerous others are busy developing hybrid vehicles of their own.

Even with all the activity from these automotive brands, Toyota is currently the clear leader in hybrid sales and will likely be for some time to come. 2006 Prius sales have actually dropped, but only because the company has dedicated production capacity to the 2006 Camry hybrid. The supply limitation has made demand for the Prius stronger than ever. In the past, Toyota Vice Chairman Fujio Cho had asserted that the company would not open a second plant for the production of hybrids, but he has quickly changed his tune. “[Given] the way American consumers have snapped up the [Prius],” he says, “I have been urging the company, almost as a matter of strategy, to produce [it] in the U.S.” Given that Toyota plans to offer hybrid versions for all vehicle classes and quadruple worldwide hybrid sales to one million vehicles by 2012, it would seem that Mr. Cho’s statement is conservative.
Question 1  
What macro environmental factors affected the introduction of the Prius? What impact did they have?

Question 2  
What industry and market level factors influence the Prius? What impact do they have?

Question 3  
Conduct a SWOT for the Prius.

Question 4  
Evaluate the current Marketing Strategy

Question 5  
Based only on the information presented in the case, recommend a Marketing strategy for Prius as it faces an increasingly competitive environment.

Section B  
Answer two (2) questions from this section.

Question 6  
What four fundamental beliefs is the modern day marketing concept based on? Explain these in relation to an organization of your choice.

Question 7  
Discuss the following statement:  
"The basic goal of promotion is to change the location and/or shape of the demand curve."
Question 8  

a) Kiru Singh is an entrepreneur who created and markets cooking videos under the brand name *A Taste of India*. She has explained to friends that she has no competition because there are no cooking instructional videotapes currently on the market. Respond to Singh’s statement.

b) The information search in the buying decision process involves gathering information from a number of sources. Name the different sources and provide examples of each that an individual would use when buying a microwave oven.

[50 marks]

Section C

Answer two (2) questions from this section.

Question 9  
Identify a marketing problem. Then define quantitative and qualitative research that could help solve this problem.

Question 10  
Explain the pricing process for an organisation of your choice.

Question 11  
Explain with the use of examples how products should be managed over their life cycles.

[50 marks]