

i Information about the examination



EXAMINATION

Course code and -name:

SFBE51114 Introduction to Marketing

Date and duration:

12 December, 4 hours

Permitted sources:

Mother tongue – English dictionary

Lecturer:

Marjo Rynning

The examination:

There are **4 main exam questions** in all.

The **Case** to which you should relate your answers to questions **1 to 3** is on the last 5 pages of the examination.

The **fourth** question is a **basic theory question** with no direct reference to the Case.

Each question contributes to the total sum of 100 points as specified. ***Consider the weight of each question and use your time wisely!***

Date of announcement of the examination results: 10 January 2018

The examination results are available on the Studentweb

1. Segmentation and Targeting (30 p)

a) In marketing textbooks, there are general categories of segmentation variables. Describe the main categories and give two examples of variables from each category with reference to potential buyers of groceries from kolonial.no. (10 p)

b) In order for any segment under consideration to be useful, it has to fulfill several criteria. Explain the criteria. Round up with evaluating how well your variables seem to satisfy the criteria. (10 p)

c) Suggest two promising target segments for kolonial.no to concentrate on in the coming year, 2018. Describe the target segments by at least two variables. (As a reference, in the obligatory assignment about saving in 2017, one group suggested 18-25 year-old persons who work in a big city as a combined description.) (10 p)

Fill in your answer here

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2 **2. Channel members – Value (30 p)**

a) Marketing channel members divide different functions among themselves and the members expect compensation according to the value they add. Describe the different channel functions in grocery distribution from producers to consumers. (10 p)

b) Which additional functions, compared to traditional store visits, does the consumer perform in shopping food through kolonial.no? (10 p)

c) Discuss the relevant elements, in addition to the product prices, which the consumer should include into his/her calculation of "value" in online shopping of groceries. (10 p)

Fill in your answer here

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3 3. Competition, strategy and product life-cycle (30 p)

a) Use Porter's five forces model to discuss the distribution of power and profits in the grocery store retailing (10 p)

b) Online grocery sales will in the next two years move from its introduction stage to a growth stage. What are the differences between the two stages with respect to the size of the market, customers, competitors, economic results, objectives and the use of the marketing mix elements? (10 p)

c) Imagine that you were the founder and majority owner of kolonial.no. What would you do? Be specific about your strengths and weaknesses and make a realistic strategic choice either to continue as Kolonial.no and cooperate with other actors in the value delivery network or to sell out to someone else. Be explicit about your main decisions and reasons behind them. (10 p)

Fill in your answer here

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4 **4. Corporate social responsibility and societal marketing (10 p)**

a) If you wish to act in a socially responsible way, you have to take the consequences of your choices on others into account. What/whom do you have to consider? **(4 p)**

Fill in your answer here

b) What is the basic difference between marketing and societal marketing? Start with your own definition of each. Give an example of each. **(6 p)**

Fill in your answer here

i Case for Questions 1-3

PLEASE NOTE: You may copy excerpts or single words from this text by using the shortcuts **Ctrl (or Command) + C** (copy) and **Ctrl (or Command) + V** (paste)

Case: Groceries market in Norway in 2017 - Store or online?

The consumer's considerations

A trip to a grocery store can easily take an hour or two. You have more time to work, enjoy your family and friends, or have extra time for yourself and your interests, if you choose to do your grocery shopping online. You pick up the groceries from a specific place during pre-specified hours, or receive the groceries at home during a specific time interval.



The process is physically less demanding, particularly, if you opt for the home delivery. Satisfied customers report fewer impulse purchases. Due to hard competition, delivery fees have been reasonable. Depending on how you mix ordinary grocery shopping and online shopping you may save gasoline and environment. Ordering the whole week's groceries in 5 minutes from a sofa on a Sunday may be a relaxed experience, compared to dressing up for the trip, searching from items between the aisles and standing in a long line.

Still, you have to let go of having full control, particularly if you are a person who usually searches for the ripest, best-looking fruit and vegetables. You will also have to create a new routine for comparing prices.

There are numerous offerings available. The following labels are examples of concepts used to attract customers: original, kids' menu, express, favorite, healthy, light, free for ... , weekday, premium, vegetarian, ecological, and single.

The retailer's considerations

In England, food on internet accounts for 10 percent in some retail chains. The most established internet actor in Norway, kolonial.no, has operated since 2013. Unlike its competitors, it does not own any ordinary stores. It has one central warehouse and 48 contracted pick-up places. The main market has been Oslo. Kolonial.no is now looking into expanding to the southern regions in Norway. The aim is to become profitable within the next two years.

A few weeks ago, we could read in the newspapers that kolonial.no, thanks to increased efficiency, would no more need one hundred of its four hundred employees who had been working in the warehousing section. At present, the company also employs 60 drivers who deliver groceries all the way home or to business addresses at specific hours. Even schools make use of the convenient deliveries. Other customers pick up their prepaid orders from central delivery points during agreed-upon time intervals.

Containers with cooling equipment at convenient "parking lots" to satisfy the needs of consumers on their way home from work has been the second distribution channel concept of kolonial.no. In May 2017, we could read that the company was testing a new, third, concept – deliveries into "tomorrow's mailboxes" at the customers' addresses. The tests have continued throughout the fall, also outside the Oslo area.

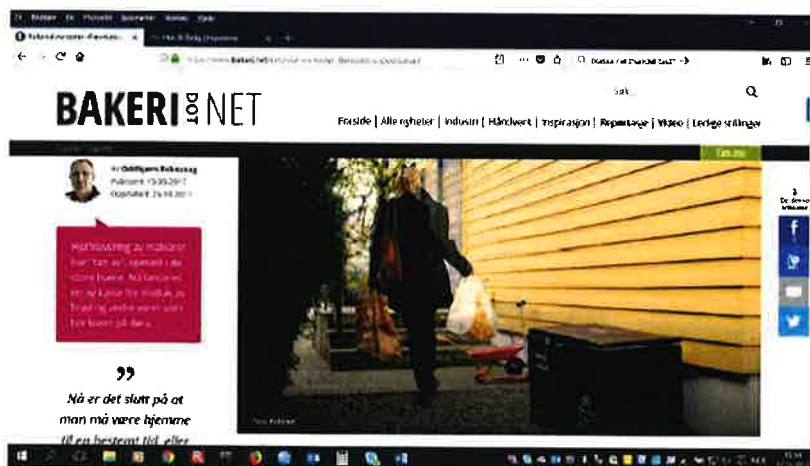
Tomorrow's mailboxes

Imagine that your groceries are waiting for you, when you come home from work! You do not have to be at home to receive the delivery. The opening hours for your personal mailbox of the future are 24 hours a day, 7 days a week.

The boxes are large enough for parcel deliveries and grocery deliveries. They have a layer of isolation material. The reusable cooler elements keep the right temperature for several hours. The box tolerates different types of weather. It is inexpensive to produce but looks OK near any house. The multi-use box is convenient for any parcels to the same address. It is up to the customer to share the code of the lock with others than the delivering company. The customer or somebody else with access to the code only has to see to it that the box is empty for new deliveries.

In the first tests, frozen items have not been included. Neither has it been possible to order alcoholic beverages, tobacco products or medicine because these items require identity check (age, person). First, a legitimate procedure for the control has to be developed.

Posten Norge has been positive to the new mailbox, which combines the needs of the consumers and those who deliver to homes. According to Posten, the innovation will enhance the total customer experience in online shopping and contribute to faster growth.



How to increase competition?

Norgesgruppen, COOP, and Rema control 96 percent of the grocery market on the retail level. They are also involved in the value delivery network on the supply side through fully owned producers. Still, the big domestic actors such as Tine (dairy products co-operative), Ringnes (beverages), Orkla (detergents and frozen pizza), and Nortura (meat and eggs co-operative) each have a market share larger than 40-50 percent in major product categories. They have a lot of power over the retailers.

Groceries in Norway are the second most expensive in Europe, 60 percent more expensive than the European average. Yet, consumers in Norway have to put up with a poor assortment of products. Few innovations emerge. The argument that the high prices are a reflection of customs protection at the border and high cost level in Norway does not seem to hold as almost three fourths of what we eat in Norway is not subject to customs protection.

A new report maintains that the producers' almost monopoly power and their high price levels to the retailers is the main problem in the value delivery network. The largest retail group with an over 40 percent market share, Norgesgruppen, gets the best prices from the suppliers in its negotiations thanks to the huge volume of its orders. Norgesgruppen is, however, not the most cost efficient in logistics and operations. Consequently, customers at the end of the chain do not enjoy lower prices that should follow from lower prices for the supplies. Other retailers (COOP and Rema; online retailers) pay higher prices. Kolonial.no, in its first years, had to pay some 20 percent more than Norgesgruppen for the same brands. Today kolonial.no has Rema as a minority owner and cooperates with Rema in purchasing to get better prices. The high supplier prices have resulted in fewer large, well-known domestic brands in the assortments of Rema and kolonial.no.

The last incident of a new actor trying to establish itself in the Norwegian grocery store market was Lidl in 2004. At present, the online grocery sale is expanding. There are many small actors in the niche such as kolonial.no, marked.no, 123levert.no, Meny's net shop (additional online deliveries from the traditional Meny stores), kolonihagen.no, handlenet.no (since 2017), and brødboksen.no (breakfasts) that sell groceries, and

some operators who sell selective dinner supplies. All of these struggle with profitability. The number of actors in the market is likely to go down. The most viable online retailers of groceries will probably be acquired by traditional retail chains, who have not been eager to enter this channel at the introduction stage.

Rema had bad experiences with online orders in the late 1990's and is advancing step by step through minority ownership in kolonial.no, and since 2016 through majority ownership in kolonihagen.no. Rema has been saying that they "will not initiate the competition". Norgesgruppen established in 2016 marked.no, and Norgesgruppen's Meny is learning about the market parallel to its ordinary retailing. Experts claim that the big retail chains wish to cling to the more frequent visits, impulse buying and in general less structured buying behavior in stores until the customers are ready to embrace the new way of buying groceries. They also try to keep their store managers at ease. Online retailing may steal customers from the stores and no one knows yet which stores are the most likely losers.

Both kolonial.no and Rema have in the last months on several occasions called for regulation that would introduce the Danish practice in Norway. In Denmark, the largest producers in dairy and beverage products have been compelled to sell to the retailers at the same prices. The argument is that the producers produce equal volumes and have the same economies of scale in production no matter how and via whom the products get to the end customers. It is up to the distributors and retailers to make cost efficient decisions that create additional value.

Where to find partners?

It is not easy for the drivers to find all the addresses along narrow downtown streets, carry the groceries to apartments without an elevator in the block, or find locations in rural environments. Kolonial.no has had contracts with Shell 7-Eleven gasoline stations for their pick-ups and Meny.no has cooperated with Deli de Luca and Esso. Around the biggest holidays, temporary pick-up points pop up along the main highways.

In a press release of November 21, 2017, we can read that the owner of Rema 1000, the Reitan group, is buying back its 87 gasoline stations when its contract with Shell expires in two years. In 2019, 7-Eleven stores will cooperate with YX (owned by the Reitan group) under the brand YX 7-Eleven. Today there are 210 YX stations in Norway. Both the stores and the fuel sales will be part of a new strategy for growing along the major roads and highways. The Reitan group has indicated that recruitment of new employees and new facilities will be necessary. The rest is for the time being a business secret.

Knowhow, warehousing, and delivery capacity for sale in Posten Norge?

Posten Norge arranges every year the largest e-commerce event in Norway. In September 2017, kolonial.no won the honorary title of "the best online shop in Norway" at the event. Kolonial.no, known for good customer service, good product quality, integrated delivery and innovation "is transforming the whole industry through its use of advanced technology."

Posten Norge itself has been important for both Norwegian communication and trade between people for 370 years. The company is prepared to "meet whatever awaits them in the new digital age" through "new offerings". Posten has had a commercial on TV about its excellent knowledge about specific consumer addresses throughout the country, gained through long experience. Even if the number of letters delivered has decreased drastically, the number of parcels has increased. The emphasis is on security, flexibility and predictability. Posten offers today several delivery methods and solutions for digital self-service. It has 3 000 outlets for delivery, 1 318 in-store post offices, 33 regular post-offices and operates approximately 1 500 rural post routes. Modern technology makes it possible to trace parcels all the way to the online shoppers' mailboxes.

The logistics division of Posten has struggled with profitability. Low economic growth in general and fierce competition has been the main reasons for the situation. In October 2017, Posten officially opened a gigantic logistics center in Alnabru, Oslo. Parcel, freight, and thermo units are now located side by side, which contributes to operational efficiency and environmental benefits. The thermo terminal is divided into two parts – one for fish and one for groceries. According to Posten Norge, temperature-controlled transport services, with good potential for growth, will be an important offering in the future. Increased e-commerce provides "substantial opportunities in parcel, freight, and home deliveries". The emphasis will be in realizing economies of scale in own operations and effective co-operation with others to develop integrated solutions to customer needs.



HAPPY HOLIDAYS!