Exam II

Name

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1a.

Value-Based Pricing

In value-based pricing, the business concentrates on the value of services or products rather than the costs incurred in production. Doing this requires the company to establish the value its product will give to the client. The value could be attributed to elements such as satisfaction, stability, or increased efficiency (Rawes, 2017). This pricing method is commonly used by enterprises that deal with software, artwork, chemicals, and medicine.

Cost-Based Pricing

In cost-based pricing, the business considers the production costs as its pricing basis. The enterprise utilizes its costs to determine the lowest price and the highest price limit. The price floor and the price ceiling imply the maximum and minimum prices it could set for a particular product. If the current competitive price is below the price floor, the business might set its prices at the floor or try to reduce its costs to lower the floor (Rawes, 2017). However, the firm should preferably price between the floor and the ceiling. Most companies that have mass production such as construction materials and textiles apply this strategy.

Focus

In cost-based pricing, the emphasis is on the business' situation when deciding the price. Conversely, value-based pricing concentrates on the clients when determining price. A value-based enterprise creates a way through which to measure the potential value their product might offer customers and prices in alignment with it (Rawes, 2017).

Prices

In cases where businesses apply cost-based pricing, it sets its prices between the price floor and the price ceiling. The decision to set the price between the floor and the ceiling is governed my market conditions. A company that uses value-based pricing establishes its pricing in a range decided by what clients are ready to spend (Rawes, 2017).

Benefits

Cost-based pricing usually leads to competitive prices and enterprises that apply this strategy might lure customers that searching for affordable products (Rawes, 2017). Although value-based businesses frequently accumulate massive profits from each product sold, some customers might not be ready to pay the high price and opt for the competitor's products.

Strengths and Weaknesses of Value Based Pricing

Strengths

Client loyalty: Regardless of offering expensive products, the business can have high customer loyalty for referrals and repeat business. However, this happens only when the product offered validates the high price.

Maximizes profits: Value-based pricing leads to the highest potential price that can be set thereby increasing revenues

Weaknesses

Competition threat: Enterprises that consistently practices value-based pricing is giving its rivals an opportunity to provide reduced prices and grab their market share.

It is only applicable for a niche market: The extremely high prices that are anticipated under this strategy might only be acceptable to limited number of clients.

Strengths and Weaknesses of Cost Based Pricing

Strengths

Consideration of profit margin and cost: The pro of cost-based pricing is that it allows the business to decide how much it needs to make from each sale.

Disadvantages

The costs together with the anticipated profit margin may result to price points that are above normal client limits. This makes the company have challenges with producing enough volume.

1b. Zara applies a value-based strategy to the pricing of its apparel while maintaining affordability. Indeed, most extravagant fashion brands use the value-based approach that leads to high pricing as they focus on offering high-quality apparel for affluent consumers. It is important to realize that high pricing is an effective marketing strategy for establishing a luxury brand. Still, Zara offers its apparel at prices that are affordable to most income groups and thereby succeeds in its pricing.

The prices of clothing at Zara are less than those of luxury fashion companies such as Louis Vuitton, Gucci, and Chanel. When Zara is contrasted with these luxury brands, it is apparent that the main competitive benefits for it is its pricing. This value-based strategy that Zara applies not only serves as a value proposition but also provides affordable quality apparel to most customers. Many fashion brands have acknowledged Zara's strong position in the apparel industry. When considering training costs and optimizes development, value-based pricing is appropriate for Zara. The business applies cost-based pricing methods that emphasize on consumer's perspectives of value instead of production costs to determine the price. Zara's target clients require quality clothing but are not able to pay the high prices set by luxury brands.

I. Indeed, Zara could apply conventional market-skimming pricing strategies for its clothing. The company could decide a high price for one of its new designs to gain maximum revenues from

customers ready to pay the high price thereby making less but more profitable sales. Moreover, Zara could use market-penetration pricing in the case where it introduces an apparel affordable to every client in the low income group. The company will lure many new buyers and attract a large market share.

2 a.

Vertical Marketing System

This is where producers, wholesalers, and retailers act as a unified system. Either of the three owns the others and has agreements with them. Companies that apply a vertical marketing system try to appeal to a niche demographic which is mostly made of enterprises that are involved in the same industry. For instance, a solar panel manufacturer will sell to solar installers and contractors. That is to say, they sell their products to businesses that are rivals.

Horizontal Marketing System

This is a channel structure where companies that are on the same level cooperate to utilize a new marketing opportunity. Enterprises that apply this system focus on appealing to a wider demographic. For instance, a business that sells metal roofing does not target other firms that specialize in metal roofing. Instead, they will target firms irrespective of the industry (construction companies).

Since companies that employ horizontal marketing systems will not be rivals, there are increased chances for partnerships (Corneliuson Associates, 2016). Still, applying a vertical marketing system allows enterprises to concentrate on capturing specific demographics through beneficial means.

I. The system that best describes Zara's distribution approach is the vertical marketing system with a very unique business model. Through the assistance of vertical integration, the fashion

brand is able to create the solid product strategy that constantly resulted in Zara enabling the opportunities specifically in the fast-fashion industry. Unlike the rigidity that is characteristic of traditional retailing, Zara produces its apparel in volume, variety, and frequency of the new designs.

The vertical marketing system initiates in the company's management where the managers formulate the changes that will have an impact on the business. Through this, Zara's frequent clients will be aware of new designs that are launched for purchase. It is clear that the company's quick response in the fast-fashion industry concentrates on utilizing the vertical marketing system to keep pace with fashion trends rather than to ensure production efficiencies. The benefit of this system is that Zara has power in the fashion industry and provides its competitors with an outline of trends and challenges. This implies that other fashion brands will make necessary changes and focus on the apparel that they should produce. Zara has a great advantage in shipping control since warehouses and shipping technologies are part of the enterprise's ownership.

b. One of Zara's primary marketing channel advantages is that the company efficiently utilizes a vertical marketing system that integrates distribution under single ownership and successive production phases. This successful combination is a reason why Zara is quicker, effective, and flexible than its rivals. The main reason the firm enjoys great success can be explained by its capacity to have an influence over each part of its production and supply chain. Zara is able to produce new designs and put them into global distribution in a matter of weeks. The main weakness of Zara's marketing strategy is that it the apparel that it produces faster than other brands do not have a market since they do not match the customer's preferences (University of Pennsylvania, 2016).

However, the business has an incredible way of adapting. For instance, prior to entering a market, Zara assesses current trends and the preferences of the people. Zara afterwards adjusts the basics of its style in each region. This method has allowed Zara to succeed in Iraq, Armenia, and Iran where it has attuned its clothing to diverse cultures where long sarongs and luxurious apparel appeal to consumers (University of Pennsylvania, 2016).

I. Zara's parent company, Inditex, sources over 50% of its products from Morocco, Spain, and Portugal which is more costly (Groth, 2012). However, since its supply chain is short, the firm is able to respond to new trends. Rather than gamble on future trends, Zara should be patient to observe what clients are actually purchasing and they produce just that. This would ensure that the company sells at full prices while other are left with unwanted stock.

3a.

Advertising

Interestingly, Zara does not participate in traditional advertising but is one of the most successful apparel maker. There are various commercial and logistic strategies that the firm applies:

Investment in stores: The enterprise spends the most in rent to ensure that its stores are located in the most popular and busy centres of a city. Moreover, these stores are situated next to expensive brands such as Gucci, Louis Vuitton, or Armani, resulting in an aura of superiority in their stores. Zara has the most expensive building in Dubai, shops on New York's 5th Avenue, numerous stores on Oxford Street in London, and a 6-storey building in central Tokyo (Telling, 2017). Careful observation will reveal that the firm chooses strategic emblematic sites to lure consumers for its neuralgic position or its architecture.

Store interior: Zara's interiors strive to create a balance between the outside and inside of the store with spotless, comfortable, and spacious features that seem to have been meticulously organized. The interior design of Zara stores change on yearly basis to ensure a new feel every time a client comes to purchase their apparel (Telling, 2017).

Timely production: Since Zara's production system is centred on producing real orders, it is able to heighten productivity while lowering losses of stocks stored and management costs. Whereas other fashion firms spend three to six months to launch new designs in their shops, Zara spends only 15 days to present a new collection, stimulating reliance on its clients to obtain the last release (Telling, 2017).

Public Relations or Publicity

In its early growth stage, Zara depended on unpaid public relations and word-of-mouth that was apparent in photos of celebrities that were spotted with Zara apparel. For instance, Catherine, Duchess of Cambridge frequently wore Zara brands and this aided in improving the company's image (Telling, 2017).

Sales Promotion

Zara never has sales promotions or markets any of its store sales like other fashion brands. Again, the company does not put its logo on its merchandise. Apparently, the quality of their products advertise the brand.

Direct marketing

Zara uses direct marketing channels such as phone calls and invitation mails only for events.

Personal Selling

The sales associates at Zara do not view personal selling as a necessity. Moreover, the customer service in their shops is weak. Their affordable pricing and unique merchandise seemingly attract clients back to their stores

I. Through the application of the leveraged sales approach, Zara can concentrate on extensive, multifaceted expenses and give the other channels the smaller opportunities allowing for more resources, time, and energy. Zara could emphasize on increasingly profitable market opportunities by incorporating with other channels thereby increasing production.

b. It is advisable to first develop a brand with public relations since PR is strategic while advertising is unwise (Jasso, 2017). Public relations aids in building the brand and maintaining the brand name in the industry due to its proper relations with the public. Moreover, public relations could develop good publicity and a long-term beneficial company image (Jasso, 2017). An enterprise that has good public relations can fundamentally market itself without the need for advertising.

The promotion strategy will depend on having a simple and transparent communication method centred on a comprehensive perception of the main challenges that will be experienced in communicating the value:

Credibility

It is advisable to allow the clients to have an experience of the product, utilizing it as they normally do. This works in the clothing industry where customers are offered the opportunity to see and feel for themselves the texture of the apparel and how it would match their favourite occasion or setting.

Differentiation

The firms communications must guarantee that client comprehend the difference between the merchandise and other competing alternatives. A solid value proposition will possess resulting experiences that are finer than competing substitutes. The client will be reassured that they do not have to accept lower standards on other experiences, to receive the excellent results the product provides.

Clarity

Clients will be able to assess the alternatives and require particular methods to match products and position differences in price in the framework of quantifiable changes in other facets of their business. It is vital to comprehend ways to plainly communicate every one of these experiences to make them understandable to the clients.

I. Berger's *Contagious: Why Things Catch On and Invisible Influence: The Hidden Forces that Shape Behaviour* supports the power that is word-of-mouth showing that it is more efficient than advertising. Most times, public relations is about having one client expressing their love for a product to a prospective customer. Indeed, the most vital issue surrounds determining a primary value proposition and communicating in way customers, and prospective clients can comprehend.

4 a.

I. This assertion is not true since the needs and desires of customers are not uniform on a global scale. For Zara's case, it is true that everyone considers clothing as a basic need but not varieties of clothing. For instance, the apparel that Zara makes for customers in the Middle East (sarongs) are not the same with those it makes for clients in Europe (skirts). Therefore, it is necessary to understand that the global demands could be multifaceted.

II. This assertion is true because the current customer demographic consists of young people that want processes to be simplified. Zara is an excellent example as it has a simple website where clients can shop online. Moreover, it has an app that has information on the latest designs.

III. This is true since there are cases where cultural preferences have prevented companies from venturing into potential markets. This can be observed particularly in Arab countries where decency is a very serious issue. On the other hand, it is true that some cultural preferences such as the wearing of the hijab have diffused into popular culture and become an actual fashion trend.

b. The success that Zara has enjoyed in the global market emphasized on low advertisement, quick response, internal production, vertical integration, and a centralized supply system. Zara has demonstrated the importance of utilizing information systems to track customer preferences and sales through social platforms to receive essential feedback on preferences. Similar to the growth of most fashion brands, Zara did not immediately expand to low income markets but stayed in Europe to ensure the company's swift response to changes in consumer tastes.

Quick success is often characterized by fewer opportunities to comprehend the market. In the beginning of its expansion, Zara did not shift its production firm in Europe, but with time expanded to satisfy the customer demands of that locality. In the expansion of a company's operations into other regions, it is important to observe the client demand of the massive population. For instance, Zara has a restricted sizes offering to its client and this may work for Europe but may not be suitable in the US which has rising incidences of obesity.

Therefore, if Zara needs to grab the market share of this segment, it would have to introduce plus size apparel. It is also essential to provide products for economies that are not fashion forward and this is possible by having apparel that are fashionable on a yearly basis.

Zara must expand its online sales and explore different ways it could venture into markets such as Africa. Indeed, there is a global trend of sales moving online and Zara should ensure that it constantly exploits this opportunity. Moreover, there are markets such as Africa (South Africa and Nigeria) where Zara needs to utilize its R&D capacities to determine how they can provide products to customers in these regions. However, the company should be aware that new opportunities imply new responsibilities.

I. Global brands are known to compete with other global brands. To achieve success, transnational firms should handle brand in two ways. First, they should pursue dominance on aspects such as imagery, brand price, features, and performance. Secondly, they should comprehend managing brand's global traits, a matter that dictates the leader of the market. There are various approaches to managing globalization:

Converting social responsibility into entrepreneurship. Research has proven that individuals tend to have confidence in powerful people that demonstrate how they have sacrificed their interests for the sake of public welfare (Holt, Quelch, & Taylor, 2004). Similarly, this rationality relates to global firms. There are some that believe that enterprises should not be involved in using their resources on projects that will not generate revenue since a company's primary objective is to provide returns to shareholders. This is ill-advised because if clients argue that global brands should bear greater social responsibility, company management should positively respond.

Handling negative customer perceptions: Only because firms are globally successful does not imply that clients have only constructive perceptions about them. Most global companies have a dark aspect that must be tackled. For instance, in the early 90s, IBM found out that whereas clients claimed the firm emphasized on quality, they also believed it was inflexible and conceited

(Holt, Quelch, & Taylor, 2004). IBM handled the issue by creating an advertising campaign that changed these perceptions

Considering anti-global people as clients: Many global firm are uncertain of the way they should handle individuals that loathe them. However, it is pertinent that the enterprise gains the trust of the demographic through centring on them as displeased customers. Still, it impossible to do this if the company is unwilling to invest in social projects that can change the minds of anti-global individuals (Holt, Quelch, & Taylor, 2004).

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