

Chapter 26: Exam practice question

Toshiba drops HD DVD after promising start

1 Define the following terms:

a **(HL)** problem child product (2)

This refers to a product classification of the Boston Consulting Group (BCG) Matrix. It is a low market share product – often a new product that has just launched or is about to be launched, requiring significant cash investment and not yet having big sales levels or positive cash flow. It may require substantial promotion.

b brand. (2)

This is a product that bears a distinguishing name, symbol, design or combination of these that differentiates it from other manufacturers' products. It can have a powerful image or identity that can provide a unique selling point (USP). This may allow it to command a premium price and may result in low price elasticity of demand for the brand.

Apply **Resources table 3a** mark band descriptors.

2 Explain the new product development stages a product like Toshiba DVD would go through before it is launched. (6)

- generating new ideas
- idea screening
- concept testing: cost/possible consumers/features
- business analysis: likely revenues, costs, etc.
- product testing
- test marketing
- (launch)

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

At least **four** stages should be identified, explained and linked to the case study for 6 marks.

A justified conclusion is **not** required.

3 Analyse **two** possible reasons, other than the acceptance of Blu-Ray by major film-producing companies, why Blu-Ray succeeded and HD DVD did not. (6)

Reasons may include:

- brand image of Sony's Blu-Ray too strong to compete with
- anticipated further negative cash flows to promote HD DVD may not be expected ever to produce positive cash flows
- high development costs mean that product pricing of HD DVD may be uncompetitive
- any other relevant point.

SL: apply **Resources table 1** mark band descriptors.

HL: apply **Resources table 2** mark band descriptors.

Reasons should be stated, explained and linked to the case study.

A justified conclusion is **not** required.

4 (HL) Evaluate the usefulness of models like the Boston Matrix to firms like Toshiba. **(9)**

Define Boston Matrix: this is a method of analysing the product portfolio and potential future strategies of a business in terms of market share and market growth.

The matrix could be drawn to better illustrate its features and ensure that the examiner knows that it is fully understood.

Useful:

- can analyse structure of present product mix
- can highlight areas of product mix important for development of future strategy
- can be linked to the product life cycle and related marketing decisions
- highlights products that generate cash and those that drain it
- can highlight the need for new products
- any other relevant point

Not useful:

- on its own it cannot tell a manager what will happen next with a product
- it has been criticised as oversimplifying a complex set of factors determining product success
- it assumes that higher profits are related to higher market share: this may not be the case if sales are increased by reducing prices and hence profit margins
- any other relevant point

SL: apply **Resources table 1** mark band descriptors.

(SL questions do not usually go up to 9 marks, so the HL table is best used for SL students.)

HL: Apply **Resources table 2** mark band descriptors.

A justified conclusion is required.