

**Thapar University Patiala**  
**LMT School of Management**

Course: MBA (Semester 4) MST  
March 2010

Subject Name: Sales and Distribution Management  
Subject Code: SB615

Time: 2 hours; MM: 30

Name of Faculty: Dr. K.K.De / Harjot Singh

Section A and B are compulsory and carry 12 and 6 marks each, with the questions 1, 2 and 3 carrying 6 marks each.

From Section C, answer any 2 questions. The questions in Section C also carry 6 marks each.

**Section A.**

**Case Study**

**6x2=12 marks**

Throughout Apple Computer Corp's two-and-a-half decade history, from a start-up founded by Steve Jobs and Steve Wozniak in a garage, the company has been recognized as an innovator. From the early versions of the Apple II in the late 1970s to the revolutionary Macs of the 1980s and today's Power Macs, PowerBooks, eMacs, iMacs and iBooks, its products have been distinctively different from the Windows / Intel (Wintel) PCs that have dominated the worldwide market for most of the past two decades.

In spite of the company's innovative and distinctive products, Apple's market share has declined significantly since the glory days of the early 1990 when Apple had a 13 percent share of the personal computer market. By 2003, Apple had less than a 3 percent share of market.

Over the years, many explanations have been offered by both fans and critics of Apple for why the company's excellent products have not gained a larger market share. Some argue that Apple should have pushed its Mac operating system software instead of concentrating on hardware. Apple's failure to do this allowed Microsoft's Windows to dominate the industry, even though Apple's operating system was superior. Others claim that Apple's lack of focus on the business market undermined its credibility as a serious contender to Wintel PCs. Another criticism of Apple over the years has been the lack of sufficient software applications available compared to those for PCs; others claim Apple's premium prices stunted its growth potential. Still others have complained that Apple's advertising and promotion, while often clever, appealed only to a small segment of already-loyal Apple users and did little to convert PC users to Macs. Finally, observers have pointed out that Apple's channels have been weak, especially at the retail level where Apple products are sold through a relatively small number of licensed Apple dealers, department stores such as Sears and "big box" stores such as CompUSA, where Apple products receive little attention from sales staff and even less shelf space.

**Recognizing the Need for a Channel Design Decision**

All of those factors as well as others contributed to Apple's decline in market share by the late 1990s. Apple's senior management, including CEO Steve Jobs, recognized that in order to grow significantly Apple would need to convert existing Wintel users into Apple users. New product development, aggressive pricing, and more extensive and clever advertising were all in place by the year 2000. But Apple knew that its PC conversion strategy was not likely to succeed without stronger channels of distribution. The Apple story of superior products that are easier and more fun to use was not being communicated effectively to customers through existing retail channels. The "big box" stores, department stores, and the independents did not devote enough display space nor have sufficiently knowledgeable salespeople to create the kind of sales impact needed to convert the PC users to Apple products. Moreover, Apple's licensed independent dealers lacked sufficient market coverage and incentives to push the Apple line. In fact, many of Apple's independent dealers were faced with survival problems because Apple required the dealers to base over 90 percent of their business on Apple products, yet the margins available on some of the most popular products were razor thin. An iMac that retails for \$869, for example, typically yields a profit to the retailer of just \$30.

243

As the twentieth century to a close, Apple realized that its existing channel strategy was a weak link in its overall marketing strategy. The company knew it would need a channel strategy just as innovative as Apple products to support its bold PC conversion strategy.

### Apple's Company Store Channel Strategy

As early as 1999, rumors began circulating in the personal computer industry that Apple was planning to open its own chain of stores throughout the United States. Apple already had operated one retail store for a number of years at its headquarters in Cupertino, California. But its company owned retail store strategy was to be implemented on a much larger scale, with many stores blanketing the major metropolitan areas across the U.S.

By the fall of 2000, Apple's rumored retail strategy became a reality as its second store prepared to open in Palo Alto, California, in early 2001. By mid 2001, Apple had opened 25 stores across the country and by early 2003, the count had reached 53 stores in 24 states. More store openings are expected, but not at the torrid pace of the first 53 stores.

All of these Apple stores are located in high-traffic locations such as major regional malls. This is in contrast to Gateway Inc.'s (the only other computer maker with its own retail stores) strategy of locating many of its stores well away from major shopping destinations to minimize rental costs. Apple estimates that 85 million consumers (about a third of the total U.S. population) are within 15 miles of one of its stores.

### Apple Stores Channel Customer Interface

Most Apple computer stores are about 6000-7000 square feet, although some, such as the newly opened store in Manhattan's SOHO district, are as large as 15,000 square feet. The stores are designed to create an exciting and upscale atmosphere with a very sparse, understated look to provide a sophisticated and sleek showcase for Apple products. Apple hired famous retail designer Paco Underhill to oversee the design of the stores, and Steve Jobs himself devoted considerable time conversing with Underhill to help capture the spirit of Apple's distinctive image and style in the design of the stores. The store design organizes hardware into five sections: (1) consumer, (2) pro (3) movies (4) music and (5) photo. Signs used to direct customers in the stores are simple yet big and bold. Each store also has a service and repair section. Finally, the sales staff is a mixture of male and female "tech geniuses" who are capable of demonstrating products to their greatest advantage and who can answer virtually any question posed by customers.

To get back into the education market, which at one time Apple owned, all of the Apple stores set aside every Tuesday and Wednesday during the school year for the company's "School Night at an Apple Store" program. Students and teachers at all grade levels are invited to Apple stores to show off the kinds of projects they have performed on Apple computers. Parents of students who participate in the school night program and buy an Apple Computer within a month of the school get a \$50 off on the purchase price, and the school gets a \$50 credit toward future Apple purchases. Regular customers are still welcome in the stores during the school night. Apple believes the events create added buzz that will stimulate customer curiosity and help spark sales.

So far, Apple believes the stores have been a major success. While not yet profitable as of early 2003 (profit is expected by the end of 2003), the stores now account for almost 10 percent of Apple's total sales. But perhaps most important, according to Steve Jobs, half the sales at the Apple stores are to customers switching from PCs.

1. Do you think a network of company-owned stores was really necessary to implement Apple's PC conversion strategy? Will Apple's Company-owned stores further erode the already limited effectiveness of the "big box" department store and independent licensed dealer channels by creating conflict?
2. Will Apple's "School Night at an Apple Store" program help Apple gain further penetration into the education market for computers? What other channel strategy might Apple have pursued to implement its PC conversion strategy?

**Section B.**

**Case Study**

**6 marks**

When the mail from 2M-Hydraulics was received by Rahul Despande, the CEO of RK Consultant, he immediately talked on the intercom to his vice president, Arun Pande, to personally handle this enquiry. "If you succeed to get this order and execute the same to the complete satisfaction of 2M-Hydraulics, it would open doors for many more orders in future," said the CEO.

"Yes, I agree with you, but for that I will have to fly down to Bangalore immediately to meet with key people in 2M-Hydraulics to understand clearly their needs, before submitting our proposal," responded Arun.

"Why not, go ahead, and let me know if you need any help from me," said Rahul and hung up. Arun looked at the website of 2M-Hydraulics and gathered information that the company had a technical tie-up with a German company and wanted to manufacture and market hydraulic valves, pumps, and other accessories in India. The company had decided on a distribution strategy of selling its products through dealers, who were expected to design, assemble, sell and service hydraulic power packs required for various applications for material movements. Arun spoke with Srinivas Rao, General Manager of 2M-Hydraulics, and fixed an appointment to meet with him.

Arun gathered information about market potential in major metros and cities, competition and requirements of 2M-Hydraulics. His doubt about "can we get dealers in India performing so many tasks" was answered by the German manger, "If we can get them in Germany, why not in India?"

Arun came back to his office at Pune, discussed with Rahul, and sent his proposal to Srinivas Rao. Within one week, Arun received a call from Srinivas Rao, asking Arun to come over to Bangalore for a presentation to a team of senior executives, to be followed by negotiation.

3. How was R K Consultants approach to the customer's requirement? If you were Arun Pande, what will be your approach now onwards? What factors and considerations you will take care of in this sales call? What possible closing techniques would you use?

**Section C.**

**Answer any 2 questions.**

**6x2=12 marks**

4. Assume that you are the newly appointed Sales executive in Jalandhar district in Tata DoCoMo which is a newly launched mobile phone operator for the state of Punjab. Your brief is that you will look after the direct corporate accounts in your territory. What is the Sales Process would you follow to achieve your sales objective? Give relevant examples. What are the various ways in which you may attempt to handle customer objections?
5. You have been given the charge as Channel Manager of Punjab for a very premium brand of fragrance which is to be launched in the coming quarter. You have been told that you need to sell through channels and you can appoint your own channels. You have the option of using intensive, selecting and exclusive models of distribution intensity. What are these models of distribution intensity? Explain with suitable examples. Which one would you chose and why? How would you design your channel?
6. In terms of retail selling, the service output demand level might be different for different segments of customers. Explain what is meant by functions of retail like bulk-breaking, spatial convenience, waiting and deliver time, assortment and variety, customer service, and information provision. Use examples to distinguish between the service output demand level differences of various customer segments.