

Promotional Elasticity 3 marks

Winter 2018 Paper 31

4

Option 1: a joint venture for export

80

SU would identify a partner for a joint venture. This business would have access to existing export markets and customers, especially those wanting premium products. SU would supply the new umbrellas and the partner business would distribute them in appropriate packages using personal selling. Possible markets the partner operates in might include hotels, sporting venues and expensive up-market department stores. This option offers the possibility of high sales at minimum investment and risk.

85

Option 2: selling in Country X

SU would first sell the new product in their home market. The new product may not sell in large quantities and will require specialist marketing methods. SU would therefore treat Country X as a test market, using personal selling to existing customers and contacts. Various methods for increasing sales can be tried out. This option offers the possibility of gaining market experience with minimum investment and risk. However, sales volumes are likely to be small for some time.

90

Appendix 1: Organisation structure Information

	Number of employees	Span of control	Level of delegation	Line or staff function
Marketing (including sales)	24	8	High	Line
Finance	13	3	Low	Staff
Administration/IT	20	6	Low	Staff
Workforce planning	12	2	Low	Staff
Production	380	10	Medium	Line
Research	8	0 (Matrix)	Very high	Staff or line?

Appendix 2: Beach umbrellas proposed promotion Increase

Current promotional spending	\$40 000
Proposed promotional spending	\$44 000
Current price	\$5.00
Current sales revenue	\$2m per year
Cost of sales per unit	\$3.50
Current annual sales (units)	400 000

4 (a) Refer to Appendix 2.

Calculate: (i) the promotional elasticity of SU beach umbrellas (2 marks)

PLEASE NOTE: Research shows the increase in promotion is likely to raise sales by 15%

$PrED/AED = \% \text{ change in demand} / \% \text{ change in promotional spending}$

$\% \text{ change in demand} = +15\%$

$\% \text{ change in promotional spending} = 10\%$

$PrED/AED = 15/10 = 1.5$ (3 marks)
