

**K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,**  
**Vidyavihar, Mumbai- 400077**

**Program: PGDM A, B and IB (Batch2016-18), Trim I**  
**Subject: Business Communication**  
**(End Term Examination)**

**Maximum Marks: 25**  
**Duration: 2 hours**

**Date: 20<sup>th</sup> Sept, 2016**

**Attempt any two of the three case study scenarios given. Each carries 12.5 marks.**

Case 1: SMOKING MAY BE BAD, BUT TOBACCO COMPANIES' PROFITS HAVE NEVER LOOKED SO GOOD

After the arms industry, the tobacco industry must be one of the most politically incorrect business sectors. Yet during the late 1990s tobacco companies in the UK appeared to be very popular with the Stock Market, outperforming the FTSE all-share index by 36% during 1998, and continuing to hold their ground in the falling stock market conditions from 2001. This was despite an EU directive which finally put an end to all tobacco advertising in the UK from March 2003.

Tobacco companies now place less emphasis on fighting the health lobby, and no longer pretend that tobacco is anything other than harmful. But fortunately for the tobacco firms, nicotine is an addictive drug. Although cigarette consumption has declined in most developed countries, it is reported that one person in four still smokes. Moreover, among some groups, especially young women, the rate of smoking has shown some increase in recent years. Tobacco companies also benefit from periods of economic recession. While job cuts may be bad news for most consumer goods and services companies, it has historically also been linked to an increase in smoking.

The tobacco companies have survived many years of attempts to control tobacco sales throughout Europe, but the EU directive banning all tobacco advertising made it increasingly difficult for tobacco companies to get new brands established. The big three UK companies, BAT, Gallagher and Imperial Tobacco looked at strengthening their brands with joint ventures. BAT linked up with the Ministry of Sound nightclub to push its Lucky Strike brand, while Gallagher tried to promote the Benson and Hedges name through a branded coffee. One industry expert expected to see an army of cigarette girls pushing cigarettes in pubs and corner shops, thereby trying to get round controls on advertising.

While promoting cigarettes in Europe has been getting more difficult, tobacco companies have been keen to exploit overseas markets where measures to protect the public are less. In the countries of Eastern Europe, the companies have pushed their products, hoping to capitalize on the hunger for western brands. Gallagher has a plant in Kazakhstan and has heavily promoted its Sovereign brand in the former Soviet Union. The biggest opportunities for western tobacco companies however are in China which is the world's biggest market in terms of volume. The Chinese smoke 1.7 trillion cigarettes a year, making the British market of just 77 billion look quite small. State owned brands such as Pagoda dominate the market with an estimated 98% market share. With import duties of 240%, most foreign cigarettes enter the Chinese market through unauthorized channels, including those smuggled by the Chinese army. Greater trade liberalization will inevitably give freer access to the Chinese market for western tobacco companies. These will undoubtedly pay significant levels of taxes to the authorities, so a financially strained government may be unwilling to reduce tobacco consumption too much, especially when smoking is so pervasive through the population.

**Your assignment:** Philip Morris is the world's largest transnational tobacco company, whose Marlboro brand is the world leader. In 1999 the company had sales of over US\$47 billion. However, excluding the US domestic market, BAT sells the most cigarettes worldwide and has the largest network in the most countries. You have been hired by BAT as a consultant advising them how to promote smoking in the Chinese market.

Your problem analysis could consider the (1) likely effectiveness of a EU ban on tobacco advertising on reducing smoking? What other measures could governments take to bring about a significant reduction in smoking? (2) Is there anything to learn from the booming share price of Tobacco stocks even as Europeans' attitudes toward smoking are becoming more hostile?

Your Solutions could include three irrefutable arguments that you can offer to justify BAT's attempts to develop the Chinese market for cigarettes?

Your Plan of Action should include a short term and long term marketing plan to increase sales and establish BAT as the first choice for Cigarettes in China.

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## **Case 2: "I Regret to Inform You"**

### **Background**

Aqua Masters is a small hydro-geological company specializing in the analysis of ground water quality and availability. It is solely owned by Raj Singh who has an MSc in hydrogeology and has been working in the field for 20 years. While he would like to be doing the "hands-on" work, he finds that most of his time is taken up with writing reports and proposals for projects. Raj has four field employees who work exclusively for him, but he frequently puts together teams of other hydro-geologists to work on specific projects.

## **Current Situation**

Recently, Raj responded to a request for proposals from the provincial government. The project was an assessment of the water resources of a very large area, but Raj knew he could bring in a number of experienced people and complete the project. Also, having this team of experienced and professional people meant that Raj would be able to discuss the assessment with others who were as qualified as he was and that the assessment would, therefore, be of superior quality. He carefully wrote the proposal and sent it away with high expectations that his offer would be accepted.

## **The Problem**

Raj waited to hear from the government agency in charge of the proposals..After several months, he received the reply shown in Exhibit A.

### **Exhibit A**

Ministry of the Environment  
Suite 101, Tower Block C  
Toronto, ONM1K 2X3  
Mr. RajSingh  
AquaMasters  
55 King St.,Unit 2  
London, ONN5Q 8F9

Dear Mr. Singh,

I regret to inform you that we have not accepted your proposal for the assessment of the Hilton Region Water Resources Project. The committee felt that your resources were too limited to make an effective assessment of this large area.

If you have any questions, please contact me at the above address.

Yours truly,

C. Service  
Senior Assessment Officer

Raj was stunned; he had paid particular attention to the “Staffing” section of the proposal and thought that his experienced team was very impressive.

Exhibit B shows a different kind of letter.

## **Exhibit B**

Ministry of the Environment  
Suite 101, Tower Block C  
Toronto, ONM1K 2X3  
Mr. RajSingh  
AquaMasters  
55King St. Unit 2  
London, ONN5Q 8F9

Dear Mr. Singh,

Please understand that the Department of the Environment cannot approve every proposal that we receive. We have been very diligent in vetting the proposals for the Hilton Region Water Resources project. It was a very long process, given that we had many excellent proposals.

Unfortunately, your proposal was not one of them. Your “Staffing” section left us all wondering how, exactly, you intended to co-ordinate such a disparate group of hydrogeologists. We were also not sure why you thought that these experienced professionals would leave their own businesses for yours. Surely you could not expect these people to devote themselves to this project if something else came their way.

The Ministry of the Environment thanks you for your time and effort and hopes that you will continue to submit proposals when they are requested. I sincerely hope that this review of your proposal will help you prepare future proposals more in line with the Ministry’s requirements. I know that they are stringent requirements, but we have to be very careful when awarding contracts not to appear to be wasting taxpayers’ money. I hope you understand our position.

Yours truly,

C. Service,  
Senior Assessment Officer

### **Questions for you:**

1. Delivering bad news requires particular attention to the secondary purpose of the document – the sentiments of the receiver. How well does each of these letters perform that secondary purpose?
2. Exhibit B attempts to buffer the bad news by discussing the selection process. Is this buffer effective? Why or why not?
3. Is an apology called for? Why or why not? What impact will the refusal have on the

author's future communication with the agency?

4. Rewrite the letter to make it more effective. Discuss, in a few bullet-points, why you chose to make the changes you did.
5. "I regret to inform you" has become a cliché. What effect does this statement have?

### **Case 3: FREE FLIGHTS PROMOTION ENDS IN DISASTER**

The Hoover company's attempts to sell more vacuum cleaners by offering an incentive of free flights has become a legendary disaster in the field of sales promotions. An examination of the case is useful for highlighting some of the problems of planning, implementing, and monitoring sales promotions.

During the early 1990s, Hoover was faced with a period of economic recession in which discretionary expenditure on consumer durables was held back. In these conditions, most vacuum sales were replacements for worn out machines or first-time buys for people setting up home. The challenge was to increase the sales of machines bought to upgrade existing equipment.

The company came up with the idea of offering free airline tickets to America for anybody buying one of its vacuum cleaners. For many people, a holiday in the USA may have been perceived as an unnecessary and unaffordable luxury during a period of recession, but one that might be justified if it came free with the purchase of an 'essential' vacuum cleaner.

The immediate result of the sales promotion was to boost the company's sales of vacuum cleaners to more than double the level of the previous year. So far so good, but then serious problems set in. The first problem occurred when Hoover could not satisfy demand for its vacuum cleaners and had to resort to paying its staff overtime rates of pay in order to increase supply. It should be remembered that the initial objective of the promotion was to utilize existing spare capacity rather than adding to that capacity. The company had carried out insufficient research prior to launching its incentive. Had it done so, it may have reached the conclusion that the incentive was too generous and likely to create more demand than the company could cope with.

A second problem occurred during subsequent periods when sales fell to below their pre-incentive levels. Many people had simply brought forward their purchase of a vacuum cleaner. Worse still, many people had bought their cleaner simply to get the free tickets, which at £70 for a cleaner with a free £250 ticket made sense. These people frequently disposed of their cleaner as they had no need for it. The classified ads of many local newspapers contained many adverts for 'nearly new, unused' vacuum cleaners at discounted prices and this further depressed sales of new machines once the sales promotion had come to an end.

A third and more serious problem occurred when large numbers of buyers tried to use their free flight vouchers. All sales promotions are based on an assumption of take-up rates, which can be as low as 5-10 per cent. Anything higher and the cost of the incentives actually given away can wipe out the benefits arising from increased sales. In this case, Hoover had carried out insufficient pre-testing of the sales promotion in order to assess the likely take-up rate and was surprised by the actual take-up which subsequently occurred. In an attempt to control costs, the company became notorious for its attempts to 'suppress' take-up of free flights. Many claimants complained that telephone lines were constantly busy and, when they did get through, they were offered the most unattractive flights possible. It was reported that claimants from the south-east of England were only offered flights departing from Scotland and those from Scotland only offered flights from London, done to reduce the attractiveness of the free offer. These activities attracted high levels of coverage in the media and left a once highly respected brand as one with a perception of mistrust. Five years after the initial débâcle, the Hoover Holiday Pressure Group continued to be an awkward reminder for the company.

The free flights promotion eventually cost Hoover a reported £37 million in redemption charges, without bringing about any long-term growth in sales. With appropriate pre-testing, these costs could have been foreseen. Worse still, the company's brand image had been tarnished in a way that would take many years-if ever-to recover from.

**Write a Recommendation report to the Board of Directors of Hoover so as to answer the following three questions adequately.**

1. What are the inherent problems that Hoover faces in assessing the effectiveness of sales promotion activity?
2. Recommend a programme of research that Hoover could have undertaken in order to avoid the costly failure of its free flights promotion.
3. What alternative methods of promotion might have been more suitable to achieve Hoover's objective of utilizing spare capacity during a period of economic recession?

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