

CHAPTER 2

COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER VALUE AND RELATIONSHIPS

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Explain company-wide strategic planning and its four steps.
2. Discuss how to design business portfolios and develop growth strategies.
3. Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.
4. Describe the elements of a customer-driven marketing strategy and mix and the forces that influence it.
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.

JUST THE BASICS

CHAPTER OVERVIEW

In this chapter, we dig deeper into steps two and three of the marketing process—designing customer-driven marketing strategies and constructing marketing programs.

First, we look at the organization's overall strategic planning.

Next, we discuss how marketers partner closely with others inside and outside the firm to serve customers.

We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs.

Finally, we look at measuring and managing return on marketing investment.

ANNOTATED CHAPTER NOTES/OUTLINE

FIRST STOP

Nike's Customer-Driven Marketing: Building Brand Engagement and Community

The Nike “swoosh” is everywhere!

Early on, to build image and market share, Nike lavishly outspent competitors on big-name endorsements, splashy promotional events, and big-budget, in-your-face “Just Do It” ads.

Competitors stressed technical performance; Nike built customer relationships.

In the late 1990s, Nike stumbled, and its sales slipped. Looking back, Nike's biggest obstacle may have been its own incredible success. As sales grew, the swoosh may have become too common to be cool. Instead of being antiestablishment, Nike was the establishment, and its hip, once-hot relationship with customers cooled.

Nike needed to rekindle the brand's meaning to consumers.

To turn things around, Nike returned to its roots: new product innovation and a focus on customer relationships.

Instead of talking "at" customers as in the past, Nike shifted toward cutting-edge digital and social media marketing tools that interact "with" customers to build brand connections and community.

Nike excels at cross-media campaigns that integrate the new media with traditional tools to build brand community. Nike has also built brand community through groundbreaking mobile apps and technologies (ex. Nike+).

As a result, Nike remains the world's largest sports apparel company, 25% bigger than its closest competitor.

Notes Nike CEO Mark Parker, "Connecting used to be, 'Here's some product, and here's some advertising. We hope you like it.' Connecting today is a dialogue."

COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the planning in the firm.

Companies usually prepare annual plans, long-range plans, and strategic plans.

The annual and long-range plans deal with the company's current businesses and how to keep them going.

In contrast, the **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment.

The strategic planning process begins with the company defining its overall purpose and mission.

The stages of the strategic planning process are outlined in Figure 2.1.

This mission is turned into objectives that guide the whole company.

Marketing planning occurs at the business-unit, product, and market levels.

Use **Key Term** *Strategic Planning* here.
Use **Chapter Objective 1** here.
Use **Figure 2.1** here.

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated.

A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment.

A clear mission statement acts as an “invisible hand” that guides people in the organization.

Mission statements should be *market oriented* and defined in terms of customer needs.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs.

Mission statements should be meaningful and specific, yet motivating.

A company's mission statement should not be stated as making more sales or profits; profits are a reward for creating value for customers.

Use **Key Term** *Mission Statement* here.
Use **Marketing at Work 2.1** here.
Use **Discussion Question 2-1** here.
Use **Table 2.1** here.

Setting Company Objectives and Goals

The company turns its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them.

Marketing strategies and programs must be developed to support these marketing objectives.

Each broad marketing strategy must then be defined in greater detail.

Designing the Business Portfolio

A **business portfolio** is the collection of businesses and products that make up the company.

The best business portfolio is the one that matches the company's strengths and weaknesses to opportunities in the environment.

Business portfolio planning involves two steps:

1. The company must analyze its **current** business portfolio and decide which businesses should receive more, less, or no investment.
2. It must shape the **future** portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**.

<p>Use Key Term <i>Business Portfolio</i> here. Use Chapter Objective 2 here.</p>

Portfolio analysis is where management evaluates the products and businesses making up the company.

The steps in portfolio analysis are:

1. To identify the *strategic business units* (SBU). An SBU is a separately managed unit of the company with its own missions and objectives.
2. To assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment.

Most standard portfolio-analysis methods evaluate SBUs on two dimensions:

1. The attractiveness of the market or industry, and
2. The strength of the position in that market or industry.

The Boston Consulting Group Approach

A company classifies all its SBUs according to the **growth-share matrix** (see Figure

2.2).

The vertical axis: **market growth rate** provides a measure of market attractiveness.

The horizontal axis: **relative market share** provides a measure of company strength in the market.

Use **Key Terms** *Portfolio Analysis* and *Growth-Share Matrix* here.

Use **Figure 2.2** here.

Use **Discussion Question 2-2** here.

The growth-share matrix defines four types of SBUs:

Stars. High-growth, high-share businesses or products. They will turn into cash cows.

Cash cows. Low-growth, high-share businesses or products. They produce a lot of cash that the company uses to pay its bills and support other SBUs that need investment.

Question marks. Low-share business units in high-growth markets. They require a lot of cash to hold their position.

Dogs. Low-growth, low-share businesses and products.

One of four strategies can be pursued for each SBU:

1. The company can invest to *build* its share.
2. It can invest just enough to *hold* its share.
3. It can milk its short-term cash flow, or *harvest*.
4. It can *divest* by selling it or phasing out.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle.

Problems with Matrix Approaches

Difficult, time consuming, and costly to implement.

These approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Many companies have dropped matrix methods in favor of customized approaches better suited to their specific situations.

Developing Strategies for Growth and Downsizing

A company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company.

The **product/market expansion grid** is used in identifying growth opportunities (see Figure 2.3).

- **Market penetration**—making more sales to current customers without changing its products.
- **Market development**—identifying and developing new markets for its current products.
- **Product development**—offering modified or new products to current markets.
- **Diversification**—starting up or buying businesses outside of its current products and markets.

Use **Key Terms** *Product/Market Expansion Grid*, *Market Penetration*, *Market Development*, *Product Development*, and *Diversification* here.

Use **Critical Thinking Exercise 2-7** here.

Use **Marketing at Work 2.1** here.

Use **Online, Mobile, and Social Media Marketing** here.

Use **Figure 2.3** here.

Companies must also develop strategies for **downsizing**.

When a firm finds brands/businesses that are unprofitable or no longer fit the overall strategy, it may prune, harvest, or divest them.

PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

Marketing plays a key role in the company's strategic planning.

1. Marketing provides a guiding *philosophy*—the marketing concept.
2. Marketing provides *inputs* to strategic planners.
3. Marketing designs *strategies* for reaching the unit's objectives.

Customer value is the key ingredient in the marketer's formula for success.

In addition to *customer relationship management*, marketers must also practice *partner relationship management*.

Use **Chapter Objective 3** here.

Partnering with Other Company **Departments**

Each company department is a link in the company's **value chain**.

Use **Key Term** *Value Chain* here.

Each company department can be thought of as a link in the company's internal **value chain**.

Success depends on how well the various departments coordinate their activities.

A company's value chain is only as strong as its weakest link.

Ideally, a company's different functions should work in harmony to produce value for consumers.

Other departments may resist marketing's efforts because their actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches.

Yet marketers must find ways to get all departments to "think consumer."

Partnering with Others in the Marketing System

Firms need to look beyond their own value chains and into the value chains of their suppliers, distributors, and customers.

Companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**.

Competition takes place between the entire value-delivery networks created by competitors.

Use **Key Term** *Value Delivery Network* here.
Use **Linking the Concepts** here.

MARKETING STRATEGY AND THE MARKETING MIX

Figure 2.4 shows the major activities in managing marketing strategy and the marketing mix.

Consumers are in the center. Profitable customer relationships are the goal.

Marketing strategy is next—this is the broad logic under which the company attempts to develop profitable relationships.

Guided by the strategy, the company develops its marketing mix—product, price, place, and promotion.

Use **Key Term** *Marketing Strategy* here.
Use **Figure 2.4** here.

Customer-Driven Marketing Strategy

Marketing requires a deep understanding of customers.

There are many different kinds of consumers, and they exhibit many different kinds of needs.

Companies cannot profitably serve them all.

Companies must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments.

This process involves *market segmentation, market targeting, differentiation, and positioning*.

Market Segmentation

Market segmentation is the process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful.

A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts.

Use **Key Terms** *Market Segment, Market Segmentation, Market Targeting, Differentiation, and Positioning* here.
Use **Chapter Objective 4** here.
Use **Marketing Ethics** here.
Use **Marketing at Work 2.2** here.

Market Targeting

Market targeting involves evaluating each market segment's attractiveness and selecting one or more segments to enter.

A company with limited resources might serve only a few “market niches.”

Market niches are segments that major competitors overlook or ignore.

Most companies enter a new market by serving a single segment. If this proves successful, they add segments.

Use **Marketing at Work 2.2** here

Market Differentiation and Positioning

Product ***position*** is the place the product occupies relative to competitors in consumers' minds.

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Positioning begins with **differentiation**—*differentiating* the company's market offering so that it gives consumers more value.

Use **Discussion Question 2-3** here

Developing an Integrated Marketing Mix

Use **Key Term Marketing Mix** here.

Use **Figure 2.5** here.

Use **Discussion Question 2-4** here.

The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

The marketing mix consists of the “four *Ps*”: ***product, price, place, and promotion.*** (Figure 2.5)

- ***Product:*** the goods-and-services combination the company offers to the target market.
- ***Price:*** the amount of money customers have to pay to obtain the product.
- ***Place:*** the company activities that make the product available to target consumers.
- ***Promotion:*** the activities that communicate the merits of the product.

From the buyer's viewpoint, the four Ps might be better described as the four Cs:

- ***Product = Customer solution***
- ***Price = Customer cost***
- ***Place = Convenience***
- ***Promotion = Communication***

MANAGING THE MARKETING EFFORT

Managing the marketing process requires the four marketing management functions of *analysis, planning, implementation, and control*.

Use **Figure 2.6** here.

Marketing Analysis

Analysis should be performed to understand the markets and marketing environment the company faces.

Use **Key Term** *SWOT Analysis* here.

SWOT analysis is used to evaluate the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

- Strengths include capabilities, resources, and positive situational factors.
- Weaknesses include negative internal factors and negative situational factors.
- Opportunities are favorable external factors.
- Threats are unfavorable external factors.

Use **Figure 2.7** here.

Marketing Planning

A detailed marketing plan has to be developed for each business, product, or brand.

Table 2.2 shows the major sections of a marketing plan for a product or a brand.

Use **Table 2.2** here.
Use **Chapter Objective 5** here.

Marketing Implementation

Marketing implementation turns *plans* into *actions*.

Use **Key Term** *Marketing Implementation* here.

Implementation addresses the *who, where, when, and how*.

Marketing Department Organization

The marketing organization must be designed so it can carry out the strategies/plans that are developed.

In small companies, one person may perform all the marketing functions. In large companies, many specialists are found. Many companies have now created the **Chief Marketing Officer (CMO)** position.

The **functional** organization is the most common form. This organizational form has the different activities headed by a functional specialist, such as sales, advertising, marketing research, etc.

Use **Discussion Questions 2-5 & 2-6** here.
Use **Critical Thinking Exercise 2-8** here.

A **geographic** organization might be utilized in a company that sells nationally or internationally.

A **product management** organization can be found in companies with many different products or brands.

A **market** or **customer management** organization is used in companies that sell one product to many different kinds of markets and customers.

Very large companies might utilize a **combination** of all these forms.

Marketing Control

Marketing control involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained.

The control process includes the following:

- **Operating control** checks the ongoing performance of the marketing programs against the annual plan.
- **Strategic control** looks at whether the company's basic strategies are matched to its opportunities.

Use **Key Term Marketing Control** here.

MEASURING AND MANAGING RETURN ON MARKETING INVESTMENT

Marketing managers must ensure that their marketing dollars are being well spent.

Return on marketing investment (or **marketing ROI**) is the net return from a marketing investment divided by the costs of the marketing investment. (Figure 2.8)

Use **Key Term** *Return on Marketing Investment* here.

Use **Discussion Question** 2-6 here.

Use **Chapter Objective** 5 here.

Use **Marketing by the Numbers** here.

Use **Figure 2.8** here.

Marketing ROI measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.

Marketing dashboards—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance.

Marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, and customer lifetime value.

END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion Questions

- 2-1 Define *strategic planning* and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process. (AASCB: Written and oral communication)

Answer:

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Marketing planning occurs at the business-unit, product, and market levels. Marketing supports company strategic planning with more detailed plans for specific marketing opportunities.

Marketing plays a key role in the company's strategic planning in several ways: (1) it provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups; (2) it provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage

of them; and (3) within individual business units, marketing designs strategies for reaching the unit's objectives.

- 2-2 What is a SWOT analysis? How is this analysis useful in developing and implementing marketing strategies? (AACSB: Written and oral communication)

Answer:

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a *SWOT analysis*, by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T). Strengths include internal capabilities, resources, and positive situational factors that may help the company serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance. The company should analyze its markets and marketing environment to find attractive opportunities and identify environmental threats. It should analyze company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment, while simultaneously eliminating or overcoming the weaknesses and minimizing the threats. Marketing analysis provides inputs to each of the other marketing management functions.

- 2-3 Explain the roles of market segmentation, market targeting, differentiation, and positioning in implementing an effective marketing strategy. (AACSB: Written and oral communication)

Answer:

The market consists of many types of customers, products, and needs. The marketer must determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, and who might require separate products or marketing programs is called *market segmentation*. After a company has defined its market segments, it can enter one or many of these segments. *Market targeting* involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time. After a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in those segments. A product's *position* is the place it occupies relative to competitors' products in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be

exactly like others on the market, consumers would have no reason to buy it. *Positioning* is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets. In positioning its brand, a company first identifies possible customer value differences that provide competitive advantages on which to build the position. Effective positioning begins with *differentiation*—actually *differentiating* the company's market offering so that it gives consumers more value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing program should support the chosen positioning strategy.

- 2-4 Define each of the four Ps. What insights might a firm gain by considering the four Cs rather than the four Ps? (AACSB: Written and oral communication; Reflective thinking)

Answer:

The four Ps of marketing are: product, price, place, and promotion. *Product* means the goods-and-services combination the company offers to the target market. *Price* is the amount of money customers have to pay to obtain the product. *Place* includes company activities that make the product available to target consumers. *Promotion* refers to activities that communicate the merits of the product and persuade target customers to buy it. The four Cs—customer solution, customer cost, convenience, and communication—describe the four Ps from the customer's viewpoint. By examining products and services using the four Cs, marketers may be better equipped to build customer relationships and offer true value.

- 2-5 How are marketing departments organized? Which organization is best? (AACSB: Written and oral communication, Reflective thinking)

Answer:

Modern marketing departments can be arranged in several ways. The most common form of marketing organization is the *functional organization*. Under this organization, different marketing activities are headed by a functional specialist—a sales manager, an advertising manager, a marketing research manager, a customer service manager, or a new product manager. A company that sells across the country or internationally often uses a *geographic organization*. Its sales and marketing people are assigned to specific countries, regions, and districts. Geographic organization allows salespeople to settle into a territory, get to know their customers, and work with a minimum of travel time and cost. Companies with many very different products or brands often create a *product management organization*. Using this approach, a product manager develops and implements a complete strategy and marketing program for a specific product or brand.

For companies that sell one product line to many different types of markets and customers who have different needs and preferences, a *market* or *customer management organization* might be best. A market management organization is similar to the product management organization. Market managers are responsible for developing marketing strategies and plans for their specific markets or customers. This system's main advantage is that the company is organized around the needs of specific customer segments. Many companies develop special organizations to manage their relationships with large customers. Large companies that produce many different products flowing into many different geographic and customer markets usually employ some *combination* of the functional, geographic, product, and market organization forms.

- 2-6 Discuss the four marketing management functions. (AACSB: Written and oral communication)

Answer:

Managing the marketing process requires the four marketing management functions—*analysis*, *planning*, *implementation*, and *control*. Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a *SWOT analysis* (pronounced “swat” analysis), by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T). Marketing planning involves choosing marketing strategies that will help the company attain its overall strategic objectives. *Marketing implementation* is the process that turns marketing *plans* into marketing *actions* to accomplish strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who*, *where*, *when*, and *how*. Because many surprises occur during the implementation of marketing plans, marketers must practice constant *marketing control*—evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are attained. Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between goals and performance. This may require changing the action programs or even changing the goals.

Critical Thinking Exercises

- 2-7 In a small group, research a company and construct a growth-share matrix of the company's products, brands, or strategic business units. Recommend a strategy for each unit in the matrix. (AACSB: Written and oral communication; Reflective thinking)

Answer:

Students should be given this exercise with ample time to do research, and instructors may want to assign specific companies to different groups. Most standard portfolio analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group. Using the now-classic Boston Consulting Group approach, a company classifies all its SBUs according to the *growth-share matrix*. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth-share matrix defines four types of SBUs:

- *Stars*. Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
- *Cash cows*. Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of the cash that the company uses to pay its bills and support other SBUs that need investment.
- *Question marks*. Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
- *Dogs*. Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

Once it has classified its SBUs, the company must determine what role each will play in the future. It can pursue one of four strategies for each SBU. It can invest more in the business unit to *build* its share. Or it can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, it can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

- 2-8 Find the mission statements of two for-profit and two not-for-profit organizations. Evaluate these mission statements with respect to their market orientations. (AACSB: Written and oral communication; Reflective thinking)

Answer:

Students should be able to find mission statements by searching on the Internet. Some mission statements can be found at an organization's Web site or from other sources, such as articles or Web sites that compile this type of information. For example, <http://retailindustry.about.com/od/retailbestpractices/ig/Company-Mission-Statements/> provides a collection of over 100 retailers' mission statements and <http://drdianehamilton.wordpress.com/2011/01/13/top-10-company-mission->

statements-in-2011/ gives top 10 company missions statements for 2012. See www.nonprofitHub.org/featured/storytelling-like-bruce-three-examples-of-strong-nonprofit-mission-statements/ for links to non-profit organization mission statements. A market-oriented mission statement should be described in terms of satisfying basic customer needs and not a focus on products.

Mini Cases and Applications

Online, Mobile, and Social Media Marketing: The PC-osaurus

In 2011, Hewlett-Packard CEO Leo Apothekar made the strategic decision to exit the personal computer business, but he got fired and incoming CEO Meg Wittman reversed that decision. However, sales of personal computers have plummeted since the introduction of post-PC devices (tablets, eReaders, and smartphones). In the first quarter of 2013 alone, total PC shipments fell almost 14 percent, and no one felt that more than leading PC-maker HP. The company's PC sales fell 23.7 percent that quarter. Now, PC-makers are dropping prices—some more than 50 percent—on laptops and some are offering touch screens to compete with tablets and mobile devices in an attempt to gain back market share. HP's former CEO wanted to shift strategic focus more toward offering software to business markets. Maybe he had read the future correctly and was on the right strategic path. With the game-changing introduction of tablets, mobile technology, and social media, the future is not what it used to be.

- 2-9 Explain which product/market expansion grid strategy PC-makers are currently pursuing to deal with the threat of post-PC devices. Is this a smart strategy? (AACSB: Written and oral communication; Reflective thinking)

Answer:

Lowering prices to garner more sales from current customers is an example of a market penetration strategy. Adding touch screens to PCs to sell to current customers, however, is a product modification, which is an example of a product development strategy. This may work in the short term, but predictions are that mobile device growth will continue unabated.

Marketing Ethics: Digital Dark Side

More than half of the world's population lives under autocratic regimes, limiting access to the Internet. But that is changing, opening new market opportunities for companies specializing in digital monitoring technologies. Everything an oppressive regime needs to build a digital police state is commercially available and is being implemented. Filtering devices manufactured by Blue Coat Systems, a Silicon Valley-based company, are used in Syria to suppress civil unrest. Although Blue Coat Systems acknowledges this, it claims it did not sell the product to the Syrian government. North Korea, China, Libya, and other oppressive states demand data mining software and surveillance cameras as well as cutting-edge technologies that collect, store, and analyze biometric information.

As social media proliferate in these countries, off-the-shelf facial recognition software and cloud computing can identify people in a matter of seconds, enabling these states to quash dissent. Although the United States may have sanctions against U.S.-based companies selling products to these governments, others may not, resulting in their country's products as well as U.S.-based products getting into the hands of oppressive regimes.

- 2-10 In most cases, it is not illegal to sell such products to governments, oppressive or otherwise. But is it moral? Should companies be allowed to pursue a market development strategy wherever they find demand? (AACSB: Written and oral communication; Ethical understanding and reasoning)

Answer:

Students' responses will vary. In some cases, embargoes prohibit U.S. companies from selling products or services to foreign nations for security reasons but also because of a country's human rights violations. However, other countries do not impose such embargoes, and often U.S. products get to these countries via other companies in other countries.

An interesting essay adapted from the book, *The New Digital Age: Reshaping the Future of People, Nations, and Business*, written by Google's Eric Schmidt and Jared Cohen is "A Trip to the Digital Dark Side," *The Wall Street Journal* (April 20-21, 2013), C1-C2.

- 2-11 Research the Blue Coat Systems incident and write a report of your findings. Did the company illegally sell surveillance products to Syria? Which element of the marketing mix is most related to this issue? (AACSB: Written and oral communication; Reflective thinking)

Answer:

Students can do an Internet search of "Blue Coat Systems and Syria" and find considerable information. For example, see www.eff.org/deeplinks/2013/05/blue-coat-syria-scandal-next-shoe-drops-computerlinks-fzco for more information. Apparently, Computerlinks, an intermediary, was fined for dealing Blue Coat's technology to Syria. This article illustrates the importance of knowing who distributes your products in the channel of distribution—the "place" P of the marketing mix.

Marketing by the Numbers: Walmart vs. Target

In the period ending January 2013, Walmart reported profits of almost \$17 billion on sales of just under \$470 billion. For that same period, Target posted a profit of almost \$3 billion on sales of \$73 billion. So Walmart is a better marketer, right? Sales and profits provide information to compare the profitability of these two competitors, but between these numbers is information regarding the efficiency of marketing efforts in creating

those sales and profits. Appendix 3, Marketing by the Numbers, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the Appendix to answer the questions using the following information from Walmart's and Target's incomes statements (all numbers are in thousands):

	Walmart	Target
Sales	\$469,162,000	\$73,301,000
Gross Profit	\$116,674,000	\$22,733,000
Marketing Expenses	\$ 66,654,750	\$11,415,000
Net Income (Profit)	\$ 16,999,000	\$ 2,999,000

- 2-12 Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for both companies. Which company is performing better? (AACSB: Written and oral communication; Information technology; Analytical thinking)

Answer:

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Net sales}}$$

$$\text{Profit Margin}_{\text{Walmart}} = \frac{\$16,999,000}{\$469,162,000} = 0.0362 = 3.62\%$$

$$\text{Profit Margin}_{\text{Target}} = \frac{\$2,999,000}{\$73,301,000} = 0.0409 = 4.09\%$$

Net Marketing Contribution (NMC) = net sales – cost of goods sold – marketing expenses

Because Gross Profit = net sales – cost of goods sold, students just need to subtract marketing expenses from gross profit:

$$\text{NMC}_{\text{Walmart}} = \$116,074,000 - \$66,654,750 = \$49,419,250$$

$$\text{NMC}_{\text{Target}} = \$22,733,000 - \$11,415,000 = \$11,318,000$$

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}}$$

$$\text{Marketing ROS}_{\text{Walmart}} = \frac{\$49,419,250}{\$469,162,000} = 0.1053 = 10.53\%$$

$$\text{Marketing ROS}_{\text{Target}} = \frac{\$11,318,000}{\$73,301,000} = 0.1544 = 15.44\%$$

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}}$$

$$\text{Marketing ROI}_{\text{Walmart}} = \frac{\$49,419,250}{\$66,654,750} = 0.7414 = 74.14\%$$

$$\text{Marketing ROI}_{\text{Target}} = \frac{\$11,318,000}{\$11,415,000} = 0.9915 = 99.15\%$$

Although Walmart has larger absolute sales, gross profits, expenses, net marketing contribution, and profits, Target is performing more efficiently as measured by the profit margin and marketing metrics of Marketing Return on Sales and Marketing Return on Investment.

- 2-13 Go to Yahoo! Finance (<http://finance.yahoo.com/>) and find the income statements for two other competing companies. Perform the same analysis for these companies that you performed in the previous question. Which company is doing better overall and with respect to marketing? For marketing expenses, use 75 percent of the company's reported "Selling General and Administrative" expenses, as not all of the expenses in that category are marketing expenses. (AACSB: Written and oral communication; Analytical thinking; Reflective thinking)

Answer:

Students' answers will vary. The information used in the previous question can be found at:

Walmart - <http://finance.yahoo.com/q/is?s=WMT+Income+Statement&annual>

Target - <http://finance.yahoo.com/q/is?s=TGT+Income+Statement&annual>

The information students need is: Total Revenue, Gross Profit, Selling General and Administrative (use 75% to calculate the marketing expenses for the NMC calculation), and Net Income.

Video Case Teaching Notes

Video Case Chapter 2 – OXO

Running time

Intro: 1:51

Problem: 1:50

Solution: 3:00

Total: 6:40

Video Summary

You might know OXO for its well-designed, ergonomic kitchen gadgets. But OXO's expertise at creating hand-held tools that look great *and* work well has led it to expand into products for bathrooms, garages, offices, babies' rooms, and even medicine cabinets. In the past, this award-winning manufacturer has managed to move its products into almost every home in the United States by relying on a consistent and in some cases non-traditional marketing strategy.

But in a highly competitive and turbulent market, OXO has focused on evaluating and modifying its marketing strategy in order to grow the brand. This video demonstrates how OXO is using strategic planning to ensure that its marketing strategy results in the best marketing mix for the best and most profitable customers.

Questions and Answers

2-14 What is OXO's mission?

"To create innovative consumer products that make everyday living easier."

2-15 What are some of the market conditions that have led OXO to reevaluate its marketing strategy?

At the core of OXO's origins is the concept that kitchen and household gadgets were not designed ergonomically with ease-of-use in mind. This was particularly the case for people with dexterity issues (elderly, people with arthritis, people with disabilities). During the 1980s, this population of people was on the rise.

It was also apparent to OXO's founders that kitchen and household gadgets were generally very plain, not created with style or home décor in mind. During the 1980s, the trend toward bigger, fancier kitchens was also on the rise.

OXO's original strategy was to create products that would take the gadget market in new directions as far as appealing to the real needs of real users such as those mentioned above. But it also had to consider at some point that it could not branch out and re-create new products for all the different segments it was targeting (consumers with dexterity issues and consumers interested in home décor). Its size as a smaller company as well as its desire to grow combined with those market conditions to create the need to focus on universal design.

- 2-16 How has OXO modified its marketing mix? Are these changes in line with its mission?

Product – Universal design is very much a product development concept. OXO has focused on making each product (or the technology in each product) usable across multiple product categories and customer segments. Packaging is also oriented around this as noted by Alex Lee who describes how a single product might be packaged in various ways with different OXO brands on the label, but the device just says OXO.

Price – not discussed in this video.

Place – OXO products are widely distributed through national discount retailers (Target, WalMart) as well as through specialty stores (Williams-Sonoma, Staples, Babies-R-Us) in order to reach every customer segment.

Promotion – not discussed in this video. See the OXO video for chapter 12 on its promotional strategy.

Teaching Ideas

This video begins with an introductory segment, followed by a problem segment, and ends with a solution segment. The intention here is to provide flexibility and multiple options for using the video. The following are some of the ways that instructors may utilize these three video segments.

1. Introduction only - Instructors may choose to use the introduction segment alone as a means of highlighting the company. As a stand-alone video, the introduction segment supplements material in many of the chapters of the text. For chapter two specifically, this segment may be used to highlight concepts like mission statement, marketing strategy, and SWOT.
2. Problem challenge - The instructor may show the problem segment, either with or without the introduction segment, and with or without the solution segment. This may be done in the interest of time. It may also be done strategically. An ideal way to challenge students is to require them to develop possible solutions to the presented problem before they have seen the solution segment. The instructor then has the option of whether or not to show the solution segment. This segment can be used to highlight market segmentation and market targeting as OXO executives discuss the challenges of continually producing innovative products for multiple segments in small markets.
3. Solution only – This may be done to illustrate a specific concept in the chapter. Rather than taking the time to perform a problem/solution exercise, the solution segment may be shown to demonstrate how a company overcame a specific problem. The OXO video is a great example of a company that has built a core competency (universal design) around its mission in order to confront the challenges that it faces.

Company Case Teaching Notes

Cases appropriate for this chapter include:

- Case 2, Dyson: Solving Customer Problems in Ways They Never Imagined (Synopsis, Discussion Questions, and Teaching Notes below)
- Case 1, In-N-Out Burger: Customer Value the Old-Fashioned Way (see IM Chapter 1 for instructor material)
- Case 3, Xerox: Adapting to the Turbulent Marketing Environment (see IM Chapter 3 for instructor material)

Dyson: Solving Customer Problems in Ways They Never Imagined

Synopsis

Dyson started out as so many storybook success stories do—by one person, in a garage, tinkering away at a product idea. In this case, it took James Dyson over 15 years and 5,000 prototypes to come up with his first product. Dyson quickly became known as an innovative vacuum cleaner company. But this story quickly reveals that Dyson is about much more than making vacuums. At its core, Dyson is a technology company that seeks to develop new and innovative versions of everyday products that wow customers. With this as its mission, Dyson has not limited itself to vacuums.

Teaching Objectives

The teaching objectives for this case are to:

1. Introduce students to the concepts of business and marketing strategy.
2. Highlight the difference between a mission statement and a market-oriented mission statement.
3. Establish the role of goals and objectives in marketing strategy.
4. Help students understand the importance of the business portfolio in growing a business.
5. Introduce the marketing mix as a core concept of marketing.

Discussion Questions

1. Write a market-oriented mission statement for Dyson.
Searches of the Internet in general and the Dyson site specifically do not reveal a mission statement for Dyson. But if there were one, it might read something like this: “Take everyday products that don’t solve customer problems well, and make them better.” This not only describes the core of what every Dyson product does, but it frames it in the context of satisfying customer needs and resolving customer problems, as a market-oriented mission statement should.
2. What are Dyson’s goals and objectives?
This is a question that will require students to do some thinking and not just

“seek-and-find” the information in the case. The only real objective stated in this case is a business objective: to double the annual revenues of \$1.5 billion “quite quickly.” But students should be pressed to understand Dyson as thoroughly as possible. Then, based on the information given in the case, they should extrapolate business and marketing goals. Some possibilities include:

- *To expand into new businesses. They did this with the washing machine, the hand dryer, the fan, and the bathroom faucet. What’s next?*
- *To support existing and new products with informational integrated marketing campaigns.*
- *To ensure every product meets customer needs through thorough market testing.*

3. Does Dyson have a business portfolio? Explain.

Dyson most certainly has a business portfolio. Its original business was defined by vacuum cleaners. Then, it expanded into hand dryers. Then, into fans and heaters. The new bathroom faucet could be considered a subset of hand dryers as it seems to fit into the same category in terms of customers. It took a shot at washing machines with the Contrarotator, a product that was pulled from the market because it was not profitable. Each of these product lines represents a different business. Each has different characteristics in terms of size, revenues, profits, growth, etc. What is not apparent from this case is where Dyson will go next in terms of new businesses.

4. Discuss Dyson’s marketing mix techniques and how they fit within the context of its business and marketing strategy.

Product – Dyson does a lot of R&D and focuses on developing technology through the building of prototypes and trial-and-error. As a technology company, it also seeks to use the technologies it develops for a given product or product line by finding other uses for them. This is all in line with its mission of creating new versions of everyday products that solve customer problems in new and exciting ways.

Price – This is not discussed in the case. But Dyson prices its products at a premium. For example, its fans start at about \$300. That’s a huge price premium over typical household fans. Its new Airblade Tap retails for \$1,500, a steep price for a bathroom faucet. But this pricing strategy fits the overall strategy of selling products that are innovative and high quality.

Promotion—With its no nonsense promotional strategy, Dyson supports its marketing strategy. These products are designed to do the job, and its advertising focuses on demonstrating that.

Distribution—there is not enough information in the case to illustrate this element of the marketing mix.

5. Is Dyson a customer-centered company? Explain.

This is a good question for discussion and debate. Dyson seems to start with

developing technology. It is an engineering/design driven company. That would suggest a product orientation. However, as with a few other design driven companies (think 3M and Bose), Dyson produces hit after hit of products that customers love. They seem to be just what customers need and seem to resolve customer problems in ways that existing products simply cannot. Dyson's market testing procedures certainly contribute to this. But it may also simply be that like Apple and Steve Jobs, Dyson (the man and the company) has an uncanny knack for identifying gaps in the market and filling them with new and exciting products.

Teaching Suggestions

This is a great story to illustrate some of the factors that go in to making a new company a huge success. These days, the marketing environment is littered with success stories that seem to be magical, Cinderella, rags-to-riches types of stories. This has been fueled by the success of online companies, where startup and growth are far faster than for manufactured goods and services that are more traditional. In any case, it is easy for students to see a company go from nothing to a billion dollars in revenue and perceive that it is luck or that it is easy.

Dyson's story certainly puts that to rest. For every person who has ever said, "Why didn't I just do that" when they see a company that succeeds, the answers here should be very clear. It took Dyson 15 years to get his first product to market. During that time, he had no income, needed to raise the funds that would allow him to do the research and development, and ultimately had to produce over 5,000 prototypes. Once his product was finished, he then had to find someone to sell it. As students consider these factors that were very necessary for Dyson's success, it should become very clear why everyone doesn't just start their own company and become a billionaire.

GREAT IDEAS

Barriers to Effective Learning

1. Students will largely be unfamiliar with strategic planning and its concepts and objectives. Making this come alive with the examples in the textbook, or your own examples from your own experience, will help them deal with the complex issues in this section.
2. Working through a mission statement for the marketing department of your university, or for the business college within which it exists, may give the students a greater appreciation for the difficulty and importance of defining a mission that lives and breathes life into the objectives that follow.
3. The Boston Consulting Group's portfolio analysis tool can also be difficult to understand. Again, working through examples with companies the students should be familiar with will aid understanding.

4. University business courses rarely talk about cross-functional team work, so this may come as a surprise to students. If they have worked in internships with large companies, they may well have seen functional silos at work, and their coursework only serves to reinforce that mentality. Examples of companies failing because of a lack of teamwork—which can happen frequently at small companies in particular—will open many students’ eyes to the importance of ensuring that all functions work in concert to make the company a success.
5. Value chains and supply chains are important concepts that also are typically not discussed in other courses. Getting students to understand these concepts is important for their understanding of the remainder of the course. Showing how sloppy quality in a component purchased from a vendor ultimately affects customer satisfaction will help.
6. Market segmentation and targeting are universally new concepts to students, unless they happen to have a parent who works in marketing. Although this is discussed in detail in a future chapter, showing how a large, amorphous market can be broken down in more and more detailed groups of buyers will help.
7. Market positioning can be difficult to understand as well. Students will normally think of a product in terms of its features, and although positioning includes the features, it also spans the concepts of benefits and perceptions. Using examples of brands at opposite ends of a price continuum, such as Rolex versus Timex watches, helps drive home what positioning means.

Student Projects

1. Look at the mission statements of five companies in the same industry. How do their mission statements differ and how are they alike? Which ones do you believe are good?
2. A business portfolio is the collection of businesses or products that make up the company. Take a look at Ford (www.ford.com). Describe Ford’s business portfolio in terms of both businesses and products.
3. Using the Boston Consulting Group’s growth-share matrix, place Ford’s vehicles on the grid. Which are the stars, the cash cows, the question marks, and the dogs?
4. Still using Ford as our example, discuss the product positioning of their SUVs and trucks.

Small Group Assignment

Form students into groups of three to five. Each group should read the opening vignette to the chapter on Nike. Each group should answer the following questions:

1. What has caused Nike’s lasting popularity?
2. What has been the company’s primary strategy?
3. What is Nike doing to ensure its future growth and success?

Each group should then share its findings with the class.

Individual Assignment

Consider Dillard's Department Stores (www.dillards.com) and Macy's (www.macys.com). What is the positioning strategy of each? How are they similar? How are they different?

Think-Pair-Share

Consider the following questions, formulate answers, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. Design a mission statement for your college/university.
2. What are some of the problems with using a matrix approach (such as the BCG matrix)?
3. What is the difference between market development and product development?
4. Under what conditions might downsizing be a usable strategy?

Classroom Exercise/Homework Assignment

Develop a strategy for attracting new students to your college or university. Write a statement that describes your college/university's fit between the goal of attracting the best students and its capabilities for then educating those students

Classroom Management Strategies

This chapter starts outlining some fairly difficult subjects for students. Strategic planning, growth-share matrices, and even the development of the marketing mix are relatively tough concepts for a second chapter in a beginning marketing text. Therefore, when planning how to present the material, be sure to leave plenty of time to go through at least some of the Applying the Concepts, as well as defining what the Key Terms really mean in the everyday working world. Several of the concepts presented in this chapter become important later in the text, and if the students come away understanding this chapter, they will have an easier time later in the semester.

1. Company-wide Strategic Planning can be covered in about 15 minutes. Focus on the "thread" that ties together the corporate strategic plan, corporate and business unit objectives, and the business or product portfolio. This last topic should be prominent in the discussion, as it sets the stage for later discussions of new product development.
2. The second major section of the chapter, Planning Marketing, can be covered in 5 minutes. Although this section is important and touches on issues that will come up later in the text, it does not need to have the same level of focus as the other topics in this chapter.
3. The next section, Marketing Strategy, is extremely important; 20 minutes should be devoted to this topic. In particular, ensuring the students understand the true

meaning of developing an intelligent marketing mix will set the stage for such later topics as integrated marketing communications, because they will already have thought about how different components of a plan should work together. Finally, 20 minutes should also be devoted to Managing the Marketing Effort. This section should really drive home the notion that marketing isn't just a creative endeavor. For instance, when discussing marketing analysis and the marketing environment, you can point out how these topics are a big part of what market research is all about.

PROFESSORS ON THE GO

Company and Marketing Strategy: Partnering to Build Customer Relationships

Key Concepts

Market-oriented mission statements
Setting goals and objectives
Designing and analyzing a business portfolio

- In a small group, discuss whether the following statement from Burton Snowboards North America, manufacturer and marketer of a leading snowboard brand, meets the five criteria of a good mission statement: “Burton Snowboards is a rider-driven company solely dedicated to creating the best snowboarding equipment on the planet.”
- Which of the following two terms do you think best describes the process of developing and maintaining a fit between the organization’s goals and capabilities and its changing marketing opportunities: strategic planning or corporate planning. Why?
- The BCG growth-share matrix identifies four classifications of SBUs: Stars, Cash Cows, Question Marks, and Dogs. Briefly discuss why management may find it difficult to dispose of a “Question Mark.”

Key Concepts

Market segmentation, target marketing, and market positioning
The 4 Ps of marketing

- Discuss each of the three steps that a company must perform in choosing the best market segments and designing strategies to maximize profitability in selected segments.
- Nordstrom’s and Kohl’s are two department stores. Visit their Web sites (www.nordstroms.com and www.kohls.com) to familiarize yourself with each. Who do you think each is targeting? How might they be trying to position themselves in the marketplace?
- Do you think that the “4 Ps” marketing mix framework does an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
- Why would a focus on the 4 Cs be more important than the 4 Ps?