

Chapter 2: Company and marketing strategy: Partnering to build customer relationships

Learning 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.

Note to instructors: Questions and answers to Marketing in Action and suggestions for Discussion Questions and Case Studies are provided below. The Ethical Reflections are student exercises designed for those students interested in the topic to further consider ethical issues. Class Activities are included at the end of this document which may be used to supplement lecture or discussion.

Marketing in Action 2.1 – Nokia's strategic planning involves partnering with Microsoft (p. 40)

1. **Describe the advantages of strategic planning, and discuss how it might be employed by a company with which you are familiar.**

Answer: Strategic planning is the process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities. The most obvious advantage is that old adage, 'those who fail to plan, plan to fail'. Businesses need to have strategic plans in order to give their businesses direction: where they are going, how they are going to get there and how they will know if they get there. Many businesses could be used as an example, such as Australia Post, which is planning for change due to the decline in the number of letters being posted and the increase in parcel delivery due to online sales.

2. **What does Nokia's brand image mean to you?**

Answer: Students may have differing views about Nokia: some will think it old-fashioned, while those with experience of the Lumia may be advocates. It should provide a lively discussion.

3. **Are you familiar with any products that compete on the basis of simplicity, rather than how fully featured they are? Is this a case of least-cost positioning versus market differentiation?**

Answer: One example that students may offer is phones designed for children and the elderly which have few features and are easy to use. This would be differentiation, but it could be argued that it is least-cost positioning. A better least-cost example would be small TV/DVD player combinations.

Discussion Questions (p. 61)

- 1. When preparing marketing plans, some of the components are considered to be more important than others. Given this, might you be justified in leaving out some components?**

Suggestion: This question shows the importance of cross-functional teams in the marketing planning process. What is likely to be important to one business function (e.g. design) may not be important to another (e.g. finance). Even maintenance can be important: airlines must also consider customer safety when formulating their marketing strategies.

- 2. Sometimes the marketplace and products change so fast there is no time to develop marketing plans. Businesses such as Nokia (see Marketing in Action 2.1) face such market turbulence. Should they simply ignore the marketing planning process and just get on with meeting their competitors head on in marketing their offerings?**

Suggestion: The purpose of market plans is to reduce risk. Some firms with large capital reserves or access to low-cost capital, such as Nokia, or firms with more flexible manufacturing processes can afford to change quickly or to bear some short-term losses if their hunches or guesses about the market prove to be right. Given the investment and loss of market share associated with a product failure, it still makes sense for firms to do some market planning, although the period of time from planning to implementation may be short, given the turbulence of the market. Another solution may be for companies to decentralise their planning down to SBU or even small-teams level so that opportunities in the marketplace can be quickly grasped. Note that not all technological and design lead companies always get it right. Nokia lost significant market share in the mobile phone market in Australia because it failed to understand the importance of the flip or clam shell design of mobiles, with the advent of 3G technology in Australia.

- 3. Do you agree or disagree with the following statement by a marketing commentator: 'Most small businesses don't prepare marketing plans because the information needed to complete them is too hard to gather'? In any event, are there any other reasons why small businesses might not complete marketing plans?**

Suggestion: All marketing plans are formulated with incomplete information. Managers have to make decisions without all the facts. These days, there are a range of online information sources that small businesses can access which are provided at low cost or for free by government (e.g. statistics from the Australian Bureau of Statistics <<http://www.abs.gov.au>>). State and federal governments also provide expertise in the formulation of business plans, and local libraries have a range of material that is beneficial. Many small businesses find that in order to expand by listing on the stock exchange or borrowing money from a bank, they are required to develop a marketing plan as part of a business plan. Therefore, a small business without a marketing plan will find it difficult to grow because it lacks access to finance, and financiers want to see a marketing plan as part of a business plan.

4. Many organisations are restructuring as smaller SBUs. Does this action make it any easier to develop marketing plans? Might there be other reasons why this is happening?

Suggestion: Some organisations like Pacific Dunlop and Ansel have restructured themselves into smaller SBUs so that they can better focus on a more specialist market rather than operate in competing industries and markets, which may require trade-offs in financing and resourcing. This was a major challenge faced by Coles-Myer, which found that there were competing demands between department stores (Myer) and discounters (Target), which both compete for the same retail consumer dollar. Thus ultimately leads to the restructuring of the organisation.

5. There is often confusion between the marketing plan and the marketing planning process. Elaborate on each, and discuss why they are important.

Suggestion: The marketing plan is part of the planning process, which is an agreed on course of action. The marketing planning process also includes implementation. It is often said that implementation is often the most important part of the process. It is simply a case of actions speaking more loudly than words. There are also significant barriers to the implementation of marketing plans, and these need to be overcome. Also important for the success of any plan are controls and responsibility for actions (action plans). It is important that performance is tracked in accordance with the marketing plan so that any remedial action can be undertaken if necessary.

6. Is there a difference between a business plan and a marketing plan? Be sure to explain the reasoning behind your answer.

Suggestion: Business plans include strategies and directions for each SBU. Business plans also include such areas as the mission and objectives of the firm, resource deployment and corporate values (see Figure 2.1 on p. 38). A marketing plan, on the other hand, is usually constructed for one business unit (SBU). In cases where a business has one SBU, the marketing plan should be similar to the business plan, except it won't deal with the company's mission, values and objectives directly. There is also a tendency in many organisations for business plans to be operation- and finance-based. It would be better that these plans had more of a market focus; in other words, that they were developed into marketing plans.

Critical Thinking Exercises (p. 61)

1. In a small group, give an example of how Red Bull energy drink makers can grow by applying each of the product/market expansion grid strategies. Be sure to name and describe each strategy and discuss how the company might use each strategy to grow.

Suggestion: For example:

- market penetration – 10 per cent more for no-extra-cost cans
- market development – an older market, as a memory aid
- product development – a fruit-flavoured range
- diversification – energy bars for children.

2. **Marketers are increasingly held accountable for demonstrating the marketing success of their companies. Research the various marketing metrics, in addition to those described in the chapter and Appendix 2, used by marketers to measure marketing performance. Write a brief report of your findings.**

Suggestion: Direct the students to Google Scholar, where they will find many articles on marketing metrics from which they can find the required information.

3. **Explain the role of a chief marketing officer (CMO). Learn more about this C-level executive position and find an article that describes the importance of this position, the characteristics of an effective CMO, and any issues surrounding this position.**

Suggestion: The following are good starting points:

- <<http://www.cmocouncil.org>>
- <<http://www.cmo.com.au>>
- <<http://www.bloomberg.com/news/2014-07-21/reinventing-the-chief-marketing-officer-an-interview-with-unilever-cmo-keith-weed.html>>.

Ethical Reflection 2.1 – Making the figures tell a story (p. 62)

Would you ‘sweeten’ the figures to show profitability in the short term to save your division and your job from extinction, or would you present a realistic plan showing losses in the short term and profits in the long term?

Answer: In order for you to have long-term credibility with the board, the most accurate figures should be used. As these are projections, a range of outcomes from pessimistic to optimistic should also be presented, as well as the most likely outcomes. While it may be possible that inflated figures may obtain board approval, there is also a possibility that these figures are not realistic and that eventually the members will find out that you have not met your performance outcomes. This may well mean further job losses (including your own), as the poor financial performance has not been budgeted for. The board is also responsible to shareholders, and the board members’ jobs are also on the line. If the Chinese market shows sufficient market potential, then perhaps it may be acceptable for the firm to make a short-term loss for a period of time. This, however, is a risky strategy, as shown by Telstra’s ill-fated venture with PCW, which cost it \$3 billion.

Mini Case 2.1 – Apple in the cloud (p. 62)

1. **Explain which product/market expansion grid strategy Apple is pursuing by marketing the iCloud service. How is Apple differentiating its new product from those offered by its competitors?**

Answer: This is an example of product development, a new product for existing markets. It has differentiated its product by the ability to sync with iTunes.

2. **Conduct a SWOT analysis of Apple, identifying the factors likely to influence whether the iCloud service will succeed.**

Answer: Strengths include the power of the brand. Weaknesses include the cost structure making payment necessary. Opportunities include the growing market. Threats include low barriers to entry, which mean a very competitive market.

Mini Case 2.2 – Maccas' mission (p. 62)

- 1. Does McDonald's' marketing strategy of innovating via its menus differentiate it from (say) Hungry Jacks? Explain your answer.**

Answer: Students may see Maccas as more innovative, and it will be interesting to get their views on the advertising campaign related to Maccas telling the truth (e.g. which parts of the cow are used).

- 2. Research the positioning statements for each of the major fast-food chains. In what way do their advertising lines, such as 'I'm lovin' it', position the brands differently?**

Answer: 'The burger are better at Hungry Jacks' goes head to head with Maccas' 'I'm lovin' it', so students should recognise the positioning as being against each other.

Mini Case 2.3 – Yellow Tail Wine (p. 63)

- 1. What marketing strategy options for continued growth are open to Casella Wines using the product/market expansion grid in light of information provided in the case and which you find in your own research?**

Answer: Market penetration is possible with a campaign to sell more wine into China, while market development could be achieved by entering another market such as India. A new product (product development) could be developed for the US market, such as a lower alcohol wine, and diversification could be achieved by offering a non-alcoholic wine to Muslim countries.

- 2. What part might pricing play in the strategy(ies) you put forward for the Yellow Tail brand?**

Answer: Depending on what the students come up with, price may be a factor, especially in the US market, although less so in the Chinese market, which tends to favour a more premium product.

Case Study – Bellamy's Organic: Providing babies and young children with a pure start to life (p. 65)

- 1. What developments in the changing marketing environment have impacted on Bellamy's marketing strategy?**

Answer: Parents are becoming more educated regarding the benefits of organic products, especially for babies and young children. Also the market in Asia has grown since the melamine baby formula contamination scandal in China in 2008. Asian mothers do not trust Chinese brands and seek safer alternatives from New Zealand and Australia. Bellamy's has also employed social media in its communication strategy.

- 2. How does Bellamy's create value for its customers and capture value from them in return?**

Answer: Bellamy's creates value by offering a quality product which offers peace-of-mind to the parents of babies and young children. Bellamy's captures value in return from loyal customers who purchase their products and communicate to others about the benefits of the products.

3. How has Bellamy's designed its business portfolio and developed strategies for growth?

Answer: As babies usually drink baby formula only for the first year of their lives, Bellamy's has developed a range of products for older children, such as toddler milk and snacks for children aged 3+. It has also expanded its range of products to include cereals, teething rusks, meals and so on. The company has also expanded into growing markets such as China and other countries in Asia.

4. In its quest to create customer value, a firm may partner with others in the marketing system. Describe Bellamy's value delivery network and discuss which external partners the firm would have the strongest relationships with.

Answer: Bellamy's has a direct relationship with customers through its website, and it has external partners both upstream and downstream. As Bellamy's does not do its own manufacturing, it has important relationships with its suppliers. It also needs strong relationships with its resellers, both supermarkets and independent stores.

Class Activities

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?

Suggestion: Companies to consider: Apple, Nokia, Samsung, Sony and HTC (mobile communications organisations); or Harvey Norman, Clive Peters, The Good Guys, Retravisson and RT Edwards (electronics/whitegoods retailers). Discuss whether their organisational mission statements reflect a product-oriented or market-oriented direction. Students may also discuss whether their positioning in the market reflects the vision in the company mission statement.

2. A business portfolio is the collection of businesses or products that make up the company. Take a look at Ford (<<http://www.ford.com>>). Describe Ford's business portfolio in terms of both businesses and products.

Suggestion: Explore the Ford website with students to identify their business and product portfolios. This can provide the foundation for a discussion on marketing department organisation (functional/geographic/product/market or customer OR a combination) and which would be more appropriate for this organisation. Responses may vary, but encourage students to justify their position. For further discussion, use the Boston Consulting Group's growth-share matrix and place Ford's vehicles on the grid. Ask the students to indicate which are the stars, the cash cows, the question marks and the dogs.