LECTURE NOTES

CHAPTER OPENING EXAMPLE

THE FOREFRONT IN TECHNOLOGY, AND A MARKETING GENIUS

- Akio Morita and Masaru Ibuka, together with 20 employees, established the Tokyo Telecommunications Engineering Corporation).

- In 1958, the company adopted the name "Sony" as its corporate name in order to market itself worldwide. Today, the Sony Corporation is one of the world's largest media conglomerates with a turnover of about US$70.3 billion in 2007.

- It is part of the Sony Group, which includes Sony Pictures Entertainment, Sony Computer Entertainment, Sony BMG Music Entertainment, and Sony Financial Holdings.

- Many successful companies like Sony are founded based on a set of visions and missions, or fundamental principles. Sony's founding principles include the following:

    - 1. To establish an ideal factory that stresses a spirit of freedom and openmindedness, and where engineers with sincere motivation can exercise their technological skills to the highest level
    - 2. To reconstruct Japan and to elevate the nation's culture through dynamic technological and manufacturing activities
    - 3. To rapidly commercialize superior technological findings in universities and research institutions that are worthy of application in common households.

- These missions may be modified over time to stay relevant to changing environments. Sony's recent vision and mission have incorporated global concern for environmental protection.

- Sony is committed to achieving this goal by seeking to combine ongoing innovation in environmental technology with environmentally sound business practices

I. LEVELS IN ORGANIZATIONS AND HOW MARKETING LINKS TO THEM [LO1]

Large organizations today are extremely complex, and this requires that marketing managers recognize:

A. Kinds of Organizations

- Organizations consist of two types:

  1. A *business firm* is a privately owned organization that serves its customers in order to earn a profit.

     a. One goal of a business firm is **profit**, which is the:

     - Reward for the risk it undertakes in marketing its offerings.

     - Money left after a business firm's total expenses are subtracted from its total revenues.

     b. Business firms must earn a profit to survive.

  2. A *nonprofit organization* is a nongovernmental organization that serves its customers but does not have profit as an organizational goal.

     a. Goals of nonprofit organizations include operational efficiency or client satisfaction.

     b. Examples of nonprofit organizations include charities and cooperatives.

- The terms *firm, company, corporation,* and *organization* are used interchangeably to cover both business and nonprofit operations.

B. Levels of organizations and how marketing links to them

- An organization usually has three levels to direct business and marketing strategies:

1. **Corporate Level**. Is the level in an organization where top management directs overall strategy for the entire organization.

   - Manages a portfolio of businesses, variously termed strategic business units (SBUs), strategic business segments, and product-market units (PMUs).

- This level creates value for the shareholders of the firm, as measured by stock performance and profitability.

2. **Business unit Level**. Is the level at which business unit managers set the direction for their products and markets to exploit value-creating opportunities.

    - Is more specific at the business level of an organization.

    - **Strategic Business Unit Level**. Multimarket, multiproduct firms manage a portfolio of businesses called *strategic business units*.

    a. A **strategic business unit (SBU)** refers to a subsidiary, division, or unit of an organization that markets a set of related offerings to a clearly defined group of customers.

    b. At the **strategic business unit level**, managers set a more specific strategic direction for their businesses to exploit value-creating opportunities.

    - For firms with a single business focus such as Ben & Jerry's, the corporate and business unit levels may merge.

3. **Functional Level.** Is the level in an organization where groups of specialists actually create value for the organization.

    - The term *department* generally refers to these specialized functions, such as the marketing department or information systems department.

    - At the functional level, the strategic direction becomes more specific and focused.

3. Functional areas and cross-functional teams

- Cross-functional teams, refer to a small number of people from different departments in an organization who are mutually accountable to a common set of performance goals.

- Cross-functional conflict can arise because in marketing's drive to implement the marketing concept and increase customer value, other departments may see this as making their jobs more difficult.

- To develop new or improve existing offerings, senior management may form **cross-functional teams**, which consist of a small number of people from different departments in an organization who are mutually accountable to accomplish a task or common set of performance goals.

II. STRATEGY ISSUES IN ORGANIZATIONS [LO2]

- Successful organizations need a reason for their existence—and a direction.
- Business and mission apply to the corporate and business unit levels, while organizational culture and goals relate to all three levels.

A. The Business

- Organizations exist for a purpose: to accomplish something for someone.
- One guideline in defining the company's business: Try to understand the people served by the organization and the value they receive, which emphasizes the critical customer-driven focus that successful organizations have.
- Harvard professor Theodore Levitt *Marketing Myopia* article states that organizations must not define their business and customer focus too narrowly. For example:
    - Railroads are in the "transportation" business, not the railroad business.
- Shaw Brothers is not in the movie business, but rather it is in the business of creating fun and fantasy for customers.
- Medtronic is in the "healthcare" business, not the medical device business.

B. **Mission**. By understanding its core values, an organization can define its **mission**, a statement of the organization's function in society, often identifying its customers, markets, products, and technologies.

a. Is often used interchangeably with *vision*.

b. A *mission statement* should be clear, concise, meaningful, inspirational, and long-term.

c. The *Singapore Cancer Society*, one of the many charitable organizations, has the following mission statement:

"To prevent and control cancer through screening and public education services; To enhance the well-being of needy cancer patients through welfare and patient care services."

d. Some organizations, such as Ben & Jerry's, add a social element to their mission statements to reflect moral ideals.

C. **Organizational Culture**.

a. An **organizational culture** is a set of values, ideas, attitudes, and norms of behavior that is learned and shared among the members of an organization.

b. When corporations merge or are acquired, organizational cultures can collide, often resulting from conflicts in missions and goals.

D. **Goals**. **Goals** or **objectives** (used interchangeably) are statements of an accomplishment of a task to be achieved, often by a specific time.

a. Goals convert the organization's mission and business into performance targets to measure how well it is doing.

b. Objectives get converted into organizational strategies at the corporate, strategic business unit, and functional levels.

c. All lower-level goals must contribute to achieving goals at the next, higher level.

d. Use the acronym **SMART** to write effective objectives:

- **S**pecific: Have a precise description of what is to be achieved.
- **M**easurable: Be a quantitative value to show attainment.
- **A**ttainable: Be achievable, but challenging.
- **R**elevant: Be pertinent to the organization's mission.
- **T**ime-based: Have a deadline for completion.

e. Business firms pursue several different types of goals:

- *Profit*. According economic theory, a firm seeks the highest return on its investment or ROI as possible.
- *Sales* (dollars or units). A firm may elect to maintain or increase sales even though profitability may not be maximized.
- *Market share*. A firm may choose to maintain or increase its **market share**, which is the ratio of sales revenue of the firm to the total sales revenue of all firms in the industry, including the firm itself.
- *Quality*. A firm may choose to focus on high quality.
- *Customer satisfaction*. Customers are the reason an organization exists. Can monitor their satisfaction through surveys or complaints.

- *Employee welfare*. Employees play a critical role in the firm's success and therefore state its commitment to good employment opportunities and working conditions.
- *Social responsibility*. A firm may seek to balance conflicting goals of consumers, employees, and stockholders to promote overall welfare of all these groups, even at the expense of profits.

f. Nonprofit organizations also set goals:

- Private organizations strive to serve customers efficiently.
- Government agencies try to serve the public good.

MAKING RESPONSIBLE DECISIONS

The Global Dilemma: How to Achieve Sustainable Development

- "Sustainable development" involves having each country find an ideal balance between meeting the needs of the present generation at the expense of future generations.
- The dilemma: Should economic development (profits, jobs) or the environment (pollution clean-up, deforestation) take priority?
- 3M provides a positive solution: Its innovative "Pollution Prevention Pays (3P) program reduces harmful environmental impacts while making a profit doing so.

LEARNING REVIEW

1. **What are the three levels in today's large organizations?**
Answer: Corporate, business, and functional levels.

2. **What is the meaning of an organization's mission?**
Answer: A statement of the organization's function in society, often identifying its customers, markets, products, and technologies. Often used interchangeably with *vision*.

3. **How do an organization's goals relate to its mission?**
Answer: Goals convert mission into targeted levels of performance to be achieved.

III. SETTING STRATEGIC DIRECTIONS [LO3]

Setting strategic directions involves answering two questions:

- Where are we now?
- Where do we want to go?

A. A Look Around: Where Are We Now?

Asking an organization where it is at the present time involves identifying its customers, competencies, and competitors.

1. **Customers**. Strategy must provide genuine value and benefits to present and prospective customers to ensure they have a satisfying customer experience, which is the central goal of marketing today.

2. **Competencies**. Answers the question, "What do we do best?"

   a. An organization's core **competencies** are special capabilities, including skills, technologies, and resources, which distinguish it from other organizations and provide value to its customers.

   b. Competencies should be distinctive enough to provide a **competitive advantage**, a unique strength relative to competitors, often based on quality, time, cost, or innovation.

   c. One competitive advantage is *fast cycle time*, which allows it to bring innovative products to markets rapidly in large volumes.

   d. Firms seek a competency in total quality management (TQM).

   - *Quality* involves improving those features and characteristics of an offering that influence its ability to satisfy customer needs.
   - Improving quality or reducing product cycles can be done through *benchmarking*—discovering the "best practices" of others (one's own and other industries) so the firm can imitate or leapfrog the competition.

3. **Competitors**. Globally, the lines among competitive sectors are increasingly blurred. For example:

   a. Giordano International Limited from Hong Kong. The company is a specialty fashion apparel retailer serving mainly the Asia Pacific region, with over 1,700 outlets in 30 different territories. In Asia, Giordano is competing with other specialty fashion apparel retailers.

   b. Catalog retailers and online retailers that carry apparel are also Giodarno's competitors. For example, Lands' End from the United States offers a special international site for Japanese customers. Customers from Hong Kong can order from its United States site.

B. Growth Strategies: Where Do We Want to Go?

- Knowing where the organization is at the present time enables managers to set a direction for the firm and allocate resources to move in that direction.
- Two techniques to aid in these decisions are (1) business portfolio analysis and (2) market product analyses.

1. Business Portfolio Analysis.

a. The Boston Consulting Group's (BCG) uses *business portfolio analysis* to quantify performance measures and growth targets to analyze a firm's SBUs as though they were a collection of separate investments.

- The tool's purpose is to determine whether each SBU or offering is sufficiently appealing to receive a cash infusion.
- This BCG analysis can also be applied at the product line, individual product, or brand level.
- Many large U. S. firms have used the BCG's business portfolio analysis.

b. A firm using business portfolio analysis positions each of its SBUs on a growth-share matrix (see Figure 2-3).

- The vertical axis is the *market growth rate*, which is the annual rate of growth of the SBU's industry.
- The horizontal axis is the *relative market share*, defined as the sales of the SBU divided by the sales of the largest firm in the industry.
  - A relative market share of **10×** (at the left end of the scale) means that the SBU has 10 times the share of its largest competitor.
  - A share of **0.1×** (at the right end of the scale) means it has only 10 percent of the share of its largest competitor.
- The area of the circles in a growth-share matrix is proportional to the corresponding SBU's annual sales.

c. BCG has given names and descriptions to the four resulting quadrants in its growth-share matrix based on the amount of cash they generate for or require from the firm:

- *Cash cows* (lower left). SBUs that generate large amounts of cash than can be invested in other SBUs.
  - Have a dominant share of slow-growth markets.
  - Provides cash to cover the organization's overhead.

- *Stars* (upper left).
  - Are SBUs with a high share of high-growth market that need extra cash to finance future growth.
  - Are likely to become *cash cows* when their growth slows.
- *Question marks* or *problem children* (upper right). Are SBUs with a low share of high-growth markets.
  - Require lots of cash to maintain or increase market share.
  - Management must choose which SBUs to invest in and phase out the rest.
- *Dogs* (lower right). SBUs with a low share of slow-growth markets.
  - May generate enough cash to sustain themselves but do not hold promise of becoming winners for the firm.
  - Management must consider dropping *dogs* unless relationships with other SBUs, competition, or potential strategic alliances exist that benefit the firm.

d. A firm's SBUs often start as *question marks* and go counterclockwise around Figure 2-3 to become *stars*, then *cash cows*, and finally *dogs*.

e. When changing an SBU's relative market share, management must decide what strategic role each SBU should have in the future and then inject or remove cash from it.

f. Four Kodak SBUs are depicted as of early 2003 in Figure 2-3. Its growth-share matrix shows the challenge Kodak faced in the camera and film business with the arrival of digital technology:

- Having invented the photography industry over a century ago, Kodak relied heavily on film sales for the bulk of its revenues and profits from the billions of photos taken annually.
- Implemented the "razor and blades" strategy.
  - The "razor" is the film camera Kodak and other manufacturers sold.
  - The "blades" are the repeat sales of low-cost disposable film cartridges.
- In 2003, Kodak shifted its strategy from film to digital technology. The Goya ink-jet technology was critical in this transformation.
- Below is a snapshot of four product lines that were affected by the shift to a digital strategy:

1. *Kodak film*. Was an $8 billion *cash cow* but film sales are declined 10-15 percent per year indefinitely.

2. *Kodak digital cameras*. Sales doubled to $ billion from 2003 to 2006.

   – May soon become *stars*.

   – Is third in market share with new competition emerging from cell phones and other rivals.

3. *Kodak ink-jet printers and cartridges to print digital photos at home*.

   – In 2007, about 56 percent of digital camera owners printed their images at home.

   – In 2007, Kodak launched a line of multipurpose machines to print high-quality photos, make copies, and send faxes.

   – This is a replication of the "razor" and "blades" strategy.

   – This product line SBU could be either a *star*, because of the growth potential, a *question mark* because of huge market leader HP, or a *dog*, if consumers don't buy the items.

4. *Kodak self-service kiosks in retail outlets*.

   – In recent years, consumers are increasingly turning to retailers to make prints of their digital images.

   – By 2007, 80,000 photo kiosks were in retail stores around the world. A potential *star*.

   – In 2007, Xerox announced a venture with Kodak's archrival Fuji to put self-service kiosks in retailers.

g. Business portfolio analysis strength: Forces a firm to place each of its SBUs in the growth-share matrix that suggests which SBUs will be future cash producers and users.

h. Business portfolio analysis weaknesses: Is often difficult to get and incorporate the needed competitive information.

2. Market Product Analyses.

a. Firms can also view growth opportunities in terms of markets and products.

- For any product there is both a current market (consisting of existing customers) and a new market (consisting of potential customers).

- For any market, there is a current product (what they're now using) and a new product (something they might use if it were developed). These four market-product strategies are shown in Figure 2–4.

b. As Sony attempts to increase its sales revenues, it must consider all four of the alternative market-product strategies shown in Figure 2–4.

1. It can try to use *market penetration*—a marketing strategy of increasing sales of present products in existing markets, in this case by increasing sales of current products like Discman CD players, Handycam camcorders, and television sets. There is no change in either the basic product line or the market served, but increased sales are possible—either by selling more of these products (through better promotion or distribution) or by selling the same amount of these products at a higher price to its existing customers.

2. *Market development*, a marketing strategy of selling existing products to new markets, is a reasonable alternative for Sony. The new market could be new segments or groups. Sony, for example, could aggressively go after the hotel market or the resort market. The new market could also be new countries or geographical regions. Sony has quite an extensive geographical coverage but it still does not have a strong presence in some countries. In Africa, Sony could consider Botswana, Burunda, Chad, Sierre Leone, or Zambia. Since Sony has already a presence in many African countries, the move into these new markets could be supported by existing operations nearby. A study needs to be carried out to examine the potential.

3. *Product development* is a marketing strategy of selling new products to existing markets. Sony had in the past launched new products for existing customers, for example, mobile phones and computer notebooks. Sony could explore the possibility of developing hearing aids since it is now already selling batteries for these devices. The company may face stiff competition from existing players like Siemens, which is entrenched in the market, so it has to assess its chances of success carefully.

4. *Diversification* is a marketing strategy of developing new products and selling them in new markets. This is a potentially high-risk strategy for Sony and for most firms because the company has neither previous production experience nor marketing experience on which to draw. For example, in trying to sell a Sony's brand of children's clothes in Chad or Zambia, Sony has expertise neither in producing children's clothing nor in marketing to consumers in these two countries.

C. Tracking Strategic Directions with Marketing Dashboards

Marketing dashboards allow marketing managers to know whether they are making progress regarding their strategic direction.

1. Car Dashboards and Marketing Dashboards.

a. A **marketing dashboard** is the visual display on a single computer screen of the essential information related to achieving a marketing objective.

b. On a car's dashboard we glance at the fuel gauge and take action when our gas is getting low.

c. With a marketing dashboard, a marketing manager glances at a graph or table and makes a decision whether to:

- take action, or
- do more analysis to understand the problem better.
- Example: Watching the hourly effect of a new TV ad campaign on product sales.

2. Marketing Metrics and Graphics in Designing Marketing Dashboards.

a. Oracle's marketing dashboard in Figure 2-4 shows graphic displays of key measures of a product category's performance, such as sales, cost of sales, and percent margin.

b. Each performance variable is a **marketing metric**, a measure of the quantitative value or trend of a marketing activity or result.

c. Only a few metrics (see Oracle's 6-7 in Figure 2-5) should be shown on a marketing dashboard so that managers aren't overwhelmed with too much information.

USING MARKETING DASHBOARDS

Which States are Underperforming?

<u>Annual Percentage (%) Change in Sales (Units)</u>

Marketers ask the question. "How fast is my business growing?"

Your Challenge.

Your snack is sold in all 50 states of the U.S. Your unit sales goal is a 10% annual growth. Your challenge is to identify states or regions where there is either sales stagnation (0% growth) or sales decline (negative growth)

$$\text{Annual \% Sales Change} = \left[\frac{(\text{2009 Sales} - \text{2008 Sales})}{\text{2008 Sales}}\right] \times 100$$

In your marketing dashboard, there is a map of the U.S. by state that depicts three different growth rates:

- Green: Unit sales growth > 10% (good).
- Orange: Unit sales growth 0 - 10% (bad).
- Red: Unit sales growth < 0% (very bad).

Your Findings. Unit sales growth in the NE U.S. is weak.
Your Action.

- Identify and correct problems in largest volume underperforming states in the NE.
- Conduct marketing research to determine if the problem is:
  - an external factor, such as changing consumer tastes or
  - an internal factor, such as a breakdown in distribution.

d. Graphics and tables should be easy to understand so that managers can make clear interpretations of the data presented.

e. Managers glance at a marketing dashboard to “drill down” into the firm’s databases to better understand a problem.

f. Most organizations tie the marketing metrics tracked on their marketing dashboards to the quantitative objectives in their marketing plans.

g. A **marketing plan** is a road map for the marketing activities of an organization for a specified future period of time, such as one year or five years.

LEARNING REVIEW

4. **What are competencies and why are they important?**
Answer: Competencies are an organization’s special capabilities including skills, technologies, and resources, which distinguish it from other organizations. Competencies are important because exploiting competencies can help the organization develop competitive advantages and can lead to success.

5. **What is business portfolio analysis?**
   Answer: Business portfolio analysis studies a firm's business units as though they were a collection of separate investments.

6. **What are marketing dashboards and why are they important?**
   Answer: A marketing dashboard is the visual display on a single computer screen of the essential information related to achieving a marketing objective. It allows a marketing manager to glance at a graph or table in order to make a decision whether to take action or do more analysis to understand the problem better.

IV. THE STRATEGIC MARKETING PROCESS [LO4]

- After the organization assesses where it's at and where it wants to go, it asks:

  1. How do we allocate our resources to get to where we want to go?

  2. How do we convert our plans into actions?

  3. How do our results compare with our plans, and do deviations require new plans and actions?

- The approach used is the **strategic marketing process**, whereby an organization allocates its marketing mix resources to reach its target markets.

- This process is divided into three phases: planning, implementation, and evaluation.

A. Strategic Marketing Process: The Planning Phase

The planning phase consists of three steps as outlined below.

1. Step 1: Situation (SWOT) Analysis.

a. A **situation analysis** involves stock of where the firm or product has been recently, where it is now, and where it is headed in terms of the organization's plans and the external factors and trends affecting it.

b. A **SWOT analysis** is an acronym describing an organization's appraisal of its internal **S**trengths and **W**eaknesses and its external **O**pportunities and **T**hreats.

c. Both the situation and SWOT analysis can be done for the organization, a business unit, a product line, or a product.

d. A SWOT analysis studies the four areas in Step 1 of the planning phase and helps form a firm's marketing program:

- Identifying trends in the firm's industry.
- Analyzing the firm's competitors.
- Assessing the organization itself.
- Researching the organization's present and prospective customers.

e. The Giordano's SWOT analysis table has four cells formed by the combination of internal versus external factors (the rows) and favorable versus unfavorable factors (the columns) that summarize Giordano's strengths, weaknesses, opportunities, and threats.

f. The Giordano's SWOT analysis suggests the following:

- *Build on a strength*. Capitalize on its brand awareness and service quality to achieve greater market penetration.
- *Correct a weakness*. Develop a separate brand concept to tap the prestige segment.
- *Exploit an opportunity*. Offer higher value items to tap the greater buying power of Asian consumers.
- *Avoid a disaster-laden threat*. Avoid a price war through price cuts in the increasingly crowded value segment.

2. Step 2: Market-Product Focus and Goal Setting.

a. Developing a marketing program involves determining what products will be targeted at which customers.

b. This decision often based on **market segmentation**, which involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action.

c. Goal setting involves establishing measurable marketing objectives to be achieved and are dependent on the level of marketing involved.

d. Medtronic's 5-year plan for its Champion heart pacemaker is to reach the "affordable and reliable" segment:

- *Set marketing and product goals*. Design and market such a pacemaker in three years for the Asian market.
- *Select target markets*. The Champion pacemaker will be targeted at cardiologists and medical clinics in India, China, and other Asian countries.
- *Find points of difference*. **Points of difference** are those characteristics of a product that make it superior to competitive substitutes. For the

Champion pacemaker, they are high quality, long life, reliability, ease of use, and low cost, NOT state-of-the-art features that drive up production costs.

- *Position the product*. The pacemaker will be "positioned" in cardiologists' and patients' minds as a medical device that is high quality and reliable with a long, nine-year life. The name "Champion" was selected after testing acceptable names in Asia.

3. **Step 3: Marketing Program**. **[LO5]**

   a. This step is the "*how*" aspect of the planning phase: developing the marketing program's marketing mix and the budget.

   b. Figure 2-7 shows the components of each marketing mix element that comprise a cohesive marketing program.

   c. Example: Medtronic's Champion heart pacemaker.

   - *Product strategy*. Offer a Champion brand pacemaker with features needed by Asian patients.
   - *Price strategy*. Manufacture the Champion to control costs to price it below $1,000 (U.S.).
   - *Promotion strategy*. Demonstrate the Champion at cardiologist conventions.
   - *Place (distribution) strategy*. Search out and train reputable medical distributors across Asia to call on cardiologists and medical clinics.

   d. Putting a marketing program into effect requires the development of a sales forecast and a budget that is approved by top management.

LEARNING REVIEW

7. **What is the difference between a strength and an opportunity in a SWOT analysis?**
   Answer: Both are positive factors for the organization, but a strength is an internal factor whereas an opportunity is an external one.

8. **What is market segmentation?**
   Answer: Market segmentation involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action.

9. **What are points of difference and why are they important?**
   Answer: Points of difference are those characteristics of a product that make it superior to competitive substitutes. They are the single most important factor in the success or failure of a new product.

B. Strategic Marketing Process: The Implementation Phase

The second phase of the strategic marketing process involves carrying out the marketing plan that emerges from the panning phase. The implementation phase has four components.

1. **Obtaining Resources**. The marketing manager must obtain the people and money necessary to succeed.

2. **Designing the Marketing Organization**. A marketing program needs a marketing organization to implement it and to convert marketing plans into reality.

3. **Developing Schedules**. Effective implementation requires goals, deadlines, and schedules.

   a. To implement his plan to focus on Kodak's digital business opportunities, CEO Daniel Karp set some key goals:
   ● Boost sales from US$13 billion in 2003 to US$16 billion in 2006 and US$20 billion in 2010.

   ● Increase the share of Kodak's revenues from its digital businesses from 30 percent in 2003 to 60 percent in 2006.

   b. To achieve these goals, Karp worked with key Kodak executives to schedule the acquisition of and partnering with firms having digital expertise, the phase-out of its film cameras, and the launch of new lines of digital cameras.

4. **Executing the Marketing Program**. The effective execution of a marketing plan requires attention to detail for both marketing strategies and marketing tactics.

   a. A **marketing strategy** is the means by which a marketing goal is to be achieved, usually characterized by a specified target market and a marketing program to reach it.

   b. **Marketing tactics** are detailed day-to-day operational decisions essential to the overall success of marketing strategies.

C. Strategic Marketing Process: The Evaluation Phase

- The evaluation phase of the strategic marketing process seeks to keep the marketing program moving in the direction set for it.

- It requires the marketing manager to focus on two key elements:

  1. **Comparing Results with Plans to Identify Deviations**. This reveals a wedge-shaped *planning gap*, which is the difference between the projection

of the path to reach a new goal and the projection of the path of the results of a plan already in place.

a. The ultimate purpose of the firm's marketing program is to "fill in" this planning gap.

b. Good or poor performance can result in actual sales revenues being above or far less than the targeted levels, which requires managers to take actions.

2. **Acting on Deviations**. Depending on the direction of the deviation, a firm can:

a. *Exploiting a positive deviation*. When actual results are far better than the plan called for, managers find ways to exploit the situation. Example: If Kodak's film strategy in India and China shows promise, it might partner with more local companies to produce cameras and film and to process film.

b. *Correcting a negative deviation*. When actual performance fails to meet expectations, managers need to take corrective actions. Example: However, if Indian and Chinese consumers choose to skip film cameras and jump directly to digital ones, Kodak will likely need to partner with different business firms in these countries.

LEARNING REVIEW

10. What is the implementation phase of the strategic marketing process?

Answer: This is the phase that involves carrying out the marketing plan that emerges from the planning phase. The implementation phase consists of: (1) obtaining resources;
(2) designing the marketing organization; (3) developing schedules; and (4) executing the marketing program designed in the planning phase.

11. How do the goals set for a marketing program in the planning phase relate to the evaluation phase of the strategic marketing process?

Answer: The planning phase objectives are used as the benchmarks with which the actual performance results are compared in the evaluation phase.

APPLYING MARKETING KNOWLEDGE

1. Explain what a mission statement is. Using Medtronic as an example, (*a*) explain how a mission statement gives a strategic direction to its organization. (*b*) Create a mission statement for your own career.

Answers:

a. **Explain how a mission statement gives a strategic direction to its organization**. A mission statement is an expression of the organization's function in society, often identifying its customers, markets, products, and technologies. Medtronic's mission statement is "to contribute to human welfare by application of biomedical engineering in the research, design, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life." The "rising mural" in its headquarters powerfully communicates the inspiration and focus of its mission to its stakeholders: employees, doctors, and patients alike. Moreover, it appears on a medallion that is presented to each new employee. Finally, each December five or six patients and their physicians describe to assembled employees how Medtronic products have changed their lives. These activities send clear messages to employees and other stakeholders about Medtronic's strategic direction.

b. **Create a mission statement for your own career**. An example of a mission statement for a student's career might be: "To be recognized as an outstanding, ethically and environmentally responsible, global marketing executive."

2. What competencies best describe (*a*) your college or university and (*b*) your favorite restaurant

Answers:

a. **Your college or university**. [NOTE: These vary along a continuum from community colleges to research universities.] Flexible course scheduling to accommodate the special needs of part-time and working students. A world-class research institution for biotechnology; student-oriented faculty.

b. **Your favorite restaurant**. Genuine French cuisine. A family menu at a reasonable price.

4. Why does a product often start as a question mark and then move counterclockwise around BCG's growth-share matrix shown in Figure 2-3?

Answer: When a product is introduced, it is usually a "question mark" because it is "new" and there is uncertainty about consumers' acceptance of them. After a period of time, depending on the product category, the "not-so-new" product could be classified as a "star" if its growth rate is sizeable and has a significant share of the product category. If the growth rate in the product category falls substantially and there is great competition from competing brands, the product probably will fall in the "cash cow" category. If, however, the product isn't supported with an effective marketing program, it could become a "dog."

6. What is the main result of each of the three phases of the strategic marketing process? (*a*) planning, (*b*) implementation, and (*c*) evaluation.

Answers:

a. **Planning phase**. Results are formal marketing plans that identify specific objectives to be achieved by a particular time and the specific actions to achieve those objectives.

b. **Implementation phase**. Results are formal measurements of the results achieved, which can be compared with the plans established in the planning phase to determine if any deviations from plans occurred.

c. **Evaluation phase**. Results are new actions taken to exploit opportunities where deviations from plans are better than expected or corrective actions where deviations from plans are worse than expected.

7. Select one strength, one weakness, one opportunity, and one threat from the SWOT analysis for Giordano's shown in Figure 2-7. Suggest a single action that the company might take to address each one.

Answers:

a. **Strength**. Well-known brand name. Capitalize on its brand awareness and service quality to achieve greater market penetration.

b. **Weakness**. Generally not viewed as prestigious. Develop a separate brand concept to tap the prestige segment.

c. **Opportunity**. Growing buying power of Asian consumers. Exploit an opportunity. Offer higher value items to tap the greater buying power of Asian consumers.

d. **Threat**. Increasing competition in the apparel business. Avoid a threat. Avoid a price war through price cuts in the increasingly crowded value segment

8. The goal-setting step in the planning phase of the strategic marketing process sets quantified objectives for use in the evaluation phase. What does a manager do if measured results are below objectives? Above objectives?

Answers:

If the marketing manager discovers a planning gap, which is a difference between the projection of the path to reach a new goal and the projection of the path of the results of a plan already in place for the marketing program, he or she can take the following actions:

a. **Below objectives**. Correct a negative deviation by making minor or major changes to the existing marketing program of a product to better reflect future expectations in the marketing environment.

b. **Above objectives**. Exploit a positive deviation by strengthening strategic partnerships, engage in a market development or product development strategy, etc. to maintain or enhance the firm's position.

BUILDING YOUR MARKETING PLAN

1. **Read Appendix A, "Building an Effective Marketing Plan." Then write a 600-word executive summary for the Paradise Kitchens marketing plan using the numbered headings shown in the plan. When you have completed the draft of your own marketing plan, use what you learned in writing an executive summary for Paradise Kitchens to write a 600-word executive summary to go in the front of your own marketing plan.**

   Suggestions: In Question #1, students are asked to write a 600-word executive summary for the Paradise Kitchens marketing plan in Appendix A. This gives them a chance to practice a draft of an executive summary before they are asked in the Chapter 22 Building Your Marketing Plan activity to write an executive summary for their own marketing plan.
   A 600-word executive summary for the Appendix A marketing plan appears below.

FIVE-YEAR MARKETING PLAN FOR PARADISE KITCHENS, INC.

1. Executive Summary

2. Company Description

Paradise Kitchens was started in 1989 to develop and market Howlin' Coyote Chili.

3. Strategic Focus and Plan

Three key aspects of the company's corporate strategy:

- **Mission/Vision**. Howlin' Coyote Chili intends to market the highest-quality line of single serve and microwaveable Southwestern/Mexican-style frozen chili products.

- **Goals**.

  a. Nonfinancial goals include: retaining its high quality image; entering 17 new metropolitan markets; achieving nationwide distribution in two convenience store or supermarket chains by 2008 and five by 2009; adding a new product line every third year; and being among the top five chili lines in one-third of the metro markets in which it competes by 2009 and two-thirds by 2011.

b. Financial goals include: achieving a real growth in earnings per share of 8 percent per year over time; obtaining a return on equity of at least 20 percent; and having a public stock offering by 2009.

- **Core Competency and Sustainable Advantage**. Paradise Kitchens seeks to (1) provide distinctive, high-quality chili and related products using Southwestern/Mexican recipes that appeal to and excite contemporary tastes and (2) use effective manufacturing and distribution systems that maintain high quality standards to deliver its products to consumers.

4. Situation Analysis

An analysis of Paradise Kitchens' marketing environment reveals:

- **SWOT Analysis**. The Company's favorable internal factors are an experienced management team, excellent acceptance in its three metropolitan markets, and a strong manufacturing and distribution system. Favorable external factors include increasing appeal of Southwestern/Mexican foods, a strong upscale market for the Company's products, and a desire for convenience. The main weaknesses are Paradise Kitchens' small size relative to its competitors in terms of depth of management team, its limited financial resources to respond to growth opportunities and competitive actions, lack of national awareness and distribution of product lines, and lack of food processing expertise. Threats include the danger that the Company's premium prices may limit access to mass markets and competition from the eat-out and take-out markets.

- **Industry Analysis**. There is a rising trend in frozen foods in general and spicy and Mexican foods in particular. The Mexican entree market represents over $506 million in annual sales of the $29 billion total frozen food sales due in part to the increase of the Hispanic population in the U. S., which reached 44 million and almost $800 billion in purchasing power in 2007.

- **Competitors in the Chili Market**. The chili market is also a $500 million market in the U.S. and is divided into two segments: canned chili, sold by Hormel, Dennison, Campbell's, and others (75%), and dry chili, sold by Lowry's, Stagg, etc. (25%). Bush, a major marketer of beans, now sells chili in a glass jar. Canned chili does not taste very good. Dry chili requires consumers to add their own meat, beans, and tomatoes, taking more preparation time.

- **Company Analysis**. The principals of the firm have extensive consumer packaged food experience.

- **Customer Analysis**. Howlin' Coyote households consist of one to three people. Among married couples, both spouses work. Although a majority of buyers are women, single men represent a significant segment. Teenage boys devour it. Because chili is a quick and tasty meal, the product's biggest users tend to be those pressed for time. Premium pricing also means that purchasers are skewed toward the higher end of the income range: $50,000 and above. Buyers range in age from 25 to 54. The high caloric level of much Mexican and Southwestern-style food has been widely reported and often exaggerated. Less certain is any link between such reports and consumer buying behavior. Therefore, while Howlin' Coyote is lower in calories, fat, and sodium than its competitors, those qualities are not being stressed in promotion. Instead, taste, convenience, and flexibility are stressed.

5. Market-Product Focus

A five-year marketing and product objectives for Paradise Kitchens and Howlin' Coyote chili includes:

- **Marketing and Product Objectives**. Paradise Kitchens will expand its brand at the retail level by increasing consumer awareness and repeat purchases, adding several new markets by Year 5, increasing food service sales, and adding new frozen food products.

- **Target Markets**. The primary market is 1 to 3 person households with incomes of at least $50,000.

- **Points of Difference**. Howlin' Coyote chili is superior to those offered by competitors based on its taste, convenience, and packaging.

- **Positioning**. Howlin' Coyote chili is both tasty and easily and quickly prepared for today's consumer.

6. Marketing Program

The marketing program applies the information summarized above, as shown below:

- **Product Strategy**. Emphasize high quality and flavor; packaging is distinctive art communicating out-of-the ordinary positioning.

- **Price Strategy**. Priced comparably with other frozen chili, higher than canned or dry—but worth it.

- **Promotion Strategy**. Use in-store demonstrations, recipes, and cents-off coupons.

- **Place (Distribution) Strategy**. Continue to use a food distributor until sales grow enough to justify shifting to a more efficient system using a broker.

7. Financial Data and Projections

Past sales revenues for 1997-2007 are provided along with five-year financial projections for 2008-2012.

8. Organization

An organization chart and staffing plan are presented.

9. Implementation Plan

Paradise Kitchens will use a five-year rollout schedule to enter new U.S. markets. The plan will be monitored to assess whether minor modifications may be required in chili recipes for different metropolitan areas. Comparing actual versus target monthly sales by metropolitan area will provide evaluation and control. Tactical marketing programs will be modified to reflect unique factors in each area.

10. Evaluation and Control

Actual case sales will be compared with monthly targets and tactical marketing programs modified to reflect the unique sets of factors in each metropolitan area. The speed of the rollout program will depend on Paradise Kitchens' performance in the metropolitan markets it enters. Finally, Paradise Kitchens will respond to variations in regional tastes.

Appendix A. Biographical Sketches of Key Personnel

Appendix B. Detailed Financial Projections

2. **Using Chapter 2 and Appendix A as guides, give focus to your marketing plan by (*a*) Writing your mission statement in 25 words of less, (*b*) Listing three nonfinancial goals and three financial goals, (*c*) Writing your competitive advantage in 35 words or less, and (*d*) Doing a SWOT analysis table.**

   Suggestions: Question #2 asks students to get a jump start on writing their marketing plan by putting on paper their mission statement, non-financial and financial goals, competitive advantage for the organization, and a SWOT analysis. This is a very threatening first step for many students. To assist students in writing effective marketing plans, instructors should emphasize to students the importance of (a) reading the pertinent chapter(s) in the textbook that relates to the element of the marketing plan and (b) studying the red and blue boxes in the margin of the Appendix A Sample Marketing Plan that gives hints on effective writing and identifies relevant textbook chapters, respectively.

Helping with Common Student Problems

Our experience from working with thousands of students writing marketing plans is the need to encourage them to (a) get started and get something on paper and (b) be specific. One way to accomplish this is to have students hand in a two-page draft of the start of their marketing plan containing the four items listed above in Question #2.

Our experience is that it is useful to have instructors make comments directly on this draft using the grading standard (perhaps using the grading sheet shown earlier in the Instructor's Manual) marketing plan—but <u>not</u> give an actual grade on the two-page draft. This forces the student to get started and get something on paper and also lets them receive constructive suggestions from the instructor without the threat of a grade.

We suggest the two-page draft be submitted the class period <u>after</u> the 7-5-3 class presentations.

SLN 2-1: SUPPLEMENTAL LECTURE NOTE

General Electric's Business Screen

General Electric (GE), with the help of consultant McKinsey & Company, has popularized its approach to business portfolio planning with what is called by various names: strategic business-planning grid, market attractiveness–business position assessment, multi-factor portfolio matrix, and stoplight strategy. For simplicity, we'll call it the business screen.

- **Information needed**. GE's business screen assumes there are two major sets of factors that determine an SBU's future potential:
    1. Demand factors, or what GE calls "long-term industry attractiveness" variables.
    2. Supply factors, or what it calls "business strength/competitive position" variables.
- **Chart construction**. In developing the grid, GE plots the industry attractiveness factors on the vertical axis and business strength competitive position factors on the horizontal axis.
    1. The industry attractiveness axis is arbitrarily divided into three parts—high, medium, and low attractiveness. The following key factors influence a market's attractiveness:
        - Market size.
        - Market growth rate.
        - Profit margins.
        - Number of competitors.
        - Seasonality and cyclicality of demand.
        - Technological requirements.
    2. Each of these factors are evaluated separately, combined into an overall measure of market attractiveness, and used to locate the position of the SBU on the vertical axis.

3. The business strength/competitive position axis is also divided into three parts that correspond to strong, average, and weak positions. Many separate factors have been identified that affect a firm's competitive business position in a specific market. In general, a firm's competitive business position, or business strength, is related to:
    - Relative market share in the industry and in key segments.
    - Market share growth rate in the industry and key segments.
    - Marketing experience.
    - Research, development, and manufacturing experience.
    - Product quality increases.
    - Unit costs.
4. These and other factors are evaluated separately, combined into an overall measure of business position, and used to locate the SBUs on the vertical axis.

- **Use in marketing planning**. The circles represent the firm's SBUs. Each circle's area is proportional to the size of the market (industry sales) in which each SBU competes. The pie-shaped segments in each circle are the market share of each SBU in its market.

- **The Stoplight chart**. The entire grid is divided into three "bands" corresponding to the three colors of lights on a stoplight:

    1. The upper-left or green band is the location of the most attractive SBU positions.
    2. The lower-right or red band is the danger area in terms of overall attractiveness.
    3. The middle, yellow band has a medium overall attractiveness.

- **The example in Figure 2-A**.

    1. SBU-A has about 25 percent market share in a medium-size industry in the red band, a position caused by both low market attractiveness and weak competitive position.
    2. SBU-B is in a large industry, holds about a 60 percent market share, and lies on the borderline between the yellow and green bands. Its location is due to its strong competitive position and medium market attractiveness.
    3. SBU-C holds a 50 percent market share in a medium-sized industry and is in the green band because of its strengths in both competitive position and market attractiveness.
    4. These positions suggest an "invest and grow" strategy for SBU-C, a "hold" strategy for SBU-B, and a "divest" strategy for SBU-A.

- **Strengths and weaknesses**.

    1. Key strengths of GE's stoplight strategy are that it forces a firm to:

- Assess each of its SBUs in terms of the demand factors that compose market attractiveness and the supply factors that compose its competitive position.
- Relate these factors to the market size and market share to assess where the firm might allocate and withdraw its resources.

2. Weaknesses of the technique relate to the need to oversimplify the situation for an SBU in order to be able to locate its position on the grid, in terms of:

   - Selecting the specific factors to use in the analysis.
   - Choosing a weight for these factors in constructing the index that provides the location of an SBU on each axis.
   - Motivating people who are working in SBUs that are in the red band on the grid that may be candidates for divestiture.

Sources: Philip Kotler and Kevin Keller, *Marketing Management*, Thirteenth Edition (Englewood Cliffs, NJ: Prentice Hall, 2009), p. 44; Derek F. Abell and John S. Hammond, *Strategic Market Planning* (Englewood Cliffs, NJ: Prentice Hall, 1979), pp. 211-227; Roger A. Kerin, Vijay Mahajan, and P. Rajan Varadarajan, *Contemporary Perspectives on Strategic Market Planning* (Needham Heights, MA: Allyn & Bacon, 1990), pp. 72-77.

SLN 2-2: SUPPLEMENTAL LECTURE NOTE

Marketing vs. Business Plans

Marketing plans are the means by which an organization attempts to carry out its strategic marketing process. As described in Appendix A, which provides a sample marketing plan, let's review two key terms:

- **Marketing plan**. A roadmap for the marketing activities of an organization for a specified future period of time, such as one year or five years.

- **Business plan**. A roadmap for the entire organization for a specified future period of time, such as one year or five years.

There is no "generic," one-size-fits-all structure for either a marketing or a business plan. Rather, they vary depending on factors such as the time period, industry, and size and kind of organization involved. The elements in a marketing plan and business plan also depend heavily on (1) who the audience is and (2) what its purpose is:

1. A marketing or business plan for an internal audience:

   - seeks to point the direction for future activities and is sent to all individuals in the organization who must implement the plan or who will be affected by it.
   - often has an objective of justifying a request for financial resources.

2. If the plan is directed to an external audience—such as friends, banks, venture capitalists, potential investors—for the purpose of raising capital, it has the additional function of being an important sales document:

    - Contains elements such as the strategic plan/focus, organization, and biographies of key personnel that would rarely appear in an internal plan.
    - Has financial information shown in the appendix that is far more detailed when the plan is used to raise capital and when prospective investors are told how they will get their money back, earning a profit on their investment.
    - Rarely contains contingency plans that might appear in an evaluation and control section of the plan.

As shown by comparing columns for marketing and business plans, the elements often vary. A key difference between a marketing plan and a business plan is that the business plan contains details on the R&D, operations, or manufacturing activities of the organization. As noted in Appendix A, even for a manufacturing business, the marketing plan is probably 60 or 70 percent of the entire business plan. For small retail businesses, the marketing and business plans are virtually identical.