Elements of Marketing Strategy, Planning, and Competition

LEARNING OBJECTIVES

LO 2-1 Examine the concept of value and the elements and role of the value chain.

LO 2-2 Understand the conditions required for successful marketing planning, that marketing planning is focused on the value proposition, and that marketing planning is a dynamic process.

LO 2-3 Identify various types of organizational strategies.

LO 2-4 Conduct a situation analysis.

LO 2-5 Use the framework provided for marketing planning, along with the content in future chapters, to build a marketing plan.

VALUE IS AT THE CORE OF MARKETING

In Chapter 1, the concept of value was introduced as a core element of marketing. Value was defined from a customer's perspective as a ratio of the bundle of benefits a customer receives from an offering compared to the costs incurred by the customer in acquiring that bundle of benefits. From the late management guru Peter Drucker's early writings in the 1950s through to today's American Marketing Association official definition of marketing, it is clear that marketing plays a central role in creating, communicating, delivering, and exchanging offerings that have value.

Let's examine the idea of value a bit more carefully now. One can think of value as a ratio of benefits to costs, as viewed from the eyes of the beholder (the customer). That is, customers incur a variety of costs in doing business with any firm, be those costs financial, time, opportunity costs, or otherwise. For the investment of these costs, the customer has a right to expect a certain bundle of benefits in return. A **benefit** is some type of utility that a company and its products (and services) provide its customers. **Utility** is the want-satisfying power of a good or service.[1] Four major kinds of utility exist: form, time, place, and ownership. *Form utility* is created when the firm converts raw materials into finished products that are desired by the market. The other three utilities—*time, place,* and *ownership*—are created by marketing. They are created when products are available to customers at a convenient location when they want to purchase them, and facilities of *exchange* are available that allow for transfer of the product ownership from seller to buyer. Chapter 1 mentioned that facilitating exchange between buyers and sellers is another core element of marketing.

Since value is a ratio of benefits to costs, a firm can impact the customer's perceptions of value by altering the benefits, the costs, or both. Assume that a person is faced with the decision of buying one of two automobiles. One should expect that a purchase decision will be greatly influenced by the ratio of costs (not just monetary) versus benefits for each model. That is, it is not just pure price that drives the decision. It is price compared with all the various benefits (or utilities)

Shop and not drop.

9 essential nutrients active bodies need. Perfect for 1-day sales.

got milk?

America's Milk Producers continue to market their product through strong personal appeals.

LO 2-1

Examine the concept of value and the elements and role of the value chain.

What is the value proposition of a Jimmy Dean food product? It is not just a quick meal. Jimmy Dean marketers learned that consumers want more than convenience. They also want homemade and healthy meals, even though they do not have a lot of time to prepare them. To address these desires, the company introduced Delights by Jimmy Dean breakfast sandwiches, which can be cooked in less than three minutes in the microwave. Options include turkey sausage, egg, and cheese; bacon, egg, and cheese; and egg white with spinach and mozzarella-style cheese options. All sandwiches are served on honey wheat flatbread and are 250 calories or less. The company also added turkey maple sausage patties to its line of refrigerated, fully cooked items. "Knowing that our consumers are rushed during the mornings and shouldn't have to forego [sic] a hearty breakfast at home, we've expanded our line of frozen and refrigerated convenience breakfast offerings to make it easier for them to enjoy their favorite Jimmy Dean breakfast in minutes," said Amy Grabow, VP, Marketing, Jimmy Dean brand.[3]

that Car 1 brings versus Car 2.[2] These benefits could relate to availability, style, prestige, features—all sorts of factors beyond mere price.

Recall that marketing is charged not just with *creating* offerings that have value, but also with *communicating, delivering,* and *exchanging* those offerings. When a firm communicates the **value proposition** of its products to customers, the value message may include the whole bundle of benefits the company promises to deliver, not just the benefits of the product itself.[4] For example, when South Korean–based Samsung first brought its brand to the United States, it communicated a message centered primarily on functionality at a moderate price—a strategy designed to provide an advantage over pricier Japanese brands. But over time, Samsung's value proposition has expanded to include innovativeness, style, and dependability—the latter of which was helped significantly by high ratings of many of the company's products by sources such as *Consumer Reports.*[5]

For years, firms have been preoccupied with measuring **customer satisfaction**, which at its most fundamental level means how much the customer likes the product. However, for firms interested in building long-term customer relationships, having satisfied customers is not enough to ensure the relationship is going to last. A firm's value proposition must be strong enough to move customers past mere satisfaction and into a commitment to a company and its products and brands for the long run. Such a commitment reflects a high level of **customer loyalty**, which increases **customer retention** and reduces **customer switching**.[6]

Social media have dramatically changed the way companies approach customer loyalty. Consumers are now able to "like" their favorite store on Facebook and "follow" their favorite restaurant on Twitter. Studies have shown that customers who connect with businesses via social media will go to the businesses more often and contribute more to their bottom lines. Understanding the importance of these platforms, Whole Foods has cemented itself as a social media giant. "We talk about shared interests with customers," said Natanya Anderson, Whole Foods' social media and community team leader. "We have lifestyle conversations at the brand level, and on a local level we showcase the folks behind the store, highlight local partners and in-season produce." By engaging with Whole Foods via social media, customers are able to receive special discounts and that keeps loyalists coming back again and again.[7]

Customer loyalty almost always is directly related to the various sources of value the customer is presently deriving from the relationship with the company and its brands. Except in situations of monopoly (which creates forced loyalty), loyal customers by definition tend to also experience a high level of satisfaction.[8] However, not all satisfied customers are loyal. If a competitor comes along with a better value proposition, or if a value proposition begins to slip or is not effectively communicated, customers who are presently satisfied become good candidates for switching to another company's products.[9]

The Value Chain

A highly useful approach to bringing together and understanding the concepts of customer value, satisfaction, and loyalty is the **value chain**. Created by Michael Porter in his classic book *Competitive Advantage,* the value chain serves as a means for firms to identify ways to create, communicate, and deliver more customer value within a firm.[10] Exhibit 2.1 portrays Porter's value chain concept.

Basically, the value chain concept holds that every organization represents a synthesis of activities involved in designing, producing, marketing, delivering, and supporting its products. The value chain identifies nine relevant strategic activities the organization can engage in that create/impact both sides of the value equation: benefits and costs. Porter's nine **value-creating activities** include five primary activities and four support activities.[11]

EXHIBIT 2.1 | Porter's Value Chain
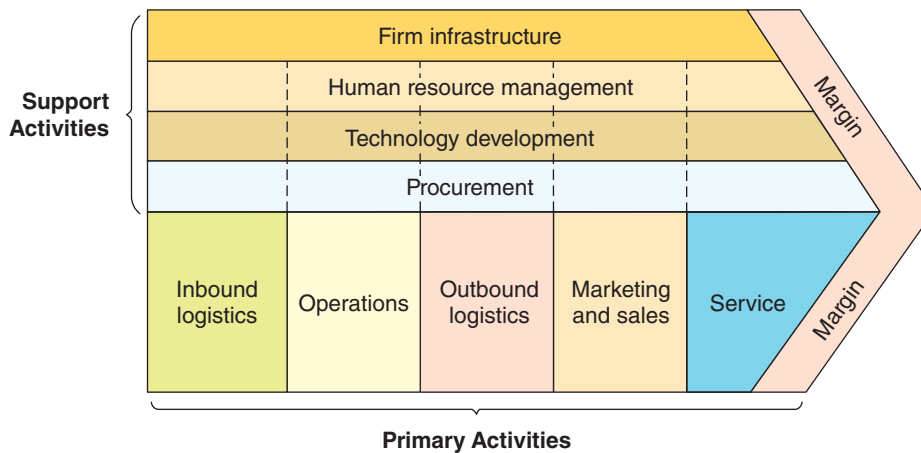
Source: Reprinted with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from *Competitive Advantage: Creating and Sustaining Superior Performance,* by Michael E. Porler. Copyright © 1985, 1988 by Michael E. Porter. All rights reserved.

The five *primary activities* in the value chain are:

1. *Inbound logistics*—how the firm goes about sourcing raw materials for production.
2. *Operations*—how the firm converts the raw materials into final products.
3. *Outbound logistics*—how the firm transports and distributes the final products to the marketplace.
4. *Marketing and sales*—how the firm communicates the value proposition to the marketplace.
5. *Service*—how the firm supports customers during and after the sale.

The four *support activities* in the value chain are:

1. *Firm infrastructure*—how the firm is set up for doing business; are the internal processes aligned and efficient.
2. *Human resource management*—how the firm ensures it has the right people in place, trains them, and keeps them.
3. *Technology development*—how the firm embraces technology usage for the benefit of customers.
4. *Procurement*—how the firm deals with vendors and quality issues.

The value chain concept is highly useful in understanding the major activities through which a firm creates, communicates, and delivers value for its customers. CEOs in recent years have been concentrating on *aligning* the various elements of the value chain, meaning that all facets of the company are working together to ensure that no snags will negatively impact the firm's value proposition.[12] From a customer's perspective, when the supplier's value chain is working well, all the customer tends to see are the *results* of a well-aligned value chain: quality products, good salespeople, on-time delivery, prompt service after the sale, and so on. However, it takes only one weak link in the value chain and the whole process of cultivating satisfied and loyal customers can be circumvented.

Consider, for example, what happens if a glitch in the value chain of one of Walmart's vendors delays delivery of products at the peak selling season, resulting

THE MOST IMPORTANT DECISIONS START WITH THE MOST IMPORTANT PEOPLE.

The U.S. Army does sophisticated marketing that leads to its ability to effectively appeal to recruits.

in stock-outs in Walmart stores. If this happens repeatedly, it can damage the overall relationship Walmart enjoys with its customers as well as the relationship between Walmart and that supplier. To minimize the potential for this happening, Walmart, as well as a growing list of other firms, requires all vendors to link with its IT system so that the whole process of order fulfillment and inventory management is as seamless as possible.[13]

One final element depicted at the end of the value chain is margin, which refers to profit made by the firm. Intelligent investment in the primary and support activities within the value chain should positively enhance profit margin through more efficient and effective firm performance.[14]

Planning for the Value Offering

The remainder of this chapter presents the approach that marketing managers use to plan for creating, communicating, and delivering the value offering. This is often referred to as **marketing planning**—the ongoing process of developing and implementing market-driven strategies for an organization—and the resulting document that records the marketing planning process in a useful framework is the **marketing plan**.[15]

MARKETING PLANNING IS BOTH STRATEGIC AND TACTICAL

Recall that one key trend identified in Chapter 1 was the practice of marketing on two dimensions or levels within an organization. Although these dimensions exist in tandem and even intersect on occasion, each holds fundamental differences in goals and properties. At the strategic level, Marketing (Big M) serves as a core driver of business strategy. That is, an understanding of markets, competitors, and other external forces, coupled with attention to internal capabilities, allows a firm to successfully develop strategies for the future. At the functional or operational level, marketing (little m) represents the specific programs and tactics aimed at customers and other stakeholder groups and includes everything from brand image, to the message salespeople and advertisements deliver, to customer service, to packaging and product features—in fact, all elements of operationalizing the marketing mix and beyond.[16]

The message of a marketing campaign is critical to its success. When Bud Light Platinum made a bold choice and selected Justin Timberlake as the new face of the brand, executives understood the message they were communicating to their customers. The brand's target consumer was identified as the nighttime party drinker and Anheuser-Busch believed that Justin best connected with their customers. The millennial generation has had an extreme influence on the Platinum brand. The marketing of the product has also had a particular musical focus. In the past, ads featured songs from Kanye West and Ludacris. "Justin Timberlake is one of the greatest creative minds in the entertainment industry, and his insights will help us further define Bud Light Platinum's identity in the lifestyle space. Since

Although these two levels of marketing are distinctly different in scope and activities, the common link is in the process of marketing planning. Marketing managers must be able to grasp both the big picture of strategy formulation and the details of tactical implementation. In fact, many a marketing plan has failed because either the formulation of the strategies was flawed or their implementation was poorly executed. A well-written marketing plan must fully address both Marketing (Big M) and marketing (little m) elements. Ultimately, the following must be in place for effective marketing planning to occur:

- *Everyone* in an organization, regardless of his or her position or title, must understand and support the concept of customer orientation, which, as you learned in Chapter 1, places the customer at the core of all aspects of the enterprise. Firms that promote and practice a high level of customer focus are often referred to as *customer-centric* organizations.[18]
- To operationalize a customer-centric approach, all internal organizational processes and systems must be aligned around the customer. A firm's internal structure and systems cannot be allowed to become an impediment to a customer orientation.[19] Anyone who has ever placed a phone call for service and been driven through a maze of phone transfers with a string of people (or machines) unable to help knows how poor structure and systems can impact customer satisfaction and loyalty!

Rite Aid is a customer-centric company. The company is the third largest pharmacy in the United States and is expanding its "NowClinic Online Care" services in stores. This program allows customers to go online and chat or have a video consultation with a doctor or nurse about an illness or injury and then retain a record of the consultation so they are able to share it with their primary care physician. A 10-minute consultation with a doctor costs $45. Chats with nurses are free. And after the consult, doctors can order prescriptions or refer patients to a specialist for more extensive care. Understanding and analyzing consumer trends and motivations led Rite Aid to pursue this strategy. Gone are the days when the customer has to wait to see a doctor. With the trend for technology also increasing, this concept addresses the desire for convenience as well.[20]

- The CEO and others at the top of the organization must consistently set the tone for market-driven strategic planning through the customer-centric business philosophy. As with a firm's internal structure and systems, its culture must be supportive of such an approach in order for a marketing plan to be successful. Upper management must also support the process through consistent investment of resources necessary to make it work. Marketing planning is not a "sometimes" process; rather, it should be a driving force in the firm day in and day out.[21]

At this point in the learning process about marketing management, you may begin to feel concerned that you are getting a lot of structure for marketing planning but not enough specific content to fill in the elements of the marketing plan template. That reaction is quite natural, as by design the depth of content for most of the various sections of a marketing plan is covered later in the book. Your next

task is to familiarize yourself with the overall process and framework for marketing planning so that as the content pieces unfold chapter by chapter, it will be very clear how those pieces fit together into a complete marketing plan. Beginning with this one, each chapter ends with a "Marketing Plan Exercise." These are designed to help you make the connections between the content in each chapter and the requirements of your marketing plan template.

ELEMENTS OF MARKETING PLANNING

To get you started, we'll first walk through the process and content involved in marketing planning. A condensed framework for this process is presented in Exhibit 2.2. Then at the end of this chapter you'll find an abbreviated marketing plan example for the fictitious company CloudCab Small Jet Taxi Service. You'll want to look at that appendix for an example of what the key elements of a marketing plan look like in practice.

Connecting the Marketing Plan to the Firm's Business Plan

How does a marketing plan fit into a firm's overall business planning process? As we have learned, marketing is somewhat unique among the functional areas of business in that it has the properties of being both a core business philosophy (Marketing, Big M) and a functional/operational part of the business (marketing, little m). As such, all business-level strategy must be market-driven in order to be successful. Hence, the term **market-driven strategic planning** is often used to describe the process at the corporate or strategic business unit (SBU) level of marshaling the various resource and functional areas of the firm toward a central purpose around the customer.[22]

A great example of how these levels of planning fit together is General Electric. GE contains numerous SBUs that compete in very different markets, from lighting to jet engines to financial services. CEO Jeff Immelt oversees a **corporate-level strategic plan** to serve as an umbrella plan for the overall direction of the corporation, but the real action in marketing planning at GE is at the individual SBU level. Each GE business has its own **SBU-level strategic plan**, and part of GE's historical leadership culture has been to turn SBU management loose to run their

---

EXHIBIT 2.2 | **Condensed Framework for Marketing Planning**

- Ensure the marketing plan is connected to the firm's business plan including organizational-level mission, vision, goals, objectives, and strategies.
- Conduct a situation analysis.
  - Macro-level external environment
  - Competitive environment
  - Internal environment
- Perform any needed market research.
- Establish marketing goals and objectives.
- Develop marketing strategies.
  - Product-market combinations
  - Market segmentation, target marketing, positioning

- Marketing mix strategies:
  - Product/branding strategies
  - Service strategies
  - Pricing strategies
  - Supply chain strategies
  - Integrated marketing communications strategies
- Develop implementation plans.
  - Programs/action plans for each strategy including timetable, assignment of responsibilities, and resources required
  - Forecasts and budgets
  - Metrics for marketing control
- Provide for contingency planning.

own businesses under their own plans, so long as they meet their performance requirements and contribute satisfactorily to the overall corporate plan.

Portfolio Analysis **Portfolio analysis**, which views SBUs and sometimes even product lines as a series of investments from which it expects maximization of returns, is one tool that can contribute to strategic planning in a multi-business corporation. Two of the most popular approaches are the **Boston Consulting Group (BCG) Growth-Share Matrix** and the **GE Business Screen**. These are portrayed in Exhibits 2.3 and 2.4.

The concept of the BCG approach to portfolio analysis is to position each SBU within a firm on the two-dimensional matrix shown in Exhibit 2.3. The competitive market-share dimension is the ratio of share to that of the largest competitor. The growth dimension is intended as a strong indicator of overall market

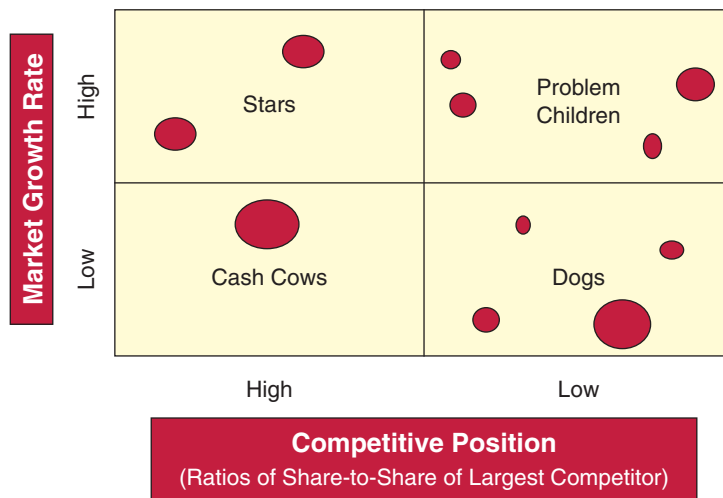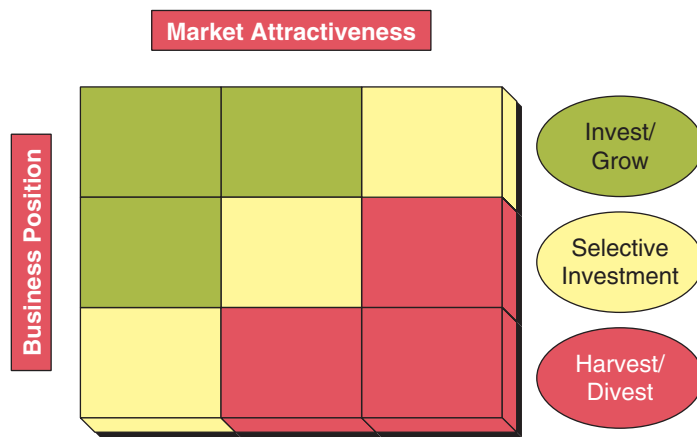## EXHIBIT 2.3 | Boston Consulting Group Growth-Share Matrix

EXHIBIT 2.4 | GE Business Screen

Business Position (high, medium, and low): Assess the firm's ability to compete. Factors include organization, growth, market share by segment, customer loyalty, margins, distribution, technology skills, patents, marketing, and flexibility, among others.

Market Attractiveness (high, medium, and low): For the market, assess size, growth, customer satisfaction levels, competition (quantity, types, effectiveness, commitment), price levels, profitability, technology, governmental regulations, sensitivity to economic trends, among others.[23]

"GE Business Screen," *Business Resource Software Online,* www.brs-inc.com/pwxcharts.asp?32, accessed January 4, 2014.

attractiveness. Within the BCG matrix you find four cells, each representing strategy recommendations:

- *Stars* (high share, high growth): important to building the future of the business and deserving any needed investment.
- *Cash Cows* (high share, low growth): key sources of internal cash generation for the firm.
- *Dogs* (low share, low growth): potential high cash users and prime candidates for liquidation.
- *Problem Children,* or Question Marks (low share, high growth): high cash needs that, if properly nurtured, can convert into stars.[24]

For purposes of strategy development, the BCG matrix approach is seductively simple and has contributed to decision making about internal cash generation and usage across SBUs. It has also morphed in application downward to often be applied to product lines and product groups, which is nominally possible so long as costs and returns can be properly isolated for investment decisions. But by nature of simplicity, BCG ignores other important factors that should go into this decision making and also ignores the viability of generating cash externally.

The GE Business Screen, shown in Exhibit 2.4, is a more realistic and complex portfolio model. It also evaluates the business on two dimensions—market attractiveness and business position, which refers to its ability to compete. The investment decision is again suggested by the position on a matrix. A business that is favorable on both dimensions should usually be a candidate to grow. When both market attractiveness and business position evaluations are unfavorable, the harvest or divest options should be raised. When the matrix position is neither unambiguously positive nor negative, the investment decision will require more analysis.

For now, it is important to note that portfolio analysis does not offer a panacea for corporate strategy formulation. In fact, since the heyday of the use of portfolio analysis in the 1970s and 1980s, firms are more cautious in its application and recognize that it is but one approach to strategy decision making.[25]

Functional Level Plans A firm's SBU plans all incorporate **functional-level plans** from operations, marketing, finance, and the other operational areas. Just as the individual SBU CEOs are held accountable for their unit's performance to Jeff Immelt within the context of GE's plan, the chief marketing officer, chief financial officer, and other operational-level executive of each SBU are held accountable for the performance of his or her portion of the SBU plan to their own business unit CEO.[26] While GE's system certainly may be larger in scope and complexity than many business planning situations, the logic is the same regardless of the type or size of an organization. Hence, the marketing plan is nested within the context of an overall corporate and/or business-level strategic plan.

Before each of the sections of the marketing plan is identified and described, you are referred to JetBlue Airways as an example of a firm that has become noted for successful marketing planning. Why JetBlue as an example? Clearly, JetBlue's not perfect, and in the turbulent airline industry it's really tough to do great marketing planning. During his tenure as chairman

Marketing planning and strategy, while analytical in nature, often yield very funny marketing communications.

and CEO, JetBlue founder David Neeleman was quite transparent about his strategies and plans for the company, not only discussing them openly with the business press but also placing a substantial amount of organizational information on the company website. This approach has continued in the post-Neeleman era of the firm. And when JetBlue has made missteps, the company has been forthright in recognizing and addressing the errors. As each of the elements of the marketing planning process is described below, JetBlue will be used as a thematic example of each piece in practice.

Organizational Mission, Vision, Goals, and Objectives

Marketing planning does not occur in a vacuum; it must connect with the firm's overall mission and vision. A **mission statement** articulates an organization's purpose, or reason for existence. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope of a company's operations, products, and markets.[27]

Most mission statements also include a discussion of what the company would like to become in the future—its **strategic vision**. According to ex-GE CEO Jack Welch, "Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion."[28] The vision of what the firm is capable of in the future and where it *wants* to go, as championed by its top leadership, sets the tone for everything that follows in the planning process. **Goals**, general statements of what the firm wishes to accomplish in support of the mission and vision, eventually become refined into specific, measurable, and (hopefully) attainable **objectives** for the firm.[29] Objectives at the corporate and SBU level provide the benchmarks by which organizational performance is assessed. Unfortunately, despite a formal mission, vision, goals, and objectives, it is all too easy for senior management and even the board of directors to become distracted and stray off course. Such action can create major problems both inside and outside the company, as demonstrated by the HP scandal featured in Ethical Dimension 2.

JetBlue Airways took to the air February 11, 2000, flying from John F. Kennedy International Airport in New York to Fort Lauderdale in Florida. Today, the upstart airline is rapidly becoming a major player, serving more than 50 cities (including several Caribbean locations) with nearly 100 aircraft, and it has ambitious plans for continued growth. The company's vision is to offer great service with low fares—and make a profit—even when other air carriers are struggling to survive. Several important goals back up this vision:

- Start and remain well-capitalized.
- Fly new planes.
- Hire the best people.
- Focus on service.
- Practice responsible financial management.

To date, JetBlue has mostly stayed true to course. While most of the major carriers continuously bleed red ink, JetBlue, though not perfect in bringing in every quarter's sales and profit goals, appears to be much more stable financially than the majority of other airlines. Much of the airline's success can be attributed to great market-driven strategic planning.

In terms of specific and measurable objectives, Neeleman established high performance expectations for financial results, operational processes, and customer satisfaction and loyalty. As mentioned earlier, JetBlue's website is very transparent in laying out company leaders' plans for the firm—Neeleman was always quite confident that the company had created a unique value offering that few (if any) competitors could readily duplicate. In the winter of 2007, JetBlue suffered

HP's Ethical Scandal Impacts Marketing Strategy

Developing a strategic marketing focus in an organization requires a commitment from senior management. As you just read, according to Jack Welch, good managers create, articulate, become passionate about, and focus the company on a vision. That requires a clear focus on what *is* and, critically, what *is not* important to the firm.

Many issues confront senior managers and it is easy to lose focus. For example, senior management is rightfully concerned about competitors or even the general public gaining access to sensitive company information (for example, financial data, cost figures, future marketing strategies, product plans, and pricing programs). To help protect sensitive data from getting into the wrong hands, companies implement sophisticated security measures. At the same time, the Sarbanes-Oxley Act of 2002 (commonly referred to as SOX) established specific procedures and processes to ensure ethical conduct at the highest levels of a company including the board of directors and senior management.

Hewlett-Packard (HP), one of the world's leading technology companies, has experienced a series of ethical and legal failures over the last several years. Beginning with the leaking of sensitive documents, illegal wiretapping of Board members (and the subsequent dismissal of several Board members as well as firing of employees), firing of the CEO over submitting false expense reports, and other lapses, the company's reputation has been severely damaged, sales have dropped, and the stock price is down. As the company tried to deal with these ethical and legal issues, bad strategic decisions were made such as the acquisition of software company Autonomy for $11 billion and the subsequent write-down of nearly $9 billion as well as the decision to move out of manufacturing computers then reversing that decision. While not directly related to these strategy faux pas, the ethical lapses certainly created a challenging and difficult environment inside HP.

Were the people involved simply unethical by nature? Evidence suggests just the opposite. Indeed, one of the fired HP officers was the ethics chief for the company and also a well-respected attorney. While stopping the leak of sensitive information was a valid goal, poor—and even illegal—decisions were made about how to accomplish that goal. At the same time, the fired CEO, Mike Hurd, had done a good job at HP but made bad ethical decisions about an inappropriate relationship with an employee and subsequently submitting false expense reports. At critical decision moments, no one stepped back to reflect and ask important questions like: Does this make sense? Is this activity appropriate or ethical?

Employees report considerable conflict as the company has dealt with changes to ethical procedures and policies. Current CEO Meg Whitman has acknowledged that the scandals and subsequent poor management decisions have been a distraction and damaged HP's customer confidence in its brands. When management gets distracted by ethical scandals, the company loses strategic focus and the company's brands could lose market share to competitors who take advantage of the scandalized firm's weakness in the marketplace.[30]

Ethical Perspective

1. **Senior Management:** How should senior management incorporate ethical standards at all stages of the marketing planning process?

2. **Marketing Managers:** A company's brands can be quickly impacted by negative publicity surrounding ethical scandals. How might they be impacted and what might a marketing manager do to reestablish a brand damaged in this way?

3. **The Public:** Company image and trust can be regained by top leadership's quick public acknowledgment of an ethics problem accompanied by plans for changes in practice. What could HP's leaders have done better?

---

a highly publicized operational meltdown at its JFK airport home base due to a massive snow and ice storm, and Neeleman was right there on the website and in the public media. In addition to offering an apology, he also provided full refunds, free replacement tickets, and travel vouchers to stranded passengers and established the first passengers' bill of rights in the industry.

In developing a marketing plan, the marketing manager must proceed in the process with a strong understanding of and commitment to the firm's mission, vision, goals, and objectives. JetBlue's well-conceived and executed marketing plan is an integral element in its success.

LO 2-3

Identify various types of organizational strategies.

Organizational Strategies

At the firm level, a **strategy** is a comprehensive plan stating how the organization will achieve its mission and objectives. Put another way, strategy is like a road map

to get the organization where it wants to go, based on good information gathered in advance. The choice of which direction a firm should go ultimately boils down to a *decision* by a firm and its managers. Strategy has two key phases: formulation (or development) and execution. And it occurs at multiple levels in the firm: corporate level, SBU (or business) level, and functional level (marketing, finance, operations, etc.). As we have discussed, the strategies developed and executed at each of these levels must be aligned and directed toward the overall organizational mission and goals.

A firm's **generic strategy** is its overall directional strategy at the business level.[31] Fundamentally, all firms must decide whether they wish to (or are able to) *grow,* and if not, how they can survive through *stability* or *retrenchment.* Exhibit 2.5 provides options for generic strategies for each of these three directions. The choice of generic strategy is usually driven by resource capabilities of the firm, as well as the competitive landscape. In the growth-oriented business culture in the United States, stockholders and financial analysts are constantly interested in knowing a firm's next growth strategy and can become quickly disenchanted, even with firms that are growing but at a slower than predicted rate. Yet, sometimes for reasons related to the competitive landscape or resource constraints, the best generic strategy for a firm may not actually be growth but stability or retrenchment instead. Interestingly, the pressure to constantly achieve accelerated growth is much less intense in many business cultures outside the United States.

Michael Porter identifies three primary categories of **competitive strategy**: low cost, differentiation, and focus (or niche). Exhibit 2.6 describes each of these, and Exhibit 2.7 illustrates them further within a matrix format. Porter's overarching premise is that firms must first identify their **core competencies**, or the activities the firm can do exceedingly

JetBlue communicates a strong value proposition for taller fliers who are frustrated with other airlines.

EXHIBIT 2.5 | Generic Business Strategies

Growth

- Organizations that do business in dynamic competitive environments generally experience pressure to grow in order to survive. Growth may be in the form of sales, market share, assets, profits, or some combination of these and other factors. Categories of growth strategies include: *Concentration*—via vertical or horizontal integration. *Diversification*—via concentric or conglomerate means.

Stability

- The strategy to continue current activities with little significant change in direction may be appropriate for a successful organization operating in a

reasonably predictable environment. It can be useful in the short term but potentially dangerous in the long term, especially if the competitive landscape changes.

Retrenchment

- An organization in a weak competitive position in some or all of its product lines, resulting in poor performance and pressure on management to quickly improve, may pursue retrenchment.
- Essentially, retrenchment involves pulling assets out of underperforming parts of the business and reinvesting in aspects of the business with greater future performance potential.

Source: J. David Hunger and Thomas H. Wheelen, *Essentials of Strategic Management,* 4th ed. (Upper Saddle River, NJ: Prentice Hall, 2007).

EXHIBIT 2.6 | Competitive Strategy Options

Cost Leadership

- The organization strives to have the lowest costs in its industry and produces goods or services for a broad customer base. Note the emphasis on *costs*, not *prices.*

Differentiation

- The organization competes on the basis of providing unique goods or services with features that customers value, that they perceive as different, and for which they are willing to pay a premium.

Focus (or Niche)

- The organization pursues either a cost or differentiation advantage, but in a limited (narrow) customer group. A focus strategy concentrates on serving a specific market niche.

EXHIBIT 2.7 | Competitive Strategy Matrix

Competitive Advantage

		Lower Cost	Differentiation
Competitive Scope	**Broad Target**	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Focused Differentiation

well. When these core competencies are superior to those of competitors, they are called **distinctive competencies**. Firms should invest in distinctive competencies, as they offer opportunity for **sustainable competitive advantage** in the marketplace, especially if the competencies cannot be easily duplicated or usurped by competitors. Sources of differential advantage will be developed further in Chapter 6.

As illustrated in Exhibit 2.8, Miles and Snow propose several categories of firms within any given industry based on **strategic type**. Firms of a particular strategic type have a common strategic orientation and a similar combination of structure, culture, and processes consistent with that strategy. Four strategic types are prospectors, analyzers, defenders, and reactors—depending on a firm's approach to the competitive marketplace.

JetBlue has historically followed an internal growth strategy. As some of its rivals continue to falter, it will be interesting to see how aggressive JetBlue might become in terms of growth through concentration via acquisitions. Like its much larger competitor Southwest Airlines, JetBlue executes a low-cost strategy in the

EXHIBIT 2.8 | Miles and Snow's Strategy Types

- **Prospector:** Firm exhibits continual innovation by finding and exploiting new product and market opportunities.
- **Analyzer:** Firm heavily relies on analysis and imitation of the successes of other organizations, especially prospectors.

- **Defender:** Firm searches for market stability and production of only a limited product line directed at a narrow market segment, focusing on protecting established turf.
- **Reactor:** Firm lacks any coherent strategic plan or apparent means of effectively competing; reactors do well to merely survive in the competitive marketplace.

Source: Adapted from Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure, and Process*, McGraw-Hill, 1978.

competitive marketplace. Because it has no unions, hedges on fuel prices, and standardizes the types of planes flown, JetBlue enjoys numerous cost advantages over the competition. However, JetBlue differs from Southwest in that its strategy (in the context of Exhibit 2.8) is cost focus, while Southwest's is cost leadership. The difference is that Southwest—especially with its acquisition of AirTran Airways—has defined the scope of its competitive marketplace much more broadly than has JetBlue; for instance, Southwest is basically a nationwide carrier, while Jet-Blue focuses on some specific geographic markets. In terms of strategic type, Jet-Blue can be labeled a prospector. It has enjoyed strong **first-mover advantages** by providing television, movies, and games in every seat along with comfy leather accoutrements and plenty of legroom—all at bargain prices! Exhibit 2.8 provides typical characteristics of firms that fall into each of the strategy types.

To summarize, for purposes of marketing planning, it is necessary to be mindful of the organizational strategies in play when developing marketing strategies. One could reasonably argue that a fine line exists between organization-level strategies and marketing strategies, and, in many firms, the market-driven strategies developed within the context of the marketing plan ultimately rise to the organizational level.[32] Fortunately, the distinction is moot so long as the strategies developed and implemented are fully supportive of the organization's mission, vision, and goals.

Situation Analysis

The marketing manager must perform a complete **situation analysis** of the environment within which the marketing plan is being developed. The situation includes elements of the macro-level external environment within which the firm operates, its industry or competitive environment, and its internal environment.[33] Think of external environmental factors as those a firm must be mindful of and plan for, yet has little or no direct ability to impact or change. On the other hand, internal environmental factors include the firm's structure and systems, culture, leadership, and various resources, all of which are under the firm's control. Ironically, when undertaking a situation analysis, managers often have more difficulty assessing the internal environmental components than the external, perhaps because it is much more difficult to self-assess and potentially criticize that for which the managers are responsible.[34]

LO 2-4

Conduct a situation analysis.

Macro-Level External Environmental Factors Major categories for analysis within the external environment include:

- *Political, legal, and ethical.* All firms operate within certain rules, laws, and norms of operating behavior. For example, JetBlue has myriad regulations administered by the Federal Aviation Administration, the National Transportation Safety Board, and the Transportation Security Administration. In the

airline industry, the regulatory environment is a particularly strong external influence on firms' marketing planning.

- *Sociocultural/demographic.* Trends among consumers and in society as a whole impact marketing planning greatly. Many such trends are demographic in nature, including changing generational preferences and the rising buying power of minority groups domestically and consumers in developing nations in the global marketplace.[35] Speaking of generational preferences, JetBlue jumped on the video game trend among children and teens by providing in-seat games, much to the delight of parents who no longer have to entertain the kids for the duration of the flight.

> Demographic factors influence a company's marketing strategy. For example, Kmart's approach to attracting the 18 to 34 age group is completely different versus other age brackets. To capture more of the younger demographic, the retailer has introduced clothing collections from Selena Gomez, Sofia Vergara, Adam Levine, and Nicki Minaj. It has also increased its online fashion presence. They now maintain a fashion blog and have developed an interactive feature on their website that allows users to put together entire outfits. Kmart is heavily involved with New York Fashion Week, creating the "Kmart Concierge" service, which delivers on request small essentials to fashion designers, editors, and bloggers. This was done in hopes of swaying the younger generation to view the brand as a fashionable store. While this transition will not occur overnight, the company anticipates a positive trend for purchases within this demographic in the near future.[36]

Southwest and AirTran merged and together they compete by offering more destinations at lower prices. Annually they carry more passengers inside the U.S. by far than any other airline.

- *Technological.* Constantly emerging and evolving technologies impact business in many ways. The goal is to try to understand the future impact of technological change so a firm's products will continue to be fresh and viable. JetBlue ordered a number of new downsized "regional jets," planes that carry about 50 passengers and allow for entry into smaller, underserved markets. The airline is banking on these attractive, comfortable new aircraft to provide a market edge over the competition.

- *Economic.* The economy plays a role in all marketing planning. Part of a marketing plan is a forecast and accompanying budget, and forecasts are impacted by the degree to which predicted economic conditions actually materialize.[37] Fuel prices are a major economic cost element for any airline. JetBlue was a pioneer in hedging against rising fuel prices—that is, making speculative long-term purchase commitments betting on fuel prices going up.

- *Natural.* The natural environment also frequently affects marketing planning.[38] JetBlue's highly publicized winter weather fiasco at JFK airport in 2007 prompted immediate changes in the way the company communicates with its customers. And on a broader scope, the concept of environmentally friendly marketing, or *green marketing,* has been a growing trend in socially responsible companies.

Sustainability, which refers to business practices that meet humanity's needs without harming future generations, has evolved into a part of the philosophical and strategic core of many firms.

Competitive Environmental Factors The competitive environment is a particularly complex aspect of the external environment. Let's identify several factors, or forces, that comprise a basis for assessing the level and strength of competition within an industry. The forces are portrayed in Exhibit 2.9 and summarized below:

- *Threat of new entrants.* How strong are entry barriers based on capital requirements or other factors? A cornerstone of JetBlue's initial market entry success was the fact that it was exceptionally well-capitalized. Not many new airlines are.
- *Rivalry among existing firms.* How much direct competition is there? How much indirect competition? How strong are the firms in both categories? JetBlue's industry contains a number of firms that are much larger, but based on JetBlue's unique value proposition, few of them can deliver the same customer experience that JetBlue can.
- *Threat of substitute products.* Substitutes appear to be different but actually can satisfy much or all of the same customer need as another product. Will teleconferencing PC-to-PC (using products such as Skype) reach a point in the near future such that business travel is seriously threatened, thus impacting JetBlue and other airlines?
- *Bargaining power of buyers.* To what degree can customers affect prices or product offerings? So far, JetBlue has not been in much head-to-head competition

EXHIBIT 2.9 | Forces Driving Industry Competition
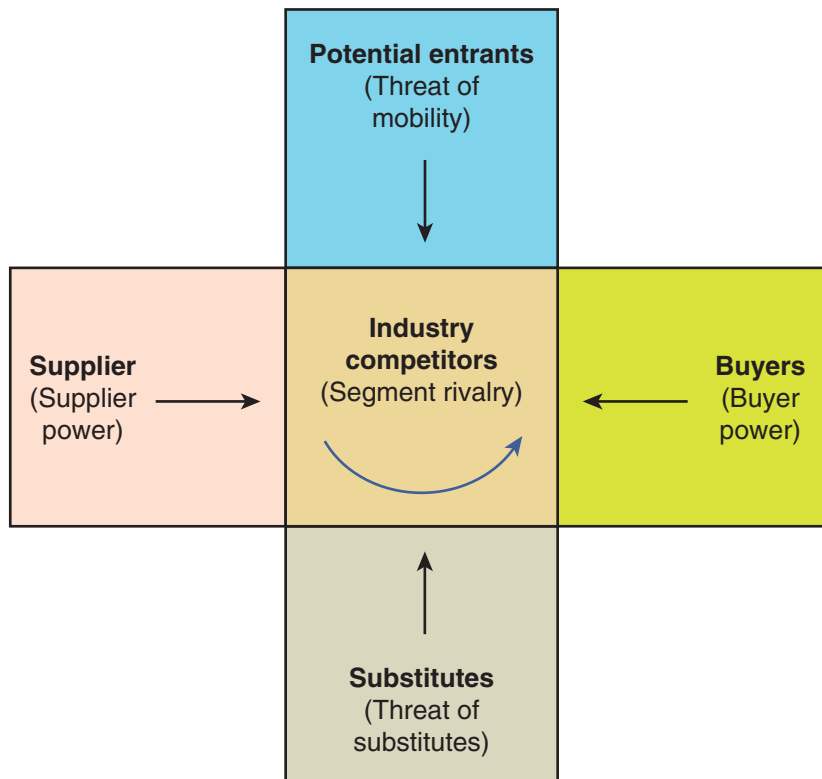
with Southwest/AirTran, Spirit, Allegiant, Frontier, or other low-fare carriers in its primary markets. Should this change, passengers will have more power to demand even lower fares and/or additional services from JetBlue.

- *Bargaining power of suppliers.* Suppliers impact the competitive nature of an industry through their ability to raise prices or affect the quality of inbound goods and services. Jet fuel literally fires the airline industry's economic engine. Also, few manufacturers of commercial aircraft still exist. Both of these factors point to a competitive environment with strong supplier power.

One other competitive force not directly addressed by Porter is the *relative power of other stakeholders.* This force is becoming more and more relevant in assessing industry competitiveness. The level of activity by unions, trade associations, local communities, citizen's groups, and all sorts of other special-interest groups can strongly impact industry attractiveness.[39] Founder David Neeleman established JetBlue as a non-union shop with the goal of keeping it that way by hiring the very best people and treating the people right. The union environment in the airline industry adds multiple complexities to the ability to stay competitive.[40]

Internal Environmental Factors Major categories for analysis in the internal environment include:

- *Firm structure and systems.* To what degree does the present organizational structure facilitate or impede successful market-driven strategic planning? Are the firm's internal systems set up and properly aligned to effectively serve customers? David Neeleman had his organizational chart right on the company website and talked openly about being a lean and mean operation. It's hard to find much evidence that JetBlue's structure and systems offer impediments to its marketing planning.

- *Firm culture.* As discussed previously, successful marketing planning requires a culture that includes customer orientation as a core value. If a firm's culture does not value and support a customer orientation and customer-centric approach to the overall business, marketing planning will likely disappoint.[41] A close review of the communication with customers on JetBlue's website provides evidence that customer orientation is a core value at the company.

- *Firm leadership.* Of course, the CEO must believe in and continuously support (financially and otherwise) the structure, systems, and culture necessary for market-driven strategic planning.[42] JetBlue's employee-friendly—and customer-friendly—approach epitomizes such leadership and commitment.

- *Firm resources.* Finally, internal analysis involves taking an honest look at all aspects of a firm's functional/operational-level resources and capabilities and how they play into the ability to develop and execute market-driven strategies.[43] Key resources for study are:
  - Marketing capabilities.
  - Financial capabilities.
  - R&D and technological capabilities.
  - Operations and production capabilities.
  - Human capabilities.
  - Information system capabilities.

JetBlue historically has performed better than almost all the competition on all these resource dimensions.

Summarize the Situation Analysis into a SWOT Upon completion of the situation analysis, a convenient way to summarize key findings is into a matrix of strengths, weaknesses, opportunities, and threats—a **SWOT analysis**. Exhibit 2.10 provides a template for a SWOT analysis. Internal analysis reveals strengths and

EXHIBIT 2.10 | SWOT Analysis Template

INTERNAL FACTORS / EXTERNAL FACTORS	Strengths (S) List 5–10 *internal* strengths here	Weaknesses (W) List 5–10 *internal* weaknesses here
Opportunities (O) List 5–10 *external* opportunities here	**S/O Based Strategies** Generate strategies here that use **strengths** to take **advantage** of **opportunities**	**W/O Based Strategies** Generate strategies here that take **advantage** of **opportunities** by **overcoming weaknesses**
Threats (T) List 5–10 *external* threats here	**S/T Based Strategies** Generate strategies here that use **strengths** to **avoid threats**	**W/T Based Strategies** Generate strategies here that **minimize weaknesses** and **avoid threats**

Source: J. David Hunger and Thomas H. Wheelen, *Essentials of Strategic Management,* 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2011). Reprinted from *Long Range Planning* 15, no. 2 (1982), Hans Weihrich, "The TOWS Matrix—A Tool for Situational Analysis," p. 60. Copyright 1982 with permission of Elsevier and Hans Weihrich.

weaknesses, while external analysis points to potential opportunities and threats. Based on the situation analysis and SWOT, it is now possible to begin making decisions about the remainder of the marketing plan.

Besides helping a marketing manager organize the results of a situation analysis, the SWOT analysis template is also useful in beginning to brainstorm marketing strategies that might be appropriate depending on which of four possible combination scenarios predominate in a firm's situation: internal strengths/external opportunities, internal strengths/external threats, internal weaknesses/external opportunities, or internal weaknesses/external threats. During the situation analysis it is essential to begin to critically and realistically examine the degree to which a firm's external and internal environments will impact its ability to develop a marketing strategy. The more honest and accurate the portrayal provided by the SWOT analysis, the more useful the remainder of the marketing planning process will be.

Additional Aspects of Marketing Planning

Additional elements of marketing planning are identified below. As they derive their content primarily from future chapter topics, reference is made where relevant to the chapters from which the content can be derived.

Perform Any Needed Market Research Part Two of the book focuses on using information to drive marketing decisions. In particular, Chapter 3 discusses collecting and analyzing market information. Chapters 4 and 5 outline key aspects of understanding customers in consumer and business markets, respectively. Chapter 6 includes ideas on how customer relationship management (CRM) enhances marketing planning and decision making. JetBlue has an effective CRM system that is supported through its TrueBlue loyalty program and other means. It also engages in ongoing market and consumer research to pinpoint trends and opportunities.

The Mall of America in Minneapolis, Minnesota, is the largest mall in the United States. Managing and measuring customer satisfaction can be a challenging process, given the mall welcomes 40 million shoppers annually. Mall administration sensed that some additional analytical power was needed and found a revolutionary product called Kipsu. This sophisticated CRM system allows the users to text a specified phone number and anonymously report about their experiences. The Mall of America began using the product in November of 2010. To give an example of the impact, custodians at the mall now have an informal competition to determine which bathrooms receive the fewest complaints!. Mall management staff members receive real-time metrics and updates from both the customers and the employees. Joseph Reuter, cofounder of Kipsu, said, "We are revolutionizing the service cultures of our clients. By scientifically dissecting the nuances of communication in service environments, we provide discipline over data and accountability." The success of the Mall of America is proving his statement is correct.[44]

Establish Marketing Goals and Objectives What is expected to be accomplished by the marketing plan? Based on what is learned from the situation analysis, competitor analysis, and market research, goals and objectives can now be developed related to what the marketing manager intends to accomplish with the marketing plan. JetBlue's marketing goals focus on enhancing the safety, comfort, and fun of customers' travel experience, building high satisfaction and loyalty among JetBlue users, and attracting new users to the brand.

Develop Marketing Strategies As we mentioned earlier, marketing strategies provide the road map for creating, communicating, and delivering value to customers. An overarching decision that must be made is which combinations of products and markets to invest in. A product-market combination may fall into one of four primary categories, as illustrated by Exhibit 2.11, Igor Ansoff's Product-Market Matrix:

EXHIBIT 2.11 | Product-Market Combinations

Product Emphasis

		Existing Products	New Products
Market Emphasis	Existing Markets	**Strategy = Market penetration** — Seek to increase sales of existing products to existing markets	**Strategy = Product development** — Create growth by selling new products in existing markets
	New Markets	**Strategy = Market development** — Introduce existing products to new markets	**Strategy = Diversification** — Emphasize both new products and new markets to achieve growth

Source: From H. Igor Ansoff, *The New Corporate Strategy*, John Wiley & Sons, 1988. Reprinted with permission of John Wiley & Sons, Inc.

- **Market penetration strategies** involve investing in existing customers to gain additional usage of existing products.
- **Product development strategies** recognize the opportunity to invest in new products that will increase usage from the current customer base.
- **Market development strategies** allow for expansion of the firm's product line into heretofore untapped markets, often internationally.
- **Diversification strategies** seize on opportunities to serve new markets with new products.

JetBlue began business with a primary focus on product development. The clean new planes, comfy leather seats, full spectrum entertainment console, and friendly staff were all welcomed by fliers as a long overdue change from other airlines' cattle-call mentality. However, more recently the company has focused on taking its winning formula into a number of new geographic markets. This market development strategy dramatically increased the number of cities on JetBlue's route system and especially increased opportunities for customers from underserved smaller cities such as Sarasota, Florida; Westchester County, New York; and Tucson, Arizona, to experience the airline. JetBlue has also added numerous international destinations into the travel mix such as Cancun, Aruba, and Nassau.

Krispy Kreme was once one of the most popular doughnut shops in the United States. In fact, in 2003, the brand earned the title "America's hottest brand" from *Fortune* magazine. When one of your authors lived in Tampa, the store on Kennedy Boulevard burned down and it was a banner headline the next day in the *Tampa Tribune!* The company was forced to reevaluate its strategy, however, when Dunkin' Donuts emerged and began offering specialty coffee drinks. The Atkins diet also became a fad around the same time period and swayed consumers away from carbohydrates. Krispy Kreme reevaluated its strategy and then began focusing on its coffee offerings. Through careful planning and implementation, the brand saw stock prices increase by 60 percent in one year. Beverages now account for 12 percent of the company's revenue and are targeted to increase to 20 percent of total revenue within a year. Krispy Kreme has even developed an app and a desktop widget to alert users when the doughnuts are fresh out of the oven. Bottom line: its marketing plan propelled it to financial success many industry analysts thought they would never see again.[45]

Create an Implementation Plan Including Forecast, Budget, and Appropriate Marketing Metrics

As pointed out earlier, strategy *development* is only part of marketing planning. The other part is strategy *implementation,* including measuring results. The process of measuring marketing results and adjusting the marketing plan as needed is called **marketing control**.

In a marketing plan, every strategy must include an implementation element. Sometimes these are called action plans or programs. Each must discuss timing, assign persons responsible for various aspects of implementation, and assign resources necessary to make the strategy happen.[46] Forecasts and their accompanying budgets must be provided. Then, appropriate metrics must be identified to assess along the way to what degree the plan is on track and the strategies are contributing to achievement of the stated marketing objectives. Chapter 16 provides the background necessary for selecting marketing metrics appropriate for various marketing objectives and strategies, as well as instruction on preparing action plans for implementation, developing forecasts and budgets, establishing controls and contingency plans, and conducting a marketing audit.

On the JetBlue website, the Investor Relations and Press Room sections provide compelling evidence that the company is highly oriented toward measurement of marketing results. And although the airline industry as a whole has suffered in

Lego has executed a highly successful strategy by expanding into Legoland theme parks with locations in California, Florida, Denmark, Germany, Malaysia, and the UK.

recent years due to increased costs, JetBlue has generally received better reviews than most other airlines from Wall Street analysts in part because of the clarity of JetBlue's goals, metrics, and controls.

Develop Contingency Plans A final step marketing managers should take is to develop contingency plans that can be implemented should something happen that negates the viability of the marketing plan.[47] As you've learned, in marketing planning, flexibility and adaptability by managers are critical because unexpected events and drastic changes in various aspects of the external environment are the norm rather than an exception. To address this eventuality, a firm should incorporate contingency plans into the process.

Contingency plans are often described in terms of a separate plan for a worst-case, best-case, and expected-case performance against the forecast. That is, the implementation of the marketing strategies would be different depending on how performance against the forecast actually materializes. If better, the firm could quickly shift to a best-case implementation scenario. If worse, then the shift would be to a worst-case scenario. Having these contingency plans in place avoids scrambling to decide how to adjust marketing strategies when performance against a forecast is higher or lower than expected.

When developing contingency plans, the firm should be realistic about the possibilities and creative in developing options for minimizing any disruption to the firm's operations should it become necessary to implement them. Some firms use contingency planning to reduce the chances they would make a public relations blunder when confronted with an unexpected challenge that generates negative publicity in the media such as product tampering or failure, ethical or legal misconduct of an officer, or some other aspect of their operation that garners bad press.[48]

Recently, JetBlue has had to invoke a contingency plan for growth due to higher jet fuel costs (the entire industry has felt the impact). For all airlines, fuel costs have raised ticket prices and squeezed profit margins, drastically affecting achievement of forecasts. In reaction to a worst-case scenario, JetBlue has cut orders for new planes and postponed entry into some new market areas that it would like to develop. At best, in this environment JetBlue hopes to achieve stability in the short run at its current size and would also obviously benefit if other competitive carriers decide to stop operating.

TIPS FOR SUCCESSFUL MARKETING PLANNING

Developing a marketing plan is an essential process for firm success. In addition to its direct impact on a firm's ability to compete, ongoing marketing planning also has a strong internal organizational benefit of providing a rallying point for developing creative ideas and for gaining input from important stakeholders throughout the various areas within an organization.[49] Who should be involved in marketing planning? The answer is: anyone from any unit at any level whose contribution and participation in the process will enhance the likelihood of a successful outcome. Marketing planning provides a unique opportunity for organization members to contribute to the success of a firm in a very concrete and visible way.

Here are a few final tips for having a successful marketing planning experience.

1. *Stay flexible.* Don't forget that marketing plans are not set in stone. Markets and customers change, competitors do unexpected things, and the external

environment has a nasty habit of creating unexpected surprises. Great marketing managers understand when to adjust a plan. Nimble organizations tend to be much more successful in their marketing strategies.

In his provocative book *The Rise and Fall of Strategic Planning,* strategy expert Henry Mintzberg builds the case that organizations sometimes spend so much time focused on planning for the long term that they miss the opportunities presented by the next customer who walks through the door.[50] Mintzberg's concern is valid and points to the need for viewing planning as an ongoing, organic process in which managers exhibit flexibility and adaptability to changing market conditions. Marketing plans are not written in stone—that is, after a plan is prepared, myriad changes in the firm's external and internal environments, may create a need for marketing managers to quickly alter their strategies in the marketplace.[51] The more nimble a company is in changing course to address new conditions as they arise, the more successful its marketing strategies will be.

2. *Utilize input, but don't become paralyzed by information and analysis.* Great marketing managers value research and analytics, but also know when to move forward with action.

3. *Don't underestimate the implementation part of the plan.* This is such a common mistake it is nearly synonymous with poor marketing planning. The quality of the action plans and metrics often make or break the success of the plan. Put another way, a good plan on paper is useless without effective implementation.

4. *Stay strategic, but also stay on top of the tactical.* Remember that marketing has these two levels of interrelated issues, and both the strategic and tactical elements have to be right for the plan to be successful.

5. *Give yourself and your people room to fail and try again.* Marketing planning is by no means a predictable science. It is more realistic to think of it as both science and art, and creativity and risk-taking are to be rewarded. All great marketing managers have experienced both success and failures in marketing planning. As in baseball, it's not one or two times at bat but rather the long-term batting average that separates the great from the average performer.

VISIT THE APPENDIX FOR A MARKETING PLAN EXAMPLE

Often the best way to learn is through example, so in the appendix to this chapter we have provided an abbreviated example marketing plan for the fictitious company CloudCab Small Jet Taxi Service. Take this opportunity early in the course to familiarize yourself with the flow and content, albeit abbreviated, of a typical marketing plan.

In addition, at the end of each chapter you will find a Marketing Plan Exercise that is designed to highlight aspects of that chapter as they pertain to a manager's ability to build an effective marketing plan. Use these activities to build your own knowledge and skill in the marketing planning process.

SUMMARY

Marketing planning is an ongoing process of developing and implementing market-driven strategies for an organization. Great marketing planning is essential for success in the marketplace. Once established, marketing plans are not set in stone. Instead, marketing managers must be flexible enough to constantly assess changes in the external and internal environments and adjust strategies and tactics accordingly. The chapter introduces the essential elements of marketing planning. The content elements for completing the various aspects of the template are covered in the chapters throughout the remaining three parts of the book.

KEY TERMS

benefit   27
utility   27
value proposition   28
customer satisfaction   28
customer loyalty   28
customer retention   28
customer switching   28
value chain   28
value-creating activities   28
marketing planning   30
marketing plan   30
market-driven strategic
   planning   32
corporate-level strategic plan   32

SBU-level strategic plan   32
portfolio analysis   33
Boston Consulting Group (BCG)
   Growth-Share Matrix   33
GE Business Screen   33
functional-level plans   34
mission statement   35
strategic vision   35
goals   35
objectives   35
strategy   36
generic strategy   37
competitive strategy   37
core competencies   37

distinctive competencies   38
sustainable competitive
   advantage   38
strategic type   38
first-mover advantages   39
situation analysis   39
SWOT analysis   42
market penetration strategies   45
product development
   strategies   45
market development strategies   45
diversification strategies   45
marketing control   45

APPLICATION QUESTIONS

1. What is a value proposition? For each of these brands, articulate your perception of their key value proposition:
   a. Caterpillar earth mover
   b. Apple iPad
   c. Facebook
   d. McDonald's hamburgers
   e. FedEx overnight delivery service

2. Consider the concept of the value chain. Identify a firm that you believe does an especially good job of investing in elements in the value chain to gain higher profit margins versus competition. Which two or three elements in the value chain does that firm handle especially well? For each of those elements, what does it do that is better than its competition?

3. Why is it so important for marketing managers, when engaged in marketing planning, to successfully deal with both Marketing (Big M) and marketing (little m) elements? What would be the likely negative outcome if a marketing plan paid a lot of attention to strategies and little attention to tactics? What would be the likely negative outcome of the reverse?

4. Consider firms in any area of the retail business. Using Miles and Snow's strategy types, identify the following: (1) a firm that you believe is a prospector; (2) a firm that you believe is an analyzer; (3) a firm that you believe is a defender; and

(4) a firm that you believe is a reactor. What characteristics of each led you to conclude they belong in their respective strategy type?

5. Historically, the theme park industry in Orlando is heavily affected by a large number of macro-level external environmental factors. From each of the five major categories of macro-level external factors, identify a specific example of how some element within that category might impact a theme park's marketing planning for the next couple of years. Be sure to explain *why* you believe each of your examples will be important for marketing managers to consider as they develop their marketing plans.

MANAGEMENT DECISION CASE:
Hewlett-Packard and the Case for Strategic Change

How can a company that generates $111 billion in annual sales be considered a laggard in its industry? Well, if that company is Hewlett-Packard (HP for short), the answer is when that company loses roughly half its market value since 2010, when that $111 billion sales figure represents a 7.4 percent decline from the previous year, and when many of that company's main products are considered old and unappealing by a vast majority of customers. Needless to say, HP has many strategic challenges ahead as it strives to regain customers, market share, and profits.

Actually, HP has a proud history of being one of the top technology firms in the world. The company literally was founded in a California garage in 1939 on $538 of investment capital by Bill Hewlett and Dave Packard. Over the years, HP has introduced some of the most innovative products in several different industries. The company's very first product was purchased by Walt Disney Studios to produce the film *Fantasia*. Other product innovations by HP include a cesium-beam standard clock in 1964 that helped maintain international time standards, the first desktop calculator in 1968, the first scientific hand-held calculator in 1972, the first desktop mainframe computer in 1982, and the amazingly successful line of HP laser jet printers.

Despite this prior product innovation history, the company found itself in deep trouble in the late 2000s. A situation analysis at that time would have revealed an economy that was not very conducive to new investments in technology. The recession that began in 2008 was one of the steepest in U.S. history, with fallout effects for years with sluggish economic growth and relatively high unemployment. The sociocultural environment was one in which consumers began heavy use of smartphones and tablets as the primary access to social media and other electronic resources. Furthermore, today's consumers were becoming more interested in maintaining and sustaining the natural environment. Finally, the technology and competitive situation had changed as companies like Google, Apple, IBM, and Microsoft shifted to software and cloud computing. For a company like HP that earns much of its revenue from hardware like computers and printers, those trends collectively were not a welcome development. Their competitive responses over the past several years seem confusing, for example, their flip-flops on whether to be in or out of the PC business.

Clearly, HP has much work ahead of itself to right the ship. In an effort to change its fortunes, a few years ago the company hired former eBay CEO Meg Whitman. Determining how the company will reach its growth targets in the future is of paramount importance for Ms. Whitman and her leadership team. Regardless of the strategy they ultimately implement, how HP is able to adjust its strengths and weaknesses to take advantage of opportunities and minimize threats in the external environment will heavily impact the trajectory of their success in returning the venerable firm to its former position as a technology leader with innovative products and services that are preferred by customers.

Questions for Consideration

1. As HP continues to make changes to its overall strategy, what other aspects of the situation analysis beyond those elements mentioned above should Meg Whitman and other leaders pay special attention to?

2. What strengths does HP have that they can use to take advantage of various opportunities or minimize threats in the external environment?

3. Given what you know about HP and its situation, what product-market strategy or strategies would you recommend the company adopt to improve its performance and return on investment?

Sources: Sam Gustin, "Why Hewlett-Packard Suddenly Doesn't Look So Bad," *Time Magazine*, October 10, 2013, http://business.time.com/2013/10/10/why-hewlett-packard-suddenly-doesnt-look-so-bad/; "William Hewlett and David Packard: 1995 Lemelson-MIT Lifetime Achievement Award Winners," Lemelson MIT, http://web.mit.edu/invent/a-winners/a-hewlettpackard.html.

MARKETING PLAN EXERCISES

ACTIVITY 1: Elements of a Marketing Plan

In the chapter, you learned that marketing planning drives the activities of the marketing manager and you were provided a framework for marketing planning. Before you move further through this course, it is important to be sure that you understand the flow and content of a typical marketing plan.

1. Read the annotated marketing plan example presented in the appendix to this chapter.
2. Make notes about any questions you may have about the example plan, and be prepared to bring those questions to class for clarification.
3. An electronic template for your marketing plan that is essentially based on Exhibit 2.2 in the chapter (which is the same format used in the CloudCab Small Jet Taxi Service example in the appendix) can be accessed at www.mhhe.com/marshall2e.

ACTIVITY 2: Situation Analysis

In the chapter you also learned about the key situation analysis areas of external macro-level environmental factors, competitive forces, and internal environmental factors that marketing managers must consider in marketing planning. You also saw how this information can be conveniently summarized and portrayed in a SWOT analysis.

1. Using the chapter discussion on situation analysis along with Exhibit 2.10 as a guide, develop a short list of internal strengths and weaknesses and external opportunities and threats. Focus on issues that you believe will be most important to your marketing planning over the next year or so.
2. Exhibit 2.10 suggests that you consider the four different scenario combinations of the SWOT to begin to brainstorm possible strategies. Based on what you know at present, develop one idea for a marketing strategy that might be appropriate for each of the four situational scenario combinations represented in the exhibit—that is, one strategy that uses internal strengths to take advantage of external opportunities you have identified; one strategy that uses internal strengths to avoid external threats you have identified; one strategy that takes advantage of opportunities by overcoming internal weaknesses you have identified; and one strategy that minimizes internal weaknesses and avoids external threats.

NOTES

1. Peter C. Verhoef, "Understanding the Effect of Customer Relationship Management Efforts on Customer Retention and Customer Share Development," *Journal of Marketing* 67, no. 4 (October 2003), pp. 30–45.
2. Stephanie Coyles and Timothy C. Gokey, "Customer Retention Is Not Enough," *Journal of Consumer Marketing* 22, no. 2/3 (2005), pp. 101–06.
3. Business Wire (press release), "Jimmy Dean® Brand Warms up Mornings with the Launch of Several New Tasty Breakfast Offerings," *MarketWatch,* WSJ.com, February 5, 2013, www.marketwatch.com/story/jimmy-dean®-brand-warms-up-mornings-with-the-launch-of-several-new-tasty-breakfast-offerings-2013-02-05.
4. Anders Gustafsson, Michael D. Johnson, and Inger Roos, "The Effects of Customer Satisfaction, Relationship Commitment Dimensions, and Triggers on Customer Retention," *Journal of Marketing* 69, no. 4 (October 2005), pp. 210–18.
5. Seongjae Yu, "The Growth Pattern of Samsung Electronics: A Strategy Perspective," *International Studies of Management & Organization* 28, no. 4 (Winter 1998/1999), pp. 57–73.
6. Michael D. Johnson, Andreas Herrman, and Frank Huber, "The Evolution of Loyalty Intentions," *Journal of Marketing* 70, no. 2 (April 2006), pp. 122–32.
7. M. F. Emerson, "Learning Social Media Tricks from the Big Boys," *New York Times,* February 22, 2013, http://boss.blogs.nytimes.com/2013/02/22/learning-social-media-tricks-from-the-big-boys/.
8. Kusum L. Ailawadi and Bari Harlam, "An Empirical Analysis of the Determinants of Retail Margins: The

Role of Store-Brand Share," *Journal of Marketing* 68, no. 1 (January 2004), pp. 147–65.

9. Frederick F. Reichheld, *Loyalty Rules! How Leaders Build Lasting Relationships in the Digital Age* (Cambridge, MA: Harvard Business School Press, 2001).

10. Michael E. Porter, *Competitive Advantage* (New York: Simon & Schuster, 1985).

11. J. David Hunger and Thomas H. Wheelen, *Essentials of Strategic Management,* 4th ed. (Upper Saddle River, NJ: Prentice Hall, 2007).

12. Eric M. Olson, Stanley F. Slater, and G. Tomas M. Hult, "The Performance Implications of Fit among Business Strategy, Marketing Organization Structure, and Strategic Behavior," *Journal of Marketing* 69, no. 3 (July 2005), pp. 49–65.

13. Thomas L. Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus and Giroux, 2005).

14. Wayne McPhee and David Wheeler, "Making the Case for the Added-Value Chain," *Strategy and Leadership* 34, no. 4 (2006), pp. 39–48.

15. Roland T. Rust, Katherine N. Lemon, and Valarie A. Zeithaml, "Return on Marketing: Using Customer Equity to Focus Marketing Strategy," *Journal of Marketing* 68, no. 1 (January 2004), pp. 109–27.

16. Richard W. Mosley, "Customer Experience, Organisational Culture, and the Employer Brand," *Journal of Brand Management* 15, no. 2 (November 2007), pp. 123–35.

17. E. J. Schultz and Rupal Parekh, "Justin Timberlake Is the New Face of Bud Light Platinum," *Advertising Age,* February 7, 2013, http://adage.com/article/news/justin-timberlake-face-bud-light-platinum/239672/.

18. P. Rajan Varadarajan, Satish Jayachandran, and J. Chris White, "Strategic Interdependence in Organizations: Deconglomeration and Marketing Strategy," *Journal of Marketing* 65, no. 1 (January 2001), pp. 15–29.

19. Karen Norman Kennedy, Jerry R. Goolsby, and Eric J. Arnold, "Implementing a Customer Orientation: Extension of Theory and Application," *Journal of Marketing* 67, no. 4 (October 2003), pp. 67–81.

20. Ron Southwick, "$45 for 10 Minutes: Rite Aid Expands Online Doctor's Appointments to Four More Cities," *MedCity News,* March 3, 2013, http://medcitynews.com/2013/03/45-for-10-minutes-rite-aid-expands-online-doctors-appointments-to-four-more-cities/.

21. Rust, Lemon, and Zeithaml, "Return on Marketing."

22. Karen Dubinsky, "Brand Is Dead," *Journal of Business Strategy* 24, no. 2 (March/April 2003), pp. 42–43.

23. "GE Business Screen," *Business Resource Software,* www.brs-inc.com/pwxcharts.asp?32.

24. "The Experience Curve—Reviewed: IV. The Growth Share Matrix or The Product Portfolio," *Boston Consulting Group,* www.bcg.com/documents/file13904.pdf.

25. Andrew E. Polcha, "A Complex Global Business' Dilemma: Long Range Planning vs. Flexibility," *Planning Review* 18, no. 2 (March/April 1990), pp. 34–40.

26. Robert Slater, *Jack Welch and the GE Way: Management Insights and Leadership Secrets of the Legendary CEO* (Boston: McGraw-Hill, 1998).

27. Hunger and Wheelen, *Essentials of Strategic Management.*

28. Noel Tichy and Ram Charan, "Speed, Simplicity, Self-Confidence: An Interview with Jack Welch," *Harvard Business Review,* September–October 1989, p. 113.

29. Mohanbir Sawhney and Jeff Zabin, "Managing and Measuring Relational Equity in the Network Economy," *Journal of the Academy of Marketing Science* 30, no. 4 (Fall 2002), pp. 313–33.

30. Lorraine Woellert, "HP's Hunsaker Papers," *BusinessWeek* Online, October 4, 2006, www.businessweek.com/technology/content/oct2006/tc20061003_396787.htm.

31. Bishnu Sharma, "Marketing Strategy, Contextual Factors, and Performance: An Investigation of Their Relationship," *Marketing Intelligence & Planning* 22, no. 2/3 (2004), pp. 128–44.

32. Mark B. Houston, Beth A. Walker, Michael D. Hutt, and Peter H. Reingen, "Cross-Unit Competition for Market Charter: The Enduring Influence of Structure," *Journal of Marketing* 65, no. 2 (April 2001), pp. 19–35.

33. David Mercer, *Marketing Strategy: The Challenge of the External Environment* (Thousand Oaks, CA: Sage, 1998).

34. Robert L. Cardy, "Employees as Customers?," *Marketing Management* 10, no. 3 (September/October 2001), pp. 12–14.

35. Regina D. Woodall, Charles L. Colby, and A. Parasuraman, "Evolution to Revolution," *Marketing Management* 16, no. 2 (March/April 2007), p. 29.

36. Ted Marzili, "K-Mart Not Cool with the 18–34 Demo Just Quite Yet," *Forbes,* February 13, 2013, www.forbes.com/sites/brandindex/2013/02/13/k-mart-not-cool-with-the-18-34-demo-just-quite-yet/.

37. Chaman L. Jain, "Benchmarking the Forecasting Process," *Journal of Business Forecasting Methods & Systems* 21, no. 3 (Fall 2002), pp. 12–16.

38. Rajdeep Grewal and Patriya Tansuhaj, "Building Organizational Capabilities for Managing Economic Crisis: The Role of Market Orientation and Strategic Flexibility," *Journal of Marketing* 65, no. 2 (April 2001), pp. 67–81.

39. Hunger and Wheelen, *Essentials of Strategic Management.*

40. Gary Chaison, "Airline Negotiations and the New Concessionary Bargaining," *Journal of Labor Research* 28, no. 4 (September 2007), pp. 642–57.

41. Kennedy et al., "Implementing a Customer Orientation."

42. Ross Goodwin and Brad Ball, "What Marketing Wants the CEO to Know," *Marketing Management* 12, no. 5 (September/October 2003), pp. 18–23.

43. Robert Inglis and Robert Clift, "Market-Oriented Accounting: Information for Product-Level Decisions," *Managerial Auditing Journal* 23, no. 3 (2008), pp. 225–39.

44. Patrick Hanlon, "Google Pushes Marketing Talk-Back Button," *Forbes,* February 8, 2013, www.forbes.com/sites/patrickhanlon/2013/02/08/google-pushes-marketing-talk-back-button/.

45. Robert Farzad, "Krispy Kreme's Unlikely Comeback," *Bloomberg Businessweek,* February 22, 2013, www.businessweek.com/articles/2013-02-22/krispy-kremes-unlikely-comeback.

46. Robert L. Cardy, "Employees as Customers?," *Marketing Management,* Vol. 10, Iss. 3, September/October 2001, pp. 12–14.

47. Denis Smith, "Business (not) as Usual: Crisis Management, Service Recovery, and the Vulnerability of Organisations," *Journal of Services Marketing* 19, no. 5 (2005), pp. 309–21.

48. Tobin Hensgen, Kevin C. Desouza, and Maryann Durland, "Initial Crisis Agent-Response Impact Syndrome (ICARIS)," *Journal of Contingencies and Crisis Management* 14, no. 4 (December 2006), pp. 190–98.

49. William B. Locander, "Staying within the Flock," *Marketing Management* 14, no. 2 (March/April 2005), pp. 52–55.

50. Henry Mintzberg, *The Rise and Fall of Strategic Planning* (New York: Financial Times Prentice Hall, 2000).

51. Polcha, "A Complex Global Business' Dilemma."

CLOUDCAB SMALL JET TAXI SERVICE
Abbreviated Example Marketing Plan

NOTE TO READER

This is an *abbreviated version* of a marketing plan for a fictitious firm, CloudCab Small Jet Taxi Service. This appendix is designed to walk you through the main steps of marketing planning. The idea is to provide you with an example early in the course so you will have a better understanding throughout the chapters of how the pieces of a marketing plan come together. Chapter 2 is devoted to the topic of marketing planning, providing a marketing plan framework and explaining the parts. That framework is used to develop this abbreviated example. Note that in practice most marketing plans contain more depth of detail than is provided here. Also, remember that each chapter ends with a Marketing Plan Exercise designed to guide you in applying the concepts from that chapter to a marketing plan.

SITUATION ANALYSIS

CloudCab seeks to provide solutions for the time-conscious traveler using quick, luxurious jet transportation. The small company was founded by former pilot Travis Camp and is now poised to be a first-mover into the California/Nevada/Arizona market.

CloudCab will provide an alternative to frustrating waits at the airport and long car rides at a fair price for its customers.

CloudCab will use small, underutilized airports and a new class of Very Light Jet (VLJ) to quickly and comfortably transport customers from one city to another. Its customers will come primarily from businesses needing quick, on-demand transportation. Initially, CloudCab will not face much direct competition, so its biggest challenge will be to convince customers of its benefits over more traditional products.

Macro-Level External Environment
Political and Legal

Like all companies using the skies, CloudCab is subject to the rules set forth by the Federal Aviation Administration and other regulatory bodies. Fortunately, smaller jets have many of the same air privileges as their larger counterparts. This ensures access to needed airspace and air traffic control services.

The political and legal environment has the potential to become an even more positive factor for CloudCab as business expands. Cloud-Cab uses smaller, underutilized airports, thereby

drawing traffic away from congested major hubs and increasing the efficiency of the entire system. If CloudCab is successful, this may actually induce lawmakers to provide incentives for companies like CloudCab.

Furthermore, larger airports are already facing capacity strain. If CloudCab ties up the governmental resources needed by larger planes carrying more passengers, there may be pressure to limit the use of small jets at large airports.

Sociocultural

The macro-trend of consumers leading time-poor lives continues as both individuals and companies strive to be more efficient in their day-to-day operations. Coupled with an increase in waiting times at major airports due to heightened security procedures, this has led today's consumers to be even more conscious of the time spent in transit. Many are willing to spend extra money on faster, more convenient travel options.

Technological

Until recently, small jet service on a large scale was prohibitively expensive. The limited number of people willing to pay for such service could not compensate for the high cost of the jet itself. Due to changes in technology and the advent of the VLJ, this has begun to change. Several companies have been able to produce VLJs for the relatively low price range of $1 million to $3 million each. Using these efficient three-to-six-passenger jets, a taxi-like air service is now economically feasible.

Economic

The overall state of the economy will have a large impact on CloudCab's success, since business travel declines precipitously during economic downturns. Since some industries inherently require more travel than others (e.g., consulting, sales) and thus have a larger impact on demand for CloudCab services, CloudCab should particularly watch the health of these industries as predictors of demand for its own services.

CloudCab is also heavily dependent on the availability and price of oil. Higher oil prices will erode CloudCab's margins, while shortages may effectively stall the business. The risk involved in relying on a potentially price-volatile resource must be effectively managed to ensure success.

Competitive Environment

Threat of New Entrants

If CloudCab is successful it may entice others to enter the market. CloudCab's business is very capital intensive, though not as much so as a traditional airline due to smaller, lower-cost jets and a limited operating area. Still, the capital needs are sufficient to deter entry by many.

The biggest hurdle facing new entrants is the lead time necessary to procure the VLJs. This requires planning years in advance of actual operation due to backlogs in manufacturing and high demand. Thus, if a company is not in the business now, it would likely be at least a few years until it was able to enter. In the meantime, CloudCab would have some warning that a new competitor was coming.

Rivalry among Existing Firms

Fortunately, CloudCab will be one of the first to market, so initially there will not be many direct competitors. For a while, companies currently pursuing similar strategies should have ample market share to coexist peacefully, especially since most are geographically concentrated. However, it is just a matter of time before a few establish themselves as the dominant brands and expand nationally, increasing the rivalry and pushing some weaker players out of business.

CloudCab will face some indirect competition from the start from other private jet options. These include partial ownership plans and pay-by-the-hour membership cards. Until now, these have been the solutions of choice for speedy, luxurious travel.

Threat of Substitute Products

CloudCab's greatest threat will likely come from substitute products. Consumers have a variety of options when it comes to transportation. For regional travel, they can choose to fly on a traditional airline, drive their car, or in some cases take a bus or train. These options do not provide nearly the same level of comfort and speed as air taxis, but they do accomplish the task of getting a person from Point A to Point B at a significantly lower cost. Also, for business travelers, technology solutions such as videoconferencing and even PC-driven solutions such as Skype Internet phone service make physical travel to some types of meetings nonessential. If national security travel limitations develop or an economic downturn forces firms to cut business travel, these substitutes will predominate.

Bargaining Power of Buyers

CloudCab primarily competes in the business-to-business (B2B) market space, and it will be catering to only a few customers per flight on a limited number of flights. This means that any one customer's decision to use CloudCab has a large proportional impact, especially during CloudCab's early years. CloudCab will have to treat each customer well because it cannot afford to lose any. Still, a single traveler will not be

able to demand, or bargain for, changes from Cloud-Cab because the cost of making those changes will likely be larger than the revenue collected from that one buyer. On the other hand, a major corporate client—supplying many passengers over time—would wield considerable power.

Bargaining Power of Suppliers

CloudCab uses a single manufacturer for its jets; thus the level of dependency is high. If the jets are not ready in time or do not meet specifications, CloudCab could be put out of business. If Cloud-Cab's manufacturer is not able to fulfill its contract, CloudCab might have to wait years to have an order filled with another supplier. Consequently, Cloud-Cab's supplier is in a strong position to bargain for better terms.

At present, the supplier has relatively few buyers, one of them being CloudCab. So as a buyer, CloudCab also has some bargaining power. This makes the two interdependent and reduces the incentive for the supplier to treat CloudCab unfairly.

Internal Environment

Firm Structure

CloudCab, being relatively new, is far smaller than most businesses in the airline industry. Having few employees makes communication easy and response to change quick to occur. Realizing that the company's success depends heavily on customer adoption of the new offering, CloudCab executives' actions are driven primarily by the needs of the market.

CloudCab is led by founder and CEO Travis Camp. Robert Fray, chief operating officer and close friend of Camp, has been crucial in developing cost-saving measures to ensure CloudCab's prices are as competitive as can be. Other officers include Thomas Puck, chief financial officer; Elizabeth Vars, chief marketing officer; and Jeffery Brown, chief technology officer. All have airline industry experience, and Camp and Fray are former commercial pilots. The firm is in the entrepreneurial stage of its corporate development.

CloudCab is privately held and funded primarily through the investments of Travis Camp and Robert Fray, who combined have a controlling interest in the company. The rest of the funding has been obtained mostly from venture capital firms seeking returns based on a five-year time horizon.

Firm Culture

CloudCab is built on seizing opportunities to better serve the customer. It epitomizes a "lean and mean" culture. New ideas for improvements in efficiency and service quality are encouraged in this customer-centric culture. CloudCab has formalized reward systems for outstanding performance and attitude to promote high morale and productivity among its employees.

Firm Resources

Marketing capabilities: CloudCab has a strong, close-knit marketing team with a combination of experienced hands and recent college graduates. Several employees have ties with local media in major cities that can be used upon product launch.

Financial capabilities: CloudCab is well-financed through equity investments. It has purchased outright the 15 VLJs it plans to use in its operations. Current cash reserves should easily cover initial marketing and ongoing operating expenses, though investors have pledged further funds if needed.

R&D and technological capabilities: Lacking R&D capabilities in-house, CloudCab has chosen to purchase all aircraft and related systems from qualified vendors and outsource needed maintenance on those aircraft and systems. CloudCab values keeping its systems current and ensuring the firm is in a position to take advantage of any oncoming industry break-throughs in jet technology.

Operations capabilities: CloudCab presently has the capacity to serve four city locations in California and Nevada (see the Market Research section of this document). Following success in these markets, CloudCab will be able to expand using its fully scalable communications and logistics tracking systems.

Human capabilities: CloudCab's employees are capable and committed. Many employees have received stock and stock options as part of their compensation, tying the interests of company and employee together. CloudCab is presently staffed with 45 people and has plans to employ a total of 80 people when fully operational. Many functions such as maintenance, security, and janitorial work will be outsourced.

Information systems capabilities: CEO Camp is a strong believer in customer relationship management (CRM). Every time a customer flies, he or she will be given the option to fill out a comment card, the contents of which will be entered into CloudCab's central database. Employees of CloudCab with customer contact will also be able to make notes on customer observations. Both of these data sources will be coded categorically and used to assist in customer development and planning. Popular flight times and routes will also be tracked to better assist in modification of product offerings.

SWOT SUMMARY/ANALYSIS

External / Internal	Key Strengths (S)	Key Weaknesses (W)
	Customer focus Speed to market Industry knowledge	Untested product Unknown brand Limited geographic reach
Key Opportunities (O) Time-conscious travelers VLJ availability Small airports underutilized	**S/O Based Strategies** Use VLJs to provide quick transportation between small airports	**W/O Based Strategies** Focus on and invest in building the brand and offering in a small market first
Key Threats (T) Traditional flights and cars Larger airports overcrowded Possibility of new, better jets	**S/T Based Strategies** Demonstrate benefits over alternatives, avoid large airports, and stay tech aware	**W/T Based Strategies** Don't try to compete against bigger airlines for mainstream customers

MARKET RESEARCH

To determine which locations to serve, CloudCab first gathered secondary data on air traffic patterns, popular destinations among private jet owners, and travel frequency for business and leisure. This allowed CloudCab to see where similar services were already being used for comparison.

CloudCab then gathered primary data on travelers' aspirations for where they would like to see CloudCab operate and what features they would want the service to have. This was done through a combination of focus groups and surveys. Focus groups were comprised of travel purchasers within businesses, business travelers themselves, and upper-income leisure travelers. Surveys were distributed via e-mail with a goal of gaining responses from both business and leisure travelers.

All of the data were analyzed to form a complete picture of what travel patterns are like now, what they may be in the future, and what factors (translated into customer benefits) would create demand for CloudCab services. CloudCab used the data to select its first four cities for operation: San Francisco, Los Angeles, Reno, and Las Vegas.

Research also revealed the following findings:

- In general, there seems to be a greater demand for sky taxis from business than from leisure travelers.
- Leisure travelers plan further ahead and have less need of on-demand service.
- Both leisure and business travelers want luxurious accommodations.
- Business travelers have more need of one-way flights than do leisure travelers.
- Time is the biggest priority for business travelers, while comfort is the biggest for leisure travelers.
- Some businesses, such as consulting and sales, have a greater need for on-demand travel than others.

- There is a "sweet spot" in income level among leisure travelers where they are wealthy enough to afford CloudCab services but not wealthy enough to own their own jet.

MARKETING GOALS AND OBJECTIVES

Goal

The goal of CloudCab is to be the preferred provider of on-demand short flight service.

Objectives

Within the first 12 months of operation, CloudCab will:

1. Sell 5,500 flight itineraries.
2. Attain a rating of "highly satisfied" customer satisfaction scored by 90 percent of customers.
3. Achieve repeat purchase by 50 percent of customers.

MARKETING STRATEGIES

Product-Market Combinations

CloudCab will use a product development strategy to introduce its new on-demand jet service into the California/Nevada/Arizona market. Based on CloudCab's market research, the product will first be made available in San Francisco, Los Angeles, Reno, and Las Vegas. If the product is successful there, then CloudCab will gradually add more service locations. Once a firm foothold in the region is established, CloudCab will expand into new markets in other regions.

Initially, CloudCab will depart only from the four selected cities. However, customers will be able to use the service to fly round-trip to *any airport* they choose within the region of operation. For one-way flights,

CloudCab will provide service only between selected cities, making the plane instantly available at that location for the next flight.

Market Segmentation, Target Marketing, Positioning

Segmentation

The market for on-demand small jet service can be easily divided between business travelers and leisure travelers. Leisure travelers can be further divided based on income levels, and business travelers can be further divided based on industry and other variables such as firm size. Of all possible segments, CloudCab has identified three that have especially high potential to be CloudCab customers:

- Leisure travelers with annual incomes between $300,000 and $1 million.
- Business travelers making B2B sales calls.
- Business travelers on assignment for mid-to-large-size consulting firms.

Target Marketing

CloudCab evaluated each of these segments to determine its focus for initial investment. The first segment, leisure travelers, has the means to afford CloudCab's service and could be a highly profitable market if effectively reached. However, its preference for round-trips over one-way and its tendency to book travel arrangements in advance does not fit well with CloudCab's on-demand service. Leisure travelers are also far less concentrated and thus harder to reach with marketing communications.

The second segment, business travelers in sales, would be easier to reach and would need Cloud-Cab's one-way flights between select cities. Sales calls are a combination of previously scheduled appointments and client requests, making the demand for on-demand service in this group mixed. Sales professionals are often under pressure to keep traveling costs down though, making the profitability of serving this segment questionable.

The third segment, business travelers in consulting, shares sales professionals' need for one-way flights and on-demand service. Yet compared to sales professionals, there is less pressure to keep travel costs down since time and level of service to the client take precedence, and travel and other expenses are often billable to the client. Additionally, these travelers are largely concentrated in fewer firms, making it easier for marketing communications to reach this segment. Also, there is a substantial submarket of independent consultants from which to draw. For these reasons, CloudCab has decided to concentrate on the business consulting traveler segment as its primary target market. CloudCab will make its services available to other segments if they desire to use CloudCab, but Cloud-Cab will not make any concentrated efforts to invest marketing dollars toward them in the beginning. Thus, high-income leisure travelers and sales professionals may be viewed as secondary target markets at present. No tertiary target markets have been identified as of yet.

Positioning

On one end of the travel spectrum, there exists the low-price, low-benefits group. This includes such offerings as traditional airfare and car transportation. Both involve a great deal of hassle, wasted time, and discomfort. The one advantage of this group is that it is affordable to the masses.

On the opposite end of the spectrum, there exists the high-price, high-benefits group. This group consists of private sole jet ownership, partial jet ownership similar to a time-share, and, on the lower side, pay-by-the-hour jet service. These options afford their customers a high degree of luxury and many time-saving features, but at a price well outside the range of most travelers, business or leisure.

In the middle of these two groups of travel options is a wide chasm. Until now, no company has been able to strike a happy medium between the two. Utilizing new technology and a unique business model, CloudCab seeks to position itself in this void with a focus on the B2B consulting market. Using its on-demand small-jet service, customers flying from select cities will be able to access many of the same benefits private jet owners enjoy, but without the exorbitant cost associated with it. CloudCab's service will be faster and more enjoyable than traditional airline flights or ground transportation, yet cost far less than private jet ownership. This appears to be a strong positioning with high upside potential for messaging to the primary target market.

Marketing Mix Strategies

Product/Branding Strategies

CloudCab's product benefits center on convenience, dependable service, and a quality image. CloudCab will primarily focus on service to small "executive airports" near the four start-up cities, with the exception of Las Vegas, for which travelers will have direct access to McCharren (the main Las Vegas airport) due to its proximity to the "strip."

To use CloudCab, customers will have two options. They will be able to either call a qualified customer service representative to book their flight or go online and enter their flight and payment information themselves.

Branding of CloudCab will evoke in customers the imagery of being quickly and comfortably transported "by a cloud" from one location to another. This will be communicated through the product name CloudCab as well as its logo, an airplane seat lightly resting in a fast-moving cloud.

Service Strategies

Customer service representatives and airport attendants will be noticeably a cut above the ordinary—polite and professional at all times, both on the phone and in person. Because of the firm's CRM capabilities to provide personalized service to its most valued customers, CloudCab employees will be able to easily enter information into an internal database under individual customer profiles. This will allow CloudCab to consistently meet the expectations of its customers without the customer having to express preferences every time CloudCab is used.

Pricing Strategies

The pricing decision for CloudCab is made more difficult due to the newness of its product offering and lack (so far) of strong competitors in its markets. In the early stages, penetration pricing can be effective to gain customer trial, expose customers to the excellent service quality, and build customer loyalty for the brand. Such an approach can also serve to keep planes in full service, making the most of a small fleet.

However, the penetration pricing strategy has to be tempered by attention to CloudCab's financial objectives for revenue, margins, and ROI. Chances are that, once a loyal customer base is developed, some incremental price increases can be taken without major disruption in the customer base.

CloudCab can communicate its positioning through price. Being first to market, CloudCab has the opportunity to set the value of its product in the mind of the customer. In setting a price, CloudCab must be careful to realistically assess the actual time savings and comfort customers can expect to receive, and what those benefits are worth to them. In this way, the price will work together with CloudCab's integrated marketing communications (IMC) strategies to effectively position the product and communicate value.

Supply Chain Strategies

CloudCab has purchased the needed operational systems to properly track its planes and ensure they are always where they need to be. Customer service representatives will use these systems to give customers information on flight availability and schedule new flights. CloudCab's outsource firms and supply chain partners will also have access to the system to ensure needed materials arrive where and when they are needed for everything from pillows to jet fuel.

Integrated Marketing Communications (IMC) Strategies

CloudCab will first use IMC to *create awareness* of CloudCab and *build interest* in the benefits of its service. All efforts will be focused on conveying a clear and consistent message. CloudCab's unique selling proposition will be that it is akin to a taxi service in the air, much quicker and more comfortable than other travel modes.

To convey this message, CloudCab will use targeted advertising, direct marketing, personal selling, and buzz marketing. Advertising will be limited to publications with high readership among the target market. Direct and interactive marketing—primarily via mail, e-mail, and the web—will be used to provide sales promotion incentives to customers to try CloudCab's service. Personal selling efforts will be made at consulting firms to attempt to gain contracts to make CloudCab one of the firm's transportation methods of choice. Finally, to generate buzz through public relations (PR), CloudCab will pitch stories to the media about its official launch date and first flight as a revolutionary way to travel.

Although these strategies should get CloudCab off the ground, over the long run the company will rely heavily on buzz generated by positive customer experiences to grow the business. The more people CloudCab effectively serves, the more potential brand ambassadors there will be. This should translate into an exponential sales growth for CloudCab.

IMPLEMENTATION

CloudCab possesses the needed resources for a successful launch early next year. The action plan below details the marketing communication initiatives CloudCab will undertake to increase market share and reach its goal of 5,500 flights in its first year of operation.

Marketing Action Plan for Initial Launch

Action	Date	Duration	Cost	Responsibility
Targeted print ads	December 1	4 months	$265,000	CMO Vars
CloudCab direct marketing to identified targets	February 1	3 months	$170,000	CMO Vars
Personal sales calls on key target firms	March 1	2 months	$210,000	CEO Camp and others
First CloudCab flight	May 1			COO Fray
Media coverage of first CloudCab flight	May 1	1 week	$ 3,000	CMO Vars

Monthly Sales Forecast to End of First Year

Number of Flights by Month
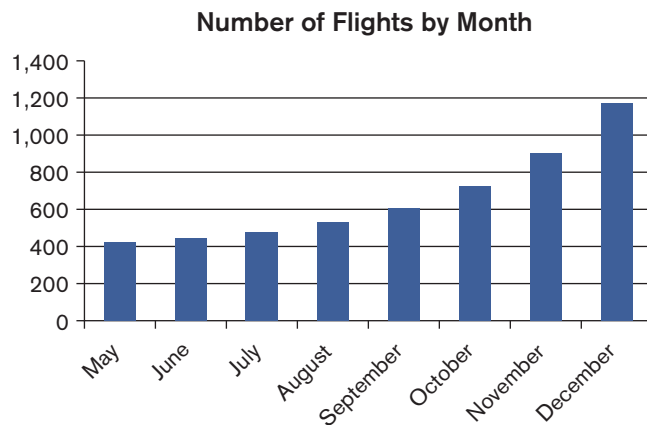
First-Year Budget

Using its forecasted sales volume, CloudCab can begin to establish a budget for its first year of operation. For now, CloudCab will use an estimated price of $1,200 per flight.

Revenue	5,287 × $1,200	$ 6,600,000
Fuel Costs		2,600,000
Promotional Activities		648,000
Salaries		1,200,000
Outsourced Systems		700,000
Operating Income		1,452,000
VLJ purchases		9,500,000
Net Income		$(8,048,000)

Marketing Control and Metrics

CloudCab must continually evaluate its marketing efforts to ensure its performance is on track against stated first-year objectives. The following metrics are associated with each objective.

Objective 1: Sell 5,500 Flight Itineraries

CloudCab will track sales to monitor if monthly targets are being met. If they are not, the market will have to be surveyed to determine awareness levels, and direct-mail response rates and personal selling closing ratios will be examined. In doing this, problem areas should be identified and resolved. If the problem cannot be addressed via CloudCab's current IMC mix, other elements may be added to the mix to find better ways of reaching the target audience.

Objective 2: Attain a Rating of "Highly Satisfied" Customer Satisfaction Scored by 90 Percent of Customers

Progress will be monitored by ongoing customer satisfaction measurement.

Objective 3: Achieve Repeat Purchase by 50 Percent of Customers

The CRM system will be utilized to track frequency of usage by customers.

CONTINGENCY PLANNING

CloudCab's product requires significant capital investment to bring to market and cannot be easily modified. Consequently, if CloudCab's target market does not respond to the product as planned, it would likely be easier to change the market to fit the product than to change the product to fit the market. If consultants do not find sufficient value in CloudCab and purchase at the anticipated level, then investment will be made against the secondary target market of salespeople.

In addition, CloudCab needs to closely track usage by leisure travelers. If it happens that, despite CloudCab's intentions, a larger than anticipated number of customers are leisure travelers or represent some business segment besides consulting, then CloudCab would consider refocusing its marketing efforts on both of these targets. It will have a contingency IMC plan in place that anticipates this eventuality.