CHAPTER 4

Formulation, Evaluation and Selection of Marketing Strategies

Contents

4.1 Central Questions for the Formulation of Marketing Strategies 68
4.2 Supporting Concepts for the Formulation of Marketing Strategies 83
4.3 Evaluating Marketing Strategy 89
Summary 90
Case Study: The Rise of the Superbrands 90
Key Terms 92
References 93

Learning Objectives

In this chapter you will become familiar with:

- the different aspects to be taken into consideration when formulating a marketing strategy
- the basic design options within the various aspects of a marketing strategy
- the most important portfolio models for supporting the formulation of marketing strategies
- the key criteria that should be applied in the evaluation of marketing strategies
- the options for applying formal decision-making models when selecting marketing strategies.
PART ONE Laying the Groundwork: Shaping Marketing Strategies

In accordance with the strategic planning process discussed in Chapter 2, and following the situation analysis presented in Chapter 3, this chapter describes the steps for formulating and evaluating strategies, and selecting suitable strategy alternatives. **Strategy formulation** takes into account aspects such as the objectives that are being pursued, the targeted customer group(s), the intended customer benefits to be offered and the basic design of the marketing mix. In Section 4.1, we will first define the concept of marketing strategy by outlining central questions that a marketing strategy is supposed to provide answers for. Subsequently, in Section 4.2, we will present concepts that can support and facilitate the formulation of marketing strategies. In Section 4.3 we will close this chapter with some concluding remarks.

### 4.1 Central Questions for the Formulation of Marketing Strategies

In order to structure the discussion of marketing strategy, we introduce a set of key questions that need to be addressed in the course of formulating a marketing strategy. Figure 4-1 provides an overview of these key questions. The following sections will discuss each of these questions in more detail.

![Figure 4-1 Central questions for formulating marketing strategies](image)

#### 4.1.1 Where do we go from Here? Questions Regarding Strategic Marketing Objectives and Target Groups

These central questions deal with the issue of what should be achieved (strategic marketing objectives) and which customers should be reached (target groups of the marketing strategy). Table 4-1 provides a list of the most important questions in this respect.
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

Table 4-1 Central questions concerning strategic marketing objectives and the target groups of the marketing strategy

- Which market segments should be developed by the company and what priorities should be set for the individual segments?
- How should the marketing resources be allocated with regard to developing existing customers and acquiring new ones?
- What marketing objectives related to potential should be achieved for all market segments for the individual segments and by what particular point in time?
- What marketing objectives related to market success should be achieved for all market segments for the individual segments and by what particular point in time?
- What marketing objectives related to financial success should be achieved for all market segments for the individual segments and by what particular point in time?

The first question concerns the issue of which market segments should be developed (see Section 3.1 for how to identify market segments). To this end, we have to distinguish different coverage strategies (i.e. the company needs to choose between complete or partial market coverage). In the case of partial market coverage, the company restricts itself to the development of selected segments. Complete coverage implies the targeting of all identified segments.

Once the company has identified the segments it intends to target, it has to tackle the question of the priority with which the individual market segments should be developed. This is necessary as companies have limited resources and some segments are more attractive than others. Portfolio methods (see Section 4.2) can explore this question.

A second question related to the target group(s) addresses the distribution of the marketing resources with respect to the development of existing customers and the acquisition of new customers. According to the concept of customer relationship management (see Chapter 9), optimizing business relationships with existing customers should be the focus of market development. Research shows that the acquisition of new customers is considerably more costly than maintaining existing ones (for an overview of this approach, see Reichheld and Sasser 1990).

The recommendation to focus on existing customers is plausible, and studies have proven that this marketing strategy can be successful (see e.g. Blattberg and Deighton 1996; Capon et al. 1990; Reichheld and Sasser 1990). However, a company needs to spend a certain portion of its marketing resources to acquire new customers. This is especially important in the early phases of the market life cycle (see Section 2.2.3). It is also possible that the sales potential of existing customers has essentially been saturated, so that significant growth potential can be explored only by acquiring new customers. In pursuing both – the development of existing customers and the acquisition of new customers – the most attractive customers should be treated as a priority. The customer portfolio and the customer lifetime value (CLV), for example, can assist in prioritizing individual customers and customer segments (see Chapter 9).

Subsequent to these considerations, the specific marketing objectives need to be determined. Here, the differentiation between marketing objectives related to potential, market success and financial success (see Section 2.1, Figure 2-2) can be applied. As Table 4-1 shows, these objectives should be defined for both the market segments as a whole as well as for the individual segments. The more dissimilar the individual segments and the more differentiated the company’s approach to developing the segments, the more important is this differentiation by market segment.
PART ONE Laying the Groundwork: Shaping Marketing Strategies

4.1.2 In the Catbird Seat? Questions Regarding Customer Benefits and Positioning Relative to the Competition

A second category of key strategic questions is related to the general decision of what customer benefits should be created and to the company’s basic strategic positioning relative to the competition (see Table 4-2). These two questions reflect the relationships in the ‘strategic triangle’ (see Figure 4-2).

With regard to the question of what customer benefits the company should create, it should first be emphasized that, in principle, customer benefits arise when customer needs are satisfied (for a discussion regarding ‘customer needs’, refer to the Appendix). Here it is crucial that the benefits sought from a particular product or service are based on genuine and actual customer needs, and that the company is able to (at least partially) satisfy these needs. In this context, different customer benefits can be offered for different segments (especially when segments vary greatly in terms of customer needs).

It can be helpful to categorize benefits with respect to the question of which benefits to offer. In this context, we differentiate two types of benefit: core benefits and additional benefits.

Core benefits relate to fundamental aspects of the company’s products and services. They result from satisfying the basic customer needs with regard to a specific product or service (see Anderson and Narus 2003). Additional benefits, in contrast, arise from the offer of additional services and features extending beyond the basic needs of customers. Here, a need on the part of the customer exists as well, but the customer does not necessarily expect that need to be met by the company. For example, a customer of a car repair shop expects the car to be repaired and to run smoothly (core benefit). An additional benefit can arise if, say, the car repair shop provides the customer with a rental car for the duration of the repair job.

In order to compete effectively in the market, companies must provide core benefits. This can be regarded as the minimum prerequisite for serving a market. Even though additional benefits are ‘add-ons’ providing these can be an important basis for a differentiation strategy.

Table 4-2 Central strategic questions concerning customer benefits and positioning as compared to the competition

| What benefits should the company offer its customers? |
| What competitive advantages is the company striving for? |

Figure 4-2 Positioning of customer benefits and competitive advantage in the strategic triangle (Simon 1989)
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

Depending on whether a core benefit or an additional benefit is achieved, company services and products are differentiated into **basic factors, performance factors and excitement factors**. These factors are characterized by a different impact of the performance level on the overall satisfaction of the customer (see Figure 4-3). Accordingly, with basic factors, a low performance level leads to dissatisfaction, while a high performance level does not result in a high degree of satisfaction since customers expect a high performance level. However, in the case of excitement factors, a high performance level leads to high customer satisfaction (for more on ‘customer satisfaction’, see Appendix), while a low performance level does not lead to dissatisfaction, since the customer does not have any strong expectations with regard to this performance level. When formulating the marketing strategy it is therefore of importance to assess which of the additional services and features constitute excitement factors for customers.

We can identify various other types of benefits (see Anderson *et al.* 1993; Anderson and Thomas 1997; Anderson and Narus 1998; Ulaga 1999), including those listed below.

- **Functional benefits** originate from the basic functions of the product and are associated with its benefit. Mobility is the functional benefit of a car.

- **Economic benefits** also result from the product features. A car provides an economic benefit if it is fuel-efficient.

- **Process-related benefits** arise from easy procurement or business processes that facilitate company–customer interactions. For example, many car dealers will offer to pick up the customer’s car if it needs to be repaired.

- **Emotional benefits** emerge from the positive feelings and emotions evoked by a product, for example the pride owners take in their luxury cars.

- Like emotional benefits, **social benefits** are also associated with positive feelings. A social benefit results when other people admire the owner of a prestigious car.

*Figure 4-3  Customer satisfaction effects in relation to various performance factors (adapted from Oliver 1997, p. 152)*
PART ONE Laying the Groundwork: Shaping Marketing Strategies

The question of competitive advantages being pursued relates to how the company wants to differentiate itself relative to its competitors. As already discussed in Section 3.4.1, a competitive advantage refers to the company’s performance relative to competitors and to its ability to outperform competitors. In view of the relationship between customer benefits and competitive advantage, it is important to note that a performance feature can serve as a basis for a competitive advantage only if it generates a corresponding customer benefit. A widespread phenomenon is that performance features generate a significant customer benefit, but do not represent a competitive advantage for the company.

How a company intends to achieve its competitive advantage is at the core of the competitive strategy of the company or individual SBU. Figure 4-4 shows a typology of the basic (generic) competitive strategies.

The cost leadership strategy aims at efficiency of operations in order to achieve the most favorable cost position within an industry (see Porter 1980; Treacy and Wiersema 2003; see also Focus on Marketing 4-1 for an illustration). Such a position allows the company greater flexibility in terms of pricing (i.e. the company can offer its products at prices lower than its competitors and win market share in doing so). In addition to a low price, extensive standardization of products and utilization of efficient sales channels are typical characteristics of cost leadership.

In contrast, a differentiation strategy aims to achieve superiority for the company based on the performance of its product offer (see Hagel and Singer 1999; Porter 1980; Treacy and Wiersema 2003). A differentiation strategy offers a broader range of strategic options as compared to the cost leadership strategy. In general, there are two types of differentiation strategy:

1. Differentiation on the basis of superior products
2. Differentiation on the basis of superior customer relationships.

Differentiation on the basis of superior products (Hagel and Singer 1999) term it ‘product leadership’) aims to design the company’s products so that they are perceived by customers as being unique and superior in comparison to those of the competition (for an illustration of this type of strategy, see Focus on Marketing 4-2). The perception of superiority does not necessarily
have to be grounded on objective performance features (e.g. product reliability), but can be based on subjectively perceived performance advantages (e.g. brand image). Typical characteristics of a market development based on this strategy include intensive brand management and unremitting innovation.

In contrast, differentiation on the basis of superior customer relationships focuses on the company’s customer relationships. The basic concept of this strategy is to establish and maintain long-term, stable customer relationships. Typical characteristics of a market development based on this strategy include thorough analyzes of individual customer needs, a high degree of customization in sales and customer relationship management, as well as training initiatives geared towards securing and improving the customer orientation of employees.

Empirical studies in the field of strategy research have shown that combined competitive strategies aiming at a balance of differentiation and cost aspects can be more profitable than ‘pure’ competitive strategies. In view of this, the ability to combine the different strategy types becomes important. Here the idea is that it is possible to simultaneously realize cost leadership and differentiation (see Sheth and Sisodia 1999). Such combined strategies are called hybrid competitive strategies.
PART ONE Laying the Groundwork: Shaping Marketing Strategies

**Focus on Marketing 4-2  Differentiation strategy on the basis of superior products**

Procter & Gamble to launch SK-II in USA

SK-II launched 20 years ago in Japan, and was developed, according to a legend propagated by P&G, by a monk who discovered skin-rejuvenating ‘pitera’ after noticing workers at a sake factory had unusually soft hands from the yeast used for fermentation. P&G acquired SK-II as part of Max Factor in 1991 and it caught the fancy both of former Chairman-CEO Durk Jager and current Chairman-CEO A.G. Lafley, who formerly headed P&G’s Asian business.

In the past decade, SK-II has grown at compound double-digit rates as it expanded into Taiwan, Korea and Hong Kong. Since its UK launch, the brand has grown globally at a 16% annual clip to $400 million, Mr Lafley said at a recent investor conference.

Price is almost no object to ‘age-defying’ SK-II consumers, said Patrick Hansson, Geneva-based brand manager for SK-II in Western Europe.

The most avid spend as much as $10,000 a year on their twice-daily ritual of creams, lotions, cosmetics, masks and cleansing cloths. Average SK-II consumers in the UK may spend $2,000 a year – more than 10 times what an average US family spends on all P&G brands combined.

In the UK, where the brand was introduced in 2000, SK-II launched solely in two Selfridges stores; three years later it is in only about a dozen more stores in that chain, along with Harrods and Fraser. In contrast to the typical big-budget mass-market P&G launch, SK-II marketing is a low-risk, low-budget, high-service affair that really does build the brand one consumer at a time. First purchases come only through a ‘consultant’ who performs an individualized skin analysis in one of SK-II’s elaborate stores within stores and follows up with a handwritten note. Database-customized mailings drive most new SK-II product launches in the UK, Mr Hansson said.

*Source: Neff 2003.*

**Mass customization** is such a hybrid competitive strategy combining both the differentiation and cost leadership strategy. Mass customization refers to the cost-efficient production and marketing of products tailored to the individual requirements of a few customers (in extreme cases, this may be a single customer). The term ‘customization’ reflects the strategy of differentiation, while ‘mass’ and the associated large-volume production reflect the cost leadership strategy (for more on mass customization, see Focus on Marketing 4-3).
4.1.3 What’s the News? Questions Regarding Innovation Orientation

Another category of key strategic questions concerns the innovation orientation of a company or strategic business unit. Table 4-3 lists the key questions.

<table>
<thead>
<tr>
<th>Central strategic questions concerning innovation orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>How should the company set priorities for the development of new products and markets?</td>
</tr>
<tr>
<td>Which technologies should be used and further developed, and to what extent?</td>
</tr>
</tbody>
</table>

The key question is concerned with the company’s innovation orientation. In principle, a company can innovate in products and also innovate in markets. Four alternative strategies emerge from combining these two options, which can be integrated into Ansoff’s (1965) Product-Market Growth Matrix (see Table 4-4).
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Table 4-4 The Product-Market Growth Matrix (adapted from Ansoff 1965, p. 109)

<table>
<thead>
<tr>
<th></th>
<th>Existing markets</th>
<th>New markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing products</td>
<td>Market penetration</td>
<td>Market development</td>
</tr>
<tr>
<td>New products</td>
<td>Product development</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

1. With the **market penetration** strategy (existing products, existing markets), the company concentrates on markets already served and products currently being offered. This strategy thus exhibits the lowest degree of innovation.

2. The **product development** strategy (new products, existing markets) focuses on developing products in the same markets the company is already catering to (for a detailed discussion of new product development, Section 5.2).

3. With the **market development** strategy (existing products, new markets), the company’s established products are marketed in new geographic markets (internationalization), in new market segments or by establishing new sales channels.

4. With the **diversification** strategy (new products, new markets), new products are offered in markets where the company had no presence before. This strategy exhibits a high degree of innovation.

The Product-Market Growth Matrix has important strategic implications. First, it formulates different growth strategies along the line of an innovation orientation. Second, the concept illustrates the risks inherent in the different strategies. Market penetration has a low risk, product development and market development have an intermediate level of risk, and diversification is a risky strategy. Third, the matrix can also be regarded as a portfolio of strategies and, in line with the basic idea of a portfolio, the notion of a balanced Product-Market Growth Matrix should be emphasized. No company can survive by pursuing only market penetration as the Product Life Cycle Model indicates that products will eventually reach maturity (see Section 2.2.3). Companies need to innovate in products and markets and – consequently – in both to survive in the long run. In order to do so, companies need a strong focus on innovation orientation, as is the case described in Focus on Marketing 4-4. Focus on Marketing 4-5 highlights a market development strategy.

**Focus on Marketing 4-4 Example of innovation orientation**

**The world is your lab**

How do you build an innovation culture? Try carrots.

3M has long awarded ‘Genesis Grants’ to scientists who want to work on outside projects. Each year more than 60 researchers submit formal applications to a panel of 20 senior scientists who review the requests, just as a foundation would review academics’ proposals. Twelve to 20 grants, ranging from $50,000 and $100,000 apiece, are awarded each year. The researchers can use the money to hire supplemental staff or acquire necessary equipment.

*Source: McGregor et al. 2006.*
It wasn’t hard for Wang Ninie to decide on a mobile phone. In early March the twentysomething Beijing entrepreneur saw a golden Nokia handset with a flower pattern etched into the trim, one of the company’s ‘L’Amour’ line of high-end designer phones. Wang knew she had to have it. More than any other handset maker, Nokia Corp. has connected with the likes of Wang and their billions of countrymen. In both China and India, the Finnish company is the top brand.

Nokia’s sales in China jumped by 28%, to $4.5 billion. The region today is the company’s biggest market, accounting for 11% of global revenues, compared with 8% in the US. In India, Nokia has a 60% share, with sales last year of about $1 billion. By 2010 the company expects India to be its No. 2 market.

Nokia isn’t letting up: On Mar. 11 it opened its first Indian factory, a $150 million facility near the southern city of Madras that will turn out as many as 20 million inexpensive phones annually both for the local market and for export. And the company is doubling the size of its plant in the Chinese city of Dongguan, near Hong Kong.

The two Asian giants are of fundamental importance for Nokia. The company that can control Asia’s Big Two will have a lead in the global handset wars. Today, China is the world’s No. 1 cellular market, with some 400 million users and growth last year of 20%. While India is far smaller, with just 81 million users in February, handset sales are expected to double this year and total users could hit 500 million by 2010.

Since 2002, when India’s cellular market took off, Nokia has drawn on its China experience to consolidate its lead. In 2004 the company launched two India-specific models, which included a flashlight, dust cover, and slip-free grip (handy during India’s scorching, sweaty summers). Nokia introduced software in seven regional languages for non-Hindi speakers and added ring tones of patriotic songs such as the nationalist hymn India Is the Best. ‘We invested when the market was nothing,’ says Robert Andersson, who oversees manufacturing, sales, and marketing at Nokia. ‘We have been able to harvest the fruits of that commitment in the last four years.’

Source: Einhorn et al. 2006.
4.1.4 All Strings Attached? Questions on Customer Relationship Management

A fourth category of central strategic questions is concerned with the aspects of customer relationship management. A primary element here is the management of existing customers to optimize customer satisfaction – a key prerequisite for customer loyalty (for a discussion of ‘customer satisfaction’, please refer to the Appendix). As far as company objectives are concerned, customer relationship management (we will also use the term ‘relationship marketing’) aims at the optimal design of the customer relationships of a company. Of special relevance are the establishment and maintenance of long-term business relationships, which can be associated with numerous potential advantages for the company, such as:

- sales-related advantages
- cost-related advantages.

In terms of sales-related advantages, sales volumes generated with a customer can increase over the course of a business relationship. If a company gains an increasingly better understanding of the customer’s needs in the course of a relationship, it can use this information to create an improved offer for the customer. Furthermore, the customer may increase their share-of-wallet with the company. Cross-selling and reduced price sensitivity of customers are additional advantages of successful customer relationship management (see also Chapter 9).

Cost-related advantages can arise from a decrease in information and coordination expenses required for maintaining the business relationship (i.e. transaction costs are reduced – for more on ‘transaction cost theory’, see Appendix). In light of the fact that the acquisition of new customers is generally very costly (see Hart et al. 1990; Reichheld and Sasser 1990), a potential cost-related benefit of long-term business relationships is that they can reduce the necessity of costly new customer acquisition activities.

Accordingly, the objective of customer relationship management is the establishment of customer loyalty. As a rule, an essential prerequisite for customer loyalty is a sufficient level of customer satisfaction. The strategic orientation of these customer relationship management activities can be derived from the answers to the central questions shown in Table 4-5.

Table 4-5 Central strategic questions concerning customer relationship management

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>For what should customer loyalty be established? The company, company employees, products or brands?</td>
</tr>
<tr>
<td>Which customers/customer groups should be targeted in loyalty-building programs?</td>
</tr>
<tr>
<td>How (i.e. via which reasons for loyalty) should customer loyalty be ensured?</td>
</tr>
<tr>
<td>Which instruments can be used to secure customer loyalty?</td>
</tr>
</tbody>
</table>

The first central question regarding customer relationship management refers to which object the customer loyalty should refer to. In principle, customers can be loyal to companies, persons, products or brands.

With respect to the second central question, concerning which customers/customer groups should be targeted in terms of developing loyalty, it should be pointed out that prioritizing the individual market segments (already discussed in the first central question in Chapter 3) is particularly important when defining customer relationship management activities.

A further central question in customer relationship management addresses how to ensure customer loyalty. At the core of this question are the fundamental factors driving customer loyalty. When formulating the marketing strategy, a company has to determine which reasons for loyalty should
be promoted and to what extent. Four basic reasons for customer loyalty are especially relevant (see Meyer and Oevermann 1995):

1. **Psychological reasons for loyalty** comprise customer satisfaction, personal relationships and customer habits (psychological reasons for loyalty also include, e.g., loyalty to a specific brand, see Fournier 1998).

2. **Economic reasons for loyalty** arise if the business relationship is designed so that it is economically disadvantageous for the customer to switch to another company due to high switching costs.

3. **Technical/functional reasons for loyalty** exist if there are technical dependencies, and switching to another company is associated with difficulties of availability or problems of compatibility.

4. **Contractual reasons for loyalty** exist if the customer is bound to the company for a certain period of time due to a contractual agreement and thus, for legal reasons, cannot switch to a different company (e.g. a contractual tie with a provider in the telecommunications market).

A fourth question inquires about the instruments that should be used to secure customer loyalty. A detailed description of the available tools and instruments will not be presented here. For more information, please refer to Section 9.2 in Part 3 of this book, which discusses the marketing instruments of customer relationship management.

### 4.1.5 In Good Company? Questions Regarding Competitive and Cooperative Conduct

A fifth category of central strategic questions regarding the formulation of marketing strategies tackles a company’s conduct towards other companies (see Table 4-6). The focal point here is on strategic considerations concerning the competitive and cooperative conduct of a company.

#### Table 4-6 Central strategic questions concerning competitive and cooperative conduct

- How should the company generally interact with its competitors?
- With which companies, and with what objectives, should the company cooperate within the scope of the market development, and how should the cooperation be structured and designed?

The first question relates to how the company should generally interact with its competitors. In the course of their market development, companies are frequently confronted with competitor actions that go beyond the normal ‘day-to-day business’. A differentiation between cooperative actions and threatening behavior can be made in this context. Cooperative actions on the part of a competitor do not have a negative impact on the company’s achievement of objectives. For instance, price increases by a competitor can be interpreted as cooperative since they can enable the company to increase its own prices. Threatening behavior, on the other hand, can negatively affect the company’s ability to achieve its objectives. For example, the launch of a new product or price reductions on the part of the competition can diminish the company’s profit.

The best way to respond to the competitive activities has to be decided on a case-by-case basis. The marketing strategy can provide only general response patterns. For example, a strategic guideline can define how aggressively a company tends to react. The extent to which a company can forecast probable competitor activities and respond to them proactively before they are actually implemented (e.g. price reductions prior to an expected new product launch by a competitor) is also decisive.

Of particular relevance are threatening actions on the part of competitors. If a company is threatened by another competitor, four basic competitive reactions have been observed (see Kuester et al. 1999, 2001):
PART ONE Laying the Groundwork: Shaping Marketing Strategies

1. ignoring the activity
2. cooperating with the competitor
3. counterattacking
4. switching to different markets.

If the competitor has not yet carried out its threatening actions, but is expected to, the company can try to defend itself (see Bowman and Gatignon 1995; Gatignon et al. 1997; Kuester et al. 1999, 2001). A range of defence mechanisms can be taken into consideration when formulating the marketing strategy (also see Bain 1956; Gruca and Sudharshan 1995). The company can use product, price, communication and sales, as well as customer relationship management instruments, to fend off threatening competitor behavior.

Another key question concerns cooperative conduct and thus the issue of which companies should be cooperating in the market development process. In this context, a strategic alliance refers to a formal business relationship between two or more companies that established a cooperation with common objectives (e.g. development of technologies or markets). The cooperating companies remain legally independent and regulate the cooperation in the specified areas through more or less formal contracts. By contrast, the legal independence of the participating companies changes in the case of a merger or acquisition. In a merger, two or more companies build one entity by giving up their previous legal existence. With an acquisition, a company buys out one or more other companies or parts of companies and the acquired companies lose their legal independence. Acquisitions can be voluntary (with the consent of the target company) or involuntary (referred to in this case as hostile takeovers).

When discussing cooperative conduct it is important to focus on the intended objectives of the companies involved. The following potential objectives exist in this context (see Barney 2001; Gulati 1998; Varadarajan and Cunningham 1995):

- joint creation of market entry barriers for other competitors
- reciprocal access to knowhow and other resources
- easier market access and sales synergies
- expansion of the service range and/or filling gaps in the product range
- leveraging cost-cutting potential in the form of economies of scale and experience curve effects (see Section 2.2.2)
- risk management.

There are three possible forms of cross-company cooperation.

1. In vertical cooperations, companies positioned at different levels of the value chain work together. An example here is the strategic alliance between an insurance firm (as product supplier) and a company in the financial services sector.

2. Horizontal cooperations refer to collaborations between companies positioned at the same level of the value chain within the same industry. In this case, the cooperating companies are thus (potential) competitors. An example here would be an alliance between airlines.

3. In lateral cooperations (also called diagonal cooperations), companies in different industries work together. Such cooperations are created, for instance, between companies whose markets are merging due to technological developments (e.g. acquisition of a software company by a telecommunications provider).

In addition to this general description of potential forms of cooperation, strategic alliances can also be categorized in terms of marketing aspects. Table 4-7 shows a classification of strategic alliances categorized by the most dominant marketing instrument.
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

4.1.6 All Well Mixed? Questions Regarding the Marketing Mix Design and Structure

The final category of central strategic questions deals with the basic design and structure of the marketing mix (see Table 4-8). There are two different categories of question in this context: those that relate to the general design and structure of the marketing mix, and those that concern the basic alignment of the individual components of the marketing mix.

A key question addressing the general design and structure concerns the degree to which the market development is differentiated for individual market segments. In other words, this question addresses the positioning of a company between the two extreme points of a completely standardized market development across all segments and a completely customized development of each individual market segment. In fact, if the market development is strongly differentiated for the different segments, the key questions related to the design and structure of the marketing mix should be answered on a segment-specific basis.

As noted above, the question regarding the company’s product–price positioning is related to the general design and structure of the marketing mix. The basic options for design and structure related to the decision about the positioning are shown in Figure 4-5. Price and performance are the two attributes that help to construct this two-dimensional matrix. The attribute ‘performance’ relates to non-price marketing instruments. Both price and performance are assessed qualitatively or quantitatively relative to the competition (for ‘multi-dimensional scaling’ as a general technique for positioning analysis please refer to the Appendix). In the diagonal depicted in Figure 4-5 a consistent positioning can be achieved, with relative price and relative performance at corresponding levels. In company practice, strategic positioning in this diagonal area is frequently applied. Moreover, companies that want to increase their market share or penetrate a new market often choose a positioning with a particularly favorable price–performance ratio.

Table 4-7 Differentiation of strategic alliances categorized by the dominant marketing mix instrument

<table>
<thead>
<tr>
<th>Form of alliance</th>
<th>Possible focus of cooperations</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Product alliance | ■ Granting of a manufacturing license for another company  
                    ■ Bundled marketing of complementary products of both partners  
                    ■ Joint new product development or market launches | Joint development of new medications by pharmaceutical companies |
| Communication alliance | ■ Joint usage of communication tools, possibly with a common advertising message | Joint sponsorship of a sports event |
| Distribution alliance | ■ Joint utilization of sales channels, field or customer service organizations  
                        ■ Joint activities in logistics | Inventory of a trade company is managed by a manufacturer |
| Price alliance   | ■ Joint pricing activities on the part of several companies | Joint discount systems, cross-company price bundling |
| Customer loyalty alliance | ■ Joint customer loyalty activities by companies | Joint bonus systems of airline, car rental and hotel companies |
‘Premium’ positioning is based on high-quality products and services, while ‘economy’ positioning is based on low prices. This process is essentially similar to the cost leadership strategy (see Section 4.1.2) and is often associated with high volume (thus, also referred to as ‘price–volume strategy’).

Another question is concerned with the overall marketing budget. In connection with budget decisions, a relevant issue is how to allocate the budget to the individual marketing mix instruments.
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

4.2 Supporting Concepts for the Formulation of Marketing Strategies

After describing the different facets of a marketing strategy, this section will discuss a number of concepts that can play a supporting role in the formulation of marketing strategies. It should be mentioned in this context that some of the concepts presented within the scope of strategic analysis (see Chapter 3) can also be relevant here. This applies, for example, to SWOT analysis (see Section 3.4.2). However, the models discussed in Chapter 3 focus more on analytical aspects, whereas the concepts in this section explicitly aim at generating recommendations for marketing management.

We will introduce the following concepts:

- the strategic gameboard
- portfolio techniques.

The strategic gameboard is a qualitatively oriented creativity technique that describes the nature of competition in an industry. To this end, two fundamental questions are asked: ‘Where does competition take place?’ (referring to market segmentation) and ‘How is competition shaped?’ (referring to the business system). With regard to the first question, the development of a niche or, alternatively, the entire market can be considered. The second question takes into account competition according to old rules vs competition according to new rules as strategic options. These dimensions result in a matrix that identifies four basic strategies (see Figure 4-6).

The analysis focuses on finding ways that allow for radical realignments of the competitive landscape (see Kerin et al. 1990). New rules can be realized through innovation or by reconfiguring the rules of competition in the entire market. Striving to rewrite the rules of competition is called a new game strategy (see also ‘blue ocean strategy’ in Section 3.4.1). An example of this strategy is the approach of a mechanical engineering company to provide customers with the option of leasing machines instead of buying them. This offer, when first introduced, led to a reconfiguration of competition. Competitors were no longer primarily focused on product performance and price, but to a great extent on financing and service concepts.

Figure 4-5 Basic design of product–price positioning strategies (see Simon 1992, p. 64)
We can distinguish new game strategies according to the following characteristics:

- New game strategies are more effective and successful the more competitors are taken by surprise.
- New game strategies aim at shaping competitive conditions in a way that favors the particular strengths of the company.
- New game strategies can lead to high profits, but also pose significant risks.

Focus on Marketing 4-6 illustrates an example of a new game strategy.

Focus on Marketing 4-6 The Starbucks customer experience

Fortune magazine describes Starbucks as ‘possibly the most dynamic new brand and retailer to be conceived over the past two decades’. The company has a huge global reach, and as of 2008, has over 7,500 locations in more than 40 countries worldwide.

Customers stream into Starbucks to buy coffee at far higher prices than they used to before the advent of the chain. They go to their local Starbucks to read on plush sofas, or to use the wi-fi connections available in over 400 UK branches, to read e-mail on their laptops and hold meetings. In the US and Canada, customers can load money onto the company’s stored-value cards. The cards can be personalized to a design of their choice, and they entitle the customer to special offers such as free refills. Since October 2006, Starbucks has fostered a partnership with Apple’s iTunes to offer complimentary digital music downloads to their US customers.

‘Starbucks has become what I call the third place,’ says Howard Schultz, the man who built the coffee company that has become an American institution. ‘The first place is home. The second place is work. We are the place in between. It’s a place to feel comfort. A place to feel safe. A place to feel like you belong.’ The Starbucks website describes the atmosphere as:
Quantitatively oriented concepts can also be applied for the design of the marketing strategy. The most prominent quantitative concept is the portfolio technique.

The portfolio method is intended to support the process of resource allocation in markets – in other words, the question addresses to what extent a company should invest resources into developing a particular market or market segment. The term ‘portfolio’ originated in finance to address the problem of spreading investments across a securities portfolio. The original concept emphasizes the idea of balancing investments according to specific criteria (e.g. risk). This problem is akin to one of the resource allocation decisions firms face, particularly when they are operating in multiple markets. The portfolio technique as applied in marketing may recommend that firms invest heavily in markets to strengthen their competitive position, to maintain their position, to limit investment or to even discontinue activities in certain markets.

The markets/market segments that are analyzed during the course of a portfolio analysis can be defined according to various criteria (see Section 3.3 on market segmentation). In international marketing, for example, portfolios can be used to analyze local and national markets, and to set appropriate priorities for these markets (for more information on this topic see Chapter 12). If a company is divided into strategic business units (SBUs), portfolio analysis is usually conducted at the SBU level.

Most portfolio models share the common objective to support decisions related to resource allocation in markets, and they also share a common logic: within the course of a portfolio analysis, markets are positioned in a two-dimensional matrix, with one axis referring to market attractiveness in the broadest sense and the other axis, generally speaking, indicating the strength of the company’s position in the markets being analyzed. A subsequent evaluation of these two dimensions results in basic recommendations with regard to resource allocation. In the following, we will examine the most important portfolio models:

- the market growth/market share portfolio
- the life cycle portfolio.

The market growth/market share portfolio (also referred to as the BCG Model, as it was developed by Bruce Henderson at the Boston Consulting Group in 1970) is a well-known application of the portfolio technique and was the first to be discussed systematically (see Abell and Hammond 1979; Hedley 1977). With this technique, the company’s SBUs are evaluated by the relative market share

Focus on Marketing 4-6 (Continued)

‘specifically designed to be cosy and intimate, while at the same time providing people with their own personal space to use as they wish. . . . Those looking for peace and quiet away from home or the office can relax and linger in an armchair and escape into a book, whilst those looking for an intimate place to meet friends can huddle on a sofa and chat over a mug of coffee, as they would in their own home.’

These features are now familiar in many city center coffee shops around the world, but it was Starbucks who pioneered this new and unusual customer experience from the company’s origins in Seattle. Schultz’s aim was to try to create something that never really existed in the US: cafe life, for centuries a hallmark of Continental society.

PART ONE Laying the Groundwork: Shaping Marketing Strategies

(defined as the ratio of the company’s own market share as compared to the market share of the strongest competitor). Obviously, this approach is shaped by the results of the PIMS project (see Section 2.2.1) as well as the theory of the experience curve model (see Section 2.2.2). Furthermore, the market attractiveness of SBUs is assessed based on market growth, an approach that is rooted in the logic of the Life Cycle Model (see Section 2.2.3).

Figure 4-7 illustrates the formal structure of this portfolio. The horizontal axis refers to relative market share and the vertical axis captures the market growth. For each axis, a cut-off point is determined so that the resulting matrix consists of four cells. As a rule, the vertical cut-off point is located at a relative market share of 1, which is exceeded only by the market leader. An additional line highlights market shares between 1 and 1.5. When formulating a marketing strategy, special attention should be paid to SBUs that fall into this area since the comparatively weak market leadership of the company is especially at risk here. There are no general criteria for determining the cut-off point for the horizontal dimension. Determining the cut-off point has important implications as above this threshold point growth is deemed to be significant (the selected 5% value in Figure 4-7 is used for illustrative purposes). Possible criteria for determining this point include, for example:

- average industry growth (if all examined markets belong to the same industry)
- general macroeconomic growth data (if the examined markets belong to different industries), or
- company-internal growth targets.

In general, the individual markets/SBUs are represented by circles whose size proportionally corresponds to the respective sales volume of the company. The affiliation of an SBU with one of the four cells in Figure 4-7 leads to basic recommendations (standard strategies) with regard to resource allocation, as described below.

- **Stars** (SBUs characterized by a high market share and a high market growth rate) often are highly profitable, however they require a significant allocation of resources if the objective is to maintain or strengthen the market position in a fast-growing market. The basic recommendation for these business units is to deploy extensive resources (e.g. with a view to developing new products/acquiring new customers).
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

- **Question Marks** (SBUs characterized by a low market share and a high market growth rate) generally require the utilization of significant marketing resources relative to their sales in order to be able to sustain them in a fast-growing market. Accordingly, they are frequently unprofitable. The strategic key question here is whether major investments (e.g., for developing new products or establishing new sales channels) should be made in order to turn this SBU into a Star.

- **Poor Dogs** (SBUs characterized by a low market share and a weak or even negative market growth rate) should be managed in such a way that does not put any financial burden on the company. Options for action include a gradual retreat or limiting activities to individual market niches.

- **Cash Cows** (SBUs characterized by high market share and low market growth), with their strong position in a market that at best displays a weak growth performance, yield more cash flow than would be feasible to reinvest. Here, marketing resources (e.g., customer loyalty schemes) should be deployed only to the extent required to maintain the market position. In markets where SBUs are in such a position, the cash flow generated should be invested in growing markets (Stars or Question Marks).

A significant weakness of this basic portfolio lies in the very limited data basis: far-reaching recommendations for resource allocation are based on just three indicators (market growth, own market share, market share of the strongest competitor). Subsequently, other similar portfolio models have been conceptualized that are more comprehensive in nature (e.g., the GE product portfolio matrix).

Another model of the portfolio approach is the life cycle portfolio, which analyzes markets based on the life cycle phase that they are experiencing. This approach is therefore very strongly rooted in the logic of the Life Cycle Model (see Section 2.2.3).

The two dimensions applied in this model are the life cycle phase and the competitive position. With regard to the competitive position of the company, five positions can be distinguished (see Laukamm and Steinthal 1986):

1. dominant (quasi-monopoly)
2. strong (as a rule, large degree of independence from the strategies of the competition)
3. favorable (e.g., one of several market leaders in a fragmented market without any outstanding competitor)
4. tenable (e.g., specialization in a market niche)
5. weak (e.g., companies that are too small for the competitive dynamics in their sector, or companies that have made severe mistakes in the past).

This model displays a distinct conceptual similarity to the market growth/market share portfolio; however, the dimensions addressed here are more comprehensive than in the classic approach. From the evaluation of a market/SBU based on these two criteria, this portfolio derives recommendations for one of four strategic directions (see Figure 4-8):

1. progressive development (wide range of strategic options)
2. selective development (focus on particular segments or niches)
3. revitalization/proof of viability (significant improvement of competitive position or retreat to niches)
4. retreat (minimization of investments or exit).

At its core, the model states that the more advanced the life cycle, the fewer situations exist where a progressive development with a correspondingly high resource deployment would be feasible. Thus,
PART ONE Laying the Groundwork: Shaping Marketing Strategies

such progressive development is considered to be more feasible in the introductory phase, virtually regardless of the competitive position, whereas in later life cycle phases, progressive development is recommended only in the case of a dominant or strong competitive position. In other words, this model discourages a costly rush to catch up in late life cycle phases. For more information on this portfolio, please refer to Jain (2004).

Despite the relevance of portfolio techniques for the design of the marketing strategy, a number of weaknesses of portfolio analysis have to be mentioned. When discussing the general deficits of portfolio analysis, a number of methodological problems should first be noted, including the dependency of the results on market definition, the issue of determining the cut-off points, and the sensitivity of the resultant strategy recommendations towards minor changes in data input. More severe than these methodological aspects, however, is the problem that the portfolio analysis neglects potential market, cost or technology-related synergies between the individual SBUs. For example, if synergies are significant, a market exit can be extremely problematic since other SBUs are likely to be affected by this.

In summary, the portfolio concept significantly contributes to systematic decision making pertaining to the central issue of resource allocation for markets. In view of this, it is not surprising that this method continues to play an important role in today’s company practice for the design of corporate strategy and marketing strategy. In our opinion, an essential didactic benefit of the concept is that it clearly demonstrates to companies the importance of a well-balanced portfolio structure (especially when it concerns markets with different growth rates). The aforementioned problems do not pose a fundamental challenge to the portfolio approach, but rather illustrate that it should not be applied without reflection. In particular, portfolio analyzes should be accompanied by additional, and ideally complementary, analyzes (see, e.g., the methods described in Chapter 2).
4.3 Evaluating Marketing Strategy

Strategy formulation, as described here, frequently results in several alternative marketing strategies that can differ significantly or only gradually. It is therefore the company’s task to evaluate the alternative strategies with regard to suitable criteria and select an alternative on the basis of this evaluation.

Marketing strategies can be evaluated based on both qualitative and quantitative aspects. During the course of a qualitative evaluation of the various alternative strategies, several aspects have to be considered. The consistency of the marketing strategy is the first issue in this consideration, which concerns maintaining consistency to the company objectives as well as to other strategies that are deployed by the company (e.g. business unit strategies). A second aspect when evaluating a marketing strategy is its information basis. The core question here is whether the marketing strategy has a sufficient information basis or if parts of the strategy were formulated based on managerial ‘gut feeling’. An essential key aspect when evaluating a marketing strategy is an assessment of the strategy content. In this, the most important aspect is the extent to which the central strategic questions raised in Section 2.1 have been addressed adequately and to what degree those answers are feasible and useful. Furthermore, a marketing strategy should also be evaluated with regard to the feasibility of strategy implementation (see also Part 4 of this book).
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Summary

In this chapter, we focused on the formulation, evaluation and selection of marketing strategies. First of all, a company has to define the strategic marketing objectives and the customer groups to be targeted in the marketing strategy. Then, a set of closely intertwined questions has to be addressed. Among them, the decision as to whether the company focuses mainly on providing core benefits to its customers or also offers additional benefits is of central importance as it influences the company’s competitive strategy. Focusing solely on core benefits often goes hand in hand with a cost leadership strategy, whereas providing additional benefits can be the basis for a differentiation strategy. Another question concerns the innovation strategy to be pursued. The decision here is whether the company focuses on new products, new markets, or both. The Product-Market Growth Matrix has important strategic implications for this consideration. The next set of questions deals with aspects of customer relationship management (e.g. whether customer loyalty should be established with regard to the company or rather with regard to certain representatives of the company). Furthermore, it has to be decided what customer groups should be targeted and how customer loyalty should be ensured. As outlined in the previous chapters, strategy also has to consider the competitive environment. Key questions here are whether the company adopts a cooperative or hostile stance towards competitors. At the instrumental level, questions arise regarding product decisions, pricing, communication and sales. The key decision is to what extent the marketing mix should be standardized across different market segments or whether a customized development of different segments is more suitable. Finally, we presented two methods that can be used to support the process of strategy formulation. The strategic gameboard combines the market where competition takes place (entire market vs niche) and the business system (old rules vs new rules) in order to deduce appropriate strategies. The more quantitatively oriented portfolio technique helps to classify the attractiveness of different market segments or SBUs in order to derive optimal resource allocation decisions.

Case Study: The Rise of the Superbrands

Consumer-goods firms find it hard to boost growth by letting go of older, slower-growing brands. These older brands have become so established in the mind of shoppers that customers buy them without thinking – they almost sell themselves. That makes them a good source of profit. However, these brands also eat up scarce management time and marketing talent on lines of business that are unlikely ever to grow much.

At Proctor & Gamble (P&G), the CEO made some changes to address this. Mr A.G. Lafley is a beauty-products specialist and took over the CEO role in June 2000. He decided to shed Punica, a German juice brand and Sunny Delight, an American one, Jif (peanut butter) and Crisco (pastry shortening). He also disposed of P&G’s BIZ, Milton, Sanso, Rei and Oxydol detergent brands.
Mr LaFley sharpened the focus of his portfolio of brands by concentrating on beauty and grooming products which he felt had more potential for growth. He has also reinvested cash from the sale of these product lines back into P&G’s strongest brands, funnelling the firm’s resources into a smaller number of top ‘superbrands’, which are making a growing contribution to the company’s overall sales.

In 2000, P&G owned ten brands each with annual sales of more than $1 billion. By 2004, it had 16 brands with sales over $1 billion, which earned the firm $30 billion of its $51.4 billion of sales in 2004. The merger with Gillette in 2005 brought five more billion dollar brands such as Oral-B, Duracell and Braun under the P&G banner. The company reached net sales of $76.476 million in 2007, thanks to a total of 23 billion-dollar brands. LaFley also hopes that P&G is fostering the ‘superbrands’ of the future – in 2007 there were 18 brands contributing between $500 million and $1 billion in annual sales waiting in the wings.

Speaking in an article in The Economist in May 2005, Uta Werner of Marakon Associates stated that ‘P&G has done really well consolidating its brands down to a strong core’. P&G is hoping that this growing stable of ‘superbrands’ will secure its future in the industry’s tough environment.

Sources: The rise of the superbrands, The Economist, 02/05/2005, and company factsheet from http://www.pg.com/company/who_we_are/ourhistory_5.jhtml.

Discussion Questions

1. Discuss the most important portfolio models and their underlying assumptions and conceptual origins.
2. What are the advantages of P&G’s superbrand strategy?
3. What could be the potential negative consequences of P&G’s superbrand strategy?
4. What implications, if any, does the Product-Market Growth Matrix have for P&G’s portfolio development strategy?
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Key Terms

Acquisition of new customers  69
Basic factors, performance factors and
excitement factors  71
Benefits  70
Cash Cows  87
Competitive advantages being pursued  72
Competitive reactions  79
Competitive strategy  72
Competitors  79
Contractual reasons for loyalty  79
Cooperative conduct  80
Core benefits  70
Cost leadership  72
Cost-related advantages  78
Customer loyalty  78
Customers/customer groups  78
Defence mechanisms  80
Development of existing customers  69
Differentiation on the basis of superior
customer relationships  73
Differentiation on the basis of superior
products  72
Differentiation  72
Diversification  76
Economic benefits  71
Economic reasons for loyalty  79
Emotional benefits  71
Functional benefits  71
Horizontal cooperations  80
Hybrid competitive strategies  73
Innovate in markets  75
Innovate in products  75
Innovation orientation  75
Lateral cooperations  80
Life cycle portfolio  87
Long-term business relationships  78
Market development  76
Market growth/market share portfolio  85
Market penetration  76
Marketing budget  82
Mass customization  74
Merger  80
New game strategy  83
Poor Dogs  87
Portfolio technique  85
Process-related benefits  71
Product development  76
Product–price positioning  81
Psychological reasons for loyalty  79
Quantitatively oriented concepts  85
Question Marks  87
Reasons for loyalty  78
Recommendations for marketing
management  83
Resource allocation  85
Sales-related advantages  78
Social benefits  71
Stars  86
Strategic alliance  80
Strategic gameboard  83
Strategy formulation  68
Strategy implementation  89
Technical/functional reasons for loyalty  79
Vertical cooperations  80
Weaknesses of portfolio analysis  88
What customer benefits the company should
create  70
Which market segments should be
developed  69
CHAPTER 4 Formulation, Evaluation and Selection of Marketing Strategies

References

PART ONE Laying the Groundwork: Shaping Marketing Strategies

This case deals with strategic marketing questions in the automobile industry, taking up major concepts discussed in Part 1. Its questions center on the marketing strategies Tata Motors Ltd should pursue in order to become a global player in the automobile industry, and how these strategies should be implemented. As a predominant issue, it incorporates questions and concepts regarding the competitive conduct, market entry into international markets and competitive advantage.

**Tata’s Inspiration: A First Stepping Stone to Strategic Change**

‘We must help these people,’ Ratan Tata, chairman of the Tata Group and Tata Motors, thought to himself in August 2003. He was driving back home from his office on a rainy night looking outside the window of his Tata sedan in downtown Mumbai, India’s rising financial and economic capital, formerly called Bombay (Aiyar 2008). Later that night he figured relaxedly, ‘My ideas indeed have the potential to upset the global auto market!’ plunging comfortably into a warm bath. What Tata found to be so inspiring yet worrying was the sight of entire families on motorcycles blazing a trail through the overcrowded streets of Mumbai, which were flooded by heavy monsoon rains. Tata observed: ‘The father drives with one child standing just in front of him, and the mother sits behind with a baby on her arm. I have seen that so often . . . even during rainstorms or at night. And each time, I think: Oh God, can’t we do something to help these families travel more safely?’ By that night in late summer 2003, Tata knew they could. The Tata Group, India’s oldest and largest conglomerate, has ever since been committed to social responsibility and in that tradition, Tata was convinced, the company should make its way into the twenty-first century: ‘Our goal is to develop an inexpensive and safe vehicle!’ he asserted (Rao and Tuma 2007). Just a few months later car experts around the world were wide-eyed when they read the news: Tata was announcing the launch of a people’s car named Nano – its price was set no higher than Rs100,000 ($2,500), and was therefore referred to as the one-lakh car.1

**The Global Automobile Market**

The industry for automobile manufacturers consists of the market for automobiles and the market for motorcycles, together worth about $1,209 billion worldwide in 2006. Having suffered a slowdown between 2000 and 2002, since then the industry has grown at a compound annual growth rate (CAGR) of 4.7 per cent (up from approximately $1,007 billion in 2002; see Exhibit 1 for further information). In terms of volume, global automobile production totalled 92 million units in 2006 (up from 77.7 in 2002, CAGR of 4.3 per cent). From a geographic perspective, the USA represented the largest automobile market with a share of 38.1 per cent, followed by Europe and the Asia-Pacific region (see Exhibit 2).

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1 Rs stands for Indian rupees. A ‘lakh’ is a unit in the Indian numbering system, representing the number 100,000.
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Exhibit 1 Global automobile industry value: $ billion, 2002–2006

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,006.9</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>1,039.9</td>
<td>3.30%</td>
</tr>
<tr>
<td>2004</td>
<td>1,090.7</td>
<td>4.90%</td>
</tr>
<tr>
<td>2005</td>
<td>1,149.5</td>
<td>5.40%</td>
</tr>
<tr>
<td>2006</td>
<td>1,209.0</td>
<td>5.20%</td>
</tr>
</tbody>
</table>

**Growth rate (CAGR), 2002–2006**

4.70%

*Source: Datamonitor 2007a.*

Exhibit 2 Global automobile industry segmentation II: % share, by value, 2006

<table>
<thead>
<tr>
<th>Geography</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>38.1%</td>
</tr>
<tr>
<td>Europe</td>
<td>29.3%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>23.7%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

*Source: Datamonitor 2007a.*

Looking forward, improving customer confidence, favorable borrowing rates and increased demand in emerging markets such as China, India, Brazil, Russia and Latin America are expected to fuel future growth in the automobile industry (Datamonitor 2007a; PricewaterhouseCoopers 2007). Growing at an expected CAGR of 4.5 per cent, the industry is expected to reach a total value of about $1,505 billion in 2011 (109.8 million units, CAGR of 3.6 per cent; Datamonitor 2007a; see Exhibit 3). Nonetheless, the automobile industry is facing several challenges in the years ahead,

Exhibit 3 Global automobile industry value forecast: $ billion, 2006–2011

<table>
<thead>
<tr>
<th>Year</th>
<th>$ billion</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,209.0</td>
<td>5.2</td>
</tr>
<tr>
<td>2007</td>
<td>1,264.3</td>
<td>4.6</td>
</tr>
<tr>
<td>2008</td>
<td>1,322.8</td>
<td>4.6</td>
</tr>
<tr>
<td>2009</td>
<td>1,385.5</td>
<td>4.7</td>
</tr>
<tr>
<td>2010</td>
<td>1,445.5</td>
<td>4.3</td>
</tr>
<tr>
<td>2011</td>
<td>1,505.4</td>
<td>4.1</td>
</tr>
</tbody>
</table>

**Growth rate (CAGR) 2006–2011**

4.5%

*Source: Datamonitor 2007a.*
Tata Motors Ltd: An Indian Elephant Makes a Foray into the Global Auto Market

including the further increase of raw material prices and the public debate regarding climate change (PricewaterhouseCoopers 2007). As a result, the innovative use of materials and fuel-efficient cars will become more attractive to end customers.

The revenues of automobile manufacturers account for 97.3 per cent of the automobile industry’s revenues ($1,176.9 billion in 2006, CAGR of 4.7 per cent between 2002 and 2006). The sector is strongly competitive and concentrated. It is mostly in the hands of five major players: General Motors, Daimler, Toyota, Ford, and Volkswagen. These companies together hold roughly 75 per cent of the global market (see Exhibit 4). In terms of volume, production totalled 65.7 million units in 2006 (CAGR of 3.5 per cent between 2002 and 2006). The growth of the global market in the past has mostly been due to the improvement of the economic situation in developed markets. However, North American and European car manufacturers have suffered from decreased sales volumes. Margins were negatively affected by increased labor, energy and raw materials costs. Considering these issues, manufacturers strive intensely for competitive advantage. As an example, changing customer perceptions and demand have led car manufacturers to focus on innovation (e.g. the development of hybrid cars; Datamonitor 2007a).

According to a recent study conducted by the German automotive supplier Robert Bosch, the market for cars priced under $9,870 will make up 13 per cent of the world’s car market by 2010 (equivalent to 10 million cars a year). Bosch estimates that, by then, revenues in the low-price car segment will grow twice as fast as the rest of the market. To satisfy this demand, a Bosch executive says, ‘slimmed down versions of existing components and systems are not sufficient’ (Timmons 2007), posing an additional pressure for automobile manufacturers to innovate.

Exhibit 4  Global automobile market share: % share, by value, 2006

<table>
<thead>
<tr>
<th>Company</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors</td>
<td>16.8%</td>
</tr>
<tr>
<td>DaimlerChrysler</td>
<td>15.5%</td>
</tr>
<tr>
<td>Toyota</td>
<td>15.5%</td>
</tr>
<tr>
<td>Ford</td>
<td>15.5%</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>9.3%</td>
</tr>
<tr>
<td>Other</td>
<td>27.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Datamonitor 2007a.

The Tata Group and its Affiliates

The Tata Group, headquartered in India, is described as ‘one of the world’s most diverse and unusual conglomerates’ (Timmons 2008). It operates in seven business sectors through its 98 affiliated companies and 333,000 employees (26 per cent of them outside India; Kripalani 2008). The sectors comprise information systems and communications, engineering, materials, services, energy, consumer products and chemicals (Tata Group 2008a).
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Being inspired by the idea of helping to bring back India’s wealth, the cornerstone of the company was laid by Jamsetji Tata in 1868 (Rao and Tuma 2007). In the following decades the company developed into one of the country’s biggest enterprises, with products and services ranging from tea, watches, automobiles, steel and food additives to energy, as well as hotel and consultancy services. Since Ratan Tata, a distant relative of Jamsetji Tata, took over the fortunes of the group, business activities have begun to expand globally: ‘We were so dependent on one economy,’ Ratan Tata said (Timmons 2008). Acquisitions of recent years include Tetley Tea, Daewoo Commercial Vehicles and the startling $11.3 billion takeover of British steelmaker Corus in 2007. Corus ‘came on us, we didn’t seek them out,’ said Ratan Tata, ‘that opportunity was going to happen once, and it was not going to happen again’ (Timmons 2008). The latter deal granted Tata access to the European market and made the company the world’s sixth biggest steelmaker. ‘We have been thinking bigger than we have done in the past,’ stated Chairman Ratan Tata, ‘we have been bolder . . . and we have been more aggressive in the marketplace’ (Mahapatra 2008). As a result, within five years through 2007 sales of the Tata Group doubled to $29 billion (CNN.com 2008). In fiscal year 2006/2007 international revenues were $10.8 billion (up 58.8 per cent year on year), making up 37.5 per cent of overall revenues (Tata Group 2008b). In fiscal year 2008/2009, it is expected that more than half the group’s revenue will accrue from its international operations (Timmons 2008), and Tata is aiming for more: ‘We are at an early stage,’ he promised (CNN.com 2008).

Traditionally, the group has seen itself as a value-driven organization: ‘The one thing I had always felt is that I wanted to go to bed at night saying I had not succumbed to the temptation of giving up the values and the ethics that the group had been built on, just for short-term gains,’ Tata says (CNN.com 2008). The company introduced the eight-hour working day (1912), maternity leave (1928) and profit sharing for employees (1934) long before these issues spread worldwide (Rao and Tuma 2007). Today, Tata companies are still known for offering worker benefits that are rare in India, including pension and childcare allowances. Tata executives are known for refusing to pay bribes (not an uncommon business practice in India) and living a modest lifestyle, just as Ratan Tata himself does (CNN.com 2008).

Tata Motors: A Company on the Move

Tata Motors Ltd

Tata Motors was established in 1945 and today is India’s largest automobile company, with 22,000 employees (among them 1,400 engineers) and revenues of $7.2 billion in fiscal year 2006/2007, up 36 per cent year-on-year. It was the first Indian industrial company to be listed on the New York Stock Exchange (NYSE: TTM). Its strategic business units (SBUs) are commercial vehicles, where it is market leader in each segment (i.e. buses, trucks and defence vehicles), and passenger vehicles (including utility vehicles).

The manufacturing of commercial vehicles began in 1954 through a 15-year collaboration with Daimler, known as Daimler-Benz at that time. Tata Motors entered the passenger car market in 1991. Its passenger car product range includes the Tata Safari (India’s first sports utility vehicle, launched in 1998), the Tata Indica (India’s first indigenously designed and manufactured car, launched in 1998) and the Tata Ace (a $5,000 low-cost mini-truck), which is yet to be launched. The company has announced that it will introduce numerous new products in 2008 and export several of these to South Africa, Thailand and Russia. Tata Motors is already present in South America, Asia and some European markets (Economic Times 2008a; Sangameshwaran 2008; sify.com 2008). In the past the company has been pushing its growth internationally through acquisitions and alliances. However, Ratan Tata states that this will not be the dominant strategy for growth in the future: ‘We are not in an acquisitive mode’ (Tata Group 2008c).
In 2005, the Tata Motors European Technical Center (TMETC) was established in the UK. TMETC operations include design engineering and the development of products as a support to Tata Motors’ skill sets (Tata Motors 2008). Among the company’s partnerships is a distribution agreement with Fiat for the Indian market (Tata Motors 2008). Fiat has become an important partner for the international expansion of the company’s own products too, as it uses a Fiat plant in Córdoba/Argentina (sify.com 2008). Another partnership exists with Chrysler’s Global Electric Motorcars (GEM), which aims to develop and market an electric version of the Ace in the USA (Kshirsagar 2008). Other strengths of Tata Motors are its strong market position and – outperforming the industry – its robust sales growth. Its overall market share in the Indian four-wheelers market increased to nearly 28 per cent in the fiscal year 2006/2007. The company is leading the commercial vehicles market with a share of 64 per cent and ranks second in the Indian passenger vehicles market with a share of 16.5 per cent. Furthermore, Tata Motors rates high in customer satisfaction. Overall sales grew by 28 per cent in the fiscal year 2006/2007 in terms of volume, achieving its highest ever sales of 580,280 units. In the same year exports grew by 6.5 per cent (53,474 units). Nevertheless, the company suffers from declining cash flows (down 26 per cent year-on-year). This may have a strong negative impact on the company’s growth efforts. Additionally, Tata Motor’s weak presence in the luxury market (6.4 per cent market share in the Indian market) keeps the company from exploiting further growth potential, with India being the fourth biggest luxury car market in Asia (estimated annual growth of 30 per cent; Datamonitor 2007b).

Just like its parent company, Tata Motors is committed to corporate social responsibility, focusing on health, education, water management and environmental issues. For example, the company has initiated several anti-pollution efforts in the Indian automobile industry and introduced emission control engines before they became obligatory (Tata Motors 2008).

The company demonstrates its ambitions in the global auto market and marks milestones in the company’s history – and maybe in automobile history as well – with two major strategic events: the introduction of the Tata Nano and the planned Jaguar/Land Rover takeover (Joshi and Gosh 2008).

Exhibit 5 The Tata Nano
PART ONE Laying the Groundwork: Shaping Marketing Strategies

Introducing the People’s Car: The New Tata Nano

The Tata Nano was first presented to the public at the Auto Expo in New Delhi on January 10, 2008 (see Exhibit 5). It is a four-seater with a 623cc two-cylinder motor that can propel the car up to 105km/h. The retail price will be Rs1 lakh ($2,500) at its planned launch in September 2008, roughly half as much as its closest competitor, the Maruti 800. Having gained much attention worldwide, the car has already been compared to the Ford Model T and the Volkswagen Beetle, both milestones in automobile history. German-based research firm CSM Worldwide expects the Nano to drive Tata to the lead position among India’s light-vehicle manufacturers by 2013 (Platt 2008). In India, just eight out of a thousand people own a car, indicating a huge market potential. Additionally, there seems to be potential to upgrade motorcycle owners (Hindustan Times 2008). Thus, annual production will be 250,000 units but is expected to increase to 1 million in 2010.

Despite the euphoric reactions that the Nano has elicited, opponents and competitors have raised their voices too. Critics say that the car might ‘encourage millions of Indians to give up their two-wheel motor scooters and three-wheel motorized rickshaws’, that jam-packed roads might even get worse, and that it will increase India’s dependence on imported oil (Friedman 2007). Environmental activists warn of its pollution and climate consequences (Prasad and Mishra 2008), yet its consumption will be only 5 litres/100km and it will be able to meet the Euro IV norm (Joshi and Gosh 2008), which limits pollutants to obligatory thresholds. Other worrying issues for Tata include the danger of a major price war among manufacturers (Chaze 2008). Already Renault and Nissan have announced that they will bring a no-frills version of an existing model to the market at $3,000 (Economic Times 2008b). Crude oil and steel prices might increase, as they have done in the past (Aiyar 2008). If this happens, the price of the car may not remain as sensationally low as proposed (Sangameshwaran 2008). And, even if Tata manages this issue, low cost might not necessarily be the only salient selling argument.

From a business perspective, the most interesting question in this regard is ‘How was Tata able to build a car at a cost that auto experts have labeled as impossible to achieve?’ To answer this question several factors have to be taken into account. One important aspect is the experience Tata gained from developing the Indica, and especially designing and building the Ace, since that was a cost-based project too (Tata Group 2008c). The second aspect is the design of the car itself. As Tata points out, ‘the rear passenger seat is on the engine, so you save space; the engine is driving the wheels directly so you save engineering for the drive; you save the space in the bonnet and construction helps keep the costs down but yet meets safety standards’ (Aiyar 2008). Many features are missing in the entry-level model, such as air-conditioning, power brakes and a radio. Tata has put an aluminium engine inside and reduced the amount of steel in the car (Hagel and Brown 2008), leading not only to reduced purchase costs but to low operating costs as well (Aiyar 2008). Along with all the other features of the Nano that are low cost and future oriented, Tata didn’t put the dashboard in front of the driver but right in the middle, so it will be easier to produce a left-hand drive vehicle (Tata Group 2008c). Putting together existing wisdom in an innovative way, the car is cheaper and smaller, yet offers about 20 per cent more seating capacity than the Maruti 800 (Hagel and Brown 2008).

What has really made an impact is its modular design. Tata was not focusing on single breakthrough innovations. The 34 patents hardly seem frightening to Western auto executives compared to, for example, the roughly 280 patents awarded to General Motors every year (Hagel and Brown 2008). Instead, the Nano is ‘constructed of components that can be built and shipped separately to be assembled in a variety of locations. In effect, the Nano is being sold in kits that are distributed, assembled, and serviced by local entrepreneurs.’ (Hagel and Brown 2008). Ratan Tata explained the approach – fully in line with his and his company’s values – as follows: ‘A bunch of entrepreneurs could establish an assembly operation and Tata Motors would train their people, would oversee their quality assurance and they would become satellite assembly operations for us. So we would create entrepreneurs across the country that . . . produce the car. We would produce the mass items and ship it to them as kits. That is my idea of dispersing wealth’ (Hagel and Brown 2008).
Tata Motors Ltd: An Indian Elephant Makes a Foray into the Global Auto Market

The basic version of the Nano, however, will never appear on Europe’s streets due to the high security standards. It is not a secret, though, that besides the primarily targeted Indian market customers in Western countries are also attracted by the affordable car, maybe offering the chance to target these markets too (Mamgain and Athale 2008). Ratan Tata points out: ‘I feel that there is probably a market, maybe outside India . . . for a fully loaded power steering, automatic transmission, power windows, air-conditioned kind of car with a bigger engine at a very affordable price, which is far lower than what is available elsewhere and we should be able to address that kind of market also’ but, he goes on, ‘the obvious markets overseas for us would be the African markets, the Latin American markets like Brazil, Argentina and some of the Far East countries like Malaysia, Indonesia, etc.’ (Gupta and Sriram 2008).

However, the pending launch of a hybrid version of the Nano (Chaze 2008) may indeed offer a significant chance to make automobile history in the developed markets too. Either way, the Nano has done something that automobile manufacturers didn’t achieve in decades: it created an all-new set of customers (Joshi and Gosh 2008) – a market that just didn’t exist before.

The Elephant Arrives: The Jaguar/Land Rover Takeover

In early 2008, Tata Motors was in detailed talks to take over two of the world’s most famous auto brands from Ford, namely Jaguar and Land Rover. In the past the two brands have had to deal with harmful exchange rates and high production costs in Britain. In 2007, sales of Jaguar were down 24 per cent while Land Rover increased sales by 3 per cent compared to 2006 (Staff 2007). The proposed deal is worth $2 billion (Dutt 2008). Another bidder still in the race is JPMorgan’s private equity arm, One Equity Partners, whose senior partner and former Ford chief Jacques Nasser is running the bid (Clark 2008).

Ford had acquired Jaguar for $2.5 billion in 1989 and Land Rover for $2.7 billion in 2000. Together with British luxury sportscar manufacturer Aston Martin and Swedish Volvo, the two brands made up Ford’s Premier Automotive Group. Ford has gone through some tough years and is still looking for fast cash, having lost $12.6 billion in 2006 alone. It expects to burn at least another $12 billion through 2009, when it plans to turn profitable again. In 2007, Ford sold its controlling stake in Aston Martin for $931 million in cash and preferred stock. In contrast, Ford plans to keep Volvo and make it more of a premium brand (Staff 2007).

Regarding the proposed deal, Ratan Tata says that ‘our intention about Jaguar/Land Rover is not to take over the technology, not to outsource [production], but instead we are only interested in the brands and the cultures behind them. We plan to retain the image, touch and feel of these brands and not tinker with them in any way.’ In saying this, he reacted to concerns that the takeover would mark the end of the automobile industry in Britain (Dutt 2008). But Tata – once again – is committed to social responsibility: ‘We don’t break companies up and, under normal circumstances, we don’t just shut down factories’ (Rao and Tuma 2007).

Problems Ahead for Tata

‘If Tata Motors wants to be at the forefront of the global automobile scene, it has to take the fast-track route to progress,’ says an automobile industry analyst (Sangameshwaran 2008). Low-cost cars could well be the next big thing in a row of low-cost goods and services that have come up in today’s global economy – after low-cost carriers, retail stores and notebooks, to name just a few. But how to market these tiny red and yellow candy lookalikes, Tata was wondering. And, even more importantly, what markets to enter in the years ahead? Tata was convinced it was way in front of the competition and – maybe – just as far ahead of the times.
Today, shortly before the launch of the Nano finally takes place, the company is heading the news once again: not only does it launch a car uncompromisingly designed for mass markets, costing just as much as a premium car’s hi-fi system, it is also reaching out for two of the world’s most respected auto brands – Jaguar and Land Rover. Acquiring the two brands from US auto giant Ford would put Tata in a position to compete with two-wheeler manufacturers on the one hand and, on the other, to be at eye level with premium brands such as BMW, Mercedes and Audi (Sangameshwaran 2008).

The Nano introduction and the acquisition of the luxury brands Jaguar and Land Rover might have one desirable aspect: to ‘instantly push Tata Motors onto global centerstage’ (Sangameshwaran 2008). But, nonetheless, both ventures are associated with significant challenges and risks, Ratan Tata is well aware. He is pondering the future steps to be taken and the way towards Tata’s strategic goals while he leans back in his chair overlooking the bay opening widely to the Arabian Sea.

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Discussion Questions

1. What kind of strategy is Tata Motors pursuing with its Nano?
2. What is the competitive advantage of Tata Motors in the auto market? What are the company’s core competencies?
3. Outline the possible strategic marketing objectives of Tata Motors. Consider the structure outlined in Part 1.
4. Discuss several marketing strategy alternatives for introducing the Tata Nano regarding:
   (a) strategic marketing objectives/target groups addressed by marketing strategy
   (b) customer benefits and positioning in relation to competition
   (c) innovation orientation
   (d) CRM
   (e) competitive and cooperative conduct
   (f) design and structure of the marketing mix.
5. Where do you see Tata Motors’ future strategic challenges?

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Tata Motors Ltd: An Indian Elephant Makes a Foray into the Global Auto Market

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