

Marketing Chapter 2

Objective 1 – Companywide Strategic Planning - Defining Marketing's Role

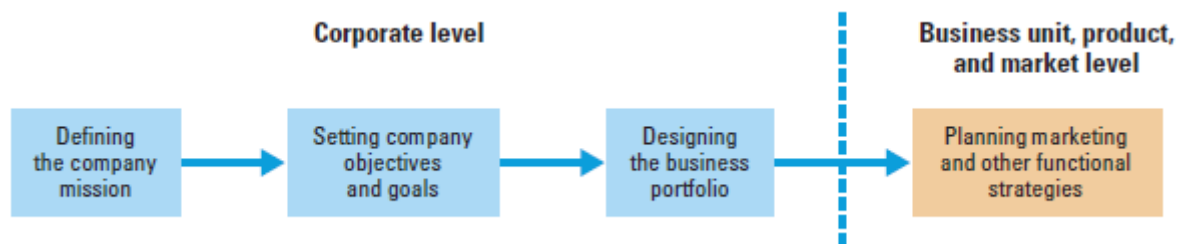
Each company must find the **game plan for long-run survival and growth** that **makes the most sense** given its specific **situation, opportunities, objectives, and resources**.

- **Strategic planning sets the stage for the rest of planning in the firm**

Companies usually prepare **annual plans, long-range plans, and strategic plans**. The annual and long-range plans deal with the company's **current businesses and how to keep them going**. In contrast, **the strategic plan** involves adapting the firm to **take advantage of opportunities in its constantly changing environment**. At the **corporate level**, the company starts the strategic planning process by defining its overall **purpose and mission**.

Strategic Planning – Process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Follows these steps



Defining a Market-Oriented Mission

- **Mission Statement** – A statement of the organization's purpose – what it wishes to accomplish in the larger environment.
- **Answers what the business is, who the customer is, what they value, and what should the business be.**
- **"Invisible Hand" guides the people in the organization.**
- **Defined to be *market oriented* and defined in terms of satisfying basic customer needs.** Some companies define their missions myopically in product or technology terms ("We make and sell furniture" or "We are a chemical-processing firm"). But mission statements should be market oriented and defined in terms of satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. For example instead of Shell defining their mission by stating "we sell fuel" which is myopically defined in product terms, Shell's mission should be market oriented "We provide energy"

- **Product Oriented** - Sell tools and home repair and improvement items.
- **Market Oriented** - Offer products and services to meet the everyday needs of Canadian families today and tomorrow.
- Should be meaningful and specific yet motivating.
- Should not include making sales or profits.

MARKET-ORIENTED MISSION STATEMENTS

| Company | Product-Oriented Definition | Market-Oriented Definition |
|-------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Facebook | We are an online social network | We connect people around the world and help them share important moments |
| Google | We are the world's best search engine | Google's mission is to organize the world's information and make it universally accessible and useful |
| NASA | We explore outer space | We reach for new heights and reveal the unknown so that what we do and learn will benefit all humankind |
| Revlon | We make cosmetics | We sell lifestyle and self-expression; success and status; memories, hopes, and dreams |
| Ritz-Carlton Hotels & Resorts | We rent rooms | We create the Ritz-Carlton experience - a memorable stay that far exceeds guest's already high expectations |
| Walmart | We run discount stores | We deliver low price every day and give ordinary folks the chance to buy the same things as rich people. "Save Money. Live better." |

more sound examples at: www.missionstatements.com/fortune_500_mission_statements.html

Source: Kotler, P., G. Armstrong, (2014), p.44



Univ.-Prof. Dr. Paul Marx | University of Siegen

"Principles of Marketing" 14

Setting Company Objectives and Goals

The company needs to turn its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them

| <u>Goal</u> | <u>Objective</u> | <u>Action Plan</u> |
|--------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| Increase Profit Margin | Reduce operating costs by 10 percent in 18 months | Finance department will conduct an in-depth analysis of identifying low cost suppliers. |
| Improve Employee Skills | Conduct a training program in the next 12 months to improve employee skills. | A special committee will be formed to select and hire a professional trainer to conduct the training. |
| Increase Profit Margin | Increase sales volume by 20 percent in 12 months. | Marketing department will create and implement a plan to increase sales in regions 3 and 5. |

Objective 2 – Designing the Business Portfolio

Analysing the Current Business Portfolio Guided by the company's mission statement and objectives, management now must plan its business portfolio, the collection of businesses and products that make up the company.

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

Business portfolio planning involves two steps. **First, the company must analyze its current business portfolio and determine which businesses should receive more, less, or no investment.**

Second, it must shape the future portfolio by developing strategies for growth and downsizing

The major activity in strategic planning is business portfolio analysis, whereby management evaluates the products and businesses that make up the company.

The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones.

Management's first step is to identify the key businesses that make up the company, called strategic business units (SBUs). **An SBU can be a company division, a product line within a division, or sometimes a single product or brand.** Example (the SBUs of BZU consisting of the Faculties; Business and Economics Faculty; Science ; Engineering ; Arts ... etc.

When designing a business portfolio, it's a good idea to add and support products and businesses that fit closely with the firm's core philosophy and competencies

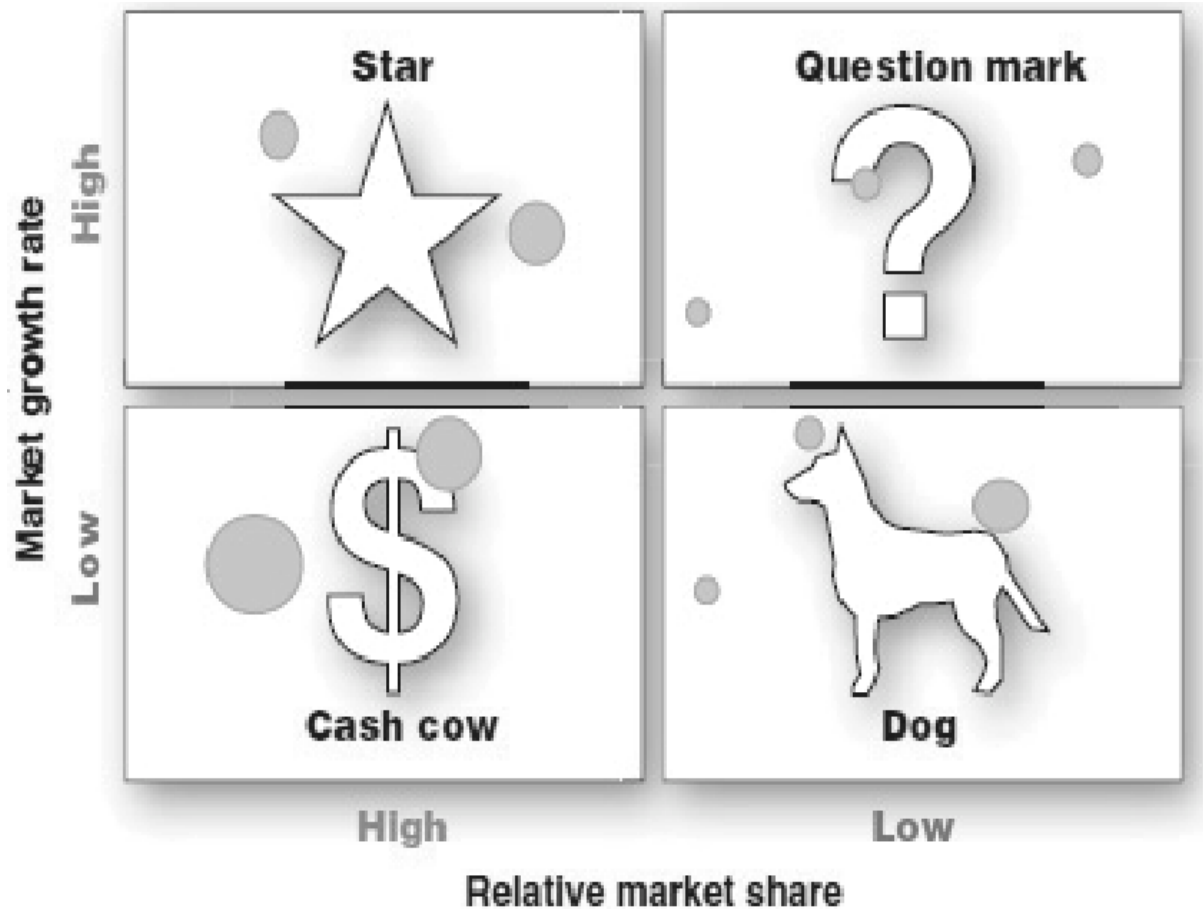
Business Portfolio – The Collection of businesses and products that make up the company.

- Identify key businesses that make up the company (*Strategic Business Units*), which may include company divisions, product lines, or single products/brands.
- Should fit the company's strengths and weaknesses to environmental opportunities.

The best-known portfolio-planning method was developed by the **Boston Consulting Group**, a leading management consulting firm.

The Boston Consulting Group Approach: Using the now-classic Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth-share matrix**

Growth-Share Matrix



The growth-share matrix defines four types of SBUs:

1. Stars: Stars are high-growth, high-share businesses or products. They often need **heavy investments to finance their rapid growth**. Eventually their growth will slow down, and they will turn into cash cows.

2. Cash Cows: Cash cows are low-growth, high-share businesses or products. These established and successful SBUs **need less investment to hold their market share**. Thus, they **produce a lot of the cash that the company uses to pay its bills and support other SBUs that need investment**.

Question Marks: Question marks **are low-share business units in high-growth markets**. They require a lot of cash to hold their share, let alone increase it. **Management has to think hard about which question marks it should try to build into stars and which should be phased out.**

4. Dogs: **Dogs are low-growth, low-share businesses** and products. They **may generate enough cash to maintain themselves but do not promise to be large sources of cash.**

- **The company must determine the role of each SBUs and build one of 4 strategies**
- Invest more to build share. (used for promising question marks)
- Invest just enough to hold the share.(used for stars)
- Milk short-term cash flow by harvesting share.(used for cash cows)
- Sell it or phase it out by divesting share.(used for unpromising question marks and dogs)

- SBU's may continually change types to get more stars and eventual cash cows to finance others.

Problems with Matrix Approaches

- May be difficult, time consuming, and costly to implement.
- Approaches focus on classifying *classic* businesses but provide little advice for *future* planning.
- Formal matrix methods are often dropped in favour of more customized approaches that better suit specific situations.

Developing Strategies for Growth and Downsizing

Companies **need growth** if they are to

1- **Compete more effectively**

2- **Satisfy their stakeholders**

3- **Attract top talent.** At the same time, a firm must be careful not to **make growth itself an objective**. The company's objective must be to manage "**Profitable growth.**"

- **Product/Market Expansion Grid** – A portfolio planning tool for identifying company growth opportunities through market penetration, market development, or diversification.
- Used so that marketing may identify, evaluate, and select market opportunities and establish strategies for capturing them.

| | Existing products | New products |
|------------------|--------------------|---------------------|
| Existing markets | Market penetration | Product development |
| New markets | Market development | Diversification |

Product/market expansion grid A portfolio-planning tool for identifying company growth opportunities through **market penetration, market development, product development, or diversification**

Market penetration Company growth by increasing sales of current products to current market segments without changing the product or making more sales without changing its original product.

Market development Company growth by identifying and developing new market segments for current company products

Product development Company growth by offering modified or new products to current market segments.

Diversification Company growth through starting up or acquiring businesses outside the company's current products and markets

- **Downsizing**

There are many reasons that a firm might want to abandon products or markets:

1- The firm **may have grown too fast or entered areas where it lacks experience**. This can occur when a firm enters too many international markets without the proper research or when a company introduces new products that do not offer superior customer value.

2- The **market environment might change, making some products or markets less profitable**. For example, in difficult economic times, many firms prune out weaker, less profitable products and markets to focus their more limited resources on the strongest ones.

3- Finally, some products or business **units simply age and die**.

Objective 3 – Planning Marketing: Partnering to Build Customer Relationships

- Business departments must work together to accomplish strategic objectives.
- **Marketing plays a key role in planning**
 - Provides a guiding philosophy that suggest that company strategy should revolve around building profitable relationships with important consumer groups.
 - Provides inputs to strategic planners by identifying attractive market opportunities and assessing potential to take advantage.
 - Carries them out profitably.
- Partner Relationship Management – marketers work with partners in other company departments to form the value chain.

Partnering with Other Company Departments

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

That is, **each department carries out value-creating activities to design, produce, market, deliver, and support the firm's products**.

The firm's success depends not only on how well each department performs its work but also on how well the various departments **coordinate** their activities

Partnering with Others in the Marketing System

In its quest to create customer value, the firm needs to look beyond its own internal value chain and into the **value chains of its suppliers, distributors, and, ultimately, its customers**

More companies today are partnering with other members of the supply chain—suppliers, distributors, and, ultimately, customers, to improve the performance of the customer **value delivery network**

Objective 4 - Marketing Strategy and the Marketing Mix

Customer-Driven Marketing Strategy

Marketing Strategy – The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

- Careful customer analysis is required to understand needs and wants – a three step process.

1) Market Segmentation

- Divide a market into distinct groups of buyers who have different needs, characteristics, or behaviours, and who might require separate products or marketing programs.
- Determines the segments that offer the **best opportunities**.
- **Market Segment** – A group of consumers who respond in a similar way to a given set of marketing efforts.

2) Market Targeting

- The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.
- Niche companies may only target one or a few special segments due to limited resources.
 - E.g. Silk Soymilk
- Some companies may choose several related segments that share similar basic wants.
 - E.g. Abercrombie & Fitch, Hollister, and Abercrombie.
- Large companies may choose to offer a complete range for all market segments.
 - E.g. Nike or Honda

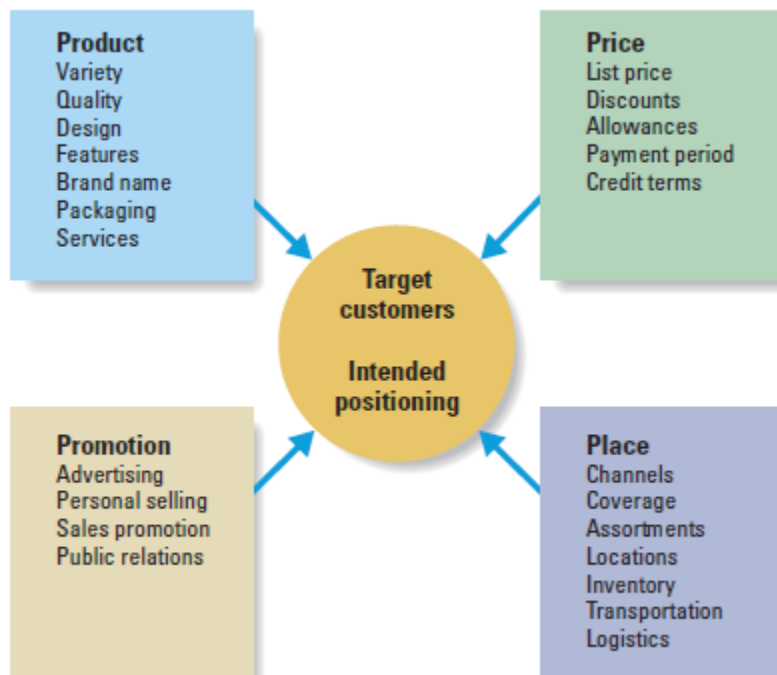
3) Market Differentiation and Positioning

- **Differentiation** – Actually differentiating the market offering to create superior customer value.
- **Positioning** – Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

- If a product is perceived the same as others, consumers may not buy it.
- Must identify possible customer value difference with competitive advantages to build the position.
- Promised greater value = Delivered greater value

Developing the Integrated Marketing Mix

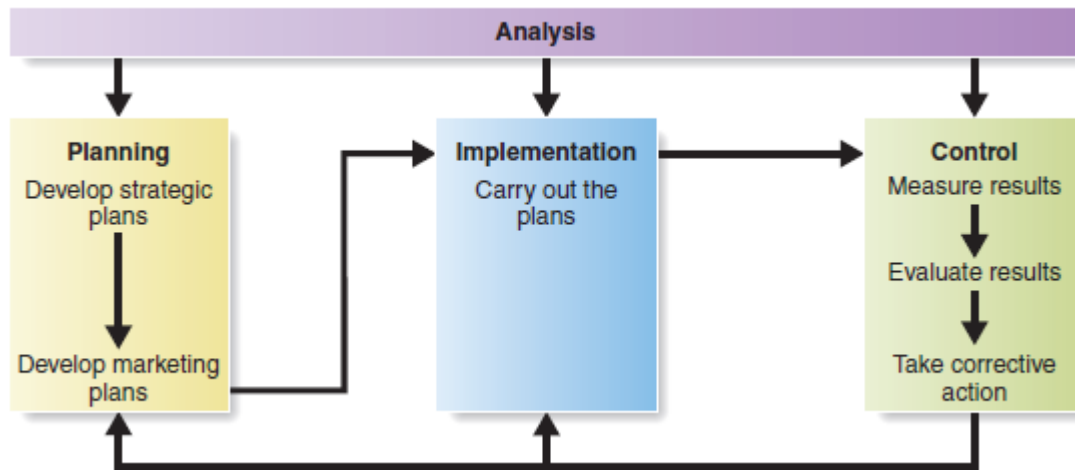
- **Marketing Mix** – The set of tactical marketing tools – product, price, place, and promotion – that the firm blends to produce the response it wants in the target market.
- **Product** – Goods and services combination offered to the target market.
- **Price** – Amount of money customers must pay to obtain the product.
- **Place** – Company activities that make the product available to target consumers.
- **Promotion** – Activities that communicate the merits of the product and persuade target customers to buy it.



- Effective Marketing Programs blend the marketing mix element into an integrated marketing program that achieves marketing objectives by delivering customer value.
- 4 P's takes the seller's view of the market.
- **4C's takes the buyer's view**
- Customer Solution
- Customer Cost
- Convenience
- Communication

Objective 5 – Managing the Marketing Effort

Managing the Marketing process requires 4 marketing management functions: **Analysis, planning, implementation, and control.**



Marketing Analysis

- **SWOT Analysis** – An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).
- **Strengths** – Internal capabilities that may help the company reach objectives.
- **Weaknesses** – Internal limitations that may interfere with a company's ability to reach objectives.
- **Opportunities** – External factors that the company could take advantage of.
- **Threats** – Current and emerging external factors that may challenge the company's performance.

Marketing Planning

- Involves choosing marketing strategies that help the company attain strategic objectives.
- Addresses the *what* and *why* of marketing activities.
- The **Marketing Strategy** consists of specific strategies for target markets, positioning, marketing mix, and marketing expenditure levels.
- It outlines how the company intends to create value for target customers to capture value.
- Additional sections of the plan encompass the action program for implementation with *marketing budget* details.

Marketing Plan Contents

- **Executive Summary** – Brief summary of goals, recommendations.
- **Current Marketing Situation** – Describes target market and company position with market info.
- **Threats and Opportunities Analysis** – Assesses major threats/opportunities for the product.
- **Objectives and Issues** – States marketing objectives and issues to attain.
- **Marketing Strategy** – Outlines broad marketing logic to create customer value and relationships, with specific info on target markets.
- **Action Programs** – Specific programs that answer who, what, when, etc.
- **Budgets** – Details on profit and loss, as well as expected revenues & costs.
- **Controls** – Monitors progress for review.

Marketing Implementation

- Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.
- Addresses the who, where, when, and how.

Marketing Department Organization

- The company designs a marketing organization that can carry out marketing strategies and plans.
- Bigger companies designate a larger department to plan and carry out these activities.
- Includes product and market managers, sales managers and salespeople, market researchers, advertising experts, and other specialists.
- **Chief Marketing Officer** – Head of the company's entire marketing operation and represents marketing on the top management team.

Forms of Organization

- **Functional Organization** – Different activities are headed by a functional specialist.
- **Geographic Organization** – A company that sells across the country or internationally and therefore has specifically assigned sales and marketing people for regions.
- **Product Management Organization** – Product manager develops and implements a complete strategy and marketing program for a specific product/brand.
- **Market or Customer Management Organization** – Market manager develops marketing strategies and plans for their specific markets or customers.
- Large companies that produce many different products flowing into many different markets employ a combination of the forms.
- Companies are shifting brand management focus toward customer management.

Marketing Control

- Measuring and Evaluating the Results of Marketing Strategies and Plans and taking corrective action to ensure that the objectives are achieved.
- Involves 4 steps
 1. Set specific marketing goals.
 2. Measure performance in marketplace.
 3. Evaluate causes of differences between expected and actual performance.
 4. Take corrective action to close gaps between goals and performance.
- **Operating Control** – Check ongoing performance against the annual plan and taking corrective action when necessary.
- **Strategic Control** – Look at whether the company's basic strategies are well matched to its opportunities.

Measuring and Managing Return on Marketing Investment

- Return on marketing investment is a very large issue after the economy.
- **Return on Marketing Investment (Marketing ROI)** – Net return from a marketing investment divided by the costs of the marketing investment.
 - Difficult to measure due to no consistent definition.
 - Could be assessed in terms of performance measures such as brand awareness, sales, or market share.
- **Marketing Dashboards** – Meaningful sets of marketing performance measures in a single display to monitor them.
- Customer-centred measures of marketing impact are also used – such as customer acquisition, customer retention, customer lifetime value, and customer equity,