CHAPTER 2
COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Explain companywide strategic planning and its four steps
2. Discuss how to design business portfolios and develop growth strategies
3. Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value
4. Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.

JUST THE BASICS

CHAPTER OVERVIEW

In this chapter, we dig deeper into steps two and three of the marketing process—designing customer-driven marketing strategies and constructing marketing programs.

First, we look at the organization's overall strategic planning.

Next, we discuss how marketers partner closely with others inside and outside the firm to serve customers.

We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs.

Finally, we look at measuring and managing return on marketing investment.

ANNOTATED CHAPTER NOTES/OUTLINE

INTRODUCTION

More than a half a century ago, Ray Kroc set out on a mission to transform the way Americans eat. Kroc bought the small chain of fast-food restaurants owned by the McDonald brothers for $2.7 million, and the rest is history.

From the beginning, Kroc preached the motto of QSCV – quality, service, cleanliness and value.

By applying these concepts, the company perfected the fast-food concept – delivering convenient, good-quality food at affordable price.

McDonald's grew quickly to become the world's largest fast-feeder.

By the mid-1990s, McDonald's fortunes began to turn. The company appeared to fall out of touch with consumers. In a new age of health-conscious consumers and $5 lattes at Starbucks, McDonald's strategy seemed a bit out of step with the times.

"We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's," says current CEO Jim Skinner.

In early 2003, McDonald's announced a new strategic blueprint – its "Plan to Win." Under the Plan to Win, McDonald's got back to the basic business of taking care of customers. The goal was to get "better, not just bigger."

McDonald's now appears to have the right strategy for the times. Once again, when you think McDonald's, you think convenience and value.

COMPANYWIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the 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.

The strategic planning process begins with the company defining its overall purpose and mission.

The stages of the strategic planning process are outlined in Figure 2.1.

This mission is turned into objectives that guide the whole company.

Marketing planning occurs at the business-unit, product, and market levels.

Use **Key Term** *Strategic Planning* here.
Use **Chapter Objective 1** here.
Use **Figure 2.1** here.

Defining a Market-Oriented Mission

An organization exists to accomplish something and this purpose should be clearly stated.

A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment.

A clear mission statement acts as an "invisible hand" that guides people in the organization.

Mission statements should be ***market oriented*** and defined in terms of customer needs.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs.

Mission statements should be meaningful and specific, yet motivating.

A company's mission statement should not be stated as making more sales or profits; profits are a reward for creating value for customers.

Use **Key Term** *Mission Statement* here.
Use **Discussion Question 1** here.
Use **Table 2.1** here.

Setting Company Objectives and Goals

The company turns its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them.

Marketing strategies and programs must be developed to support these marketing objectives.

Each broad marketing strategy must then be defined in greater detail.

Designing the Business Portfolio

A **Business portfolio** is 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.

1. The company must analyze its ***current*** business portfolio and decide which businesses should receive more, less, or no investment.
2. It must shape the ***future*** portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**.

Use **Key Term** *Business Portfolio* here. Use **Chapter Objective 2** here.

Portfolio analysis is where management evaluates the products and businesses making up the company.

The steps in portfolio analysis are:

1. To identify the *strategic business units* (SBU). The SBU is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses.
2. To assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment.

Most standard portfolio-analysis methods evaluate SBUs on two dimensions:

1. The attractiveness of the market or industry
2. The strength of the position in that market or industry.

The Boston Consulting Group Approach.

A company classifies all its SBUs according to the **growth-share matrix** (see Figure 2.2).

The vertical axis: ***market growth rate*** provides a measure of market attractiveness.

The horizontal axis: ***relative market share*** provides a measure of company strength in the market.

Use **Key Terms** *Portfolio Analysis* and *Growth-Share Matrix* here.
Use **Figure 2.2** here.
Use **Discussion Question 2** here.

The growth-share matrix defines four types of SBUs:

Stars. High-growth, high-share businesses or products. They will turn into cash cows.

Cash cows. Low-growth, high-share businesses or products. They produce a lot of cash that the company.

Question marks. Low-share business units in high-growth markets. They require a lot of cash to hold their position.

Dogs. Low-growth, low-share businesses and products.

One of four strategies can be pursued for each SBU.

1. The company can invest to *build* its share.
2. It can invest just enough to *hold* its share.
3. It can milk its short-term cash flow, or *harvest.*
4. It can *divest* by selling it or phasing out.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle.

Problems with Matrix Approaches.

Difficult, time consuming, and costly to implement.

These approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Many companies have dropped matrix methods in favor of customized approaches better suited to their specific situations.

Developing Strategies for Growth and Downsizing

A company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company.

The **product/market expansion grid** is used in identifying growth opportunities (see Figure 2.3).

- **Market penetration**—making more sales to current customers without changing its products.
- **Market development**—identifying and developing new markets for its current products.
- **Product development**—offering modified or new products to current markets.
- **Diversification**—starting up or buying businesses outside of its current products and markets.

Use **Key Terms** *Product/Market Expansion Grid, Market Penetration, Market Development, Product Development* and *Diversification* here. Use **Critical Thinking Exercise 1** here. Use **Marketing at Work 2.1** here. Use **Marketing Technology** here. Use **Figure 2.3** here.

Companies must also develop strategies for **downsizing**.

When a firm finds brands/businesses that are unprofitable or no longer fit the overall strategy, it may prune, harvest, or divest them.

Use **Key Term** *Downsizing* here.

PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

Marketing plays a key role in the company's strategic planning.

1. Marketing provides a guiding *philosophy*—the marketing concept.
2. Marketing provides *inputs* to strategic planners.
3. Marketing designs *strategies* for reaching the unit's objectives.

Customer value is the key ingredient in the marketer's formula for success.

In addition to ***customer relationship management***, marketers must also practice ***partner relationship management*.**

Use **Chapter Objective 3** here.

Partnering with Other Company Departments
Each company department is a link in the company's **value chain**.

Use **Key Term** *Value Chain* here.
Use **Discussion Question 3** here.

Success depends on how well the various departments coordinate their activities.

A company's value chain is only as strong as its weakest link.

Ideally, a company's different functions should work in harmony to produce value for consumers.

Other departments may resist marketing's efforts because their actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches.

Yet marketers must find ways to get all departments to "think consumer."

Partnering with Others in the Marketing System

Firms need to look beyond its own value chain and into the value chains of its suppliers, distributors, and customers.

Companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**.

Competition takes place between the entire value-delivery networks created by competitors.

Use **Key Term** *Value Delivery Network* here.
Use **Linking the Concepts** here.

MARKETING STRATEGY AND THE MARKETING MIX

Figure 2.4 shows the major activities in managing marketing strategy and the marketing mix.

Consumers are in the center. Profitable customer relationships are the goal.

Marketing strategy is next—this is the broad logic under which the company attempts to develop profitable relationships.

Guided by the strategy, the company develops its marketing mix—product, price, place, and promotion.

Use **Key Term** *Marketing Strategy* here.
Use **Figure 2.4** here.

Customer-Driven Marketing Strategy

Marketing requires a deep understanding of customers.

There are many different kinds of consumers, and they exhibit many different kinds of needs.

Companies cannot profitably serve them all.

Companies must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments.

This process involves ***market segmentation, market targeting, differentiation,*** and ***positioning***.

Market Segmentation

Market segmentation is the process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behavior who might require separate products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful.

A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts.

Use **Key Terms** *Market Segment, Market Segmentation, Market Targeting, Differentiation,* and *Positioning* here.

Use **Chapter Objective 4** here.
Use **Marketing Ethics** here.
Use **Marketing at Work 2.2** here.

Market Targeting

Market targeting is evaluating each market segment's attractiveness and selecting one or more segments to enter.

A company with limited resources might serve only a few "market niches."

Market niches are segments that major competitors overlook or ignore.

Most companies enter a new market by serving a single segment. If this proves successful, they add segments.

Market Differentiation and Positioning

Product ***position*** is the place the product occupies relative to competitors in consumers' minds.

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Positioning begins with **differentiation**—*differentiating* the company's market offering so that it gives consumers more value.

Developing an Integrated Marketing Mix

Use **Key Term** *Marketing Mix* here.
Use **Figure 2.5** here.
Use **Discussion Question 4** here.

The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

The marketing mix consists of the "four *P*s": ***product, price, place***, and ***promotion***. (Figure 2.5)

- ***Product:*** the goods-and-services combination the company offers to the target market.
- ***Price:*** the amount of money customers have to pay to obtain the product.
- ***Place:*** the company activities that make the product available to target consumers.

- ***Promotion:*** the activities that communicate the merits of the product.

From the buyer's viewpoint, the four Ps might be better described as the four Cs:

- ***Product = Customer solution***
- ***Price = Customer cost***
- ***Place = Convenience***
- ***Promotion = Communication***

Use **Discussion Question** 5 here.

MANAGING THE MARKETING EFFORT

Managing the marketing process requires the four marketing management functions of ***analysis, planning, implementation***, and ***control***.

Use **Figure 2.6** here.

Marketing Analysis

Analysis should be performed to understand the markets and marketing environment the company faces.

Use **Key Term** *SWOT Analysis* here.

SWOT analysis is used to evaluate the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

- Strengths include capabilities, resources, and positive situational factors.
- Weaknesses include negative internal factors and negative situational factors.
- Opportunities are favorable external factors.
- Threats are unfavorable external factors.

Use **Figure 2.7** here.

Marketing Planning

A detailed marketing plan has to be developed for each business, product or brand.

Table 2.2 shows the major sections of a marketing plan for a product or a brand.

Use **Table 2.2** here. Use **Chapter Objective 5** here.

Marketing Implementation

Marketing implementation turns ***plans*** into ***actions***.

Use **Key Term** *Marketing Implementation* here.

Implementation addresses the ***who, where, when,*** and ***how***.

Marketing Department Organization

The marketing organization must be designed so it can carry out the strategies/plans that are developed.

In small companies, one person may perform all the marketing functions. In large companies, many specialists are found. Many companies have now created the ***Chief Marketing Officer (CMO)*** position.

The ***functional*** organization is the most common form. This organizational form has the different activities headed by a functional specialist, such as sales, advertising, marketing research, etc.

Use **Critical Thinking Exercise 3** here.

A ***geographic*** organization might be utilized in a company that sells nationally or internationally.

A ***product management*** organization can be found in companies with many different products or brands.

A ***market*** or ***customer management*** organization is used in companies that sell one product to many different kinds of markets and customers.

Very large companies might utilize a ***combination*** of all these forms.

Marketing Control

Marketing control is evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained.

The control process includes the following:

- ***Operating control*** checks the ongoing performance of the marketing programs against the annual plan.

- ***Strategic control*** looks at whether the company's basic strategies are matched to its opportunities.

Use **Key Term** *Marketing Control* here.

MEASURING AND MANAGING RETURN ON MARKETING INVESTMENT

Marketing managers must ensure that their marketing dollars are being well spent.

Return on marketing investment (or ***marketing ROI***) is the net return from a marketing investment divided by the costs of the marketing investment. (Figure 2.8)

Use **Key Term** *Return on Marketing Investment* here. Use **Discussion Question 6** here. Use **Chapter Objective 5** here. Use **Critical Thinking Exercise 2** here. Use **Marketing by the Numbers** here. Use **Figure 2.8** here.

It measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.

M*arketing dashboards*—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance.

Marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, and customer lifetime value.

END OF CHAPTER MATERIAL

Discussion Questions

1. Explain what is meant by a *market-oriented* mission statement and discuss the characteristics of effective mission statements. (AASCB: Communication)

   Answer:

   A *mission statement* is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization. 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. Mission statements should be meaningful and specific yet motivating. They should emphasize the company's strengths in the marketplace. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Finally, a company's mission should not be stated as making more sales or profits—profits are only a reward for creating value for customers. Instead, the mission should focus on customers and the customer experience the company seeks to create.

2. Describe the business portfolio planning process and the role it marketing plays in the process. (AACSB: Communications)

   Answer:

   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. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. 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. The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So most standard portfolio analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders, and attract top talent. Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate, and select market opportunities and establish strategies for capturing them. One useful device for identifying growth opportunities is the *product/market expansion grid*. The main strategies available are market penetration, market development, product development, and diversification.

3. Explain why it is important for all departments of an organization—marketing, accounting, finance, operations management, human resources, and so on—to "think consumer." Why is it important that even people who are not in marketing understand it? (AACSB: Communication)

   Answer:

   Each department is a link in the company's internal *value chain* that 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. A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value and on how well the activities of various departments are coordinated. Ideally then, a company's different functions should work in harmony to produce value for consumers. Every department in an organization should "think consumer" to deliver value for the customer, so it is important for every employee to understand his or her role in creating customer value.

4. Explain the roles of market segmentation, market targeting, differentiation, and positioning in implementing an effective marketing strategy. (AACSB: Communication)

   Answer:

   The market consists of many types of customers, products, and needs. The marketer must determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, and who might require separate products or marketing programs is called *market segmentation*. After a company has defined its market segments, it can enter one or many of these segments. *Market targeting* involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time. After a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in those segments. A product's *position* is the place it occupies relative to competitors' products in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be exactly like others on the market, consumers would have no reason to buy it. *Positioning* is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets. In positioning its brand, a company first identifies possible customer value differences that provide competitive advantages on which to build the position. Effective positioning begins with *differentiation*—actually *differentiating* the company's market offering so that it gives consumers more value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing program should support the chosen positioning strategy.

5. Define each of the four Ps. What insights might a firm gain by considering the four Cs rather than the four Ps? (AACSB: Communication; Reflective Thinking)

   Answer:

   The four Ps of marketing are: product, price, place, and promotion. *Product* means the goods-and-services combination the company offers to the target market. *Price* is the amount of money customers have to pay to obtain the product. *Place* includes company activities that make the product available to target consumers. *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. The four Cs—customer solution, customer cost, convenience, and communication—describe the four Ps from the customer's viewpoint. By examining products and services using the four Cs, marketers may be better equipped to build customer relationships and offer true value.

6. Discuss the four marketing management functions. (AACSB: Communication)

   Answer:

   Managing the marketing process requires the four marketing management functions—*analysis*, *planning*, *implementation*, and *control*. Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a *SWOT analysis* (pronounced "swat" analysis), by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T). Marketing planning involves choosing marketing strategies that will help the company attain its overall strategic objectives. *Marketing implementation* is the process that turns marketing *plans* into marketing *actions* to accomplish strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who*, *where*, *when*, and *how*. Because many surprises occur during the implementation of marketing plans, marketers must practice constant *marketing control*—evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are attained. Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between goals and performance. This may require changing the action programs or even changing the goals.

Critical Thinking Exercises

1. In a small group, give an example of how Red Bull Energy drink makers can grow by applying each of the product/market expansion grid strategies. Be sure to name and describe each strategy and discuss how the company can use each strategy to grow. (AACSB: Communication; Reflective Thinking)

   Answer:

   The four product/market expansion strategies are market penetration, market development, product development, and diversification. *Market penetration* involves identifying and developing new markets for current products. An example is marketers of Red Bull encouraging current users to purchase more of the brand. *Market development* strategy involves identifying and developing new markets for its current products. New markets could be new geographic markets or other markets defined by demographics, lifestyle, or product use. For example, Red Bull can expand into a country in which the brand is not already being marketed or more heavily target a group of consumers, such as the elderly, that are not currently being targeted by the company. Management could consider *product development*, offering modified or new products to current markets. For example, the makers of Red Bull might develop Red Bull energy bars. Finally, a company may consider *diversification* by starting up or buying businesses outside of its current products and markets. In this strategy, the marketer offers an entirely different product to a completely different market than currently served.

2. Marketers are increasingly held accountable for demonstrating marketing success. Research the various marketing metrics, in addition to those described in the chapter and Appendix 2, used by marketers to measure marketing performance. Write a brief report of your findings. (AACSB: Communication; Reflective Thinking)

Answer:

Students will learn in their research that there are numerous academic and trade articles outlining several marketing metrics. There are several resources on the Internet as well but students need to be aware that marketing metrics encompass all areas of marketing, not just advertising or direct marketing that seem to come high up on search results. A comprehensive source on marketing metrics is Farris, et al, (2006), *Marketing Metrics: 50+ Metrics Every Executive Should Master*, Pearson Education: Upper Saddle River, NJ, published as Wharton School Publishing.

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

Answer:

The CMO heads up the company's entire marketing operation and represents marketing on the company's top management team. The CMO position puts marketing on equal footing with other C-level executives, such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Students' selection of articles will vary. One issue regarding the CMO position is that the average tenure of a CMO is just over 2 years, which has created some controversy surrounding this position. Some interesting articles are listed below:

Jack Neff, "Why The Trend Of Global CMO Has Reached Its Tipping Point," *Advertising Age*, June 13, 2011, p. 3. This article gives examples of companies that have appointed a CMO responsible for managing global marketing efforts.

Todd Wasserman, "The Evolving CMO," *AdWeek Media*, June 8, 2009, pp. 12-16. This article discusses a new breed of CMOs charged with harnessing, managing, and measuring digital marketing and proving marketing ROI.

Cata, Carlos (2008), "CMOs Stop Obsessing Over the Tenure Stat," *Advertising Age*, (May 19), 40.This article discusses the characteristics of an effective CMO: leadership, trust, intent, and results.

Court, David (2007), "The Evolving Role of the CMO," *McKinsely Quarterly*, 28-39. This article discusses how the role of the CMO must broaden due to significant changes in the marketplace. The author notes that changing customer needs and behavior are the reasons for this shift in importance of the CMO.

Rooney, Jennifer (2008), "Marty Hamlish Knows Why CMOs Don't Last," *Advertising Age*, (April 17), 18-19. This article is an interview with the CMO of SAP, Marty Hamlish. He explains how the role of the CMO is to nurture, grow, and protect the organization's brands.

Kiley, David and Burt Helm (2007),"The Short Life of the Chief Marketing Officer," businessweek.com, (November 29), available at http://www.businessweek.com/magazine/content/07_50/b4062063789246.htm?chan=magazine+channel_what's+next. This article discusses the "fuzzy assignment" of the CMO. Most companies could not spell out what a CMO would be accountable for when recruiting, primarily because the job is more complicated due to new media and building/maintaining a brand is a long-term process whereas stakeholders are fixated on short-term results.

Marketing Technology: It's All In The Clouds

Cloud computing is the future and Apple is helping shape that future. Apple's iCloud service allows Apple device users to store their music, videos, pictures, and books on Apple's servers. No more syncing devices with computers or cumbersome transferring to iPods, iPhones, and iPads, because users will be able to access all of their collections from any device. Playing *Words with Friends* on your iPhone? You can pick up that same game if you switch to your iPad. That's because nothing will be stored on users' devices—it will be in the 'cloud.' For $25 a year, users remotely access copies of their songs that will work with any computer and any Apple mobile device but not sync with any other mobile device, such as a Blackberry or Android tablet. Apple is taking on Amazon.com and Google, whose similar services require tedious uploading of files by customers.

1. Explain which product/market expansion grid strategy Apple is pursuing by introducing the iCloud service. How is Apple differentiating its new product from those offered by competitors? (AACSB: Communication; Reflective Thinking)

   Answer:

   This is an example of a product development strategy—offering modified or new products to current markets. Apple's original products are hardware devices—computers, MP3 players, phones, and tablets—but now the company is offering a service. One way Apple is differentiating itself from competitors, such as Google and Amazon.com, is that customers will not have to upload files to the cloud. Instead, copies of customers' files will be stored on Apple's servers, making use of the service easier for customers.

2. Conduct a SWOT analysis of Apple, identifying the factors likely to influence whether the iCloud service will succeed. (AACSB: Communication; Reflective Thinking)

   Answer:

   Students' responses will vary, but they should discuss Apple's strengths (S) and weaknesses (W) and external opportunities (O) and threats (T). Some of Apple's strengths include strong brand equity, innovative products, and a successful iTunes store. Their weaknesses include high prices and devices not compatible with other online services. Opportunities in the environment include technological advances in electronic media and cloud computing. Threats in the environment include increased competition for its products and services and low barriers to entry in the service sector of its business.

Marketing Ethics: Toning Shoes

With 64 percent of the women in the United States overweight or obese and less than half participating in regular physical activity, athletic shoe marketers saw an opportunity: "toning shoes." The marketers tout these shoes as revolutionary—you can tone your muscles, lose weight, and improve your posture just by wearing them and going about your daily business. The claims are based on shoemaker-sponsored studies but the Podiatric Medical Association agrees that toning shoes have some health value. They purportedly perform their magic by destabilizing a person's gait, making leg muscles work harder. Consumers, particularly women, are buying it. Toning shoe sales by Sketchers, Reebok, and other producers are soaring.

However, these shoes have their critics, who claim a shoe that comes with an instruction booklet and an educational DVD to explain proper usage should wave warning flags to consumers. Some doctors claim the shoes are dangerous, causing strained Achilles tendons or worse—one wearer broke her ankle while wearing them. A study by the American Council on Exercise found no benefit in toning shoes over regular walking or other exercise. Noticeably absent from the toning shoe feeding frenzy is Nike, who thinks it's all hype. This leader in the women's shoe market, however, is losing market share to competitors.

1. Should these shoemakers capitalize on consumers who want to be fit without doing the work to achieve that goal? Do you think that basing claims on research sponsored by the company is ethical? Explain. (AACSB: Communication; Ethical Reasoning)

   Answer:

   Students' responses will vary. Some students will argue that this is savvy marketing. These companies saw an opportunity and developed a product to satisfy consumers' needs and desires to be fit. This is a product that helps attain that goal in today's fast-paced society. Others will argue that it's hype and deception, leading customers to believe they can magically reap the benefits of exercise without exercising. Students need to be aware that product claims made in advertisements must be substantiated and that advertising claims are often based on a company's own research. However, it sometimes does seem to discredit the research results.

2. Should Nike have entered this product category instead of giving up market share to competitors? Explain. (AACSB: Communication; Ethical Reasoning)

   Answer:

   Some students will argue that staying out of this product category is wise for Nike if it truly believes that the claims are bogus. However, others will argue that Nike is making a poor business decision because it is losing share to this product. Nike probably would have been the market leader in this category if it had an offering, so it is not taking advantage of this opportunity.

Marketing by the Numbers: Marketing Performance Assessment

Appendix 3, Marketing by the Numbers, discusses other marketing profitability metrics beyond the return on marketing investment (marketing ROI) measure described in this chapter. Below are profit-and-loss statements for two businesses. Review Appendix 3 and answer the questions below.

Business A

Net Sales		$800,000,000
Cost of goods sold		375,000,000
Gross Margin		$425,000,000
Marketing Expenses		
Sales expenses	$70,000,000	
Promotion expenses	30,000,000	
		100,000,000
General and Administrative Expenses		
Marketing salaries and expenses	$10,000,000	
Indirect overhead	80,000,000	90,000,000
Net profit before income tax		$235,000,000

Business B

Net Sales		$900,000,000
Cost of goods sold		400,000,000
Gross Margin		$500,000,000
Marketing Expenses		
Sales expenses	$90,000,000	
Promotion expenses	50,000,000	140,000,000
General and Administrative Expenses		
Marketing salaries and expenses	$ 20,000,000	
Indirect overhead	100,000,000	120,000,000
Net profit before income tax		$240,000,000

1. Calculate marketing return on sales (or marketing ROS) and marketing return on investment (or marketing ROI) for both companies as described in Appendix 3. (AACSB: Communication; Analytic Thinking)

   Answer:

   To calculate these metrics, students must first calculate net marketing contribution (NMC), which measures marketing profitability and includes only components of profitability that are controlled by marketing. It is calculated as:

   NMC = net sales – cost of goods sold – marketing expenses

   where,

   marketing expenses = selling expenses + promotion expenses + marketing salaries and expenses

   so,

   NMC_A = $800,000,000 – $375,000,000 – $110,000,000 = $315,000,000

   NMC_B = $900,000,000 – $400,000,000 – $160,000,000 = $340,000,000

$$\text{Marketing ROS}_A = \frac{\text{net marketing contribution}}{} = \frac{\$315{,}000{,}000}{} = 0.394 = 39.4\%$$

net sales	$800,000,000

$$\text{Marketing ROS}_B = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\$340{,}000{,}000}{\$900{,}000{,}000} = 0.377 = 37.7\%$$

$$\text{Marketing ROI}_A = \frac{\text{net marketing contribution}}{\text{marketing expenses}} = \frac{\$315{,}000{,}000}{\$110{,}000{,}000} = 2.86 = 286\%$$

$$\text{Marketing ROI}_B = \frac{\text{net marketing contribution}}{\text{marketing expenses}} = \frac{\$340{,}000{,}000}{\$160{,}000{,}000} = 2.12 = 212\%$$

2. Which company is doing better overall and with respect to marketing? Explain. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

   Answer:

   Overall, Company B is more profitable with $240 million in profits. While Company B has a higher net marketing contribution ($340 million) than Company A ($315 million), it has a lower return on sales (37.7% vs. 39.4% for A). Thus, Company A's marketing activities are more efficient in generating sales. Company A also has a higher marketing return on investment (283% vs. 212%). Company A is less profitable because of the high indirect overhead costs, which is not considered in the marketing metrics because they are out of the marketer's control, but it is performing better with respect to marketing.

<u>Great Ideas</u>

1. Students will largely be unfamiliar with strategic planning and its concepts and objectives. Making this come alive with the examples in the textbook, or your own examples from your own experience, will help them deal with the complex issues in this section.
2. Working through a mission statement for the marketing department of your university, or for the business college within which it exists, may give the students a greater appreciation for the difficulty and importance of defining a mission that lives and breathes life into the objectives that follow.
3. The Boston Consulting Group's portfolio analysis tool can also be difficult to understand. Again, working through examples with companies the students should be familiar with will aid understanding.

4. University business courses rarely talk about cross-functional team work, so this may come as a surprise to students. If they have worked in internships with large companies, they may well have seen functional silos at work, and their coursework only serves to reinforce that mentality. Examples of companies failing because of a lack of team work—which can happen frequently at small companies in particular—will open many students' eyes to the importance of ensuring that all functions work in concert to make the company a success.
5. Value chains and supply chains are important concepts that also are typically not discussed in other courses. Getting students to understand these concepts is important for their understanding of the remainder of the course. Showing how sloppy quality in a component purchased from a vendor ultimately affects customer satisfaction will help.
6. Market segmentation and targeting are universally new concepts to students, unless they happen to have a parent who works in marketing. Although this is discussed in detail in a future chapter, showing how a large, amorphous market can be broken down in more and more detailed groups of buyers will help.
7. Market positioning can be difficult to understand as well. Students will normally think of a product in terms of its features, and although positioning includes the features, it also spans the concepts of benefits and perceptions. Using examples of brands at opposite ends of a price continuum, such as Rolex versus Timex watches, helps drive home what positioning means.

Student Projects

1. Look at the mission statements of five companies in the same industry. How do their mission statements differ and how are they alike? Which ones do you believe are good?
2. A business portfolio is the collection of businesses or products that make up the company. Take a look at Ford (www.ford.com). Describe Ford's business portfolio in terms of both businesses and products.
3. Using the Boston Consulting Group's growth-share matrix, place Ford's vehicles on the grid. Which are the stars, the cash cows, the question marks, and the dogs?
4. Still using Ford as our example, discuss the product positioning of their SUVs and trucks.

Small Group Assignment

Form students into groups of three to five. Each group should read the opening vignette to the chapter on McDonald's. Each group should answer the following questions:

1. What has caused McDonald's lasting popularity?
2. What has been the company's primary strategy?
3. What is McDonald's doing to ensure its future growth and success?

Each group should then share its findings with the class.

Individual Assignment

Consider Dillard's Department Stores (www.dillards.com) and Macy's (www.macys.com). What is the positioning strategy of each? How are they similar? How are they different?

Think-Pair-Share

Consider the following questions, formulate and answer, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. Design a mission statement for your college/university.
2. What are some of the problems with using a matrix approach (such as the BCG matrix)?
3. What is the difference between market development and product development?
4. Under what conditions might downsizing be a usable strategy?

Classroom Exercise/Homework Assignment

Develop a strategy for attracting new students to your college or university. Write a statement that describes your college/university's fit between the goal of attracting the best students and their capabilities for then educating those students

Classroom Management Strategies

This chapter starts outlining some fairly difficult subjects for students. Strategic planning, growth-share matrices, and even the development of the marketing mix are relatively tough concepts for a second chapter in a beginning marketing text. Therefore, when planning how to present the material, be sure to leave plenty of time to go through at least some of the Applying the Concepts, as well as defining what the Key Terms really mean in the everyday working world. Several of the concepts presented in this chapter become important later in the text, and if the students come away understanding this chapter, they will have an easier time later in the semester.

1. Companywide Strategic Planning can be covered in about 15 minutes. Focus on the "thread" that ties together the corporate strategic plan, corporate and business unit objectives, and the business or product portfolio. This last topic should be prominent in the discussion, as it sets the stage for later discussions of new product development.
2. The second major section of the chapter, Planning Marketing, can be covered in 5 minutes. Although this section is important and touches on issues that will come up later in the text, it does not need to have the same level of focus as the other topics in this chapter.

3. The next section, Marketing Strategy, is extremely important; 20 minutes should be devoted to this topic. In particular, ensuring the students understand the true meaning of developing an intelligent marketing mix will set the stage for such later topics as integrated marketing communications, because they will already have thought about how different components of a plan should work together.
4. Finally, 20 minutes should also be devoted to Managing the Marketing Effort. This section should really drive home the notion that marketing isn't just a creative endeavor. For instance, under marketing analysis as well as understanding the marketing environment, you can point out how these topics are a big part of what market research is all about.

Company Case Teaching Notes

Trap-Ease America: The Big Cheese of Mousetraps

CONVENTIONAL WISDOM

One April morning, Martha House, president of Trap-Ease America, entered her office in Costa Mesa, California. She paused for a moment to contemplate the Ralph Waldo Emerson quote that she had framed and hung near her desk:

> If a man [can]…make a better mousetrap than his neighbor…the world will make a beaten path to his door.

Perhaps, she mused, Emerson knew something that she didn't. She *had* the better mousetrap—Trap-Ease—but the world didn't seem all that excited about it.

Martha had just returned from the National Hardware Show in Chicago. Standing in the trade show display booth for long hours and answering the same questions hundreds of times had been tiring. Yet, all the hard work had paid off. Each year, National Hardware Show officials held a contest to select the best new product introduced at that year's show. The Trap-Ease had won the contest this year, beating out over 300 new products.

Such notoriety was not new for the Trap-Ease mousetrap, however. *People* magazine had run a feature article on the trap, and the trap had been the subject of numerous talk shows and articles in various popular press and trade publications.

Despite all of this attention, however, the expected demand for the trap had not materialized. Martha hoped that this award might stimulate increased interest and sales.

BACKGROUND

A group of investors had formed Trap-Ease America in January after it had obtained worldwide rights to market the innovative mousetrap. In return for marketing rights, the group agreed to pay the inventor and patent holder, a retired rancher, a royalty fee for each trap sold. The group then hired Martha to serve as president and to develop and manage the Trap-Ease America organization.

Trap-Ease America contracted with a plastics-manufacturing firm to produce the traps. The trap consisted of a square, plastic tube measuring about 6 inches long and 1-1/2 inches in diameter. The tube bent in the middle at a 30-degree angle, so that when the front part of the tube rested on a flat surface, the other end was elevated. The elevated end held a removable cap into which the user placed bait (cheese, dog food, or some other aromatic tidbit). The front end of the tube had a hinged door. When the trap was “open,” this door rested on two narrow “stilts” attached to the two bottom corners of the door. (See Exhibit.)

The simple trap worked very efficiently. A mouse, smelling the bait, entered the tube through the open end. As it walked up the angled bottom toward the bait, its weight made the elevated end of the trap drop downward. This action elevated the open end, allowing the hinged door to swing closed, trapping the mouse. Small teeth on the ends of the stilts caught in a groove on the bottom of the trap, locking the door closed. The user could then dispose of the mouse while it was still alive, or the user could leave it alone for a few hours to suffocate in the trap.

Martha believed the trap had many advantages for the consumer when compared with traditional spring-loaded traps or poisons. Consumers could use it safely and easily with no risk of catching their fingers while loading it. It posed no injury or poisoning threat to children or pets. Furthermore, with Trap-Ease, consumers avoided the unpleasant “mess” they often encountered with the violent spring-loaded traps. The Trap-Ease created no “clean-up” problem. Finally, the user could reuse the trap or simply throw it away.

Martha’s early research suggested that women were the best target market for the Trap-Ease. Men, it seemed, were more willing to buy and use the traditional, spring-loaded trap. The targeted women, however, did not like the traditional trap. These women often stayed at home and took care of their children. Thus, they wanted a means of dealing with the mouse problem that avoided the unpleasantness and risks that the standard trap created in the home.

To reach this target market, Martha decided to distribute Trap-Ease through national grocery, hardware, and discount chains. She sold the trap directly to these large retailers, avoiding any wholesalers or other middlemen.

The traps sold in packages of two, with a suggested retail price of $5.99. Although this price made the Trap-Ease about five times more expensive than smaller, standard traps, consumers appeared to offer little initial price resistance. The manufacturing cost for the Trap-Ease, including freight and packaging costs, was about 59 cents per unit. The company paid an additional 19 cents per unit in royalty fees. Martha priced the traps to retailers at $2.38 per unit (two units to a package) and estimated that, after sales and volume discounts, Trap-Ease would produce net revenue from retailers of $1.50 per unit.

To promote the product, Martha had budgeted approximately $145,000 for the first year. She planned to use $100,000 of this amount for travel costs to visit trade shows and to make sales calls on retailers. She planned to use the remaining $45,000 for advertising. So far, however, because the mousetrap had generated so much publicity, she had not felt that she needed to do much advertising. Still, she had placed advertising in *Good Housekeeping* (after all, the trap had earned the *Good Housekeeping* Seal of Approval) and in other "home and shelter" magazines. Martha was the company's only salesperson, but she intended to hire more salespeople soon.

Martha had initially forecasted Trap-Ease's first-year sales at five million units. Through April, however, the company had only sold several hundred thousand units. Martha wondered if most new products got off to such a slow start, or if she was doing something wrong. She had detected some problems, although none seemed overly serious. For one, there had not been enough repeat buying. For another, she had noted that many of the retailers upon whom she called kept their sample mousetraps on their desks as conversation pieces—she wanted the traps to be used and demonstrated. Martha wondered if consumers were also buying the traps as novelties rather than as solutions to their mouse problems.

Martha knew that the investor group believed that Trap-Ease America had a "once-in-a-lifetime chance" with its innovative mousetrap, and she sensed the group's impatience with the company's progress so far. She had budgeted approximately $500,000 in administrative and fixed costs for the first year (not including marketing costs). To keep the investors happy, the company needed to sell enough traps to cover those costs and make a reasonable profit.

BACK TO THE DRAWING BOARD

In these first few months, Martha had learned that marketing a new product was not an easy task. Some customers were very demanding. For example, one national retailer had placed a large order with instructions that Trap-Ease America was to deliver the order to the loading dock at one of the retailer's warehouses between 1:00 and 3:00 p.m. on a specified day. When the truck delivering the order arrived after 3:00 p.m., the retailer had refused to accept the shipment. The retailer had told Martha it would be a year before she got another chance.

As Martha sat down at her desk, she realized she needed to rethink her marketing strategy. Perhaps she had missed something or made some mistake that was causing sales to be so slow. Glancing at the quotation again, she thought that perhaps she should send the picky retailer and other customers a copy of Emerson's famous quote.

Questions for Discussion

1. Martha and the Trap-Ease America investors believe they face a once-in-a-lifetime opportunity. What information do they need to evaluate this opportunity? How do you think the group would write its mission statement? How would *you* write it?
2. Has Martha identified the best target market for Trap-Ease? What other market segments might the firm target?
3. How has the company positioned the Trap-Ease for the chosen target market? Could it position the product in other ways?
4. Describe the current marketing mix for Trap-Ease. Do you see any problems with this

mix?

5. Who is Trap-Ease America's competition?

6. How would you change Trap-Ease's marketing strategy? What kinds of control procedures would you establish for this strategy?

Video Case Teaching Notes

Video Case Chapter 2 – OXO

Running time

Intro: 1:51
Problem: 1:50
Solution: 3:00
Total: 6:40

Video Summary

You might know OXO for its well-designed, ergonomic kitchen gadgets. But OXO's expertise at creating hand-held tools that look great *and* work well has led it to expand into products for bathrooms, garages, offices, babies' rooms, and even medicine cabinets. In the past, this award-winning manufacturer has managed to move its products into almost every home in the United States by relying on a consistent and in some cases non-traditional marketing strategy.

But in a highly competitive and turbulent market, OXO has focused on evaluating and modifying its marketing strategy in order to grow the brand. This video demonstrates how OXO is using strategic planning to ensure that its marketing strategy results in the best marketing mix for the best and most profitable customers.

Questions and Answers

1. What is OXO's mission?
   "To create innovative consumer products that make everyday living easier."

2. What are some of the market conditions that have led OXO to re-evaluate its marketing strategy?
   At the core of OXO's origins is the concept that kitchen and household gadgets were not designed ergonomically with ease-of-use in mind. This was particular the case for people with dexterity issues (elderly, people with arthritis, people with disabilities). During the 1980s, this population of people was on the rise.

   It was also apparent to OXO's founders that kitchen and household gadgets were generally very plain, not created with style or home décor in mind. During the 1980s, the trend toward bigger, fancier kitchens was also on the rise.

   OXO's original strategy was to create products that would take the gadget market in new directions as far as appealing to the real needs of real users such as those mentioned above. But it also had to consider at some point that it could not branch out and re-create new products for all the different segments it was targeting (tots, as well as home décor conscious and those with dexterity issues). Its size as a smaller company as well as its desire to grow combined with those market conditions to create the need to focus on universal design.

3. How has OXO modified its marketing mix? Are these changes in line with its mission?
   Product – Universal design is very much a product development concept. OXO has focused on making each product (or the technology in each product) usable across multiple product categories and customer segments. Packaging is also oriented around this as Alex Lee describes how a single product might be packaged in various ways with different OXO brands on the label, but the device just says OXO.
   Price – not discussed in this video.
   Place – OXO products are widely distributed through national discount retailers (Target, Wal-mart) as well as through specialty stores (Williams-Sonoma, Staples, Babies-R-Us) in order to reach every customer segment.
   Promotion – not discussed in this video. See the OXO video for chapter 12 on its promotional strategy.

Teaching Ideas

The video case for OXO follows a unique format for videos in the Pearson Video Library that accompany Armstrong and Kotlers *Marketing: An Introduction,* 11e. It begins with an introductory segment, followed by a problem segment, and ends with a solution segment. The intention here is to provide flexibility and multiple options for using the video. The following are some of the ways that instructors may utilize these three video segments.

1. Introduction only - Instructors may choose to use the introduction segment alone as a means of highlighting the company. As a stand-alone video, the introduction segment supplements material in many of the chapters of the text. For chapter two specifically, this segment may be used to highlight concepts like mission statement, marketing strategy, and SWOT.
2. Problem challenge - The instructor may show the problem segment, either with or without the introduction segment, and with or without the solution segment. This may be done in the interest of time. It may also be done strategically. An ideal way to challenge students is to require them to develop possible solutions to the presented problem before they have seen the solution segment. The instructor then has the option of whether or not to show the solution segment. This segment can be used to highlight market segmentation and market targeting as OXO executives discuss the challenges of continually producing innovative products for multiple segments in small markets.
3. Solution only – This may be done to illustrate a specific concept in the chapter. Rather than taking the time to perform a problem/solution exercise, the solution segment may be shown to demonstrate how a company overcame a specific problem. The OXO video is a great example of a company that has built a core competency (universal design) around its mission in order to confront the challenges that it faces.

PROFESSORS ON THE GO

Company and Marketing Strategy: Partnering to Build Customer Relationships

Key Concepts

Market-oriented mission statements
Setting goals and objectives
Designing and analyzing a business portfolio

- In a small group, discuss whether the following statement from Burton Snowboards North America, manufacturer and marketer of a leading snowboard brand, meets the five criteria of a good mission statement: "Burton Snowboards is a rider-driven company solely dedicated to creating the best snowboarding equipment on the planet."
- Which of the following two terms do you think best describes the process of developing and maintaining a fit between the organization's goals and capabilities and its changing marketing opportunities: strategic planning or corporate planning. Why?

- The BCG growth-share matrix identifies four classifications of SBUs: Stars, Cash Cows, Question Marks, and Dogs. Briefly discuss why management may find it difficult to dispose of a “Question Mark.”

Key Concepts

Market segmentation, target marketing, and market positioning
The 4 Ps of marketing

- Discuss each of the three steps that a company must perform in choosing the best market segments and designing strategies to maximize profitability in selected segments.
- Nordstrom’s and Kohl’s are two department stores. Visit their Web sites (www.nordstroms.com and www.kohls.com) to familiarize yourself with each. Who do you think each is targeting? How might they be trying to position themselves in the marketplace?
- Do you think that the “4 Ps” marketing mix framework does an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
- Why would a focus on the 4 Cs be more important than the 4 Ps?