

## Chapter 2

# COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

### LECTURE STARTER: CHAPTER 2

#### McDonald's A Customer-Focused 'Plan to Win' Strategy

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##### Synopsis

Since McDonald's first burst onto the scene more than 55 years ago, it has perfected the modern fast-food concept and grew rapidly. From the start, Kroc preached a motto of QSCV—quality, service, cleanliness, and value. These goals became mainstays in McDonald's corporate and marketing strategy. By applying these values, the company perfected the fast-food concept—delivering convenient, good-quality food at affordable prices.

By the turn of the twenty-first century, however, McDonald's once-shiny Golden Arches seemed to be losing some of their luster. But thanks to a new customer-focused strategic blueprint—called the “Plan to Win”—McDonald's launched an amazing turnaround that has both impressed customers and boosted sales figures. 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.” The company halted rapid expansion and instead poured money back into improving the food, the service, the atmosphere, and marketing at existing outlets.

McDonald's Plan to Win appears to be the right strategy for the times. Now, more than ever, when you think of McDonald's, you think of convenience and value. And that has customers and the company alike humming the chain's catchy jingle, “I'm lovin' it.”

##### Discussion Objective

A brief discussion of the Nike story will help to solidify the importance of creating a companywide marketing strategy that is customer-focused, and revamping it when necessary. This theme began in Chapter 1 and continues in Chapter 2. It also provides a nice opportunity to examine overall company strategy and mission, and their relationship to marketing strategy and activities. Finally, Nike provides a great example of how companies are taking new directions in building customer relationships and brand community. Nike has always focused on the brand experience. In the early years, it built the brand's image through media advertising and celebrity endorsements. Now, it focuses a sizable portion of its marketing efforts on creating more personal and involving brand experiences.

##### Starting the Discussion

To make the chapter-opening McDonald's story more personally relevant to the class, begin by asking, “How many of you regularly eat at McDonald's? What changes have you noticed in your dining experience over the past couple of years?” After a brief opening discussion, go online with students to discover how McDonald's Plan to Win is playing out with consumers and investors. [http://www.aboutmcdonalds.com/mcd/investors/company\\_profile.html](http://www.aboutmcdonalds.com/mcd/investors/company_profile.html) is a good starting point.

Direct the discussion using the following questions. As always, keep the discussion moving with plenty of student input.

##### Discussion Questions

1. Under its Plan to Win, McDonald's changed its mission from “being the world's best quick-service restaurant” to “being our customers' favorite place and way to eat.” Analyze this new mission statement in terms of marketplace changes that began in the 1990s. (During this period, McDonald's appeared to fall out of touch with customers. A flurry of new competitors came along as consumer tastes shifted toward more

health-conscious foods. The Plan to Win reflects a renewed customer focus with fresh menus, revamped restaurant designs, and a stronger emphasis on service and atmosphere.)

2. What is McDonald's really selling? What are customers really buying? How and how deeply do customers relate to the McDonald's brand? (McDonald's sells a lot more than just food. When customers purchase a meal at McDonald's, they are buying much more. They are buying a brand experience. Ask students how that brand experience has fundamentally shifted under the Plan to Win.)
3. If you worked as a McDonald's operations manager, financial analyst, IT specialist, or human resources manager, why would it be important for you to understand McDonald's marketing strategy? Do you suppose that the company's Plan to Win is simply a short-term marketing tactic, or a long-term company-wide initiative? (This question digs into the relationship between corporate strategy and marketing strategy, and marketing's role in broader company strategy. Non-marketing students often ask, "Why do I need to understand marketing"? The answer—as noted in Chapter 1 and later in Chapter 2—everyone in the company needs to align behind the mission of creating customer value.)
4. How does the chapter-opening McDonald's story relate to what comes later in the chapter? (This questions transitions the discussion into Chapter 2 topics such as overall company strategy and mission, marketing's role, customer-driven marketing strategy and planning, and measuring marketing ROI.)

## **CHAPTER OVERVIEW**

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In the first chapter, we explored the marketing process by which companies create value for the consumer in order to capture value in return. In this chapter, we look at designing customer-driven marketing strategies and constructing marketing programs. First we look at the organizations overall strategic planning, which guides marketing strategy and planning. Next, we discuss how marketing partners closely with others inside and outside the firm to create value for 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. Lastly, we will look at the step of measuring and managing return on marketing investment.

## **CHAPTER OBJECTIVES**

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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 under 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.

## CHAPTER OUTLINE

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|-------|--|-----------------------|
| p. 36 | <p><b>INTRODUCTION</b></p> <p>Since McDonald's first burst onto the scene more than 55 years ago, it has perfected the modern fast-food concept and grown rapidly.</p> <p>Recently, new competition and shifting consumer tastes forced McDonald's to unveil a new customer-focused strategic blueprint—the "Plan to Win."</p> <p>McDonald's returned to the basic business of taking care of customers. The company halted rapid expansion and instead poured money back into improving the food, the service, the atmosphere, and marketing at existing outlets.</p> <p>The Plan to Win appears to be the right strategy for these times, as reflected in renewed customer traffic and stronger sales figures.</p> | pp. 36<br>Photo: Nike |
|       | <p>➤ <b>Assignments, Resources</b></p> <p>Use <i>Small Group Assignment 1</i> here</p> <p>Use <i>Individual Assignment 1</i> here</p> <p>Use <i>Web Resources 1</i> and <i>2</i> here</p>  |                       |
|       | <p>➤ <b>Opening Vignette Questions</b></p> <ol style="list-style-type: none"> <li>1. Discuss McDonald's "Plan to Win" in terms of delivering increased customer value. What is inherently better about the new McDonald's from the customer's point of view?</li> <li>2. Contrast your personal dining experience at McDonald's with the company's "Plan to Win." What, if anything, do you notice has changed at your local McDonald's? Have they won you over as a die-hard customer?</li> <li>3. What comes next for McDonald's in the 21<sup>st</sup> century? What new marketing strategies might the company develop to remain fresh and relevant?</li> </ol>  |                       |
| p. 38 | <p><b>COMPANY-WIDE STRATEGIC PLANNING:<br/>DEFINING MARKETING'S ROLE</b></p> <p>The hard task of selecting an overall company strategy for</p>   | Chapter Objective 1   |

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| PPT 2-3              | long-run survival and growth is called strategic planning.<br><br><b>Strategic planning</b> is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing market opportunities.   | p. 38<br>Key Term:<br>Strategic Planning   |
| PPT 2-4              | Strategic planning sets the stage for the rest of the planning in the firm.<br><br>Companies typically prepare annual plans, long-range plans, and strategic plans.   | p. 39<br>Figure 2.1:<br>Steps in Strategic Planning  |
|                      | <ul style="list-style-type: none"> <li>➤ <b>Assignment, Resources</b><br/>Use <i>Discussing the Concepts 1</i> here<br/>Use <i>Video Case</i> here</li> <li>➤ <b>Troubleshooting Tip</b><br/>Most students have had no experience with strategy or strategy formulation (especially at the undergraduate level). Because their background in strategy is weak, their ability to strategically plan is also weak. The best way to attack this problem is to follow the explanation sequence provided by the text. Before this discussion begins, however, it might be useful to find areas where students have had strategic planning experience (such as athletics, student politics, games, video games, chess, computer games, etc.). By asking the students to recall and relate these experiences, parallels can be drawn to business strategies and the plans that result from these strategies (for example, think of all the military and athletic terms that might be used to describe business strategy—i.e., flanker movement for flanker brands).</li> </ul> |  |
| p. 39<br><br>PPT 2-5 | <b>Defining a Market-Oriented Mission</b><br><br>Many organizations develop formal mission statements. A <b>mission statement</b> is a statement of the organization's purpose—what it wants to accomplish in the larger environment.<br><br>A clear mission statement acts as an “invisible hand” that guides people in the organization.<br><br>A market-oriented mission statement defines the business in terms of satisfying basic customer needs.   | p. 39<br>Key Term: Mission Statement<br><br><br><br><br><br><br><br><br><br>p. 40<br>Table 2.1: Market-Oriented Business Definitions |

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|  | <p>Management should avoid making its mission too narrow or too broad.</p> <p>Missions should be realistic, specific, fit the market environment, based on the company's distinctive competencies, and motivating.</p>   |   |
| <p>➤ <b>Assignments, Resources</b><br/> Use <i>Application Question 2</i> here<br/> Use <i>Web Resource 3</i> here</p>   |  |   |
| p. 40  | <p><b>Setting Company Objectives and Goals</b></p> <p>The company's mission needs to be turned into detailed supporting objectives for each level of management.</p> <p>The mission leads to a hierarchy of objectives, including business objectives and marketing objectives.</p> <p>Marketing strategies and programs must be developed to support these marketing objectives.</p>  |   |
| p. 40<br>PPT 2-7   | <p><b>Designing the Business Portfolio</b></p> <p>A <b>business portfolio</b> is the collection of businesses and products that make up the company.</p> <p>The best portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment.</p> <p><b>Analyzing the Current Business Portfolio</b></p> <p>The major activity in strategic planning is business <b>portfolio analysis</b>, whereby management evaluates the products and businesses making up the company.</p> | <p>Chapter Objective 2<br/>p. 40<br/>Key Term: Business Portfolio</p> <p>p. 41<br/>Ad: McDonald's</p> <p>p. 42<br/>Key Term: Portfolio Analysis</p> |
| <p>➤ <b>Assignments, Resources</b><br/> Use <i>Additional Project 1</i> here<br/> Use <i>Think-Pair-Share 1</i> here</p> |  |   |
| PPT 2-8  | <p>A strategic business unit (SBU) is a unit of the company which has a separate mission and objectives and that can be planned independently from other company businesses.</p>   |   |

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| PPT 2-9  | <p>The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves.</p> <p>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.</p> <p><b><i>The Boston Consulting Group Approach.</i></b> The best-known portfolio-planning method was developed by the Boston Consulting Group.</p>  | p. 42<br>Key Term: Growth-Share Matrix           |
| PPT 2-10 | <p>This matrix defines four types of SBUs:</p> <ul style="list-style-type: none"> <li>• Stars: high-growth market, high-share product</li> <li>• Cash cows: low-growth market, high-share product</li> <li>• Question marks: low-share product, high-growth market</li> <li>• Dogs: low-share product, low-growth market</li> </ul> <p>Once it has classified its SBUs, the company must determine what role each will play in the future.</p> <p>The company can invest more in the business unit in order to grow its share. It can invest just enough to hold the SBU’s share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Or it can divest the SBU by selling it or phasing it out.</p> | p. 43<br>Figure 2.2: The BCG Growth-Share Matrix |
|          | <p>➤ <b>Assignments, Resources</b></p> <p>Use <i>Discussing the Concepts 2</i> here</p> <p>Use <i>Web Resource 4</i> here</p> <p>Use <i>Real Marketing 2.1</i> here</p> <p>Use <i>Small Group Assignment 2</i> here</p> <p>Use <i>Individual Assignment 2</i> here</p> <p>➤ <b>Troubleshooting Tip</b></p> <p>This simple matrix is the basis for many portfolio analysis techniques. An easy way to cover this material quickly is to assign each of the four parts to four students in advance of class. Next, have them respond to example suggestions (illustrations of the four cells) from their classmates. This will reinforce the material for the entire class.</p>   |  |

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| PPT 2-11  | <p><b><i>Problems with Matrix Approaches</i></b></p> <p>Portfolio-analysis approaches have limitations.</p> <ul style="list-style-type: none"> <li>• They can be difficult, time-consuming, and costly to implement.</li> <li>• Management may find it difficult to define SBUs and measure market share and growth.</li> <li>• These approaches focus on classifying current businesses but provide little advice for future planning.</li> </ul> <p>Because of such problems, many companies have dropped formal matrix methods in favor of more customized approaches that are better suited to their specific situations.</p> <p><b>Developing Strategies for Growth and Downsizing</b></p> <p>Designing the business portfolio involves finding businesses and products the company should consider in the future.</p> <p>Marketing has the main responsibility for achieving profitable growth for the company.</p> <p>Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them.</p> | <p>p. 44<br/>Photo: Disney</p> <p>p. 44<br/>Figure 2.3: The Product/Market Expansion Grid</p> <p>pp. 44<br/>Key Terms:<br/>Product/Market Expansion Grid, Market Penetration</p> <p>p. 44<br/>Photo: Under Armour</p> <p>pp. 45<br/>Key Terms:<br/>Market Development, Product Development, Diversification,</p> |
| PPT 2-13  | The <b>product/market expansion grid</b> is shown in Figure 2.3.  |  |
| PPT 2-14  | <ul style="list-style-type: none"> <li>• <b>Market penetration</b> involves making more sales to current customers without changing its products.</li> <li>• <b>Market development</b> involves identifying and developing new markets for its current products.</li> </ul>   |  |
| PPT 2-15  | <ul style="list-style-type: none"> <li>• <b>Product development</b> is offering modified or new products to current markets.</li> <li>• <b>Diversification</b> is where a company starts up or buys businesses outside of its current products and markets.</li> </ul>  |  |
| PPT 2-16  | Companies must also develop strategies for downsizing their businesses.   |  |
| <p>➤ <b>Assignments, Resources</b><br/> Use <i>Discussing the Concepts 3</i> here<br/> Use <i>Focusing on Ethics</i> here</p> |   |  |

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| <p>➤ <b>Troubleshooting Tip</b></p> <p>Many students will have an incomplete understanding of the growth strategies shown in the <i>product/market expansion grid</i>. Though these areas are carefully described in the text, it is useful to make sure that students understand the mix of alternatives available to the strategist. One way to do this is to pick another example besides the Starbucks's Coffee example used in the text and have the students suggest acceptable alternatives. Remind students to think about how the example companies have expanded or contracted in recent years. Lastly, make students practice using the terms from the expansion grid in their discussions so a proper business strategy vocabulary will be built. This practice will really help the students when an exam rolls around.</p> |   |   |
| p. 45  | <p><b>PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS</b></p> <p>Within each business unit, more detailed planning takes place. The major functional departments in each unit must work together to accomplish strategic objectives.</p> <p>Marketing provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important customer groups.</p> <p>Marketing provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them.</p> <p>Marketing designs strategies for reaching the unit's objectives.</p> | Chapter Objective 3                                   |
| p. 46  | <p><b>Partnering with Other Company Departments</b></p> <p>Each company department can be thought of as a link in the company's value chain.</p>  |   |
| PPT 2-17   | <p>A <b>value chain</b> is the series of departments that carry out value-creating activities to design, produce, market, deliver, and support the firm's products.</p>   | <p>p. 46<br/>Key Term: Value Chain<br/><br/>p. 46</p> |



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| <p>p. 47</p> <p>PPT 2-18</p>  | <p>A company's value chain is only as strong as its weakest link.</p> <p>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.</p> <p>In practice, departmental relations are full of conflicts and misunderstandings.</p> <p><b>Partnering with Others in the Marketing System</b></p> <p>The firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and ultimately, customers.</p> <p>More companies today are partnering with other members of the supply chain to improve the performance of the customer <b>value delivery network</b>.</p> <p>Increasingly, today's competition no longer takes place between individual competitors. Rather, it takes place between the entire value-delivery networks created by these competitors.</p> | <p>Ad: Walmart</p> <p>p. 47<br/>Key Term: Value Delivery Network</p> <p>p. 47<br/>Ad: L'Oreal Paris</p>   |
| <p>p. 48</p> <p>PPT 2-19</p> <p>p. 48</p> <p>p. 49<br/>PPT 2-20</p> | <p><b>MARKETING STRATEGY AND THE MARKETING MIX</b></p> <p>Marketing's role and activities are show in Figure 2.4; it summarizes the major activities involved in managing marketing strategy and the marketing mix.</p> <p><b>Marketing strategy</b> is the marketing logic by which the company hopes to achieve these profitable relationships.</p> <p><b>Customer-Driven Marketing Strategy</b></p> <p>Companies know that they cannot profitably serve all consumers in a given market—at least not all consumers in the same way.</p> <p><b>Market Segmentation</b></p> <p>The process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing programs is</p>  | <p>Chapter Objective 4</p> <p>p. 48<br/>Key Term: Marketing Strategy</p> <p>p. 48<br/>Figure 2.4: Managing Marketing Strategies and the Marketing Mix</p> <p>p. 49<br/>Key Term: Market</p> |

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|          | called <b>market segmentation</b> .  | Segmentation  |
|          | <p>➤ <b>Assignments, Resources</b><br/>Use <i>Web Resource 5</i> here</p> <p>➤ <b>Troubleshooting Tip</b><br/>Market segmentation and targeting is universally a new concept 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.</p>   |   |
| PPT 2-21 | <p>A <b>market segment</b> consists of consumers who respond in a similar way to a given set of marketing efforts.</p> <p><b>Market Targeting</b></p> <p><b>Market targeting</b> involves evaluating each market segment's attractiveness and selecting one or more segments to enter.</p> <p>A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.</p> <p><b>Market Differentiation and Positioning</b></p> <p>A product's position is the place the product occupies relative to competitors in consumers' minds.</p> | <p>p. 49<br/>Key Terms:<br/>Market Segment,<br/>Market Targeting</p>  |
| PPT 2-22 | <p>Marketers want to develop unique market positions for their products.</p> <p>Market <b>positioning</b> is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target customers.</p> <p>Positioning establishes differentiation.</p> <p>To gain competitive advantage, the company must offer value to target consumers. This is accomplished through product <b>differentiation</b>—actually differentiating the company's market offering so that it gives consumers more value.</p>                              | <p>p. 49<br/>Key Term:<br/>Positioning</p> <p>p. 50<br/>Photo:<br/>Logitech</p> <p>p. 51<br/>Ad: Burger King</p> <p>p. 51<br/>Key Term:<br/>Differentiation</p> |
|          | ➤ <b>Troubleshooting Tip</b>   |   |

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| <p>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.</p> |   |   |
| <p>p. 52</p> <p>PPT 2-23</p> <p>PPT 2-24</p>   | <p><b>Developing an Integrated Marketing Mix</b></p> <p>The <b>marketing mix</b> is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market. This is described in Figure 2.5.</p> <p><i>Product</i> means the goods-and-services combination the company offers to the target market.</p> <p><i>Price</i> is the amount of money customers must pay to obtain the product.</p> <p><i>Place</i> includes company activities that make the product available to target consumers.</p> <p><i>Promotion</i> means activities that communicate the merits of the product and persuade target customers to buy it.</p> <p>An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers.</p> <p>Some critics feel that the four Ps may omit or under-emphasize certain important activities.</p> <p>From the buyer's viewpoint, in this age of customer relationships, the four Ps might be better described as the four Cs:</p> <ul style="list-style-type: none"> <li>• Customer solution</li> <li>• Customer cost</li> <li>• Convenience</li> <li>• Communication</li> </ul> | <p>p. 51</p> <p>Key Term:<br/>Marketing Mix</p> <p>p. 52</p> <p>Figure 2.5: The Four P's of the Marketing Mix</p> |
| <p>➤ <b>Assignments, Resources</b><br/> Us <i>Additional Project 2</i> here<br/> Use <i>Discussing the Concepts 4</i> here</p>   |   |   |



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|                              | <p>brand plan. See Appendix 1 for a sample marketing plan.</p> <p>A <b>marketing strategy</b> consists of specific strategies: target markets, positioning, the marketing mix, and marketing expenditure levels.</p>  |  |
| <p>p. 54</p> <p>PPT 2-28</p> | <p><b>Marketing Implementation</b></p> <p><b>Marketing implementation</b> is the process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives.</p> <p>Implementation involves day-to-day, month-to-month activities that effectively put the marketing plan to work.</p> <p>Implementation addresses the <i>who, where, when, and how</i>.</p> <p>In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans.</p> <p>Successful marketing implementation depends on how well the company blends its people, organizational structure, decision and reward systems, and company culture into a cohesive action program that supports its strategies.</p> | <p>p. 54</p> <p>Key Term: Marketing Implementation</p> <p>p. 55</p> <p>Table 2.2: Contents of a Marketing Plan</p> |
| <p>p. 55</p> <p>PPT 2-29</p> | <p><b>Marketing Department Organization</b></p> <p>The company must design a marketing organization that can carry out marketing strategies and plans.</p> <p>The most common form of marketing organization is the <i>functional organization</i>. Under this organization functional specialists head the various marketing activities.</p> <p>A company that sells across the country or internationally often uses a <i>geographic organization</i>.</p> <p>Companies with many very different products or brands often create a <i>product management organization</i>. A <b>product manager</b> develops and implements a complete strategy and marketing program for a specific product or brand.</p> <p>For companies that sell one product line to many different</p>                  | <p>p. 56</p> <p>Photo: Marketing Planning and Control</p>  |

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| <p>PPT 2-30</p> <p>p. 57</p> | <p>types of markets and customers that have different needs and preferences, a <i>market</i> or <i>customer management organization</i> might be best.</p> <p>A market management organization is similar to the product management organization.</p> <p><b>Market managers</b> are responsible for developing marketing strategies and plans for their specific markets or customers.</p> <p>Large companies that produce many different products flowing into many different geographic and customer markets usually employ some combination of the functional, geographic, product, and market organization forms.</p> <p>Many companies are finding that today's marketing environment calls for less focus on products, brands, and territories and more focus on customers and customer relationships.</p> <p>More and more companies are shifting their brand management focus toward customer management.</p> <p><b>Marketing Control</b></p> <p><b>Marketing control</b> involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained.</p> <p><i>Operating control</i> involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan.</p> <p><i>Strategic control</i> involves looking at whether the company's basic strategies are well matched to its opportunities.</p> <p>Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace.</p> <p><b>MEASURING AND MANAGING RETURN ON</b></p> | <p>p. 56</p> <p>Key Term:<br/>Marketing Control</p> |
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| PPT 2-31   | <p><b>MARKETING INVESTMENT</b></p> <p>Marketing managers must ensure that their marketing dollars are being well spent.</p> <p>In the past, many marketers spent freely on expensive programs, often without considering financial return on spending. In today's constrained economy, that is changing.</p> <p>In response, marketers are developing better measures of <b>return on marketing investment (marketing ROI)</b>—the net return from a marketing investment divided by the costs of the marketing environment.</p> <p>A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.</p> <p>Some companies are combining such measures into <i>marketing dashboards</i>—useful sets of marketing performance measures in a single display.</p> <p>Increasingly marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, customer lifetime value, and customer equity.</p> | <p>p. 58<br/>Key Term: Return on Marketing Investment (Marketing ROI)</p> <p>p. 58<br/>Figure 2.8: Return on Marketing Investment</p> <p>p. 58<br/>Photo: Company Dashboard</p> |
| <p>➤ <b>Assignments, Resources</b></p> <p>Use <i>Discussing the Concepts</i>: 6 here</p> <p>Use <i>Think-Pair-Share</i> 3 here</p> <p>Use <i>Marketing by the Numbers</i> here</p> <p>Use <i>Company Case</i> here</p> <p>Use <i>Application Question</i> 3 here</p> <p>Use <i>Video Case</i> here</p> |  |   |

## END OF CHAPTER MATERIAL

### Discussing the Concepts

1. Define strategic planning and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process. (AASCB: Communication)

*Answer:*

**Strategic planning** is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the companywide plan. Marketing planning occurs at the business-unit, product, and market levels. Marketing supports company strategic planning with more detailed plans for specific marketing opportunities.

Marketing plays a key role in the company's strategic planning in several ways: (1) it provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups, (2) it provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them, and (3) within individual business units, marketing designs strategies for reaching the unit's objectives.

2. Name and describe the four product/market expansion grid strategies. Provide an example of a company implementing each strategy. (AACSB: Communication; Reflective Thinking)

*Answer:*

The four product/market expansion strategies are market penetration, market development, product development, and diversification. **Market penetration** involves making more sales without changing the original product. This can be achieved through marketing mix improvements, such as adjustments to its product design, advertising, pricing, and distribution efforts. One example is Apple coming out with the iPhone 5. **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, IKEA is expanding into India. Management could consider **product development** by offering modified or new products to current markets. For example, Barnes and Noble bookseller developed the Nook e-reader. 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. For example, Google is offering cloud-based services for businesses.

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**, 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.

### Application Questions

1. Form a small group and conduct a SWOT analysis for a publically-traded company. Based on your analysis, suggest a strategy from the product/market expansion grid and an appropriate marketing mix to implement that strategy. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students' analyses and recommendations will vary, but they should be aware of the elements of a marketing plan. A **SWOT analysis** evaluates an organization's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see Figure 2.7). Strengths include internal capabilities, resources, and positive situational factors that may help the company or organization to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the organization's performance. Opportunities are favorable factors or trends in the external environment that the organization may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance. Objectives should logically follow conclusions from the SWOT analysis, and the strategy recommended should support the objectives. The marketing strategy should identify the target market(s), positioning, and the marketing mix (product, price, place, and promotion).

2. Find the mission statements of two for-profit and two not-for-profit organizations. Evaluation these mission statements with respect to their market orientation. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students should be able to find mission statements by searching on the Internet. Some mission statements can be found at an organization's Web site or from other sources, such as articles or Web sites that compile this type of information. For example, <http://retailindustry.about.com/od/retailbestpractices/ig/Company-Mission-Statements/> provides a collection of over 100 retailers' mission statements and <http://drdianehamilton.wordpress.com/2011/01/13/top-10-company-mission-statements-in-2011/> gives top 10 company missions statements for 2012. See [www.nonprohthub.org/featured/storytelling-like-bruce-three-examples-of-strong-nonprofit-mission-statements/](http://www.nonprohthub.org/featured/storytelling-like-bruce-three-examples-of-strong-nonprofit-mission-statements/) for links to non-profit organization mission statements. A market-oriented mission statement should be described in terms of satisfying basic customer needs and not a focus on products.

3. 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 and students need to be aware that marketing metrics encompass all areas of marketing, not just advertising or direct marketing that seem to come up high 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 at Wharton School Publishing.

### **Focus on Technology: Google's Nexus 7 Tablet**

Google is making a move into the consumer electronics market. In 2012, Google introduced the Nexus 7 tablet that runs on its popular Android operating system. Priced at \$199 to \$249, it is much cheaper than Apple's iPad but comparable to Amazon's Kindle Fire. In fact, it is very similar to the Kindle Fire in terms of size, weight, and features. The Kindle Fire also runs on Google's Android operating system, but the Nexus 7 runs on Google's newest version of Android called Jelly Bean. One feature the Nexus 7 has that the Kindle doesn't is a voice-activated assistant, similar to Apple's Siri on the iPhone 4S. Google is also introducing Nexus Q, which is a \$300 black ball-shaped home-entertainment amplifier that wirelessly streams content to other devices. For \$1500, Google offers Google Glass, which is an eyeglasses-like device that displays Internet information in front of the wearer's eyes. Google purchased Motorola Mobility, so keep your eye out for another entrant in the smartphone category.

1. Learn more about Google and its products/services and create a BCG Growth-Share Matrix for this company. On which products and services should Google concentrate its marketing efforts? (AACSB: Communication; Reflective Thinking)

*Answer:*

This is a good exercise for students to attempt to organize a company's products/services into a product-market growth matrix that is often used in developing a SWOT analysis. Google offers several products and services, so this exercise is not as simple as it first seems. Products range from services such as search tools, advertising services, communication and publishing tools, development resources, map-related products, statistical tools, operating systems, and desktop and mobile apps to hardware such as entertainment systems, phones, tablets, and other mobile devices. See [http://en.wikipedia.org/wiki/List\\_of\\_Google\\_products](http://en.wikipedia.org/wiki/List_of_Google_products) for a list.

Students should try to organize these products/services and identify the four categories of the BCG Growth-Share Matrix—star, question mark, cash cow, and dog—and discuss relative market share and market growth rate for each respective product/service. Stars are high-growth, high-share products and need heavy investments to finance their rapid growth. Cash cows are low-growth, high-share products and need less investment to hold their market share. Question marks are low-share products in high-growth markets and require a lot of cash to build market share. The key decision is whether or not they are worth that investment. Dogs are low-growth, low-share products and do hold much promise.

2. How is Google positioning the Nexus 7 tablet? Does this product offer significant differentiation from competing offerings so that consumers will perceive it to have higher value? (AACSB: Communication; Reflective Thinking)

*Answer:*

Differentiation involves actually differentiating the market offering to create superior customer value. The following article provides a useful graphic comparing Google's Nexus 7 to the Kindle Fire, Apple's iPad, and the proposed Microsoft Surface tablet on dimensions of screen size/weight, price, memory, wireless, software, and features: <http://online.wsj.com/article/SB10001424052702304058404577492760881761278.html#articleTabs%3Dinteractive>. It appears that the Nexus 7 is not very different from the Kindle Fire, but the Android operating system is allegedly better and the Google device offers personalized information based on the user's location.

### **Focus on Ethics: Tiny Hearts**

You've probably heard of heart procedures such as angioplasty and stents that are routinely performed on adults. But such heart procedures, devices, and related medications are not available for infants and children, despite the fact that almost 40,000 children a year are born in the United States with heart defects that often require repair. This is a life or death situation for many young patients, yet doctors must improvise by using devices designed and tested on adults. For instance, doctors use an adult kidney balloon on an infant's heart because it is the appropriate size for a newborn's aortic valve. However, this device is not approved for the procedure. Why are specific devices and medicines developed for the multibillion-dollar

cardiovascular market not also designed for kids? It's a matter of economics—this segment of young consumers is just too small. One leading cardiologist attributed the discrepancy to a “profitability gap” between the children’s market and the much more profitable adult market for treating heart disease. While this might make good economic sense for companies, it is little comfort to the parents of these small patients.

1. Is it wrong for these companies to not address the needs of this segment? Suggests some arguments in defense of companies not offering products to meet these needs. (AACSB: Communication; Reflective Thinking; Ethical Reasoning)

*Answer:*

Students’ opinions of whether or not it wrong to not address the needs of this segment will vary. Some arguments in defense of companies not offering products to meet these needs include both internal and external considerations. Many companies are publically traded companies, so stakeholders’ interests must be considered. Even for privately-held companies, if it is not economically feasible for a company to meet the needs of this segment, no matter how heart-wrenching it may be, the company cannot pursue this segment and survive in the long term. Legal and regulatory forces are also partially to blame for this crisis. It is difficult to gain FDA approval because clinical trials with infants and children are nearly impossible. Threats of lawsuits compound the situation. Demographics are not favorable for developing products for this market—40,000 possible patients per year is insignificant compared to the hundreds of thousands in the adult market segment.

2. Suggest some solutions to this problem. (AACSB: Communication; Reflective Thinking)

*Answer:*

This is a tough situation. Students may suggest that the government subsidize research and development for medications and devices developed specifically for infants and children, which would alleviate some of the financial burden on the companies developing the products. Perhaps subsidies such as tax incentives could be given to startup companies that focus on meeting the specific needs of children.

### **Marketing by the Numbers: Walmart vs. Target**

For the period ending January 2012, Walmart reported profits of almost \$16 billion on sales of just under \$450 billion. For that same period, Target posted a profit of \$3 billion on sales of almost \$70 billion. Walmart is a better marketer, right? Sales and profits provide information to compare the profitability of these two competitors, but between these numbers is information regarding the efficiency of marketing efforts in creating those sales and profits. Appendix 2, Marketing by the Numbers, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the Appendix to answer the questions using the following information from Walmart’s and Target’s incomes statements (all numbers are in thousands):

| <b>Period ending January, 2012</b> | <b>Walmart</b> | <b>Target</b> |
|------------------------------------|----------------|---------------|
| Sales                              | \$446,950,000  | \$69,865,000  |
| Gross Profit                       | \$111,823,000  | \$22,005,000  |
| Marketing Expenses                 | \$ 63,948,750  | \$10,914,000  |
| Net Income (Profit)                | \$ 15,699,000  | \$ 2,929,000  |

1. Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for both companies. Which company is performing better? (AACSB: Communication; Use of IT; Analytic Thinking)

*Answer:*

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Net sales}}$$

$$\text{Profit Margin}_{\text{Walmart}} = \frac{\$15,699,000}{\$446,950,000} = 0.0351 = 3.51\%$$

$$\text{Profit Margin}_{\text{Target}} = \frac{\$2,929,000}{\$69,865,000} = 0.0419 = 4.19\%$$

Net Marketing Contribution (NMC) = net sales – cost of goods sold – marketing expenses

Because Gross Profit = net sales – cost of goods sold, students just need to subtract

marketing expenses from gross profit:

$$\text{NMC}_{\text{Walmart}} = \$111,823,000 - \$63,948,750 = \$47,874,250$$

$$\text{NMC}_{\text{Target}} = \$22,005,000 - \$10,914,000 = \$11,091,000$$

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}}$$

$$\text{Marketing ROS}_{\text{Walmart}} = \frac{\$47,874,250}{\$446,950,000} = 0.107 = 10.7\%$$

$$\text{Marketing ROS}_{\text{Target}} = \frac{\$11,091,000}{\$69,865,000} = 0.158 = 15.8\%$$

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}}$$

$$\text{Marketing ROI}_{\text{Walmart}} = \frac{\$47,874,000}{\$63,948,750} = 0.7486 = 74.86\%$$

$$\text{Marketing ROI}_{\text{Target}} = \frac{\$11,091,000}{\$10,914,000} = 1.016 = 101.6\%$$

While Walmart has larger absolute sales, gross profits, expenses, net marketing contribution, and profits, Target is performing more efficiently as measured by the profit margin and marketing metrics of Marketing Return on Sales and Marketing Return on Investment.

2. Go to Yahoo! Finance (<http://finance.yahoo.com/>) and find the income statements for two other competing companies. Perform the same analysis for these companies that you performed in the previous question. Which company is doing better overall and with respect to marketing? For marketing expenses, use 75 percent of the company's reported "Selling General and Administrative" expenses. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

*Answer:*

Students' answers will vary. The information used in the previous question can be found at:

Walmart - <http://finance.yahoo.com/q/is?s=WMT+Income+Statement&annual>

Target - <http://finance.yahoo.com/q/is?s=TGT+Income+Statement&annual>

The information students need is: Total Revenue, Gross Profit, Selling General and Administrative (use 75% to calculate the marketing expenses for the NMC calculation), and Net Income.

## Company Case Notes

### Trap-Ease America: The Big Cheese of Mousetraps

#### Synopsis

A group of investors has purchased from an inventor the U.S. rights to sell a patented, innovative mousetrap. The group has hired Martha House to manage the company that includes assuming responsibility for sales and marketing. This case provides details of the marketing strategy employed by Ms. House.

Despite the innovativeness of the mousetrap and its success at gaining public attention, sales are disappointingly slow. Martha finds herself wondering why the world is not beating a path to her door, as Ralph Waldo Emerson would have predicted.

## Teaching Objectives

This case was selected to accompany Chapter 2 because it does an excellent job of introducing the student to the concepts of the mission of the firm and the elements of a marketing strategy in a simple but rich case. The teaching objectives for this case are to:

1. Introduce the idea of a firm's "mission."
2. Introduce the basic elements of a marketing strategy.
3. Drive home the point that customers seldom beat a path to a firm's door.

## Discussion Questions

1. Martha and the investors in Trap-Ease seem to face a "once-in-a-lifetime opportunity." What information do they need to evaluate this opportunity? What do you think the investor group would write as its "mission statement?"

*The case paints a very typical picture of a group of businesspeople who believe they have an outstanding product that will be readily accepted by the market. There is little evidence in the case that the investors have done any real thinking about customer needs or have followed the marketing concept as it is introduced in the chapter. The investors believe they have a mousetrap, which will satisfy customer needs, and, therefore, customers will buy it. Students need to realize that even though a firm may have an excellent product it needs to understand customers' needs and how they respond to those needs. There is no indication in the case that the investor group has any marketing information about its potential customers or has done any real marketing research. The investors would need to know the size of the mousetrap market in the United States. Who buys mousetraps? What kinds do they buy? What prices are charged for the various kinds of mousetraps? How are these mousetraps sold to consumers? What customer needs do existing mousetraps solve, and which needs do they fail to solve adequately? How do consumers deal with their mice and rat problems? Answers to these and other "marketing research" types of questions would give the investors a better feel for the challenges facing them in marketing the mousetrap.*

*Like many new, small businesses, however, the investors would write a mission statement that focused on making money for themselves. Their statement might be, "Make a lot of money by selling a patented mousetrap." Discussing this with the class will allow the instructor to raise the oft-repeated slogan, "maximize shareholder wealth." Proponents of the marketing concept might well argue that making money is not the goal of the firm. Rather, if one follows the marketing concept, the goal of the firm must be first to satisfy the firm's customers and to do that better than the competition. Only then does a firm have the opportunity to "make money."*



2. Who is identified as Trap-Ease's target market? Are there other possible market segments that the firm could target?

*The case indicates that Trap-Ease is targeting housewives, and implies that housewives are reluctant to set and bait traditional spring-loaded mousetraps. They also are concerned about the safety of children and pets that may be around the home because once the spring-loaded trap has caught a mouse, one often has a mess resulting from its action. Besides being unpleasant, the mess presents health concerns due to the diseases that may be carried by mice.*

*There are a number of other market segments that the firm could target. The issue of disease control suggests several other potential targets. First, the instructor might ask students where disease control concerns would be important. Any business that handles or stores food and, therefore, is attractive to rats and mice would be a potential target. Restaurants should come to mind here, both because of the presence of food and food products and also because these establishments cannot use chemicals near food. This also should suggest food wholesalers or warehouses where large quantities of food may be stored in the channel of distribution. Food manufacturers also need rodent protection.*

*Another potential market is research laboratories. Here, researchers use large numbers of mice in research projects. It is not unreasonable to think that some of these mice occasionally get loose. A researcher would be interested in the ability to recapture a mouse without harming it—something that the researcher would be able to do with the Trap-Ease.*

*Another potential target market is exterminators. Because they must work in areas where chemicals would not be allowed and traditional traps would have the same messiness problem, these companies might be a target market. These exterminator companies might also sell the traps directly to consumers with whom they deal. This possibility will allow the instructor to talk about channels of distribution and the impact of Trap-Ease's decision to go directly to the end customer.*

3. How is the product positioned relative to the selected target market in the case? Are there other ways to position the product?

*As suggested in the answer to question 2, Trap-Ease has been positioned from the point of view of the customer as meeting safety and cleanliness needs. Because of its pricing and distribution, Trap-Ease is positioned for use by the individual homeowner who has these concerns.*

*The major alternative positioning for the product focuses on its ability to control disease. Because the mouse would be trapped in a fully enclosed device and would be captured live, there is little opportunity for disease to spread as a result of its capture. It should be noted, however, that positioning the product this way would make substantial differences in the entire marketing strategy. This allows the instructor to make the point that will be reinforced throughout the semester that the full marketing mix must be coordinated to position the product properly in the customer's mind.*

4. What marketing mix has Trap-Ease established? Do you see any problems with this mix?

*In summary, Trap-Ease's marketing mix is as follows:*

*Product: As noted above, Trap-Ease is a patented mousetrap that is designed to allow consumers to avoid the safety and cleanliness problems associated with traditional mousetraps.*

*Perhaps by this time in the discussion someone will have already suggested one of the obvious problems with this product. That is, what does one do with a live mouse caught inside the trap? The inventor had designed the product to capture the mouse alive and to suffocate it over a period of several hours. This, however, presents a problem for the user. If the consumer discovers the trap has worked, she must pick up a trap containing a live mouse that may be squirming and squealing. Then, what does the consumer do with the mouse? It might be flushed down the toilet or let out in the woods, if one lives near woods. We might wonder, however, if the target market, housewives, will be comfortable carrying the trap containing the live mouse and then opening the door to let it out. Later market research revealed that few people felt comfortable in this situation.*

*On the other hand, if the consumer allows the mouse to simply suffocate in the trap, he will find that mice, like most animals, do not die quietly. You can imagine the trap bouncing around under a sink like a large Mexican jumping bean as the mouse tries to free itself. Experience indicated that the mouse also made a lot of noise prior to suffocating. The targeted housewife may find herself presented with the dilemma of how to handle a live mouse or how to put up with the noise and unpleasantness of its suffocating. Thus, although the trap works well to catch a mouse, it fails to deal with the problem of what does one do with the mouse.*

*Price: The price of approximately \$2.99 per trap, when sold in packages of two, also creates a problem in that it is five times more expensive than traditional traps. This problem is complicated by the fact that if consumers have significant mouse problems, they would need a number of traps to address the problem. Or, if they decide to simply throw away traps that contain mice to solve the disposal problem, the cost could again become prohibitive.*

*Place: Martha House has made the decision to distribute the products directly to national chains. Although on one hand this decision makes sense given the company's desire to achieve rapid sales growth, it creates problems for the company due to its small size. As noted in the example, which concludes the case, the company does not have its own truck and distribution facilities. It must depend on outside firms to deliver its product. Because national chains have very strict time schedules, this makes it difficult for Trap-Ease to control its distribution.*

*Promotion: Trap-Ease is relying basically on appearances at trade shows and some limited advertising. In fact, it is relying on word-of-mouth. Primarily, the firm depends on point-of-purchase displays to sell its product. One might wonder, however, how quickly*

*consumers passing point-of-purchase displays for the product will understand it. Further, the firm is dependent on whatever advertising the chains may do to generate end-customer awareness. Even early in the semester, students should understand that generating such awareness is extremely expensive and difficult. It is not clear that Trap-Ease has adequate resources to do significant advertising aimed at end customers, and it is not clear that the chains will devote sufficient resources to advertising the product.*

*All of these marketing mix problems should suggest that Trap-Ease has a number of significant hurdles to address if it is going to improve its performance.*

5. Who is Trap-Ease's competition?

*Even though Trap-Ease has a patent on its mousetrap, it does have competition. Students may tend to think that a patent protects a firm from competition. Obviously, the traditional, spring-loaded trap is competition. Although the Trap-Ease trap has significant advantages, its price means that for many low-income consumers who probably have more mice problems, Trap-Ease is too expensive. Consumers who have better incomes and who may not be excited about dealing with dead or live mice will probably simply turn to exterminators to take care of their problems. Although exterminators are more expensive, the benefits of having someone else take care of this unpleasant problem will be attractive to many consumers. Thus, Trap-Ease finds itself with competition both above and below its relative price. This competition significantly reduces the size of the target market.*

6. How would you change Trap-Ease marketing strategy? What kinds of control procedures would you establish in connection with this strategy?

*There are, of course, numerous possibilities that students might suggest. Many students will focus on trying to make specific changes to elements of the established marketing mix. For example, some students may suggest that by lowering price the Trap-Ease will become more competitive with traditional traps and be more attractive to consumers. Any attempt to manipulate the existing marketing mix, however, allows the instructor to make the point that the marketing mix should flow from the target market. At this time, having discussed previous questions, it should be clear to students that there is some question about the size and viability of the selected target market. In fact, there may not be a real market given the product's positioning—at least not a market that is big enough to support the firm and reach the investor's goals.*

*To revise the firm's marketing strategy, the firm needs to begin by thinking about its target market selection. First, the student could suggest that the product has been positioned improperly. Although health and cleanliness concerns are of interest to consumers, the other aspects of the marketing mix make the product unattractive. The disease control aspects of the product, however, are important. It would be possible to reposition the product for disease control purposes and to select the industrial/institutional target market. Thus, the target market would become food manufacturers, wholesalers, and others who store quantities of food that are subject to*

*rat infestation and also restaurants and other institutions, where food may be handled and where poisons and other rat control measures are inappropriate.*

*With respect to the marketing for this new target market, the firm needs to develop larger sizes of the trap. Some of the potential customers will have larger rats with which to deal. These firms will often have maintenance employees who will not be squeamish about dealing with and disposing of rats that are caught in such traps.*

*With respect to price for this new strategy, there is really no information in the case to allow the instructor to figure what the price might be. We can imagine that, in connection with the place decision, the firm might decide to deal directly with larger exterminating companies or food wholesaling chains. The company will probably find itself in a negotiation situation as it has with the large retail chains. This will make it important that the firm understand its costs and be able to figure what prices it can agree to that will allow it to make an adequate profit.*

*With respect to place, the firm will be required to continue to sell to a limited number of customers due to the lack of any real sales force. This would imply that it will have to sell to food wholesalers or exterminating companies themselves unless it can find a distributor who caters to these kinds of operations. Looking for distributors who could handle some or all of the sales effort would be appropriate given the firm's limited resources. This may put additional pressures on margins, but the firm will have to evaluate accepting smaller margins versus absorbing the cost of improving its own distribution system.*

*The new strategy would continue to imply a trade promotion strategy. Appearing at trade shows for food wholesalers or exterminators would be a first step, and one with which the firm is familiar. This strategy avoids the necessity for having to pursue expensive media options for developing end-customer retail demand. Advertising in trade magazines should help bring the product to the attention of targeted customers. Further, if the firm is successful in selling to exterminators, they will become its sales force.*

*As to control procedures, the process of revising the marketing strategy allows one to ask the students how they will monitor their progress. In the case, Martha has no connection with the end-customer. She is dealing with buyers for the large retail chains. She is not sure who is buying the mousetrap or why or how they are using it. A first control procedure for any strategy then is to identify the target market and establish mechanisms to monitor the target's use of and satisfaction with the product.*

## **Teaching Suggestions**

This case is an excellent early case because it deals with a product and a need with which students are familiar. Further, as the discussion unfolds, students will have little trouble spotting some of the marketing problems and marketing concerns that the firm faces. Although cases can sometimes intimidate students early in the semester, this case should begin to give them some confidence that they can deal successfully with a marketing situation even though they do not have a lot of experience.

If instructors are interested in any field research, they might ask a group of students to check local retail and hardware stores to see what devices and methods are available for helping people deal with their mice and rat problems.

If instructors do not use this case at this point in the text, it may be used in connection with the marketing research chapter (Chapter 4), and the new product chapter (Chapter 9).

## **ADDITIONAL PROJECTS, ASSIGNMENTS, AND EXAMPLES**

### **Projects**

1. Pick a company or brand from which you buy frequently. Visit their Web site and find the portfolio of products/services they sell. Pretend you are the company CEO. Categorize the products into logical groupings that will become your strategic business units (SBUs). Using your best judgment, allocate resources, using percentages, not dollar amounts, to each SBU (make sure the total comes to 100 percent). (Objective 2)
2. Visit the Web site for Food Television's Rachel Ray (<http://www.rachaelray.com/>). Consider the market for television cooking programs. Who do you believe Rachel Ray is targeting? How is this "product" differentiated in the marketplace? (Objective 4)
3. Get the current issue of *Fortune* magazine; most college libraries carry it. Read the cover story and define the four Ps of one of the company's products mentioned. Then define the four Cs of the same product. Are there differences? (Objective 4)

### **Small Group Assignments**

1. 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 and then share their findings with the class. (Objective 1)
  - a. Define McDonald's niche in the fast-foot marketplace, both before and after the Plan to Win was unveiled.
  - b. Discuss the factors that caused McDonald's sales to stumble in the late 1990s. If you were the CEO at the time, how would you have reversed this trend?
  - c. What comes next for McDonald's in the 21<sup>st</sup> century? What new marketing strategies might the company develop to remain fresh and relevant?
2. Form students into groups of three to five. Each group should read Real Marketing 2.2 "Nicher Allegiant Air: Going Where They Ain't." Each group should then answer the following questions and share their findings with the class. (Objective 2)
  - a. Describe Allegiant's major products through the use of the BCG matrix.
  - b. Using the Product/Market Expansion Grid, shown in Figure 2.3, identify potential growth opportunities for Allegiant Air.
  - c. What competitive strategies has Allegiant Air developed to cut off possible inroads by competing airlines?

## Individual Assignments

1. Read the opening chapter vignette on McDonald's. Think about the answers to the following questions and share your answers with the class. (Objectives 1 and 4)
  - a. Recap the main points of McDonald's "Plan to Win." How does it reflect the elements of a customer-driven marketing strategy?
  - b. In your mind, who was the typical McDonald's customer in the company's early heyday of the 1950s and 1960s? Who is the typical customer today?
  - c. If McDonald's and its food offerings were to become the target of nutritionists and social activists today, how would you respond as company spokesperson?
2. How would you describe a "market niche"? Describe four product/services that you own or consume that you would consider to be "niche" products. Why do you believe this to be true? (Objective 2)

## 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. Compare the Boston Consulting Group's portfolio analysis method to the product/market expansion grid. Which method would you rather use in your own business? Why? (Objective 2)
2. Why would a focus on the four Cs be more important than the four Ps? What is a value-delivery network? How does this concept differ from that of the value chain? (Objective 4)
3. Explain the concept of return on marketing. Why is this important? (Objective 5)

## Outside Examples

1. The marketing mix is the set of controllable, tactical marketing tools the firm blends to produce the responses it wants from the target market. These marketing tools can all be collected into four sets of variables known as the "four Ps." Consider Southwest Airlines ([www.southwest.com](http://www.southwest.com)). Briefly describe the "four Ps" employed by Southwest. (Objective 4)

*Possible Solution:*

The product being offered, in the case of Southwest Airlines, is transportation. Just because it is not a physical entity does not mean it is not a product. Price is the amount of money customers pay in order to receive the product. In the case of airlines, this price is very volatile and changes frequently based on availability, time from departure, and myriad of other variables. Place involves everything that Southwest does to make its product available to the consumer. Not only the airports, but also the ticket counters and self-service kiosks. Finally, promotion is everything involved in communicating

Southwest to the customer. This includes traditional television and billboard advertising. This also includes their easy to navigate Web site and their enthusiastic employees.

2. The marketing mix is composed of the “four Ps.” Take a look at Continental Airlines ([www.continental.com](http://www.continental.com)). Let’s concentrate on the P of pricing. Over a two-week period, track the fares charged for a round-trip ticket between two of your favorite locations (such as Las Vegas and Houston). Be certain to keep your departure and return dates constant so that you can observe how fares change over time. How can you explain the constant variation in fares? (Objective 4)

*Possible Solution:*

Students will observe that there are wildly varying and constantly changing fares over time. Students may come up with a variety of reasons for fare differences: time of day; first class versus coach; popularity of the route; or time until departure are all possibilities. In essence, students will realize that there are a multitude of possibilities to consider when setting price.

## **Web Resources**

1. <http://247.prenhall.com>  
This is the link to the Prentice Hall support link.
2. [www.mcdonalds.com](http://www.mcdonalds.com)  
This site is useful entryway to exploring McDonald’s and its diverse operations.
3. <http://www.allegiantair.com/>  
Here students can find information about Allegiant Air and its marketing approaches.
4. [www.valuebasedmanagement.net/methods\\_bcgmatrix.html](http://www.valuebasedmanagement.net/methods_bcgmatrix.html)  
This link provides an easy-to-understand discussion of the BCG Matrix.
5. [www.managementhelp.org/plan\\_dec/str\\_plan/str\\_plan.htm](http://www.managementhelp.org/plan_dec/str_plan/str_plan.htm)  
This link is a useful tool to further understand the basics of strategic planning in for-profit and not-for-profit organizations.
6. <http://disney.go.com/index>  
Here you will find information about Disney’s business portfolio.