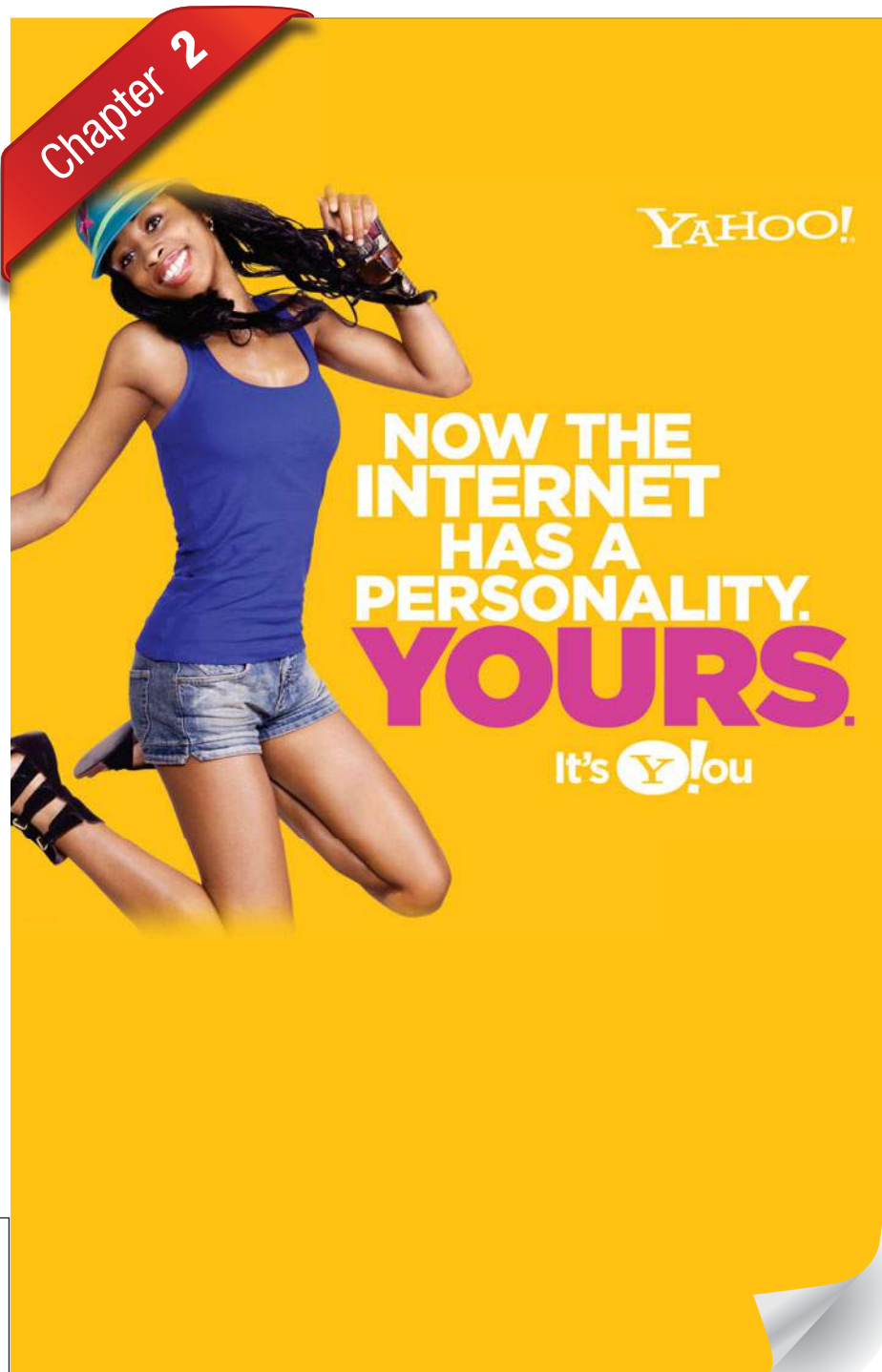


Chapter 2

In This Chapter, We Will Address the Following **Questions**

1. How does marketing affect customer value?
2. How is strategic planning carried out at different levels of the organization?
3. What does a marketing plan include?

Yahoo! faces many strategic challenges as it attempts to fend off competition from Google and others.



Developing Marketing Strategies and Plans

Key ingredients of the marketing management process are insightful, creative strategies and plans that can guide marketing activities. Developing the right marketing strategy over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. They must also develop strategies for a range of products and services within the organization.



Founded in 1994 by Web-surfing Stanford University grad students, Yahoo! grew from a tiny upstart surrounded by Silicon Valley heavyweights to a powerful force in Internet media. Yahoo! worked hard to be more than just a search engine. The company proudly proclaims it is "The only place anyone needs to go to find anything, communicate with anyone, or buy anything." Its range of services includes e-mail, news, weather, music, photos, games, shopping, auctions, and travel. A large percentage of revenues comes from advertising, but the company also profits from subscription services such as online personal ads, premium e-mail, and small-business services. Although Yahoo! strives to achieve a competitive advantage over rival Google with its vast array of original content, Google's ascension to the runaway leader in search, e-mail, and related services has made it a darling with advertisers. Yahoo!'s acquisition of photo-sharing service Flickr, social bookmark manager Del.icio.us, and online video editing site Jumpcut strengthened its capabilities. Yahoo! has also continued to grow globally in Europe and Asia, helped in part by the acquisition of Kelkoo, a European comparison-shopping site, for \$579 million, and of 46 percent of Alibaba, a Chinese e-commerce company, for \$1 billion in cash. Discussions with Microsoft about a possible merger culminated in a 10-year deal in June 2009 that gave Microsoft full access to the Yahoo! search engine, to be used in future Microsoft projects for its own search engine, Bing. CEO Carol Bartz faced many questions, however, about how Yahoo! should best move forward.¹

This chapter begins by examining some of the strategic marketing implications in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan.

Marketing and Customer Value

The task of any business is to deliver customer value at a profit. In a hypercompetitive economy with increasingly informed buyers faced with abundant choices, a company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value.

The Value Delivery Process

The traditional view of marketing is that the firm makes something and then sells it, with marketing taking place in the selling process. Companies that subscribe to this view have the best chance of

succeeding in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets.

This traditional view will not work, however, in economies with many different types of people, each with individual wants, perceptions, preferences, and buying criteria. The smart competitor must design and deliver offerings for well-defined target markets. This realization inspired a new view of business processes that places marketing at the *beginning* of planning. Instead of emphasizing making and selling, companies now see themselves as part of a value delivery process.

We can divide the value creation and delivery sequence into three phases.² First, *choosing the value* represents the “homework” marketing must do before any product exists. Marketers must segment the market, select the appropriate target, and develop the offering’s value positioning. The formula “segmentation, targeting, positioning (STP)” is the essence of strategic marketing. The second phase is *providing the value*. Marketing must determine specific product features, prices, and distribution. The task in the third phase is *communicating the value* by utilizing the sales force, Internet, advertising, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch. Each phase has cost implications.

The Value Chain

Harvard’s Michael Porter has proposed the **value chain** as a tool for identifying ways to create more customer value.³ According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. The value chain identifies nine strategically relevant activities—five primary and four support activities—that create value and cost in a specific business.

The *primary activities* are (1) inbound logistics, or bringing materials into the business; (2) operations, or converting materials into final products; (3) outbound logistics, or shipping out final products; (4) marketing, which includes sales; and (5) service. Specialized departments handle the *support activities*—(1) procurement, (2) technology development, (3) human resource management, and (4) firm infrastructure. (Infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.)

The firm’s task is to examine its costs and performance in each value-creating activity and look for ways to improve it. Managers should estimate competitors’ costs and performances as *benchmarks* against which to compare their own. And they should go further and study the “best of class” practices of the world’s best companies. We can identify best-practice companies by consulting customers, suppliers, distributors, financial analysts, trade associations, and magazines to see whom they rate as doing the best job. Even the best companies can benchmark, against other industries if necessary, to improve their performance. To support its corporate goal to be more innovative, GE has benchmarked against P&G as well as developing its own best practices.⁴

The firm’s success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct *core business processes*.⁵ These processes include:

- **The market-sensing process.** All the activities in gathering and acting upon information about the market
- **The new-offering realization process.** All the activities in researching, developing, and launching new high-quality offerings quickly and within budget
- **The customer acquisition process.** All the activities in defining target markets and prospecting for new customers
- **The customer relationship management process.** All the activities in building deeper understanding, relationships, and offerings to individual customers
- **The fulfillment management process.** All the activities in receiving and approving orders, shipping the goods on time, and collecting payment

Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.⁶ At Xerox, a Customer Operations Group links sales, shipping, installation, service, and billing so these activities flow smoothly into one another. Winning companies excel at managing core business processes through cross-functional teams. AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams; cross-functional teams exist in nonprofit and government organizations as well.

To be successful, a firm also needs to look for competitive advantages beyond its own operations, into the value chains of suppliers, distributors, and customers. Many companies today have



Pratt & Whitney employs cross-functional employee teams to build its products, such as this 4000 series aircraft engine.

partnered with specific suppliers and distributors to create a superior **value delivery network**, also called a **supply chain**.

Sony

Sony In May 2009, Sony announced it would cut its number of suppliers in half over the next two years (to 1,200), increasing the volume of parts and materials from each and thus reducing unit costs and overall procurement spending. Some stock analysts received the news positively as evidence of the company's commitment to restructuring. Others were less optimistic, such as Mizuho Investors Securities analyst Nobuo Kurahashi: "I'm not sure how effective this is because it's just operational streamlining and wouldn't simply push up earnings or bear fruit immediately."⁷

Core Competencies

Traditionally, companies owned and controlled most of the resources that entered their businesses—labor power, materials, machines, information, and energy—but many today outsource less-critical resources if they can obtain better quality or lower cost.

The key, then, is to own and nurture the resources and competencies that make up the *essence* of the business. Many textile, chemical, and computer/electronic product firms do not manufacture their own products because offshore manufacturers are more competent in this task. Instead, they focus on product design and development and marketing, their core competencies. A **core competency** has three characteristics: (1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits. (2) It has applications in a wide variety of markets. (3) It is difficult for competitors to imitate.⁸

Competitive advantage also accrues to companies that possess *distinctive capabilities* or excellence in broader business processes. Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.⁹ In terms of market sensing, he believes tremendous opportunities and threats often begin as "weak signals" from the "periphery" of a business.¹⁰ He offers a systematic process for developing peripheral vision, and practical tools and strategies for building "vigilant organizations" attuned to changes in the environment, by asking three questions each related to learning from the past, evaluating the present, and envisioning the future.

Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly interlocking "activity systems." Competitors find it hard to imitate Southwest Airlines, Walmart, and IKEA because they are unable to copy their activity systems.

Business realignment may be necessary to maximize core competencies. It has three steps: (1) (re)defining the business concept or “big idea”, (2) (re)shaping the business scope, and (3) (re)positioning the company’s brand identity. Consider what Kodak is doing to realign its business.



Kodak With the advent of the digital era and the capacity to store, share, and print photos using PCs, Kodak faces more competition than ever, in-store and online. In 2004, after being bumped from the Dow Jones Industrial Average where it had held a spot for more than 70 years, the company started the painful process of transformation. It began by expanding its line of digital cameras, printers, and other equipment, and it also set out to increase market share in the lucrative medical imaging business. Making shifts is not without challenges, however. The company eliminated almost 30,000 jobs between 2004 and 2007 and acquired a string of companies for its graphics communications unit. In 2006, Kodak announced it would outsource the making of its digital cameras. Not only must Kodak convince consumers to buy its digital cameras and home printers, but it also must become known as the most convenient and affordable way to process digital images. So far, it faces steep competition from Sony, Canon, and Hewlett-Packard.¹¹



Kodak has installed thousands of its Picture Kiosks to allow customers to print digital photos or scan existing photos when, where, and how they want.

A Holistic Marketing Orientation and Customer Value

One view of holistic marketing sees it as “integrating the value exploration, value creation, and value delivery activities with the purpose of building long-term, mutually satisfying relationships and coprosperity among key stakeholders.”¹² Holistic marketers thus succeed by managing a superior value chain that delivers a high level of product quality, service, and speed. They achieve profitable growth by expanding customer share, building customer loyalty, and capturing customer lifetime value. Holistic marketers address three key management questions:

1. **Value exploration**—How a company identifies new value opportunities
2. **Value creation**—How a company efficiently creates more promising new value offerings
3. **Value delivery**—How a company uses its capabilities and infrastructure to deliver the new value offerings more efficiently

The Central Role of Strategic Planning

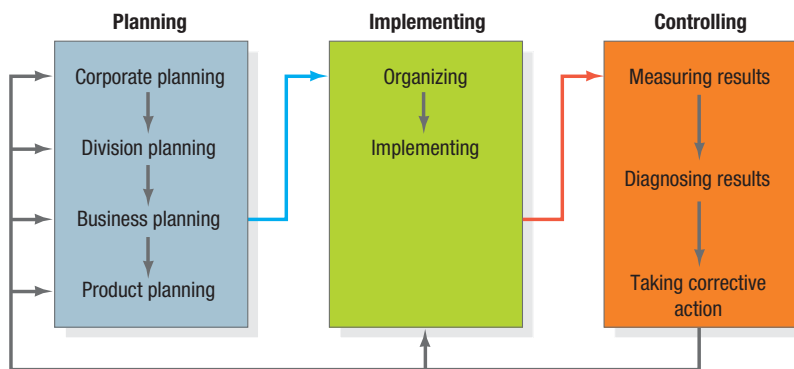
Successful marketing thus requires capabilities such as understanding, creating, delivering, capturing, and sustaining customer value. Only a select group of companies have historically stood out as master marketers (see Table 2.1). These companies focus on the customer and are organized to respond effectively to changing customer needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king.

To ensure they select and execute the right activities, marketers must give priority to strategic planning in three key areas: (1) managing a company’s businesses as an investment portfolio, (2) assessing each business’s strength by considering the market’s growth rate and the company’s position and fit in that market, and (3) establishing a strategy. The company must develop a game plan for achieving each business’s long-run objectives.

Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the amount of resources to allocate to each division, as well as on which businesses to start or eliminate. Each division establishes a plan covering the allocation of funds to each business unit within the division. Each business unit develops a strategic plan to carry that business unit into a profitable future. Finally, each product level (product line, brand) develops a marketing plan for achieving its objectives.

The **marketing plan** is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The **strategic marketing plan** lays out the

Amazon.com	Electrolux	Progressive Insurance
Bang & Olufsen	Enterprise Rent-A-Car	Ritz-Carlton
Barnes & Noble	Google	Samsung
Best Buy	Harley-Davidson	Sony
BMW	Honda	Southwest Airlines
Borders	IKEA	Starbucks
Canon	LEGO	Target
Caterpillar	McDonald's	Tesco
Club Med	Nike	Toyota
Costco	Nokia	Virgin
Disney	Nordstrom	Walmart
eBay	Procter & Gamble	Whole Foods



[Fig. 2.1] ▲

The Strategic Planning, Implementation, and Control Processes

target markets and the firm's value proposition, based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service. The complete planning, implementation, and control cycle of strategic planning is shown in ▲ Figure 2.1. Next, we consider planning at each of these four levels of the organization.

Corporate and Division Strategic Planning

Some corporations give their business units freedom to set their own sales and profit goals and strategies. Others set goals for their business units but let them develop their own strategies. Still others set the goals and participate in developing individual business unit strategies.

All corporate headquarters undertake four planning activities:

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each strategic business unit
4. Assessing growth opportunities

We'll briefly look at each process.

Defining the Corporate Mission


An organization exists to accomplish something: to make cars, lend money, provide a night's lodging. Over time, the mission may change, to take advantage of new opportunities or respond to new market conditions. Amazon.com changed its mission from being the world's largest online bookstore to aspiring to become the world's largest online store; eBay changed from running online auctions for collectors to running online auctions of all kinds of goods; and Dunkin' Donuts switched its emphasis from doughnuts to coffee.

To define its mission, a company should address Peter Drucker's classic questions:¹³ What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever have to answer. Successful companies continuously raise and answer them.

Organizations develop **mission statements** to share with managers, employees, and (in many cases) customers. A clear, thoughtful mission statement provides a shared sense of purpose, direction, and opportunity.

Mission statements are at their best when they reflect a vision, an almost "impossible dream" that provides direction for the next 10 to 20 years. Sony's former president, Akio Morita, wanted everyone to have access to "personal portable sound," so his company created the Walkman and portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 AM the next day, so he created FedEx.

Good mission statements have five major characteristics.

1. **They focus on a limited number of goals.** The statement "We want to produce the highest-quality products, offer the most service, achieve the widest distribution, and sell at the lowest prices" claims too much.
2. **They stress the company's major policies and values.** They narrow the range of individual discretion so employees act consistently on important issues.
3. **They define the major competitive spheres within which the company will operate.**  Table 2.2 summarizes some key competitive dimensions for mission statements.
4. **They take a long-term view.** Management should change the mission only when it ceases to be relevant.
5. **They are as short, memorable, and meaningful as possible.** Marketing consultant Guy Kawasaki advocates developing three- to four-word corporate mantras rather than mission statements, like "Enriching Women's Lives" for Mary Kay.¹⁴

Compare the rather vague mission statements on the left with Google's mission statement and philosophy on the right:

To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition.

We build brands and make the world a little happier by bringing our best to you.


Google Mission

To organize the world's information and make it universally accessible and useful.

Google Philosophy

Never settle for the best.


1. Focus on the user and all else will follow.
2. It's best to do one thing really, really well.
3. Fast is better than slow.
4. Democracy on the Web works.
5. You don't need to be at your desk to need an answer.
6. You can make money without doing evil.
7. There is always more information out there.
8. The need for information crosses all borders.
9. You can be serious without a suit.
10. Great just isn't good enough.¹⁵

TABLE 2.2  Defining Competitive Territory and Boundaries in Mission Statements
<ul style="list-style-type: none"> • Industry. <i>Some companies operate in only one industry; some only in a set of related industries; some only in industrial goods, consumer goods, or services; and some in any industry.</i> <ul style="list-style-type: none"> • Caterpillar focuses on the industrial market; John Deere operates in the industrial and consumer markets.
<ul style="list-style-type: none"> • Products and applications. <i>Firms define the range of products and applications they will supply.</i> <ul style="list-style-type: none"> • St. Jude Medical is “dedicated to developing medical technology and services that put more control in the hands of physicians, and that advance the practice of medicine and contribute to successful outcomes for every patient.”
<ul style="list-style-type: none"> • Competence. <i>The firm identifies the range of technological and other core competencies it will master and leverage.</i> <ul style="list-style-type: none"> • Japan’s NEC has built its core competencies in computing, communications, and components to support production of laptop computers, television receivers, and handheld telephones.
<ul style="list-style-type: none"> • Market segment. <i>The type of market or customers a company will serve is the market segment.</i> <ul style="list-style-type: none"> • Aston Martin makes only high-performance sports cars. Gerber serves primarily the baby market.
<ul style="list-style-type: none"> • Vertical. <i>The vertical sphere is the number of channel levels, from raw material to final product and distribution, in which a company will participate.</i> <ul style="list-style-type: none"> • At one extreme are companies with a large vertical scope. American Apparel dyes, designs, sews, markets, and distributes its line of clothing apparel out of a single building in downtown Los Angeles. • At the other extreme are “hollow corporations,” which outsource the production of nearly all goods and services to suppliers. Metro International prints 34 free local newspaper editions in 16 countries. It employs few reporters and owns no printing presses; instead it purchases its articles from other news sources and outsources all its printing and much of its distribution to third parties.¹⁶
<ul style="list-style-type: none"> • Geographical. <i>The range of regions, countries, or country groups in which a company will operate defines its geographical sphere.</i> <ul style="list-style-type: none"> • Some companies operate in a specific city or state. Others are multinationals like Deutsche Post DHL and Royal Dutch/Shell, which each operate in more than 100 countries.

Establishing Strategic Business Units

Companies often define themselves in terms of products: They are in the “auto business” or the “clothing business.” *Market definitions* of a business, however, describe the business as a customer-satisfying process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need.

Viewing businesses in terms of customer needs can suggest additional growth opportunities.

 Table 2.3 lists companies that have moved from a product to a market definition of their business. It highlights the difference between a target market definition and a strategic market definition.

A *target market definition* tends to focus on selling a product or service to a current market. Pepsi could define its target market as everyone who drinks carbonated soft drinks, and competitors would therefore be other carbonated soft drink companies. A *strategic market definition*, however, also focuses on the potential market. If Pepsi considered everyone who might drink something to quench their thirst, its competition would include noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee. To better compete, Pepsi might decide to sell additional beverages with promising growth rates.

A business can define itself in terms of three dimensions: customer groups, customer needs, and technology.¹⁷ Consider a small company that defines its business as designing incandescent lighting

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systems for television studios. Its customer group is television studios; the customer need is lighting; the technology is incandescent lighting. The company might want to expand to make lighting for homes, factories, and offices, or it could supply other services television studios need, such as heating, ventilation, or air conditioning. It could design other lighting technologies for television

TABLE 2.3 Product-Oriented versus Market-Oriented Definitions of a Business

Company	Product Definition	Market Definition
Union Pacific Railroad	We run a railroad.	We are a people-and-goods mover.
Xerox	We make copying equipment.	We help improve office productivity.
Hess Corporation	We sell gasoline.	We supply energy.
Paramount Pictures	We make movies.	We market entertainment.
Encyclopaedia Britannica	We sell encyclopedias.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.



The Kate Spade brand allows Liz Claiborne to attract a more youthful customer.

studios, such as infrared or ultraviolet lighting or perhaps environmentally friendly “green” fluorescent bulbs.

Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric classified its businesses into 49 **strategic business units (SBUs)**. An SBU has three characteristics:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2. It has its own set of competitors.
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company’s strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows its portfolio of businesses usually includes a number of “yesterday’s has-beens” as well as “tomorrow’s breadwinners.”¹⁸ Liz Claiborne has put more emphasis on some of its younger businesses such as Juicy Couture, Lucky Brand Jeans, Mexx, and Kate Spade while selling businesses without the same buzz (Ellen Tracy, Sigrid Olsen, and Laundry). Campbell Soup has out-paced the stock market for close to a decade by developing or keeping only products that ranked number one or number two in the categories of simple meals, baked snacks, and veggie-based drinks and that had a strong emphasis on value, nutrition, and convenience.¹⁹

News Corp. Media conglomerate News Corp.’s vast empire encompasses virtually all aspects of print and broadcast media (see Table 2.4). The economic recession of 2008–2009 had different effects on each. Hit hard were its broadcast television business. Even though the Fox network retained popular shows like *American Idol*, lower ratings and advertising sales took their toll. The cable network business, whose revenue is more stable due to lower ad rates and monthly provider fees, was a bright spot; profits actually grew. A continued slump in the newspaper and magazine business led the firm to start charging reader fees for all its news Web sites. News Corp.’s \$650 million investment in MySpace in 2005 continued to falter as the social network site struggled to attract advertisers. At the same time, free online video service Hulu began to hit its stride, and News Corp. remained committed to a strong online presence. The goal? To develop hit TV shows and movies that would drive DVD sales and lead to streaming shows over the Internet, and eventually to products downloadable to mobile phones.²⁰

TABLE 2.4 News Corp. Business Units

Newspapers (\$4.5 Billion): <i>New York Post, Wall Street Journal, The Sun</i> (UK)
Magazines (\$1 Billion): <i>Weekly Standard, TV Guide</i>
Book Publishing (\$1.3 Billion): HarperCollins
Broadcast TV (\$5.7 Billion): Fox Network, WNYW New York, KTTV Los Angeles
Cable Networks (\$4 Billion): FX, FSN, Fox News Channel
Satellite Television (\$3 Billion): Sky Italia, BSkyB, Tata Sky
Filmed Entertainment (\$6.7 Billion): 20th Century Fox, Fox Searchlight Pictures, Blue Sky Studios
Other (\$2.3 Billion): MySpace, IGN Entertainment, Jamba, Hulu

Assigning Resources to Each SBU²¹

Once it has defined SBUs, management must decide how to allocate corporate resources to each. Several portfolio-planning models provide ways to make investment decisions. The GE/McKinsey Matrix classifies each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management can decide to grow, “harvest” or draw cash from, or hold on to the business. Another model, BCG’s Growth-Share Matrix, uses relative market share and annual rate of market growth as criteria to make investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars.

Portfolio-planning models like these have fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis, and on whether the market value of a company is greater with an SBU or without it (whether it is sold or spun off). These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

Assessing Growth Opportunities

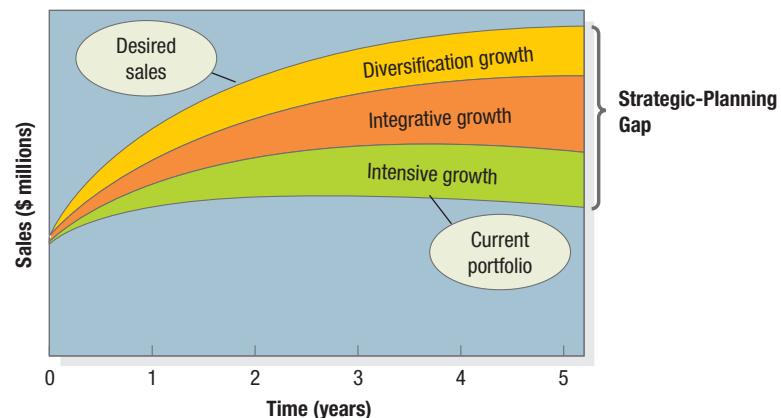
Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.

△ Figure 2.2 illustrates this strategic-planning gap for a major manufacturer of blank compact disks called Musicale (name disguised). The lowest curve projects the expected sales over the next five years from the current business portfolio. The highest describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic-planning gap?

The first option is to identify opportunities for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to

[Fig. 2.2] △

The Strategic-Planning Gap



current businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities).

INTENSIVE GROWTH Corporate management's first course of action should be a review of opportunities for improving existing businesses. One useful framework for detecting new intensive-growth opportunities is a "product-market expansion grid." It considers the strategic growth opportunities for a firm in terms of current and new products and markets.

The company first considers whether it could gain more market share with its current products in their current markets, using a *market-penetration strategy*. Next it considers whether it can find or develop new markets for its current products, in a *market-development strategy*. Then it considers whether it can develop new products of potential interest to its current markets with a *product-development strategy*. Later the firm will also review opportunities to develop new products for new markets in a *diversification strategy*. Consider how ESPN has employed growth opportunities.²²



ESPN ESPN (the Entertainment and Sports Programming Network) was launched in 1978 in Bristol, Connecticut, with a single satellite, broadcasting regional sports and obscure international sporting contests such as the "World's Strongest Man." Through its singular focus on providing

sports programming and news, it grew into the biggest name in sports. In the early 1990s, the company crafted a well-thought-out plan: wherever sports fans watched, read, and discussed sports, ESPN would be there. It pursued this strategy by expanding its brand into a number of new categories and by 2009 encompassed 10 cable channels, a Web site, a magazine, a restaurant chain (ESPN Zone), more than 600 local radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service. ESPN continues to expand its brand footprint. Its failed seven-month foray into the fiercely competitive cell phone market in 2006 left it undaunted. It transitioned from a service provider to a content provider in 2007 and partnered with Verizon Wireless to launch ESPN MVP. Now owned by The Walt Disney Company, ESPN earns \$5 billion a year in revenue, but perhaps the greatest tribute to the power of its brand came from one male focus group respondent: "If ESPN was a woman, I'd marry her." ■



ESPN has entered a wide range of sports-related businesses, including its sports-themed ESPN Zone restaurant, to connect with its customers in more ways and places.

So how might Musicale use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more by demonstrating the benefits of using compact disks for data storage in addition to music storage. It could try to attract competitors' customers if it noticed major weaknesses in their products or marketing programs. Finally, Musicale could try to convince nonusers of compact disks to start using them.

How can Musicale use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If it has been selling compact disks only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels by adding mass merchandising or online channels. Third, the company might sell in new locations in its home country or abroad.

Management should also consider new-product possibilities. Musicale could develop new features, such as additional data storage capabilities or greater durability. It could offer the CD at two or more quality levels, or it could research an alternative technology such as flash drives.

These intensive growth strategies offer several ways to grow. Still, that growth may not be enough, and management must also look for integrative growth opportunities.

INTEGRATIVE GROWTH A business can increase sales and profits through backward, forward, or horizontal integration within its industry. Merck has gone beyond developing and selling prescription pharmaceuticals. It formed joint ventures in 1989 with Johnson & Johnson

to sell over-the-counter pharmaceuticals; in 1991 with DuPont to expand basic research, and in 2000 with Schering-Plough to develop and market new prescription medicines. In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck purchased Medco, a mail-order pharmaceutical distributor, in 2003 and Sirna Therapeutics in 2006.

Horizontal mergers and alliances don't always work out. The merger between Sears and Kmart didn't solve either retailer's problems.²³ Media companies, however, have long reaped the benefits of integrative growth. Here's how one business writer explains the potential NBC could reap from its merger with Vivendi Universal Entertainment to become NBC Universal. Although it's a far-fetched example, it gets across the possibilities inherent in this growth strategy:²⁴

[When] the hit movie *Fast & Furious 4* (produced by Universal Pictures) comes to television, it would air on Bravo (owned by NBC) or USA Network (owned by Universal), followed by the inevitable bid to make the movie into a TV series (by Universal Television Group), with the pilot being picked up by NBC. The show then begins airing on Hulu.com (owned in part by NBC), and ultimately leads to the creation of a popular amusement-park attraction at Universal Studios.

How might Muscile achieve integrative growth? The company might acquire one or more of its suppliers, such as plastic material producers, to gain more control or generate more profit through backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable, in forward integration. Finally, Muscile might acquire one or more competitors, provided the government does not bar this horizontal integration. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification.



In today's highly integrated media world, NBC Universal may take a successful movie franchise such as *Fast & Furious* and leverage it across all its businesses, including its Universal Studios theme park.

DIVERSIFICATION GROWTH Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to succeed. From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences.



Several types of diversification are possible for Musicale. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though appealing to a different group of customers. It might start a laser disk manufacturing operation, because it knows how to manufacture compact discs. Second, it might use a horizontal strategy to search for unrelated new products that appeal to current customers. Musicale might produce compact disc cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses that have no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider making application software or personal organizers.

DOWNSIZING AND DIVESTING OLDER BUSINESSES Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs. To focus on its travel and credit card operations, American Express in 2005 spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial).

Organization and Organizational Culture

Strategic planning happens within the context of the organization. A company's **organization** consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (though with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.

What exactly is a **corporate culture**? Some define it as "the shared experiences, stories, beliefs, and norms that characterize an organization." Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers. When Mark Hurd became CEO of HP, one of his goals was to reinvigorate the famous "HP Way," a benevolent but hard-nosed corporate culture that rewarded employees amply but expected teamwork, growth, and profits in return.²⁵

A customer-centric culture can affect all aspects of an organization. Sometimes corporate culture develops organically and is transmitted directly from the CEO's personality and habits to the company employees. Mike Lazaridis, president and co-CEO of BlackBerry producer Research In Motion, is a scientist in his own right, winning an Academy Award for technical achievement in film. He has hosted a weekly, innovation-centered "Vision Series" at company headquarters that focuses on new research and company goals. As he states, "I think we have a culture of innovation here, and [engineers] have absolute access to me. I live a life that tries to promote innovation."²⁶

Marketing Innovation

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company.²⁷ Senior management should identify and encourage fresh ideas from three underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

German-based Reckitt Benckiser has been an innovator in the staid household cleaning products industry by generating 40 percent of sales from products under three years old. Its multinational staff is encouraged to dig deep into consumer habits and is well rewarded for excellent performance. "Marketing Insight: Creating Innovative Marketing" describes how some leading companies approach innovation.

Firms develop strategy by identifying and selecting among different views of the future. The Royal Dutch/Shell Group has pioneered **scenario analysis**, which develops plausible representations of a firm's possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, "What will we do if it happens?" adopt one scenario as the most probable, and watch for signposts that might confirm or disconfirm it.²⁸ Consider the challenges faced by the movie industry.



Creating Innovative Marketing

When IBM surveyed top CEOs and government leaders about their priorities, business-model innovation and coming up with unique ways of doing things scored high. IBM's own drive for business-model innovation led to much collaboration, both within IBM itself and externally with companies, governments, and educational institutions. CEO Samuel Palmisano noted how the breakthrough Cell processor, based on the company's Power architecture, would not have happened without collaboration with Sony and Nintendo, as well as competitors Toshiba and Microsoft.

Procter & Gamble (P&G) similarly has made it a goal for 50 percent of new products to come from outside P&G's labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house.

Business guru Jim Collins's research emphasizes the importance of systematic, broad-based innovation: "Always looking for the one big breakthrough, the one big idea, is contrary to what we found: To build a truly great company, it's decision upon decision, action upon action, day upon day, month upon month. . . . It's cumulative momentum and no one decision defines a great company." He cites the success of Walt

Disney with theme parks and Walmart with retailing as examples of companies that were successful after having executed against a big idea brilliantly over such a long period of time.

Northwestern's Mohanbir Sawhney and his colleagues outline 12 dimensions of business innovation that make up the "innovation radar" (see [Table 2.5](#)) and suggest that business innovation is about increasing customer *value*, not just creating new *things*; comes in many flavors and can take place on any dimension of a business system; and is systematic and requires careful consideration of all aspects of a business.

Finally, to find breakthrough ideas, some companies find ways to immerse a range of employees in solving marketing problems. Samsung's Value Innovation Program (VIP) isolates product development teams of engineers, designers, and planners with a timetable and end date in the company's center just south of Seoul, Korea, while 50 specialists help guide their activities. To help make tough trade-offs, team members draw "value curves" that rank attributes such as a product's sound or picture quality on a scale from 1 to 5. To develop a new car, BMW similarly mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House.

Sources: Steve Hamm, "Innovation: The View from the Top," *BusinessWeek*, April 3, 2006, pp. 52–53; Jena McGregor, "The World's Most Innovative Companies," *BusinessWeek*, April 24, 2006, pp. 63–74; Rich Karlgaard, "Digital Rules," *Forbes*, March 13, 2006, p. 31; Jennifer Rooney and Jim Collins, "Being Great Is Not Just a Matter of Big Ideas," *Point*, June 2006, p. 20; Moon Ihlwan, "Camp Samsung," *BusinessWeek*, July 3, 2006, pp. 46–47; Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," *MIT Sloan Management Review* (Spring 2006), pp. 75–85.

TABLE 2.5 [Table Icon](#) The 12 Dimensions of Business Innovation

Dimension	Definition	Examples
Offerings (WHAT)	Develop innovative new products or services.	<ul style="list-style-type: none"> • Gillette MACH3 Turbo Razor • Apple iPod music player and iTunes music service
Platform	Use common components or building blocks to create derivative offerings.	<ul style="list-style-type: none"> • General Motors OnStar telematics platform • Disney animated movies
Solutions	Create integrated and customized offerings that solve end-to-end customer problems.	<ul style="list-style-type: none"> • UPS logistics services Supply Chain Solutions • DuPont Building Innovations for construction
Customers (WHO)	Discover unmet customer needs or identify underserved customer segments.	<ul style="list-style-type: none"> • Enterprise Rent-A-Car focus on replacement car renters • Green Mountain Energy focus on "green power"
Customer Experience	Redesign customer interactions across all touch points and all moments of contact.	<ul style="list-style-type: none"> • Washington Mutual Occasio retail banking concept • Cabela's "store as entertainment experience" concept

(Continued)

Value Capture	Redefine how company gets paid or create innovative new revenue streams.	<ul style="list-style-type: none"> • Google paid search • Blockbuster revenue sharing with movie distributors
Processes (HOW)	Redesign core operating processes to improve efficiency and effectiveness.	<ul style="list-style-type: none"> • Toyota Production System for operations • General Electric Design for Six Sigma (DFSS)
Organization	Change form, function, or activity scope of the firm.	<ul style="list-style-type: none"> • Cisco partner-centric networked virtual organization • Procter & Gamble front-back hybrid organization for customer focus
Supply Chain	Think differently about sourcing and fulfillment.	<ul style="list-style-type: none"> • Moen ProjectNet for collaborative design with suppliers • General Motors Celta use of integrated supply and online sales
Presence (WHERE)	Create new distribution channels or innovative points of presence, including the places where offerings can be bought or used by customers.	<ul style="list-style-type: none"> • Starbucks music CD sales in coffee stores • Diebold RemoteTeller System for banking
Networking	Create network-centric intelligent and integrated offerings.	<ul style="list-style-type: none"> • Otis Remote Elevator Monitoring service • Department of Defense Network-Centric Warfare
Brand	Leverage a brand into new domains.	<ul style="list-style-type: none"> • Virgin Group “branded venture capital” • Yahoo! as a lifestyle brand

Source: Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, “The 12 Different Ways for Companies to Innovate,” *MIT Sloan Management Review* (Spring 2006), p. 78. © 2006 by Massachusetts Institute of Technology. All rights reserved. Distributed by Tribune Media Services.



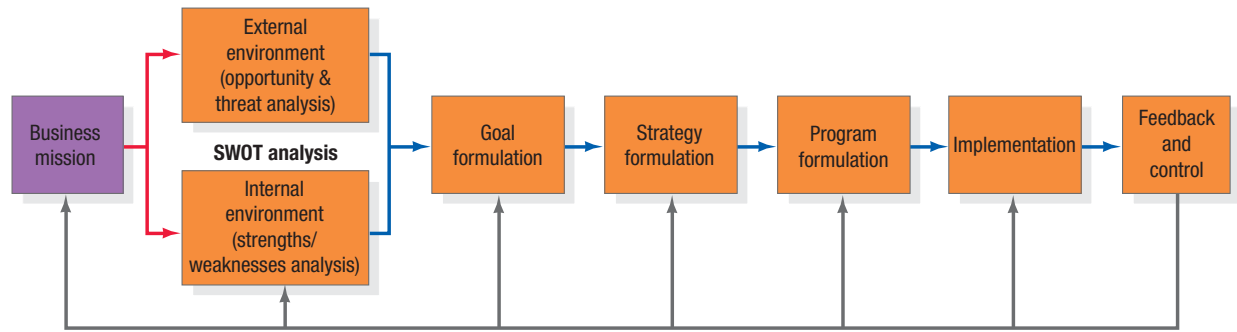
Movie Industry The success of Netflix (see Chapter 15) and the ease of watching longer-form entertainment or playing games on broadband Internet helped produce a 6.8 percent decrease in DVD sales—one that experts believe will continue. The recent emergence of Redbox and its thousands of kiosks renting movies for \$1 a day poses yet another threat to the movie business and DVD sales. Film studios clearly need to prepare for the day when films are primarily sold not through physical distribution but through satellite and cable companies’ video-on-demand services. Although studios make 70 percent on a typical \$4.99 cable viewing versus 30 percent on the sale of a DVD, sales of DVDs still generate 70 percent of film profits. To increase electronic distribution without destroying their DVD business, studios are experimenting with new approaches. Some, such as Warner Bros., are releasing a DVD at the same time as online and cable versions of a movie. Disney has emphasized its parent-friendly Disney-branded films, which generate higher DVD sales and are easy to cross-promote at the company’s theme parks, on its TV channels, and in its stores. Paramount chose to debut *Jackass 2.5* on Blockbuster’s site for free to create buzz and interest. Film studios are considering all possible scenarios as they rethink their business model in a world where the DVD no longer will reign as king.²⁹



The easy availability of rentals from Redbox kiosks has film studios rethinking their pricing and distribution strategies.

Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in ▲ Figure 2.3. We examine each step in the sections that follow.



[Fig. 2.3] ▲

The Business Unit Strategic-Planning Process

The Business Mission

Each business unit needs to define its specific mission within the broader company mission. Thus, a television-studio-lighting-equipment company might define its mission as, “To target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements.” Notice this mission does not attempt to win business from smaller television studios, offer the lowest price, or venture into nonlighting products.

SWOT Analysis

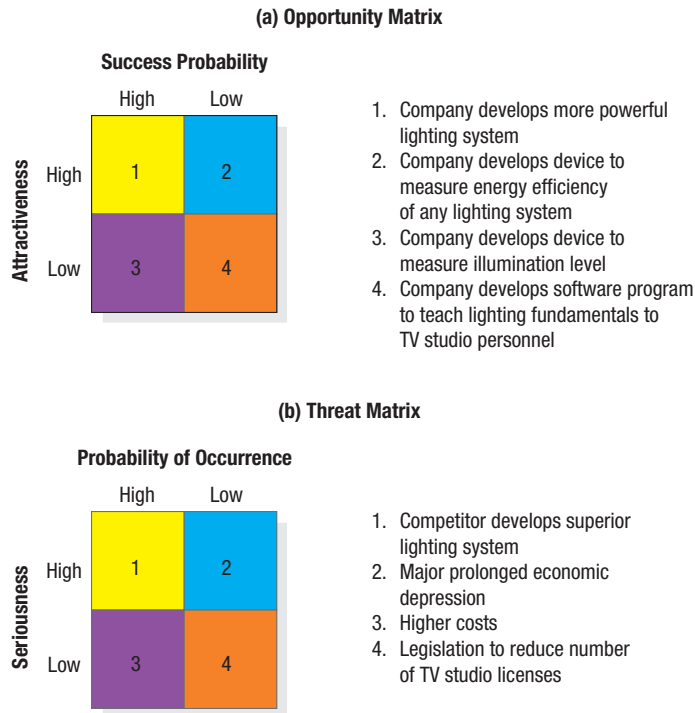
The overall evaluation of a company’s strengths, weaknesses, opportunities, and threats is called SWOT analysis. It’s a way of monitoring the external and internal marketing environment.

EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS A business unit must monitor key *macroenvironment forces* and significant *microenvironment factors* that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

Good marketing is the art of finding, developing, and profiting from these opportunities.³⁰ A **marketing opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are three main sources of market opportunities.³¹ The first is to offer something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. How? The *problem detection method* asks consumers for their suggestions, the *ideal method* has them imagine an ideal version of the product or service, and the *consumption chain method* asks them to chart their steps in acquiring, using, and disposing of a product. This last method often leads to a totally new product or service.

Marketers need to be good at spotting opportunities. Consider the following:

- **A company may benefit from converging industry trends and introduce hybrid products or services that are new to the market.** Major cell manufacturers have released phones with digital photo and video capabilities, and Global Positioning Systems (GPS).
- **A company may make a buying process more convenient or efficient.** Consumers can use the Internet to find more books than ever and search for the lowest price with a few clicks.
- **A company can meet the need for more information and advice.** Angie’s List connects individuals with local home improvement contractors and doctors that have been reviewed by others.
- **A company can customize a product or service.** Timberland allows customers to choose colors for different sections of their boots, add initials or numbers to their boots, and choose different stitching and embroidery.
- **A company can introduce a new capability.** Consumers can create and edit digital “iMovies” with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world.
- **A company may be able to deliver a product or service faster.** FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Post Office.
- **A company may be able to offer a product at a much lower price.** Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less.



[Fig. 2.4] ▲

Opportunity and Threat Matrices

To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to ask questions like:

1. Can we articulate the benefits convincingly to a defined target market(s)?
2. Can we locate the target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

In the opportunity matrix in ▲ Figure 2.4 (a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.

An **environmental threat** is a challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. Figure 2.4 (b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major, because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more serious.

INTERNAL ENVIRONMENT (STRENGTHS AND WEAKNESSES) ANALYSIS It's one thing to find attractive opportunities, and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.



Loan Bright At the Web site of Loan Bright, an online mortgage company, potential homebuyers can get a personalized list of lenders and available terms. At first, Loan Bright made its money by selling the homebuyer data to high-end mortgage lenders, including Wells Fargo Home Mortgage, Bank of America Mortgage, and Chase Home Mortgage. These firms turned the data into leads for their sales teams. But worrisome internal issues arose. For

The screenshot shows the Loanbright.com website. At the top, there is a navigation bar with links for Mortgage Leads, About, Press, Partners, Products, Contact Us, and Blog. Below this is a banner for 'Marketing Solutions For Mortgage Companies' featuring a woman in a headset. The main content area is titled 'Select Lead Program' and includes a description of the program, contact information, and a 'Mortgage Lead Ticker' widget. The ticker displays real-time lead information for two different leads, including details like loan type, amount, city, state, LTV, and credit score.

Loanbright Mortgage Lead Ticker
Real-time display of leads as generated

Generated 12 minute(s) ago 8/18/2010 10:21:07 PM EST	Type: Refinance	City: Ojai
Loan: \$427,500	State: California	
LTV: 81%	Credit: Perfect	

Lead 3332164

Generated 12 minute(s) ago 8/18/2010 10:21:03 PM EST	Type: Refinance	City: Jacksonville
Loan: \$145,000	State: Florida	
LTV: 79%	Credit: Good	

Lead 3332163

View Single State: go

one thing, Loan Bright had to please every one of its big clients, yet each was becoming tougher to satisfy, eating up time and resources. The company's top managers gathered to analyze the market and Loan Bright's strengths and weaknesses. They decided that instead of serving a few choice clients, they would serve many more individual loan officers who responded to the company's Google ads and only wanted to buy a few leads. The switch required revamping the way Loan Bright salespeople brought in new business, including using a one-page contract instead of the old 12-page contract, and creating a separate customer service department.³²

Businesses can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Performing Strengths/Weaknesses Analysis."

Clearly, the business doesn't have to correct *all* its weaknesses, nor should it gloat about all its strengths.

The big question is whether it should limit itself to those opportunities for which it possesses the required strengths, or consider those that might require it to find or develop new strengths. Managers at Texas Instruments (TI) were split between those who wanted to stick to industrial electronics, where TI has clear strength, and those who wanted to continue introducing consumer products, where TI lacks some required marketing strengths.

Goal Formulation

Once the company has performed a SWOT analysis, it can proceed to **goal formulation**, developing specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objectives (MBO). For an MBO system to work, the unit's objectives must meet four criteria:

1. **They must be arranged hierarchically, from most to least important.** The business unit's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices.
2. **Objectives should be quantitative whenever possible.** The objective "to increase the return on investment (ROI)" is better stated as the goal "to increase ROI to 15 percent within two years."
3. **Goals should be realistic.** Goals should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.
4. **Objectives must be consistent.** It's not possible to maximize sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus development of new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.³³

Many believe adopting the goal of strong market share growth may mean foregoing strong short-term profits. Volkswagen has 15 times the annual revenue of Porsche—but Porsche's profit margins are seven times bigger than Volkswagen's. Other successful companies such as Google, Microsoft, and Samsung have maximized profitability *and* growth.

Strategic Formulation

Goals indicate what a business unit wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a *marketing strategy* and a compatible *technology strategy* and *sourcing strategy*.

On the basis of a SWOT analysis, online mortgage company Loan Bright changed the focus of their marketing efforts to target individual loan officers.

PORTER'S GENERIC STRATEGIES Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.³⁴

- **Overall cost leadership.** Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share. They need less skill in marketing. The problem is that other firms will usually compete with still-lower costs and hurt the firm that rested its whole future on cost.
- **Differentiation.** The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality.
- **Focus.** The business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.

The online air travel industry provides a good example of these three strategies: Travelocity is pursuing a differentiation strategy by offering the most comprehensive range of services to the traveler; Lowestfare is pursuing a lowest-cost strategy; and Last Minute is pursuing a niche strategy by focusing on travelers who have the flexibility to travel on very short notice. Some companies use a hybrid approach.

According to Porter, firms directing the same strategy to the same target market constitute a **strategic group**.³⁵ The firm that carries out that strategy best will make the most profits. Circuit City went out of business because it did not stand out in the consumer electronics industry as lowest in cost, highest in perceived value, or best in serving some market segment.

Porter draws a distinction between operational effectiveness and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Porter defines strategy as “the creation of a unique and valuable position involving a different set of activities.” A company can claim it has a strategy when it “performs different activities from rivals or performs similar activities in different ways.”

STRATEGIC ALLIANCES Even giant companies—AT&T, Philips, and Nokia—often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet “domestic content” requirements. Many firms have developed global strategic networks, and victory is going to those who build the better global network. The Star Alliance brings together 21 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, in a huge global partnership that allows travelers to make nearly seamless connections to hundreds of destinations.

Many strategic alliances take the form of marketing alliances. These fall into four major categories.

1. **Product or service alliances**—One company licenses another to produce its product, or two companies jointly market their complementary products or a new product. The credit card industry is a complicated combination of cards jointly marketed by banks such as Bank of America, credit card companies such as Visa, and affinity companies such as Alaska Airlines.
2. **Promotional alliances**—One company agrees to carry a promotion for another company's product or service. McDonald's teamed up with Disney for 10 years to offer products related to current Disney films as part of its meals for children.
3. **Logistics alliances**—One company offers logistical services for another company's product. Warner Music Group and Sub Pop Records created the Alternative Distribution Alliance (ADA) in 1993 as a joint venture to distribute and manufacture records owned by independent labels. ADA is the leading “indie” distribution company in the United States for both physical and digital product.
4. **Pricing collaborations**—One or more companies join in a special pricing collaboration. Hotel and rental car companies often offer mutual price discounts.



Customers can travel virtually anywhere in the world via flights on Star Alliance airlines.

marketing Memo

Checklist for Performing Strengths/Weaknesses Analysis

	Performance				Importance			
	Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	High	Med.	Low
Marketing								
1. Company reputation	_____	_____	_____	_____	_____	_____	_____	_____
2. Market share	_____	_____	_____	_____	_____	_____	_____	_____
3. Customer satisfaction	_____	_____	_____	_____	_____	_____	_____	_____
4. Customer retention	_____	_____	_____	_____	_____	_____	_____	_____
5. Product quality	_____	_____	_____	_____	_____	_____	_____	_____
6. Service quality	_____	_____	_____	_____	_____	_____	_____	_____
7. Pricing effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
8. Distribution effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
9. Promotion effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
10. Sales force effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
11. Innovation effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
12. Geographical coverage	_____	_____	_____	_____	_____	_____	_____	_____
Finance								
13. Cost or availability of capital	_____	_____	_____	_____	_____	_____	_____	_____
14. Cash flow	_____	_____	_____	_____	_____	_____	_____	_____
15. Financial stability	_____	_____	_____	_____	_____	_____	_____	_____
Manufacturing								
16. Facilities	_____	_____	_____	_____	_____	_____	_____	_____
17. Economies of scale	_____	_____	_____	_____	_____	_____	_____	_____
18. Capacity	_____	_____	_____	_____	_____	_____	_____	_____
19. Able, dedicated workforce	_____	_____	_____	_____	_____	_____	_____	_____
20. Ability to produce on time	_____	_____	_____	_____	_____	_____	_____	_____
21. Technical manufacturing skill	_____	_____	_____	_____	_____	_____	_____	_____
Organization								
22. Visionary, capable leadership	_____	_____	_____	_____	_____	_____	_____	_____
23. Dedicated employees	_____	_____	_____	_____	_____	_____	_____	_____
24. Entrepreneurial orientation	_____	_____	_____	_____	_____	_____	_____	_____
25. Flexible or responsive	_____	_____	_____	_____	_____	_____	_____	_____

Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at lower cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them, and many have come to view the ability to form and manage partnerships as core skills called **partner relationship management (PRM)**.³⁶

Both pharmaceutical and biotech companies are starting to make partnership a core competency. It's estimated that nearly 700 such partnerships were formed in 2007 alone.³⁷ After years of growth through acquisition and buying interests in two dozen companies, the world's biggest wireless telecom operator, Vodafone, has looked outside the company for partners to help it leverage its existing assets.³⁸



Vodafone To spur more innovation and growth, Vodafone has embraced open source software and open platforms that allow it to tap into the creativity and skills of others. With its Web portal called Betavine, amateur or professional software developers can create and test their latest mobile applications on any network, not just Vodafone's. While

these developers retain intellectual property rights, Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. Some of the new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 289 million customers in 27 countries, the \$35 billion company hasn't had trouble finding help from interested corporate partners either. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone's networks. ■

Program Formulation and Implementation

Even a great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must strengthen its R&D department, gather technological intelligence, develop leading-edge products, train its technical sales force, and communicate its technological leadership.

Once they have formulated marketing programs, marketers must estimate their costs. Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC)—described in greater detail in Chapter 5—can help determine whether each marketing program is likely to produce sufficient results to justify its cost.³⁹

Today's businesses recognize that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. A company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. In setting these levels, it must not violate any stakeholder group's sense of fairness about the treatment it is receiving relative to the others.⁴⁰

A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfaction, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This virtuous circle spells profits and growth.

According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter *s*—in successful business practice.⁴¹ The first three—strategy, structure, and systems—are considered the “hardware” of success. The next four—style, skills, staff, and shared values—are the “software.”

The first “soft” element, *style*, means company employees share a common way of thinking and behaving. The second, *skills*, means employees have the skills needed to carry out the company's strategy. *Staffing* means the company has hired able people, trained them well, and assigned them to the right jobs. The fourth element, *shared values*, means employees share the same guiding values. When these elements are present, companies are usually more successful at strategy implementation.⁴²

Feedback and Control

A company's strategic fit with the environment will inevitably erode, because the market environment changes faster than the company's seven Ss. Thus, a company might remain efficient yet lose effectiveness. Peter Drucker pointed out that it is more important to “do the right thing”—to be effective—than “to do things right”—to be efficient. The most successful companies, however, excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Consider KB Toys. Founded in 1922 as a candy wholesaler, the company successfully reinvented itself many times, first by shifting its focus to discounted toys and then by anticipating the growth of shopping malls. The firm became the second-largest toy retailer in the world but ultimately crumbled due to competition from big-box retailers and its failed acquisition of eToys. The company declared bankruptcy in 1994 but reemerged in the late 1990s—only to again file bankruptcy and liquidate its assets in late 2008.



Vodafone has actively partnered with a number of other firms to help drive its innovation.

Organizations, especially large ones, are subject to inertia. It's difficult to change one part without adjusting everything else. Yet, organizations can be changed through strong leadership, preferably in advance of a crisis. The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors.

Product Planning: The Nature and Contents of a Marketing Plan

Working within the plans set by the levels above them, product managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. Each product level, whether product line or brand, must develop a marketing plan for achieving its goals. A **marketing plan** is a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.⁴³ It contains tactical guidelines for the marketing programs and financial allocations over the planning period.⁴⁴

A marketing plan is one of the most important outputs of the marketing process. It provides direction and focus for a brand, product, or company. Nonprofit organizations use marketing plans to guide their fund-raising and outreach efforts, and government agencies use them to build public awareness of nutrition and stimulate tourism.

More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Marketing plans are becoming more customer- and competitor-oriented, better reasoned, and more realistic. They draw more inputs from all the functional areas and are team-developed. Planning is becoming a continuous process to respond to rapidly changing market conditions. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus. (See "Marketing Memo: Marketing Plan Criteria" for some guideline questions to ask in developing marketing plans.)

Although the exact length and layout varies from company to company, most marketing plans cover one year in anywhere from 5 to 50 pages. Smaller businesses may create shorter or less formal marketing plans, whereas corporations generally require highly structured documents. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plan on an internal Web site so everyone can consult specific sections and collaborate on changes. A marketing plan usually contains the following sections.

- **Executive summary and table of contents.** The marketing plan should open with a table of contents and brief summary for senior management of the main goals and recommendations.
- **Situation analysis.** This section presents relevant background data on sales, costs, the market, competitors, and the various forces in the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis.
- **Marketing strategy.** Here the marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources.
- **Financial projections.** Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs.

A more complex method of estimating profit is **risk analysis**. Here we obtain three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The

marketing Memo

Marketing Plan Criteria

Here are some questions to ask in evaluating a marketing plan.

1. *Is the plan simple?* Is it easy to understand and act on? Does it communicate its content clearly and practically?
2. *Is the plan specific?* Are its objectives concrete and measurable? Does it include specific actions and activities, each with specific dates of completion, specific persons responsible, and specific budgets?
3. *Is the plan realistic?* Are the sales goals, expense budgets, and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections?
4. *Is the plan complete?* Does it include all the necessary elements? Does it have the right breadth and depth?

Source: Adapted from Tim Berry and Doug Wilson, *On Target: The Book on Marketing Plans* (Eugene, OR: Palo Alto Software, 2000).

computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities.⁴⁵

- **Implementation controls.** The last section outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter, so management can review each period's results and take corrective action as needed. Some organizations include contingency plans.

The Role of Research

To develop innovative products, successful strategies, and action programs, marketers need up-to-date information about the environment, the competition, and the selected market segments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and identify areas for improvement.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how the findings will be applied.

The Role of Relationships

Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects both internal and external relationships. First, it influences how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. Marketers must consider all these relationships when developing a marketing plan.

From Marketing Plan to Marketing Action

Most companies create yearly marketing plans. Marketers start planning well in advance of the implementation date to allow time for marketing research, analysis, management review, and coordination between departments. As each action program begins, they monitor ongoing results, investigate any deviation from plans, and take corrective steps as needed. Some prepare contingency plans; marketers must be ready to update and adapt marketing plans at any time.

The marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and marketing metrics for monitoring and evaluating results.

With budgets, they can compare planned expenditures with actual expenditures for a given period. Schedules allow management to see when tasks were supposed to be completed and when they actually were. Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward toward its objectives.

Summary

1. The value delivery process includes choosing (or identifying), providing (or delivering), and communicating superior value. The value chain is a tool for identifying key activities that create value and costs in a specific business.
2. Strong companies develop superior capabilities in managing core business processes such as new-product realization, inventory management, and customer acquisition and retention. Managing these core processes effectively means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete—marketing networks do.
3. According to one view, holistic marketing maximizes value exploration by understanding the relationships between the customer's cognitive space, the company's competence space, and the collaborator's resource space; maximizes value creation by identifying new customer benefits from the customer's cognitive space, utilizing core competencies from its business domain, and selecting and managing business partners from its collaborative networks; and maximizes value delivery by becoming proficient at customer relationship management, internal resource management, and business partnership management.
4. Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so they yield target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product.
5. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy means defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each, and assessing growth opportunities.
6. Strategic planning for individual businesses includes defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programs, implementing the programs, and gathering feedback and exercising control.
7. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

Applications

Marketing Debate

What Good Is a Mission Statement?

Mission statements are often the product of much deliberation and discussion. At the same time, critics claim they sometimes lack “teeth” and specificity, or do not vary much from firm to firm and make the same empty promises.

Take a position: Mission statements are critical to a successful marketing organization *versus* Mission statements rarely provide useful marketing value.

Marketing Discussion

Marketing Planning

Consider Porter's value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?

Marketing Excellence

>>Cisco



Cisco Systems is the worldwide leading supplier of networking equipment for the Internet. The company sells hardware (routers and switches), software, and services that make most of the Internet work. Cisco was founded in 1984 by a husband and wife team who worked in the computer operations department at Stanford University. They named the company cisco—with a lowercase c, short for San Francisco, and developed a logo that resembled the Golden Gate Bridge, which they frequently traveled.

Cisco went public in 1990 and the two founders left the company shortly thereafter, due to conflicting interests with the new president and CEO. Over the next decade, the company grew exponentially, led by new-product launches such as patented routers, switches, platforms, and modems—which significantly contributed to the backbone of the Internet. Cisco opened its first international offices in London and France in 1991 and has opened a number of new international offices since then. During the 1990s, Cisco acquired and successfully integrated 49 companies into its core business. As a result, the company's market capitalization grew faster than for any company in history—from \$1 billion to \$300 billion between 1991 and 1999. In March 2000, Cisco became the most valuable company in the world, with market capitalization peaking at \$582 billion or \$82 per share.

By the end of the 20th century, although the company was extremely successful, brand awareness was low—Cisco was known to many for its stock price rather than for what it actually did. Cisco developed partnerships with Sony, Matsushita, and US West to co-brand its modems with the Cisco logo in hopes of building its name recognition and brand value. In addition, the company launched its first television spots as part of a campaign entitled “Are

You Ready?” In the ads, children and adults from around the world delivered facts about the power of the Internet and challenged viewers to ponder, “Are You Ready?”

Surviving the Internet bust, the company reorganized in 2001 into 11 new technology groups and a marketing organization, which planned to communicate the company's product line and competitive advantages better than it had in the past. In 2003, Cisco introduced a new marketing message, “This Is the Power of the Network. Now.” The international campaign targeted corporate executives and highlighted Cisco's critical role in a complicated, technological system by using a soft-sell approach. Television commercials explained how Cisco's systems change people's lives around the world and an eight-page print ad spread didn't mention Cisco's name until the third page. Marilyn Mersereau, Cisco's vice president of corporate marketing, explained, “Clever advertising involves the reader in something that's thought-provoking and provocative and doesn't slam the brand name into you from the first page.”

The year 2003 brought new opportunities as Cisco entered the consumer segment with the acquisition of Linksys, a home and small-office network gear maker. By 2004, Cisco offered several home entertainment solutions, including wireless capabilities for music, printing, video, and more. Since previous marketing strategies had targeted corporate and IT decision makers, the company launched a rebranding campaign in 2006, to increase awareness among consumers and help increase the overall value of Cisco's brand. “The Human Network” campaign tried to “humanize” the technology giant by repositioning it as more than just a supplier of switches and routers and communicating its critical role in connecting people through technology. The initial results were positive. Cisco's revenues increased 41 percent from 2006 to 2008, led by sales increases in both home and business use. By the end of 2008, Cisco's revenue topped \$39.5 billion and *BusinessWeek* ranked it the 18th biggest global brand.

With its entrance into the consumer market, Cisco has had to develop unique ways to connect with consumers. One recent development is *Cisco Connected Sports*, a platform that turns sports stadiums into digitally connected interactive venues. The company already has transformed the Dallas Cowboys, New York Yankees, Kansas City Royals, Toronto Blue Jays, and Miami Dolphins stadiums into “the ultimate fan experience” and plans to add more teams to its portfolio. Fans can virtually meet the players through Telepresence, a videoconferencing system. Digital displays throughout the stadium allow fans to pull up scores from other games, order food, and view local traffic. In addition, HD flat-screen televisions throughout the stadium ensure that fans never miss a play—even in the restroom.

Today, Cisco continues to acquire companies—including 40 between 2004 and 2009—that help it expand into newer markets such as consumer electronics, business collaboration software, and computer servers. These acquisitions align with Cisco's goal of increasing overall Internet traffic, which ultimately drives demand for its networking hardware products. However, by entering into these new markets, Cisco has gained new competitors such as Microsoft, IBM, and Hewlett-Packard. To compete against them, it reaches out to both consumers and businesses in its advertising efforts, including tapping into social media such as Facebook, Twitter, and blogs.

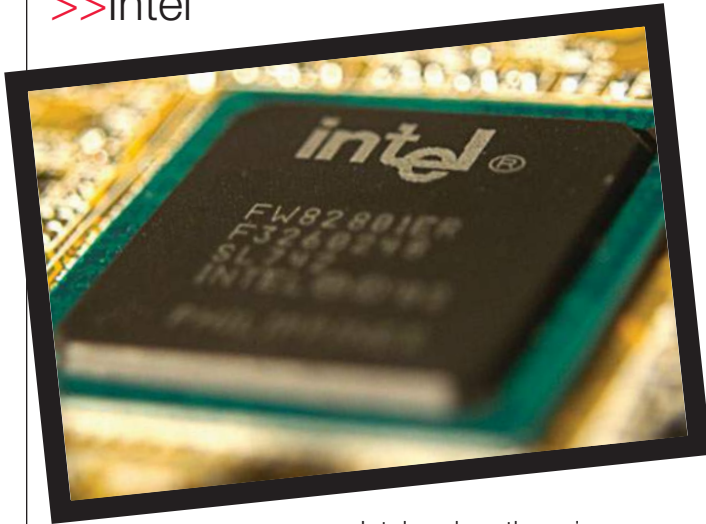
Questions

1. How is building a brand in a business-to-business context different from doing so in the consumer market?
2. Is Cisco's plan to reach out to consumers a viable one? Why or why not?

Sources: Marguerite Reardon, "Cisco Spends Millions on Becoming Household Name." *CNET*, October 5, 2006; Michelle Kessler, "Tech Giants Build Bridge to Consumers." *USA Today*, March 13, 2006; Maria Matzer, "Cisco Faces the Masses." *Los Angeles Times*, August 20, 1998; David R. Baker, "New Ad Campaign for Cisco." *San Francisco Chronicle*, February 18, 2003; Bobby White, "Expanding into Consumer Electronics, Cisco Aims to Jazz Up Its Stodgy Image." *Wall Street Journal*, September 6, 2006, p. B1; Burt Helm, "Best Global Brands" *BusinessWeek*, September 18, 2008; Ashlee Vance, "Cisco Buys Norwegian Firm for \$3 Billion." *New York Times*, October 1, 2009; Jennifer Leggio, "10 Fortune 500 Companies Doing Social Media Right." *ZDNet*, September 28, 2009.

Marketing Excellence

>> Intel



Intel makes the microprocessors found in 80 percent of the world's personal computers. Today, it is one of the most valuable brands in the world, with revenues exceeding \$37 billion. In the early days, however, Intel microprocessors were known simply by their engineering numbers, such as "80386" or "80486." Since numbers can't be trademarked, competitors came out with their own "486" chips and Intel had no way to distinguish itself. Nor could consumers see Intel's products, buried deep inside their PCs. Thus, Intel had a hard time convincing consumers to pay more for its high-performance products.

As a result, Intel created the quintessential ingredient-branding marketing campaign and made history. It chose a name for its latest microprocessor introduction that could be trademarked, Pentium, and launched the "Intel Inside" campaign to build brand awareness of its whole family of microprocessors. This campaign helped

move the Intel brand name outside the PC and into the minds of consumers. In order to execute the new brand strategy, it was essential that the computer manufacturers who used Intel processors support the program. Intel gave them significant rebates when they included the Intel logo in their PC ads or when they placed the "Intel Inside" sticker on the outside of their PCs and laptops.

The company created several effective and identifiable marketing campaigns in the late 1990s to become a recognizable and well-liked ingredient brand name. The "Bunny People" series featured Intel technicians dressed in brightly colored contamination suits as they danced to disco music inside a processor facility. Intel also used the famous Blue Man Group in its commercials for Pentium III and Pentium IV.

In 2003, Intel launched Centrino, a platform that included a new microprocessor, an extended battery, and wireless capabilities. The company launched a multimillion-dollar media effort around the new platform called "Unwired," which urged the wired world to "Unwire. Untangle. Unburden. Uncompromise. Unstress." "Unwired" helped the company generate \$2 billion in revenue during the first nine months of the campaign.

As the PC industry slowed in the mid-2000s, Intel sought opportunities in new growth areas such as home entertainment and mobile devices. It launched two new platforms: Viiv (rhymes with "five") aimed at home entertainment enthusiasts, and Centrino Duo mobile. In addition, the company created a \$2 billion global marketing campaign to help reposition Intel from a brainy microprocessor company to a "warm and fuzzy company" that offered solutions for consumers as well. As part of the campaign, Intel's new slogan "Leap Ahead" replaced the familiar "Intel Inside" campaign that had become synonymous with the Intel brand, and a new logo was created.

In 2007, Intel created the Classmate PC—a small, kid-friendly, durable, and affordable Intel processor-based computer intended for children in remote regions of the world. It was part of an initiative called Intel Learning Series, intended to help expand education in technology throughout the world.

The following year, Intel launched the Atom processor, the company's smallest processor to date, designed for mobile Internet devices, netbooks, and nettops such as the Classmate PC. Also that year, Intel introduced its most advanced microprocessor, the Intel Core i7, which focused on the needs for video, 3-D gaming, and advanced computer activities. Both processors became an instant hit. The Atom, smaller than a grain of rice, ideally powered the growing market of netbooks—mobile, light computers that weighed as little as 13 ounces. Intel sold more than 20 million Atom processors for netbooks in its first year alone and 28 million in its second year. Some analysts predict that when the Atom processor taps into the smart phone and cell phone markets, Intel could sell hundreds of millions of units in a very short amount of time.

Intel's most recent ad campaign aimed to improve the company's brand awareness was entitled "Sponsors of Tomorrow." The commercials highlighted Intel's role in changing the future of technology and took a humorous tone. In one, a middle-aged man wearing his company ID tag struts through the cafeteria as fellow employees

scream, grope, and beg for his autograph. The screen reads, "Ajay Bhatt, co-inventor of the U.S.B." as the employee (played by an actor) winks at a fan. The ad ends with the line, "Our superheroes aren't like your superheroes."

As Intel's superheroes continue to create powerful microprocessors for smaller and more mobile devices, the company's brand value continues to grow, as does its influence on the future of technology.

Questions

1. Discuss how Intel changed ingredient-marketing history. What did it do so well in those initial marketing campaigns?
2. Evaluate Intel's more recent marketing efforts. Did they lose something by dropping the "Intel Inside" tagline or not?

Sources: Cliff Edwards, "Intel Everywhere?" *BusinessWeek*, March 8, 2004, pp. 56–62; Scott Van Camp, "ReadMe.1st," *Brandweek*, February 23, 2004, p. 17; "How to Become a Superbrand," *Marketing*, January 8, 2004, p. 15; Roger Slavens, "Pam Pollace, VP-Director, Corporate Marketing Group, Intel Corp," *BtoB*, December 8, 2003, p. 19; Kenneth Hein, "Study: New Brand Names Not Making Their Mark," *Brandweek*, December 8, 2003, p. 12; Heather Clancy, "Intel Thinking Outside the Box," *Computer Reseller News*, November 24, 2003, p. 14; Cynthia L. Webb, "A Chip Off the Old Recovery?" *Washingtonpost.com*, October 15, 2003; "Intel Launches Second Phase of Centrino Ads," *Technology Advertising & Branding Report*, October 6, 2003; David Kirkpatrick, "At Intel, Speed Isn't Everything," *Fortune*, February 9, 2004, p. 34; Don Clark, "Intel to Overhaul Marketing in Bid to Go Beyond PCs," *Wall Street Journal*, December 30, 2005; Stephanie Clifford, "Tech Company's Campaign to Burnish Its Brand," *New York Times*, May 6, 2009, p. B7; Tim Bajarin, "Intel Makes Moves in Mobility," *PC Magazine*, October 5, 2009.

Sample Marketing Plan

Pegasus Sports International*

1.0 Executive Summary

Pegasus Sports International is a start-up aftermarket inline skating accessory manufacturer. In addition to the aftermarket products, Pegasus is developing SkateTours, a service that takes clients out, in conjunction with a local skate shop, and provides them with an afternoon of skating using inline skates and some of Pegasus' other accessories such as SkateSails. The aftermarket skate accessory market has been largely ignored. Although there are several major manufacturers of the skates themselves, the accessory market has not been addressed. This provides Pegasus with an extraordinary opportunity for market growth. Skating is a booming sport. Currently, most of the skating is recreational. There are, however, a growing number of skating competitions, including team-oriented competitions such as skate hockey as well as individual competitions such as speed skate racing. Pegasus will work to grow these markets and develop the skate transportation market, a more utilitarian use of skating. Several of Pegasus' currently developed products have patents pending, and local market research indicates that there is great demand for these products. Pegasus will achieve fast, significant market penetration through a solid business model, long-range planning, and a strong management team that is able to execute this exciting opportunity. The three principals on the management team have over 30 years of combined personal and industry experience. This extensive experience provides Pegasus with the empirical information as well as the passion to provide the skating market with much-needed aftermarket products. Pegasus will sell its products initially through its Web site. This "Dell" direct-to-the-consumer approach will allow Pegasus to achieve higher margins and maintain a close relationship with the customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus will have also developed relationships with different skate shops and will begin to sell some of its products through retailers.

2.0 Situation Analysis

Pegasus is entering its first year of operation. Its products have been well received, and marketing will be key to the development of brand and product awareness as well as the growth of the customer base. Pegasus International offers several different aftermarket skating accessories, serving the growing inline skating industry.

2.1 Market Summary

Pegasus possesses good information about the market and knows a great deal about the common attributes of the most prized customer. This information will be leveraged to better understand who is served, what their specific needs are, and how Pegasus can better communicate with them.

Target Markets

- Recreational
- Fitness
- Speed
- Hockey
- Extreme

2.1.1 Market Demographics

The profile for the typical Pegasus customer consists of the following geographic, demographic, and behavior factors:

Geographics

- Pegasus has no set geographic target area. By leveraging the expansive reach of the Internet and multiple delivery services, Pegasus can serve both domestic and international customers.
- The total targeted population is 31 million users.

TABLE 2.1 Target Market Forecast

Target Market Forecast							
Potential Customers	Growth	2011	2012	2013	2014	2015	CAGR*
Recreational	10%	19,142,500	21,056,750	23,162,425	25,478,668	28,026,535	10.00%
Fitness	15%	6,820,000	7,843,000	9,019,450	10,372,368	11,928,223	15.00%
Speed	10%	387,500	426,250	468,875	515,763	567,339	10.00%
Hockey	6%	2,480,000	2,628,800	2,786,528	2,953,720	3,130,943	6.00%
Extreme	4%	2,170,000	2,256,800	2,347,072	2,440,955	2,538,593	4.00%
Total	10.48%	31,000,000	34,211,600	37,784,350	41,761,474	46,191,633	10.48%

*Compound Annual Growth Rate

Demographics

- There is an almost equal ratio between male and female users.
- Ages 13–46, with 48% clustering around ages 23–34. The recreational users tend to cover the widest age range, including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late twenties and early thirties. The hockey players are generally in their teens through their early twenties. The extreme segment is of similar age to the hockey players.
- Of the users who are over 20, 65% have an undergraduate degree or substantial undergraduate coursework.
- The adult users have a median personal income of \$47,000.

Behavior Factors

- Users enjoy fitness activities not as a means for a healthy life, but as an intrinsically enjoyable activity in itself.
- Users spend money on gear, typically sports equipment.
- Users have active lifestyles that include some sort of recreation at least two to three times a week.

2.1.2 Market Needs

Pegasus is providing the skating community with a wide range of accessories for all variations of skating. The company seeks to fulfill the following benefits that are important to its customers:

- **Quality craftsmanship.** The customers work hard for their money and do not enjoy spending it on disposable products that work for only a year or two.
- **Well-thought-out designs.** The skating market has not been addressed by well-thought-out products that serve skaters' needs. Pegasus' industry experience and personal dedication to the sport will provide it with the needed information to produce insightfully designed products.
- **Customer service.** Exemplary service is required to build a sustainable business that has a loyal customer base.

2.1.3 Market Trends

Pegasus will distinguish itself by marketing products not previously available to skaters. The emphasis in the past has been to sell skates and very few replacement parts. The number of skaters is not restricted to any one single country, continent, or age group, so there is a world market. Pegasus has products for virtually every group of skaters. The fastest-growing segment of this sport is the fitness skater. Therefore, the marketing is being directed toward this group. BladeBoots will enable users to enter establishments without having to remove their skates. BladeBoots will be aimed at the recreational skater, the largest segment. SkateAids, on the other hand, are great for everyone.

The sport of skating will also grow through SkateSailing. This sport is primarily for the medium-to-advanced skater, and its growth potential is tremendous. The sails that Pegasus has manufactured have been sold in Europe, following a pattern similar to windsurfing. Windsailing originated in Santa Monica but did not take off until it had already grown big in Europe.

Another trend is group skating. More and more groups are getting together on skating excursions in cities all over the world. For example, San Francisco has night group skating that attracts hundreds of people. The market trends are showing continued growth in all directions of skating.

2.1.4 Market Growth

With the price of skates going down due to competition by so many skate companies, the market has had steady growth throughout the world, although sales had slowed down in some markets. The growth statistics for 2007 were estimated to be over 35 million units. More and more people are discovering—and in many cases rediscovering—the health benefits and fun of skating.

2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Pegasus.

2.2.1 Strengths

- In-depth industry experience and insight
- Creative, yet practical product designers
- The use of a highly efficient, flexible business model utilizing direct customer sales and distribution

2.2.2 Weaknesses

- The reliance on outside capital necessary to grow the business
- A lack of retailers who can work face-to-face with the customer to generate brand and product awareness
- The difficulty of developing brand awareness as a start-up company

2.2.3 Opportunities

- Participation within a growing industry
- Decreased product costs through economy of scale
- The ability to leverage other industry participants' marketing efforts to help grow the general market

2.2.4 Threats

- Future/potential competition from an already established market participant
- A slump in the economy that could have a negative effect on people's spending of discretionary income on fitness/recreational products
- The release of a study that calls into question the safety of skating or the inability to prevent major skating-induced traumas

2.3 Competition

Pegasus Sports International is forming its own market. Although there are a few companies that do make sails and foils that a few

skaters are using, Pegasus is the only brand that is truly designed for and by skaters. The few competitors' sails on the market are not designed for skating, but for windsurfing or for skateboards. In the case of foils, storage and carrying are not practical. There are different indirect competitors who are manufacturers of the actual skates. After many years in the market, these companies have yet to become direct competitors by manufacturing accessories for the skates that they make.

2.4 Product Offering

Pegasus Sports International now offers several products:

- The first product that has been developed is BladeBoots, a cover for the wheels and frame of inline skates, which allows skaters to enter places that normally would not allow them in with skates on. BladeBoots come with a small pouch and belt that converts to a well-designed skate carrier.
- The second product is SkateSails. These sails are specifically designed for use while skating. Feedback that Pegasus has received from skaters indicates skatesailing could become a very popular sport. Trademarking this product is currently in progress.
- The third product, SkateAid, will be in production by the end of the year. Other ideas for products are under development, but will not be disclosed until Pegasus can protect them through pending patent applications.

2.5 Keys to Success

The keys to success are designing and producing products that meet market demand. In addition, Pegasus must ensure total customer satisfaction. If these keys to success are achieved, it will become a profitable, sustainable company.

2.6 Critical Issues

As a start-up business, Pegasus is still in the early stages. The critical issues are for Pegasus to:

- Establish itself as the premier skating accessory company.
- Pursue controlled growth that dictates that payroll expenses will never exceed the revenue base. This will help protect against recessions.
- Constantly monitor customer satisfaction, ensuring that the growth strategy will never compromise service and satisfaction levels.

3.0 Marketing Strategy

The key to the marketing strategy is focusing on the speed, health and fitness, and recreational skaters. Pegasus can cover about 80% of the skating market because it produces products geared toward each segment. Pegasus is able to address all of the different segments within the market because, although each segment is distinct in terms of its users and equipment, its products are useful to all of the different segments.

3.1 Mission

Pegasus Sports International's mission is to provide the customer with the finest skating accessories available. "We exist to attract and maintain customers. With a strict adherence to this maxim, success will be ensured. Our services and products will exceed the expectations of the customers."

3.2 Marketing Objectives

- Maintain positive, strong growth each quarter (notwithstanding seasonal sales patterns).
- Achieve a steady increase in market penetration.
- Decrease customer acquisition costs by 1.5% per quarter.

3.3 Financial Objectives

- Increase the profit margin by 1% per quarter through efficiency and economy-of-scale gains.
- Maintain a significant research and development budget (as a percentage relative to sales) to spur future product developments.
- Achieve a double- to triple-digit growth rate for the first three years.

3.4 Target Markets

With a world skating market of over 31 million that is steadily growing (statistics released by the Sporting Goods Manufacturers Association), the niche has been created. Pegasus' aim is to expand this market by promoting SkateSailing, a new sport that is popular in both Santa Monica and Venice Beach in California. The Sporting Goods Manufacturers Association survey indicates that skating now has more participation than football, softball, skiing, and snowboarding combined. The breakdown of participation in skating is as follows: 1+% speed (growing), 8% hockey (declining), 7% extreme/aggressive (declining), 22% fitness (nearly 7 million—the fastest growing), and 61% recreational (first-timers). Pegasus' products are targeting the fitness and recreational groups, because they are the fastest growing. These groups are gearing themselves toward health and fitness, and combined, they can easily grow to 85% (or 26 million) of the market in the next five years.

3.5 Positioning

Pegasus will position itself as the premier aftermarket skating accessory company. This positioning will be achieved by leveraging Pegasus' competitive edge: industry experience and passion. Pegasus is a skating company formed by skaters for skaters. Its management is able to use its vast experience and personal passion for the sport to develop innovative, useful accessories for a broad range of skaters.

3.6 Strategies

The single objective is to position Pegasus as the premier skating accessory manufacturer, serving the domestic market as well as the international market. The marketing strategy will seek to first create customer awareness concerning the offered products and services and then develop the customer base. The message that Pegasus will seek to communicate is that it offers the best-designed, most useful skating accessories. This message will be communicated through a variety of methods. The first will be the Pegasus Web site, which will provide a rich source of product information and offer consumers the opportunity to purchase. A lot of time and money will be invested in the site to provide the customer with the perception of total professionalism and utility for Pegasus' products and services.

The second marketing method will be advertisements placed in numerous industry magazines. The skating industry is supported by several different glossy magazines designed to promote the industry as a whole. In addition, a number of smaller periodicals serve the smaller market segments within the skating industry. The last method of communication is the use of printed sales literature. The two previously mentioned marketing methods will create demand for the sales literature, which will be sent out to customers. The cost of the sales literature will be fairly minimal, because it will use the already-compiled information from the Web site.

3.7 Marketing Program

Pegasus' marketing program is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- **Pricing.** This will be based on a per-product retail price.
- **Distribution.** Initially, Pegasus will use a direct-to-consumer distribution model. Over time, it will use retailers as well.
- **Advertising and promotion.** Several different methods will be used for the advertising effort.
- **Customer service.** Pegasus will strive to achieve benchmarked levels of customer care.

3.8 Marketing Research

Pegasus is blessed with the good fortune of being located in the center of the skating world: Venice, California. It will be able to leverage this opportune location by working with many of the different skaters that live in the area. Pegasus was able to test all of its products not only with its principals, who are accomplished skaters, but also with the many other dedicated and "newbie" users located in Venice. The extensive product testing by a wide variety of users provided Pegasus with valuable product feedback and has led to several design improvements.

4.0 Financials

This section will offer the financial overview of Pegasus related to marketing activities. Pegasus will address break-even analysis, sales forecasts, expense forecast, and indicate how these activities link to the marketing strategy.

4.1 Break-Even Analysis

The break-even analysis indicates that \$7,760 will be required in monthly sales revenue to reach the break-even point.

TABLE 4.1 Break-Even Analysis

Break-Even Analysis:	
Monthly Units Break-Even	62
Monthly Sales Break-Even	\$ 7,760
Assumptions:	
Average Per-Unit Revenue	\$125.62
Average Per-Unit Variable Cost	\$ 22.61
Estimated Monthly Fixed Cost	\$ 6,363

4.2 Sales Forecast

Pegasus feels that the sales forecast figures are conservative. It will steadily increase sales as the advertising budget allows. Although the target market forecast (Table 2.1) listed all of the potential customers divided into separate groups, the sales forecast groups customers into two categories: recreational and competitive. Reducing the number of categories allows the reader to quickly discern information, making the chart more functional.

Monthly Sales Forecast

TABLE 4.2 Sales Forecast

Sales Forecast			
Sales	2011	2012	2013
Recreational	\$455,740	\$598,877	\$687,765
Competitive	\$ 72,918	\$ 95,820	\$110,042
Total Sales	\$528,658	\$694,697	\$797,807
Direct Cost of Sales	2011	2012	2013
Recreational	\$ 82,033	\$107,798	\$123,798
Competitive	\$ 13,125	\$ 17,248	\$ 19,808
Subtotal Cost of Sales	\$ 95,158	\$125,046	\$143,606

4.3 Expense Forecast

The expense forecast will be used as a tool to keep the department on target and provide indicators when corrections/modifications are needed for the proper implementation of the marketing plan.

Milestones

TABLE 4.3 Milestones

Plan					
Milestones	Start Date	End Date	Budget	Manager	Department
Marketing plan completion	1/1/11	2/1/11	\$ 0	Stan	Marketing
Web site completion	1/1/11	3/15/11	\$20,400	outside firm	Marketing
Advertising campaign #1	1/1/11	6/30/11	\$ 3,500	Stan	Marketing
Advertising campaign #2	3/1/11	12/30/11	\$ 4,550	Stan	Marketing
Development of the retail channel	1/1/11	11/30/11	\$ 0	Stan	Marketing
Totals			\$28,450		

Monthly Expense Budget

TABLE 4.4 Marketing Expense Budget

Marketing Expense Budget	2011	2012	2013
Web Site	\$ 25,000	\$ 8,000	\$ 10,000
Advertisements	\$ 8,050	\$ 15,000	\$ 20,000
Printed Material	\$ 1,725	\$ 2,000	\$ 3,000
Total Sales and Marketing Expenses	\$ 34,775	\$ 25,000	\$ 33,000
Percent of Sales	6.58%	3.60%	4.14%
Contribution Margin	\$398,725	\$544,652	\$621,202
Contribution Margin/Sales	75.42%	78.40%	77.86%

5.0 Controls

The purpose of Pegasus' marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual
- Expenses: monthly and annual

- Customer satisfaction
- New-product development

5.1 Implementation

The following milestones identify the key marketing programs. It is important to accomplish each one on time and on budget.

5.2 Marketing Organization

Stan Blade will be responsible for the marketing activities.

5.3 Contingency Planning

Difficulties and Risks

- Problems generating visibility, a function of being an Internet-based start-up organization
- An entry into the market by an already-established market competitor

Worst-Case Risks

- Determining that the business cannot support itself on an ongoing basis
- Having to liquidate equipment or intellectual capital to cover liabilities