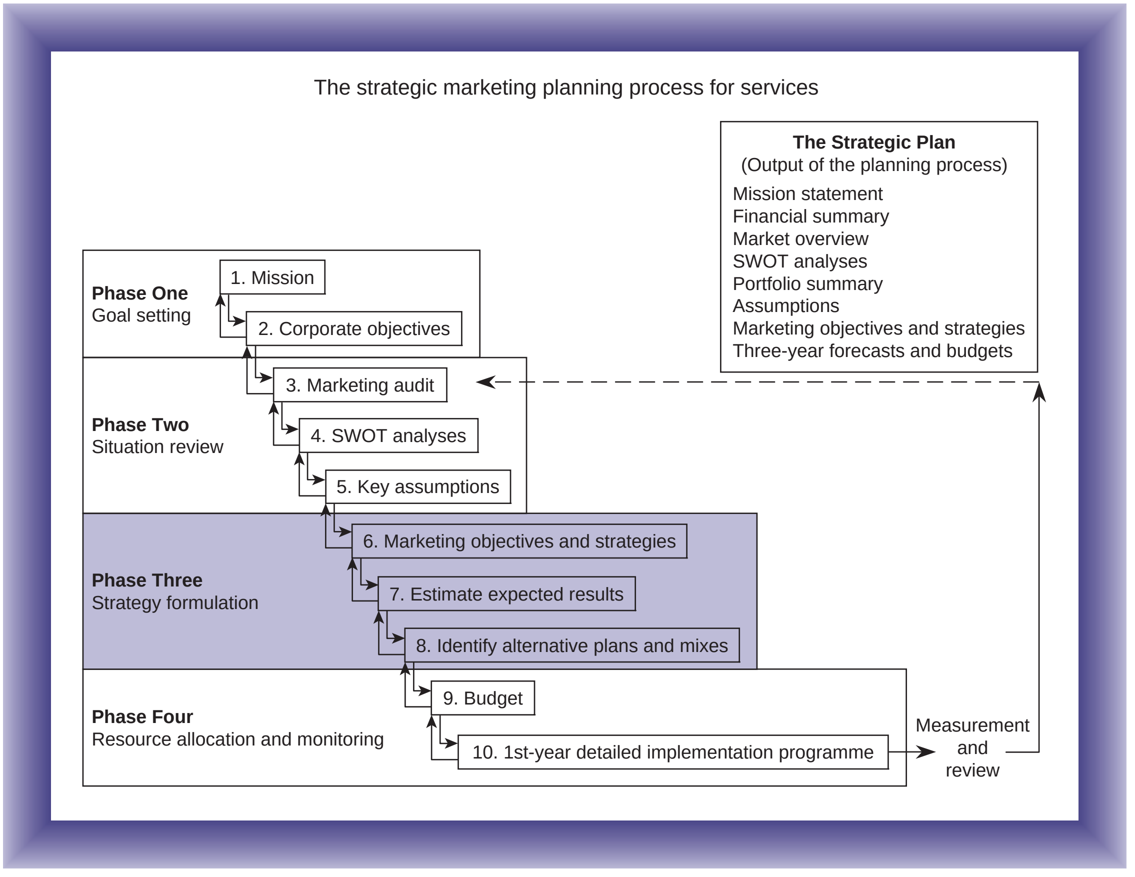
8 Marketing planning Phase Three: marketing strategy formulation



The situation review should have brought to light most of the key data which enables the marketing strategy formulation phase of the planning process to be undertaken. Even so, it is likely that this next phase will uncover further gaps in the information required if the services organization is to move forward with certainty.

This underlines the point we raised earlier, that the planning process is not as relentlessly linear as the diagram suggests, but is an interactive process, shown by the arrows between the boxes, involving going back to earlier stages from time to time.

The marketing objective and strategy formulation phase of the planning process is, perhaps, the most important of all. Unless this step is carried out well, everything that follows will lack focus and cohesion. Not only does it outline the company's marketing strategy, but it also specifies how it will be accomplished.

In this chapter, we will look at each of the three planning steps in Phase Three in more detail, paying particular attention to the area of developing competitive marketing strategies.

Step 6 Marketing objectives and strategies

It is important to be clear from the outset about the difference between marketing objectives and marketing strategies. Although these terms are frequently used fairly loosely within companies, we consider that they should be defined more precisely for the purposes of marketing planning.

- *A marketing objective* is a precise statement which outlines what is to be accomplished by the service company's marketing activities.
- *A marketing strategy* is the means by which a marketing objective is achieved.

The purpose of setting marketing objectives is to target the profit, revenue and market share we wish to achieve to satisfy the mission. In turn, this provides the guidance for marketing strategies to bring together a marketing mix to achieve the objectives for each segment.

Marketing objectives

With the earlier steps of the planning process behind us, it could appear that the setting of marketing objectives ought to be comparatively straightforward. Unfortunately, this is often not the case, because companies do not always approach the task in a logical way. A logical sequence is:

Level 1 *Set broad marketing objectives*
These would be concerned with long-term profitability and be related to the corporate objectives. By setting broad objectives, communication will be enhanced and a set of expectations will be engendered among staff.

Level 2 *Set objectives for key result areas*
Here, the objectives are defined more precisely, especially for those functions with key roles to play.

Level 3 *Set sub-objectives to support the broad objectives*
The objectives would be based on sales volume, geographic expansion and service offering extension.

A marketing objective should meet several criteria. It must be:

- *Relevant* – in relation to the corporate mission and objectives.
- *Specific* – it should focus on a clear and specific goal.
- *Measurable* – it should be in quantifiable terms.
- *Time bound* – it should have an achievement date.
- *Challenging* – it should be realizable, but at the same time stretching for individuals and the organization as a whole.
- *Focused* – it should be concerned only with markets and services which the company plans to address.

This last point is particularly important, for we support the view that it is only by selling a service to someone (a market) that firms remain in business.

It is wrong to confuse marketing objectives with elements such as pricing, advertising, sales promotion, and so on, which are clearly marketing strategies which help to achieve the objective.

How to set marketing objectives

It is now apparent that when it comes to setting marketing objectives in the way defined above, there are only four possible courses of action:

- Selling existing services to existing markets
- Extending existing services into new markets

- Developing new services for existing markets
- Developing new services for new markets.

The Ansoff matrix is a critical structure for setting marketing objectives

For convenience, we reproduce the Ansoff matrix, which was shown earlier in Chapter 3. The matrix captures these options in organized form (Figure 8.1).

An individual service company's ability to cope with technological newness or developing new markets will clearly be a determining factor regarding which quadrants of this matrix become the most significant.

Another point to consider is what constitutes 'new' on the Ansoff matrix. When it comes to markets, the answer would concern how long it took for a company's distinctive competence to become known in a specific market. Anything less than this time could be seen as a new market. In a similar way, new services will be those at the early stages of their lifecycles, where the company is still 'learning' how to deliver them. For example, it might not yet have solved all the technical problems, or managed to get the quality to the same standard as it has for established services.

Since the marketing audit and SWOT analysis should have provided information about why customers buy the services, what factors are affecting their prospects, which market segments offer the greatest

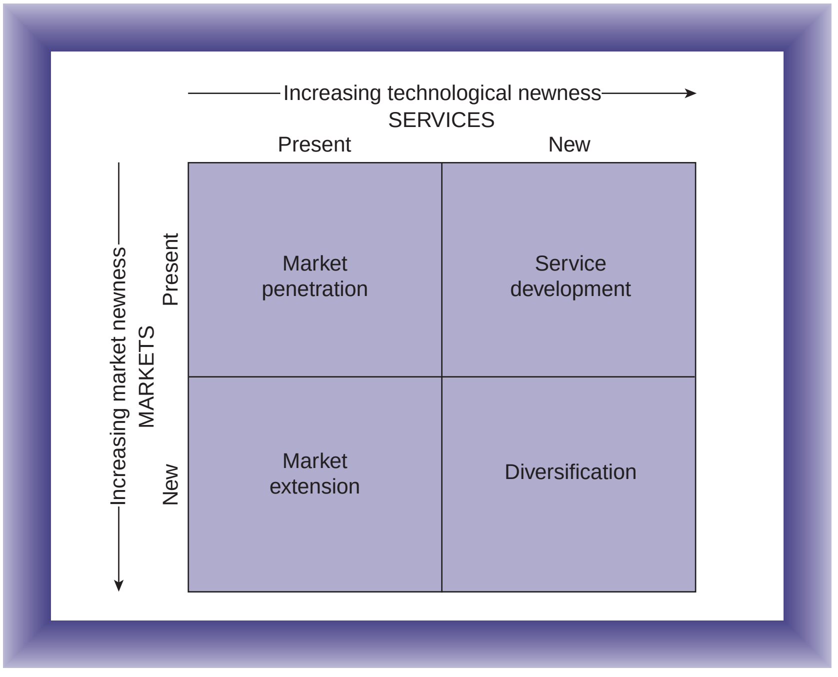


Figure 8.1
Ansoff matrix

rewards, the anticipated activities of competitors, and so on, creative interpretation of this information should make it possible to set objectives for all service/market combinations. Taken together, these should provide the total sales revenue to enable the corporate objectives to be met. A particularly useful tool known as 'gap analysis' can also be used in this process of setting marketing objectives.

Gap analysis

This analytical approach is best understood by reference to Figure 8.2. The figure shows that the initial forecast, or trend, of sales revenue only reaches point A, which falls short of the corporate target, point E. The obvious first thing to do in such circumstances will be to consider actions, such as increasing productivity, that could close the gap without departing too far from current practices.

Actions to penetrate the current markets further could be:

- Improve the mix of services and markets.
- Generate higher sales via a more effective and better managed sales force.
- Improve customer satisfaction with better service.
- Exploit differential advantages with increased pricing.
- Reduce costs and expenses.
- Change the promotional mix, e.g. level of advertising, service levels.

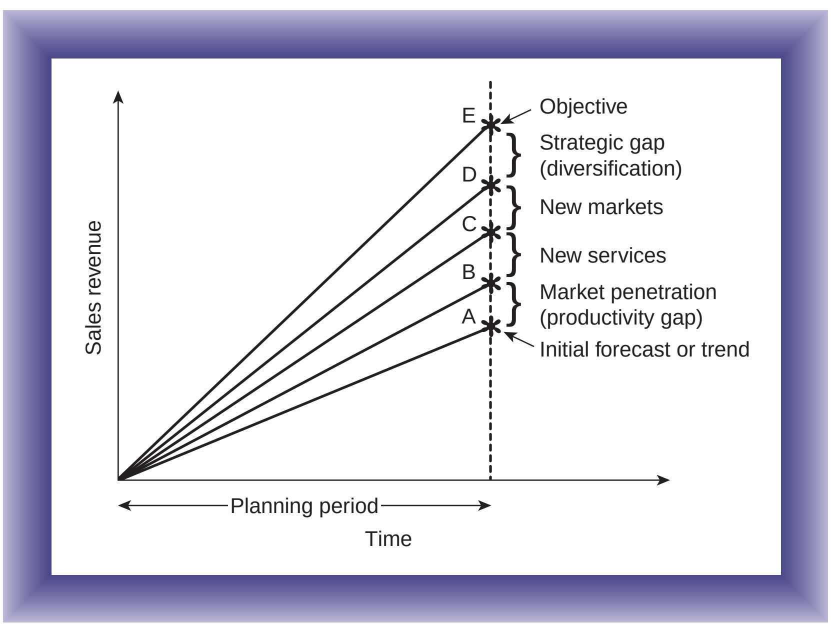


Figure 8.2
Gap analysis

In the example in Figure 8.2, all of these actions have the net effect of pushing the forecast to an improved position, point B. The shortfall between this and the target figure can now only be bridged by having a more radical rethink about the strategies used.

Actions which could be taken to bridge the strategic gap might include:

- Developing new services (taking us to point C).
- Developing new markets (taking us to point D).
- Diversifying (the strategic gap). This can be achieved organically or by acquisition, joint ventures and the like. Hopefully this or the previous actions take the service organization to point E.

Each of these possible actions needs to be investigated to determine its potential impact on reducing the identified gap. If the gap still remains even after a creative and rigorous attempt to close it, then top management might need to be informed that the original corporate objectives are not achievable and are unrealistic. However, this should only be done when all other avenues have been explored.

Before moving on this, however, it is important to understand that gap analysis is only a precursor to producing the strategic marketing plan. It is usual to select a period of about three years into the future (the planning period in Figure 8.2). Completing the gap analysis in the way suggested provides an excellent overview of the likely content of the strategic marketing plan, but in itself it is not a strategic plan.

A summary of the options for filling any identified gaps is given in Figure 8.3. Also, some templates are provided in Chapter 13 for entering new data.

By using the Ansoff matrix and gap analysis, the marketer can begin to focus on marketing objectives and calculate if they will achieve the corporate objectives.

There is, however, another issue to take into consideration and that is whether or not the service portfolio (mentioned in the previous chapter) will be managed effectively. If the company wants to avoid overconcentration of its resources, it will need to invest in those services and markets which will sustain long-term success.

Portfolio Management

This issue was first addressed by the Boston Consulting Group in the USA, who identified that the parameters of relative market share and market growth had a critical bearing on the fortunes of any

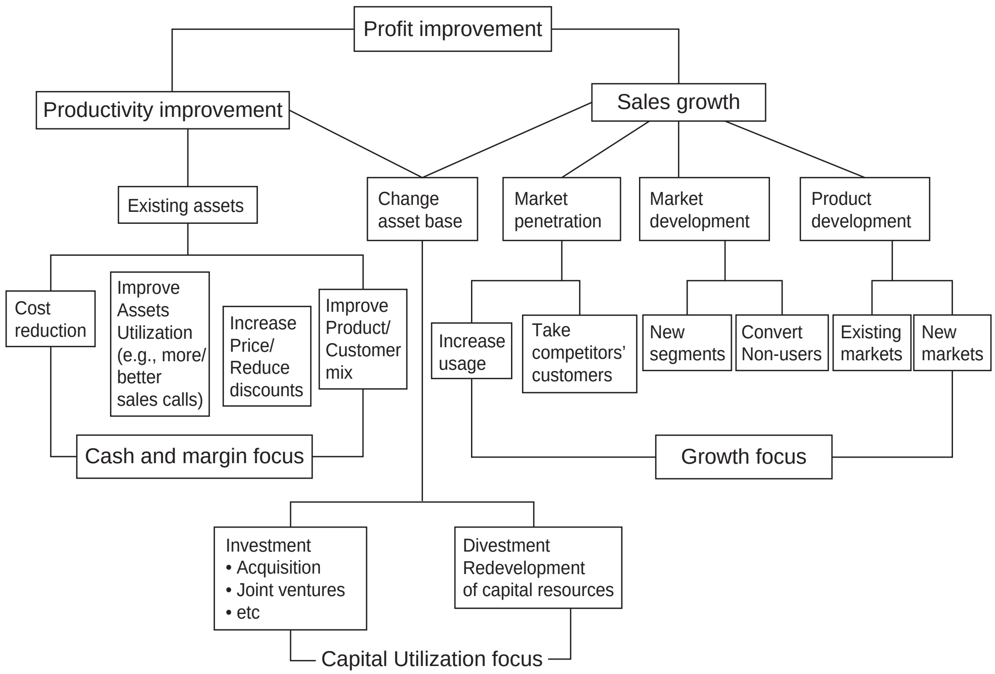


Figure 8.3 Profit improvement

service or product. However, while this consulting firm was extremely successful in applying its concept to a diverse range of businesses, individual organizations (and other consultancies) had problems. They often found it difficult to measure market share with accuracy, or to be confident about market growth rates.

As a development from the so-called 'Boston matrix', General Electric, McKinsey & Co. and, eventually, Shell evolved a multiple factor portfolio matrix[1] (known as the portfolio matrix or directional policy matrix), shown in Figure 8.4. These portfolio management techniques are important for managing existing and new products.

The directional policy matrix is a more useful development of the Boston matrix

Here, the two axes of the matrix are 'market attractiveness' and 'business strengths'. These are more sophisticated proxies for the Boston parameters of 'market growth' and 'market share'. Indeed, the underlying interpretation of information from both the Boston matrix and the portfolio matrix is very similar. While both approaches have their proponents, we believe the latter is the more realistic and practical approach, as it involves the use of criteria that are more specific to the service organization using it. It is for this reason that we focus on this technique.

Note that, while many texts will show nine boxes, the method described here is a simple and more useful version developed by one of the authors.

The underlying concept of the portfolio matrix is easy to grasp. It is closely related to the lifecycle concept. The rationale behind it is this:

1. There is little point in introducing a new service unless there is an attractive market for it. (What attractiveness means can vary from company to company, as we shall see.) At the same time, the newness of the service means that the company is at the beginning of a learning curve and, sometimes, does not play to as many strengths as it would for a more established service.

   Therefore, in portfolio matrix terms, new services often appear in the top right-hand quadrant.
2. Assuming the service is well received, the company builds up strengths in terms of the service getting known and being able to establish differential advantages, while becoming more efficient. The service, therefore, moves into the top left-hand quadrant and becomes better established.
3. Eventually, the demand for the service falls, because existing customer needs have been met, a new set of services has greater appeal or the market has matured. Thus, the previously attractive and growing market becomes relatively less attractive than other higher growth markets. The service is now more accurately positioned in the bottom left-hand quadrant.
4. Eventually, the less attractive market sometimes encourages the company to switch resources to more promising areas, and the service is denuded of the resources that once led it to success. It now moves into the bottom right-hand quadrant.

All of the service company's offerings should be capable of being positioned on this matrix. There are three very good reasons why this should be done:

1. There are implications for the revenue, costs and profit-generating abilities of the overall service portfolio.
2. The matrix can be helpful in developing strategic insights regarding how each service should be managed.
3. The matrix can provide a forecasting mechanism for revenue generation and can assist strategic thinking.

Revenue generation

Consideration of the four quadrants of the matrix in Figure 8.4 will suggest that, in financial terms, they behave as follows:

- *Upper right-hand box*
  A new service, or one in which the organization has few strengths, will need to be heavily promoted if it is to succeed. At the same time, its sales may be relatively low. It is, therefore, a net user of funds. As such, it is more appropriate to use sales and market share goals as a measure of effectiveness than net present value calculations.
  It is also important to have a service champion that has the necessary entrepreneurial skills to lead this type of business.
- *Upper left-hand box*
  Because of the operation's strong competitive position, the service will be achieving high levels of sales, but its success in this attractive market will attract competition. The result of this is that promotional costs may still be high, which might result in modest margins at best, but which on the whole are neutral in terms of generating funds. Here, it is probably appropriate to use net present value as a measure of effectiveness, probably using a relatively high percentage discount rate, as an organization needs to be sure that it will eventually recover its investment.
  The type of person who should head up this kind of service needs to be experienced, with a higher risk profile than is necessary for some stable markets.
- *Lower left-hand box*
  With the market becoming less attractive, some competitors withdraw and the company may be able to reduce its promotional

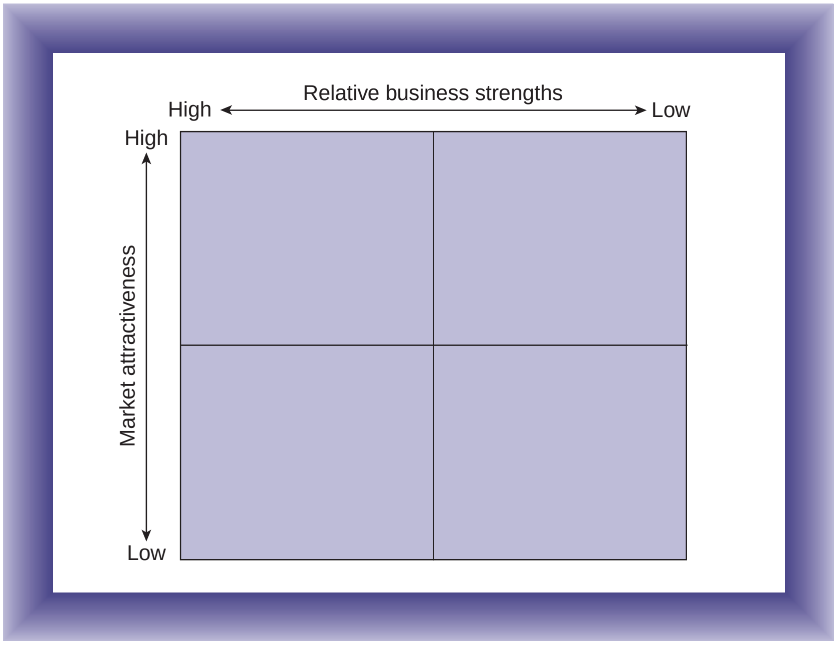


Figure 8.4
The directional policy matrix

efforts and take advantage of its earlier investment in the service. Services in this quadrant are invariably net generators of funds. Here, it is probably appropriate to use return on investment (ROI) or net free cash flow as a measure of effectiveness.

In management terms, it is probably better to have someone in charge of this type of business who is prudent.

- *Lower right-hand box*
  Clearly, sales are at a low level and the company may begin to neglect the service. It might still generate some small amounts of revenue, but questions have to be asked to ascertain whether the resources put into this service would be better invested elsewhere. Unless, as is sometimes the case, these services are necessary to support other more desirable ones, it is often sensible to manage these services for cash. Thus, net free cash flow becomes an appropriate measure of effectiveness.

Figure 8.5 summarizes these rules of thumb.

From the above, it is clear that much of the current revenue and profits come from the services in the bottom left-hand box. It is essential therefore, in terms of managing the portfolio of services, that these exist in sufficient quantities, and that, as they diminish in importance, there are successors to take their place. This means that the development of the portfolio cannot be left to chance. Ideally, there should always be one or two developing services in the top right-hand box that have the potential to become tomorrow's winners (top left-hand box). Similarly, the cash generators of the future commonly come from today's winners. As a general guideline, there should only be a minimal number of services in the bottom right-hand box.

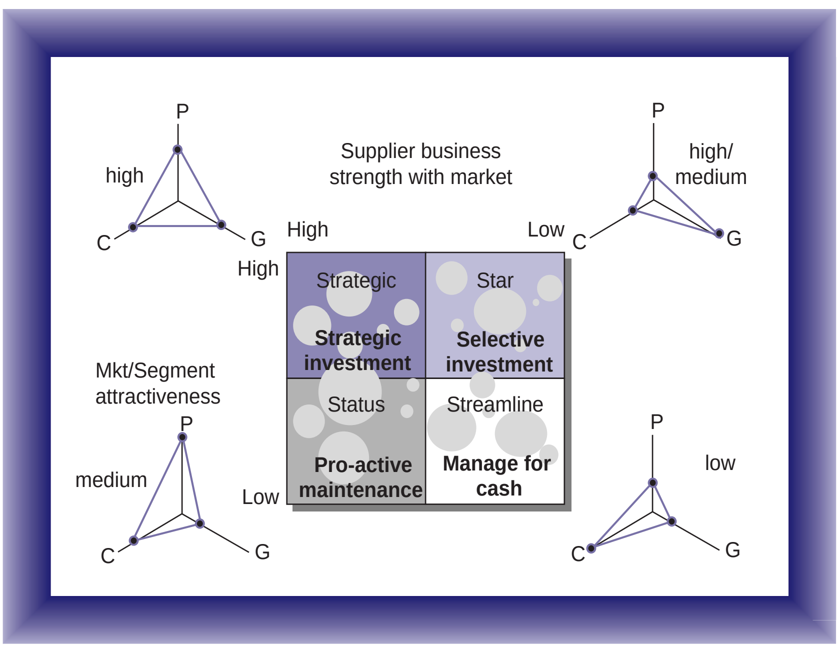


Figure 8.5
Setting expectations of performance

In our consulting work, we often find that a company's portfolio is badly out of balance and, because the full implications of this are not understood, the 'corrective action' they planned to take would, in most cases, have only exacerbated the situation.

Constructing the portfolio matrix

From the outset, a given service organization must be very rigorous with respect to how it defines the components of the axes for the matrix.

First, however, it is essential to decide what constitutes 'markets' for the purpose of completing the vertical axis. Ideally, in a marketing planning context, 'markets' should be genuine segments (i.e. groups of customers/clients with the same or similar needs), but equally, large groups of customers could be used, such as:

- markets, e.g. banks, building societies, universities, etc.
- countries or regions
- key customers/clients.

Figure 8.6 shows a completed matrix for a financial services organization for its major accounts. (For the purpose of this book, the names have been disguised for confidentiality reasons.) For the purpose of this section, we will assume that 'market' means a broader group of customers than segments.

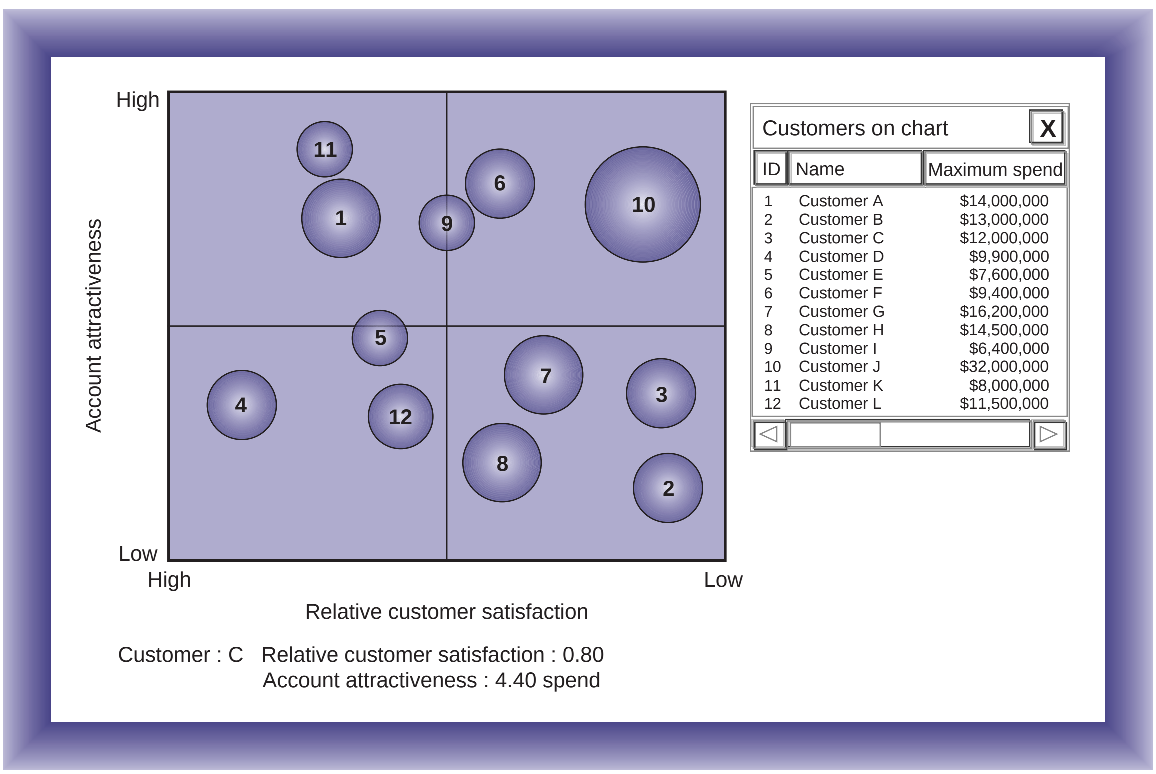


Figure 8.6 Directional policy matrix for a financial services company

In this particular real world example, the biggest and most attractive customer, with a wallet size of $32 million, was positioned in the top right box of the DPM. When seen in the context of the other major customers, it was clear that this insurance company was pursuing the wrong policy for customer J. It was endeavouring to maximize profits, but in doing so was not providing a competitive level of service, so was becoming increasingly less competitive, so that before long the most important customer would no longer deal with them. This resulted in a complete change of objectives and strategies for this customer. This illustrates the power of using the DPM at this stage of the planning process. Not only is it used for evaluating current strategies, but also for deciding future strategies.

The next task is to list these markets.

What constitutes *market attractiveness* will obviously vary from company to company. Here are some of the factors which might come into consideration:

- Overall market size; annual growth rate; profit margins; low level of competition; technical requirements; favourable socioeconomic/political background; environmental conditions; quality requirements.

In terms of *business strengths/competitiveness*, factors like the following determine our competitive positioning:

- Reputation, e.g. technological; brand/company image; service quality; differential advantages of service; reliability; availability; ability to offer a competitive price.

Since some of these factors will be more important than others, it is usual to weight them, as shown in the example in Figure 8.7.

An example of the Market Attractiveness Factors for an insurance company (disguised for purposes of confidentiality) are shown in Figure 8.8.

While the criteria for market attractiveness may remain constant, the criteria for the competitive position will be different for each market evaluated

While the criteria for market attractiveness may remain constant, the criteria for the competitive position will be different for each market evaluated. Each market should be evaluated according to its attractiveness and according to the organization's strengths in each market.

It is recommended that, in practice, fewer than the seven attractiveness factors are used. Typically, five or fewer are used.

	Weight	Rating (1–5)	Value
Market attractiveness			
Overall market size	0.20	4.00	0.80
Annual market growth rate	0.20	5.00	1.00
Available profit margin	0.15	4.00	0.60
Competitive intensity	0.20	2.00	0.60
Technological requirements	0.15	4.00	0.60
Inflationary vulnerability	0.05	3.00	0.15
Environmental	0.05	3.00	0.15
	1.00		3.90
Competitive position			
Service quality	0.30	4.00	1.20
Brand reputation	0.20	5.00	1.00
Technological reputation	0.15	4.00	0.60
Reliability	0.15	4.00	0.60
Availability	0.10	3.00	0.30
Cost-effectiveness	0.10	3.00	0.30
	1.00		4.00

Figure 8.7 Ranking market attractiveness and competitive position

MFAs	Description	Weight	Score
Profit Pool (a) market economic profit (b) Market size and growth	• Market-wide economic profit pools • Factor in future profit trends from 2007 to 2110	70%	10 = high 1 = low
Competitive Intensity	• Effort required to improve 'share of voice' and hence growth in market share • Ease with which new entrants can enter the market • Different for IFA, and Network	15%	10 = low 1 = high
Regulatory Risk (not included in economic profit assessment)	• Risk assessment of the following items: o Regulatory: risk, price caps, etc. o Market change – pensions replaced by ISAs, life bonds replaced by mutual funds, etc.	15%	10 = high 1 = low
		100%	

Figure 8.8 A financial services company's MAFs

If each service is represented on the matrix by a circle whose area is proportional to its sales revenue, then the current balance of the portfolio can be seen at a glance.

It is important to note that the term 'Market Attractiveness' for most service companies will mean 'the potential for growth in our future profits' (usually three years), so at least REVENUE, % GROWTH and % MARGIN will be in the list of market attractiveness factors, as revenue, multiplied by % growth multiplied by % margin equals profit. Also, the actual calculation of each market's position on the vertical axis represents its attractiveness in three years' time, so the circles cannot move vertically in the matrix when setting objectives unless two separate calculations are done – one for attractiveness today and one for attractiveness in three years' time. But this is pointless in reality, so only the one calculation needs to be made.

The portfolio matrix and the future

Additional value can be gained from the portfolio matrix by projecting the position and sales revenue of each service at the end of the planning period and also plotting these. The end result will look like Figure 8.9, which was produced for a business school.

From this example, it can be seen that the pressing need of the business school is to improve the competitive position of some of its services in the top right-hand box. Of the four in contention, which would be the best candidate? On balance, perhaps Distance Education

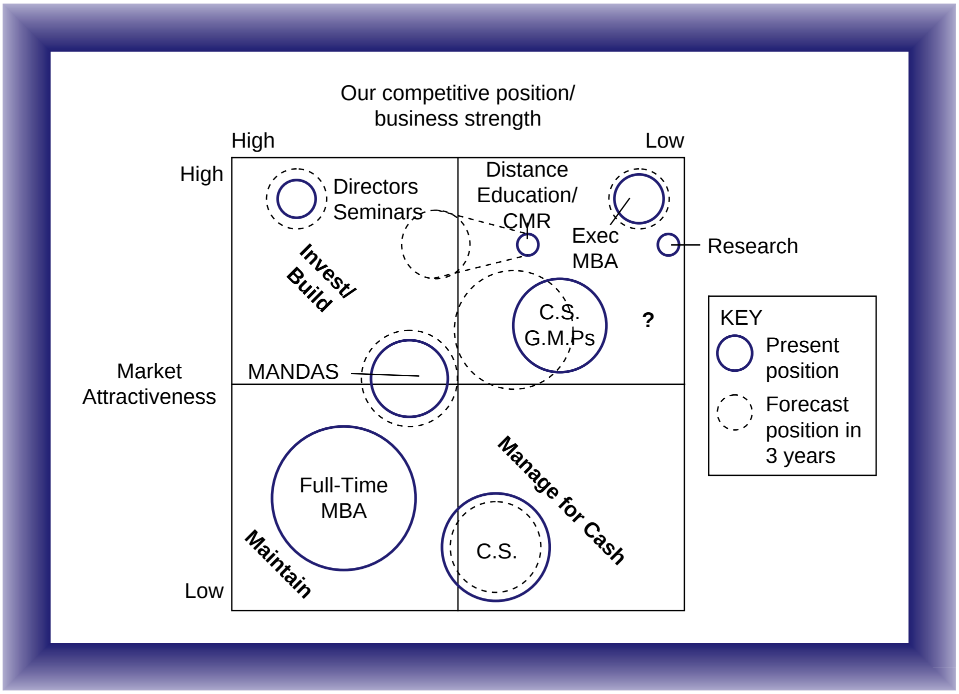


Figure 8.9 A completed DPM

and GMPs would be the ones on which to concentrate if investment funds were limited. However, steps should also be taken to ensure the accuracy of the data collected and to investigate whether it would be possible to expand sales to a higher level than forecast.

It will also be clear, by now, that the directional policy matrix (DPM) is a subtle way of assessing the company's present cash-generating capabilities and the implications for future strategy (see Figure 8.10). Clearly all have different implications, as spelled out in Figure 8.11.

A step-by-step guide to completing a DPM for a service company is provided at the end of this chapter in Figures 8.20 to 8.27.

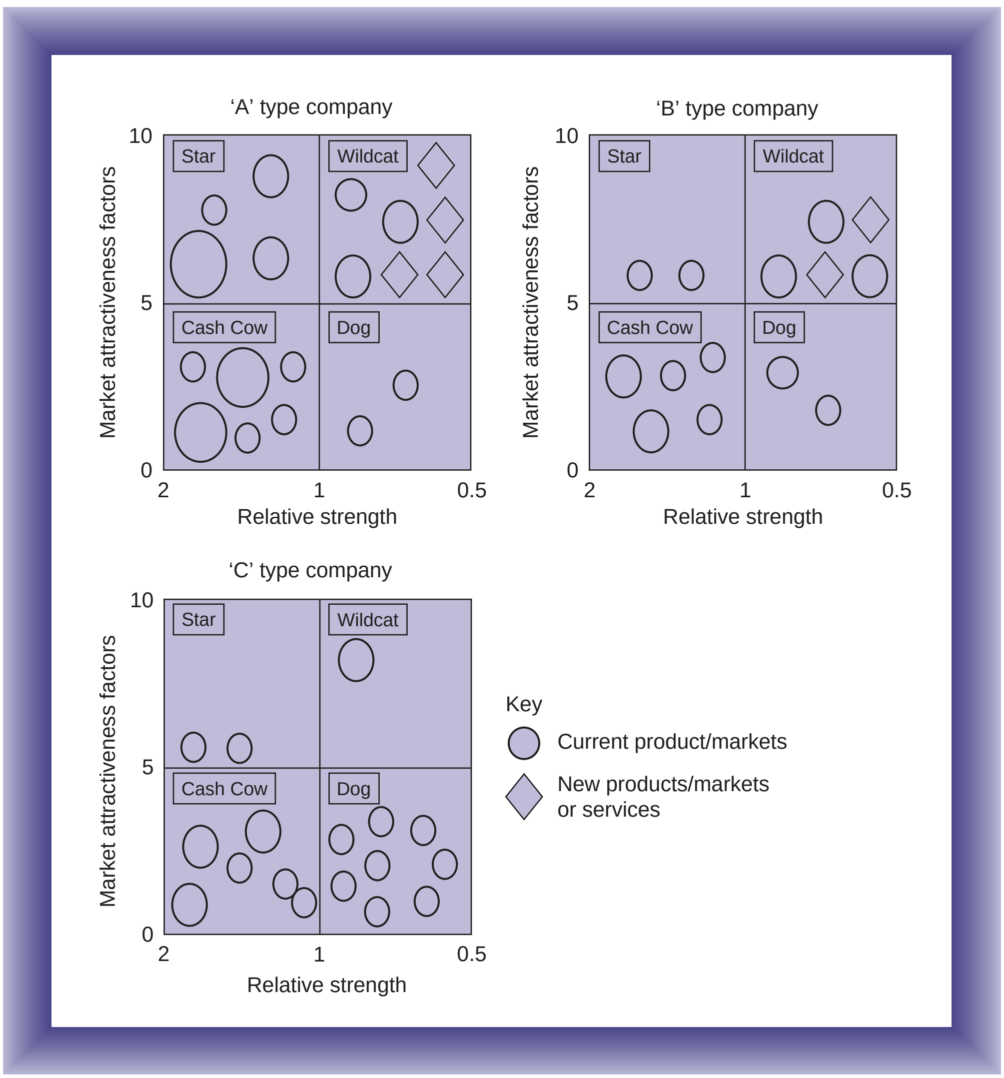


Figure 8.10 Directional policy matrices for three types of company

Type company	Cash-generation
A	Excellent low risk positive cash flow from 'Cash Cows' to invest in 'Stars' and selectively in new products/markets ('Wildcats'). Few 'Dogs'.
B	Excellent low risk positive cash flow from 'Cash cows'. Unfortunately, much of this will be needed to invest in 'Wildcats', so the next few years will entail either: – low profits while building a balanced portfolio, as in 'A' above – paying shareholders the required dividend, a short-term solution which is unlikely to fool investors.
C	Cash rich, from 'Cash Cows', but too many 'Dogs', which may become a cash drain or eventually disappear. There is no future for this company, as there is little or no investment in future products/markets.

Figure 8.11 Cash-generating capabilities of three types of company

The matrix and strategy formulation

From the foregoing discussion of the rationale behind the matrix and its cash-generating implications, it is possible to extract some general 'rules' about marketing strategy. These are illustrated in Figure 8.12. Here, the matrix is shown as a 3 × 3 format so that a finer tuning of strategy can be achieved, depending on where the circles are located.

It is not suggested that the guidelines provided in Figure 8.12 should be followed slavishly. All they do is to provide a general context for the company's marketing deliberations. Similarly, other more specific functional guidelines can be extracted from the matrix, as shown in Figure 8.13. Here, for the sake of simplicity, we have reverted to a four column matrix format.

Developing competitive strategies

We can consider marketing strategies at two levels. First, we consider marketing strategies at the competitive strategy level. There are two factors which have a crucial effect on the development of competitive strategies for any business:

- How successfully it manages its cost base
- The uniqueness of its service.

Porter[2] has combined these factors in the matrix that is shown in Figure 8.14.

Market attractiveness	Strong	Medium	Weak
High	**Protect position** • invest to grow at maximum rate • concentrate effort on maintaining strength	**Invest to build** • challenge for leadership • build selectively on strengths • reinforce vulnerable areas	**Build selectively** • specialize around limited strengths • seek ways to overcome weaknesses • withdraw if indications of sustainable growth are lacking
Medium	**Protect position** • invest heavily in most attractive segments • build up ability to counter competition • emphasize profitability by raising productivity	**Selectivity/manage for earnings** • protect existing programme • concentrate investments on segments where profitability is good and risk is relatively low	**Limited expansion or harvest** • look for ways to expand without high risk; otherwise, minimize investment and rationalize operations
Low	**Protect and refocus** • manage for current earnings • concentrate on attractive segments • defend strengths	**Manage for earnings** • protect position in most profitable segments • upgrade services • minimize investment	**Divest** • sell at time that will maximize cash value • cut fixed costs and avoid investment meanwhile

Business strength

Figure 8.12 Multiple factors matrix – generic strategies

Costs and service differentiation are key determinants of commercial success

The company with a highly differentiated service (for which it can charge a premium) and a low-cost structure is clearly going to be very successful. The company with a run-of-the-mill, 'me-too' service can only remain competitive if it can keep its costs relatively lower than its rivals (or find a way to achieve differentiation). The company with no means of achieving differentiation and a high cost structure is clearly heading for ruin in the long run. The final case, the highly differentiated offer from a high cost base, does have a prospect of success if it can be focused into niche markets which value the differentiation and are prepared to pay for it.

However, some companies, because of the nature of their business, find their options severely limited. They might, for example, be very labour intensive and, as a result, have inherently high costs which they can do little about. This might suggest that, for them, it will be critical to work at establishing differentiation and to seek niche markets if they are to survive. Of course, they might argue that working on developing a 'special' service would add further to their costs. This does not necessarily have to be the case, as Figure 8.15 illustrates.

	Invest	Maintain	Cash	Opportunistic
Main thrust	Invest for growth	Maintain market position, manage for earnings	Manage for cash	Opportunistic development
Market share	Maintain or increase dominance	Maintain or slightly milk for earnings	Forgo share for profit	Invest selectively in share
Products/services	Differentiation – line expansion	Prune less successful, differentiate for segments	Aggressively prune	Differentiation – line expansion
Price	Lead – aggressive pricing for share	Stabilize prices/raise	Raise	Aggressive – price for share
Promotion	Aggressive marketing	Limit	Minimize	Aggressive marketing
Distribution	Broaden distribution	Hold wide distribution pattern	Gradually withdraw distribution	Limited coverage
Cost control	Tighten control – go for scale economies	Emphasize cost reduction, viz. variable costs	Aggressively reduce fixed and variable	Tight – but not at expense of entrepreneurship
Operations	Expand, Invest (organic acquisition, joint venture)	Maximize capacity utilization	Free up capacity	Invest
R&D	Expand – invest	Focus on specific projects	None	Invest
Personnel	Upgrade management in key functional areas	Maintain, reward efficiency, tighten organization	Cut back organization	Invest
Investment	Fund growth	Limit fixed investment	Minimize and divest opportunistically	Fund growth
Working capital	Reduce in process – extend credit	Tighten credit – reduce accounts receivable, increase inventory turn	Aggressively reduce	Invest

Figure 8.13 Other functional guidelines suggested by portfolio matrix analysis

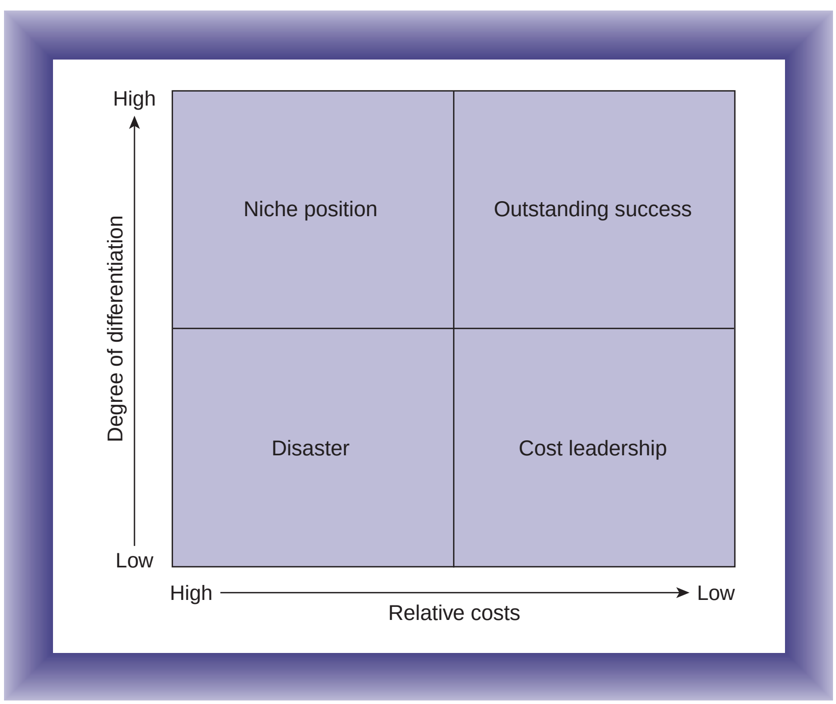


Figure 8.14
The Porter matrix

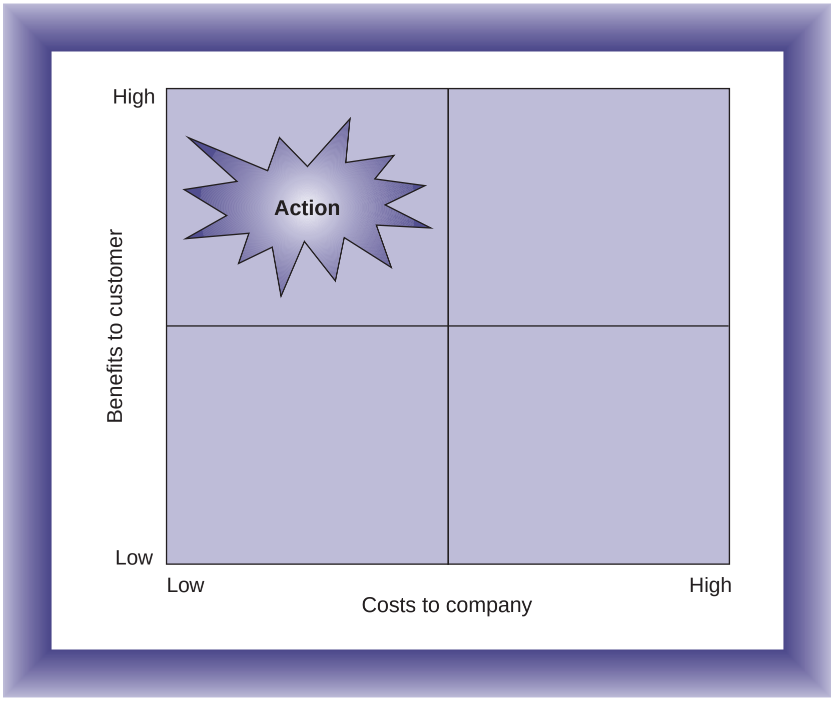


Figure 8.15
Cost-effective service development

By considering those benefits the customer seeks and values highly, which can be provided relatively cheaply, the company may be able to 'customize' its services at little cost.

Marketing strategies

As outlined earlier, what a company wants to accomplish, in terms of such things as market share and volume, are marketing objectives. How the company intends to go about achieving its objectives are marketing strategies. Marketing strategy is the overall route to the achievement of specific objectives and should describe the means by which marketing objectives are to be reached, the time programme and the allocation of resources. It does not delineate the individual courses the resulting activities will follow.

The linkages between marketing objectives and marketing strategies for a service business are shown in Figure 8.16.

There is a clear distinction between strategy and detailed implementation or tactics. Marketing strategy reflects the company's best opinion as to how it can most profitably apply its skills and resources to the market place. It is inevitably broad in scope. The first-year implementation plan which stems from it (discussed in the next chapter) will spell out specific action and timings and will contain the detailed contribution expected from each department.

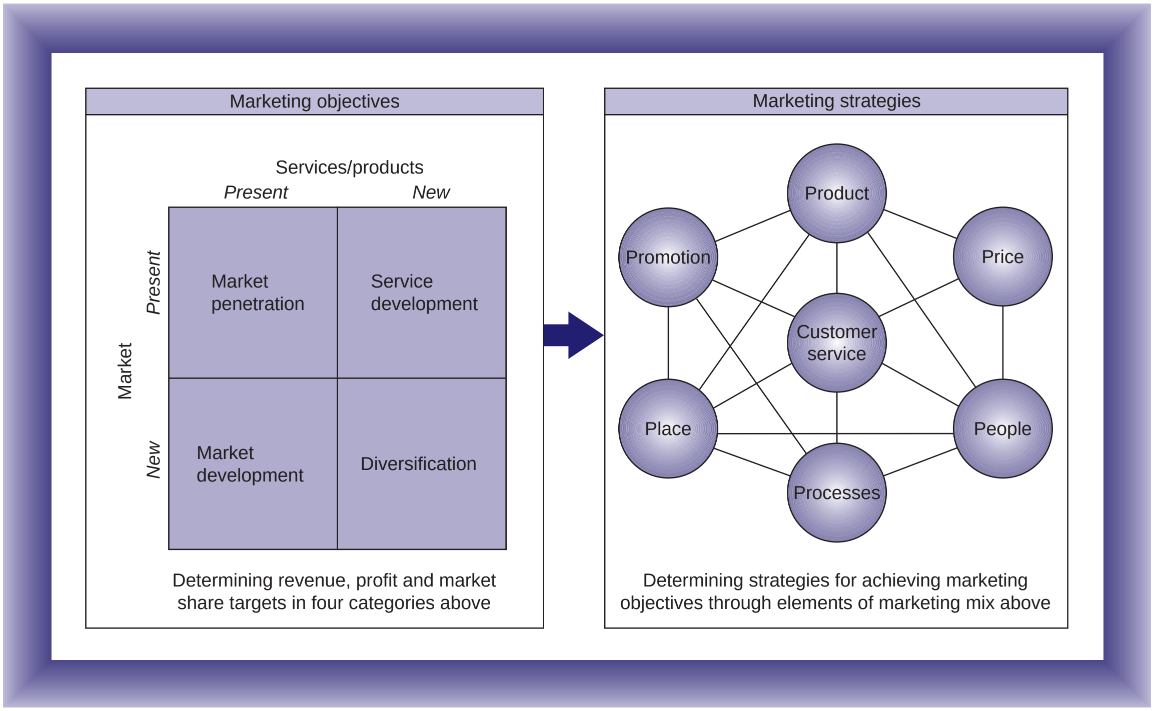


Figure 8.16 Marketing objectives and marketing strategies for a service business

Marketing strategies, within Step 6 of the marketing plan, indicate the *general* content of the marketing strategies. They typically include elements such as:

1. Policies and procedures relating to the services to be offered, such as number, quality, design, branding
2. Pricing levels to be adopted, margins and discounts
3. Advertising and sales promotion – the creative approach, type of media, amount of spend, etc.
4. What emphasis will be put on the sales approach, sales training, etc.
5. What intermediaries might be used, i.e. distribution channels
6. What customer service levels will be required
7. Specification of processes used to deliver services
8. Strategic issues relating to staff.

Thus, marketing strategies are the means by which marketing objectives will be achieved and are generally concerned with the seven major elements of the services marketing mix, as follows:

Product/service – The general policies for product and service deletions, modifications, additions, design, packaging, etc.

Price – The general pricing policies to be followed for product/ service groups in market segments.

Place – The general policies for channels and intermediaries.

Promotion – The general policies for communicating with customers under the relevant headings, such as: advertising, sales force, sales promotion, public relations, exhibitions, direct mail.

People – The general policies for people management as part of the service delivery process.

Processes – The general policies for processes by which a service is created and delivered to customers.

Customer service – The general policies for customer service management, including service level, which help build long-term customer relationships.

Note that these are *general* policies which lead to much greater amplification later in the first-year implementation programme (Step 10 of the marketing plan).

Figure 8.17 provides a list of the marketing strategies (in summary form), which covers the majority of options. The marketing strategies will be made up of three elements: the means; the timetable; and the resources necessary to ensure successful achievement of the objectives. Marketing strategies outline the broad plan of action to achieve marketing objectives through the marketing mix elements.

Marketing strategies are concerned with an overview of the three-year marketing mix strategies which will satisfy customers' needs. The thrust of the marketing mix specification, at this point in the marketing plan, involves creating the differential advantage which makes the service firm's offer different (in a way preferred by the segments that are targeted) from its competitors' offers.

Step 10 in the next chapter, the first-year implementation plan, is devoted to a much more detailed consideration of the marketing mix for services. This next chapter describes what should appear in advertising, sales, price, distribution, processes, people and customer service plans and is intended for those whose principal concern is the preparation of a detailed one-year operational or tactical plan.

From what we have said about setting marketing objectives and strategies, it should now be clear that the services marketer is faced with a wide range of options, which call for creative and, at times, inspirational analysis to address them. This phase of the planning process is closely related to the next two steps.

1 Product
- expand the line
- change performance, quality or features
- consolidate the line
- standardize design
- positioning
- change the mix
- branding

2 Price
- change price, terms or conditions
- skimming policies
- penetration policies

3 Promotion
- change advertising or promotion
- change selling

4 Place
- change distribution
- change service
- change channels
- change the degree of forward integration

5 People
- conduct skills analysis and retrain/recruit as appropriate
- change Account Management structure to Account Relationship Managers

6 Processes
- change service development process
- change service delivery process

7 Customer service
- change service levels by segment
- review and improve communications with customers

Figure 8.17 Summary of typical marketing strategies for a service business

Step 7 Estimate expected results

The purpose of this step is to determine whether the marketing strategies will actually deliver the desired results.

Once the marketing objectives and strategies have been decided for the various service/segment combinations, the financial implications of introducing them need to be evaluated. This will require a detailed review of:

- Projected sales revenues
- The costs of sales
- The costs of marketing

- Operating expenses
- Overhead expenses.

Such an analysis should show that the chosen approach will indeed deliver the anticipated financial contribution to achieve the required targets. If it does not, then the marketing strategies will need to be examined in more depth in order to discover how they might be redeveloped to achieve the expected results.

It is necessary to estimate a number of possible outcomes

In times of economic uncertainty, it can be useful to calculate three sets of analyses. These would reflect the estimated results based upon the most pessimistic interpretation of all the salient factors, the most likely result, and that based on the most optimistic levels of demands. In this way, it becomes possible to identify the possible spread of expected results and, in that sense, have a feel for the potential 'margin of error' surrounding the most likely result.

Forecasting projected sales levels is never easy, particularly as the service cannot be kept in inventory. Several variables need to be considered at this point. These include the capacity of the service company, costs in extending capacity, moving to multisite locations, changing demand patterns through differential pricing, and so on. Although demand and capacity planning is complicated in manufacturing businesses, the characteristics of services make it much more difficult in the services sector. Therefore, techniques such as extrapolation, regression analysis, delphi forecasting, test marketing and consumer surveys can all make a contribution to identifying demand patterns more accurately.

However, because many of the factors under consideration are interrelated, the task is frequently not simple. Thus, although techniques can help to uncover quantitative data, often this must be augmented with qualitative analysis and market research to promise a better understanding of the service market under consideration.

Step 8 Identifying alternative mixes

Even if the original objectives and strategies do produce the expected results, it is still important to discover if a more effective marketing approach can lead to even better results. Therefore, using techniques such as computer modelling, a number of alternative mixes can be evaluated before deciding on the final marketing mix around which the plan will be based.

It is at this stage that plans should be formulated to cover anticipated lower or higher levels of demand. It is often found that the response curves of different marketing mixes can vary considerably. Figure 8.18 shows a representation of predicted revenue against predicted

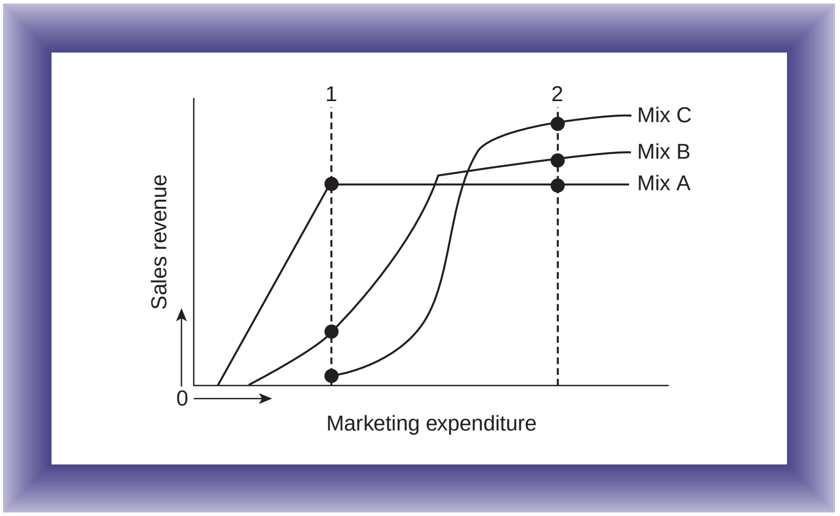


Figure 8.18
Response functions for different marketing mixes

marketing costs for three alternative marketing mixes. The marketing mix chosen will depend on the budget for marketing effort and its impact on revenues and profit. Marketing mix A will produce better results for low levels of expenditure (Point 1) while marketing mix C will provide better results at a higher level of expenditure (Point 2).

Contingency plans[3] should also be considered at this stage of the marketing planning process, in response to the impact of different sets of assumptions which were made earlier. Of course, it will not be possible to develop plans for every eventuality, but it is advisable to have at least:

- A defensive contingency plan, which takes into account the possibility that the assumptions surrounding the marketing audit were unduly optimistic and thus responds to threats that might materialize; and
- An offensive contingency plan, which is really the converse of the one above and seeks to take advantage of opportunities, should they occur.

In an ideal world, possible contingencies can be identified well in advance. Unfortunately, in spite of all good intentions, the dynamics of modern markets can trigger unexpected crises. For example, few predicted the rapid demise of communism and the repercussions it would have in the Eastern Bloc countries. Similarly, events such as the Gulf War or natural disasters can suddenly distort existing supply and demand patterns, making it imperative to modify existing marketing plans, through having contingency planning.

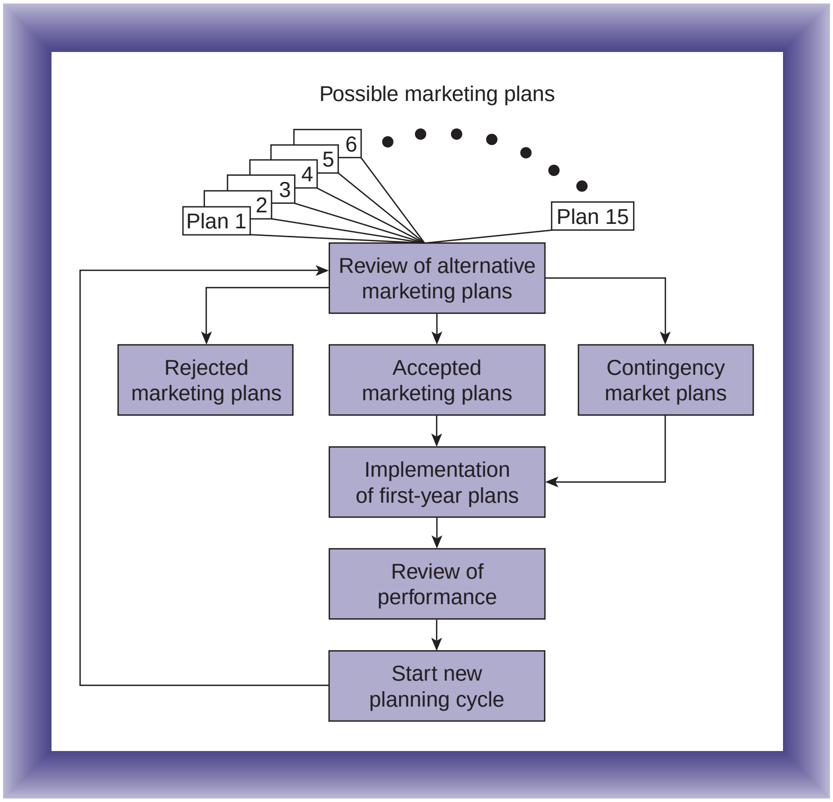


Figure 8.19 The alternative mixes process for a large services company

In these circumstances, it is particularly important to understand if the event in question is a temporary aberration, or something which will have a fundamental and long-lasting effect on the company's markets.

Figure 8.19 shows the phases of alternative mixes for a large services company operating in consumer markets. It shows the rigorous evaluation of 15 possible marketing plans, and the resulting process, as these are selected as marketing plans, contingency plans, or are rejected. The figure also shows the linkages with the formulation of the first-year implementation and the performance review process.

Paradoxically, it is generally not at times of crisis that danger exists, but when things are going well. It is at times like these that companies become complacent and get lulled into a false sense of security. The idea of developing contingency plans fades from the corporate consciousness and, when something does go wrong, the companies are caught completely unprepared. These contingency plans are an important part of the marketing planning process.

A Step-by-step guide to completing a DPM for a service company

Figures 8.20 to 8.27 contain instructions for completing this crucial step in the service organization planning process.

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organization is trying to achieve

1. list the factors you would consider when comparing the attractiveness of segments
2. for each of the factors, weight their relative importance to each other by distributing 100 points between them
3. define high, medium and low parameters for each factor, where very high scores 10 and very low scores 0
4. work out the attractiveness score for each segment using the above to arrive at a total between 0 and 10

Factor	Parameters				Segment 1	
	10-7	6-4	3-0	Weighting	Score	Total
1. Segment profitability	>15%	10-15%	<10%	60	6	3.6
2. Cyclicality	Low	Medium	High	40	8	3.2
			Total	100		6.8

Figure 8.20 Market/segment attractiveness 1

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organization is trying to achieve

Factor	Parameters				Segment 1	
	10-7	6-4	3-0	Weighting	Score	Total
1. Segment size (millions)	>£250	£50-250	<£50	15	5	0.75
2. Segment growth	>10%	5-9%	<5%	25	10	2.5
3. Competitive intensity	Low	Medium	High	10	6	0.6
4. Segment profitability	>15%	10-15%	<10%	25	8	2.0
5. Vulnerability	Low	Medium	High	15	6	0.9
6. Cyclicality	Low	Medium	High	10	2.5	0.25
			Total	100		7.0

A score of 7.0 would generally position a segment as 'highly attractive'.

Figure 8.21 Market/segment attractiveness 2

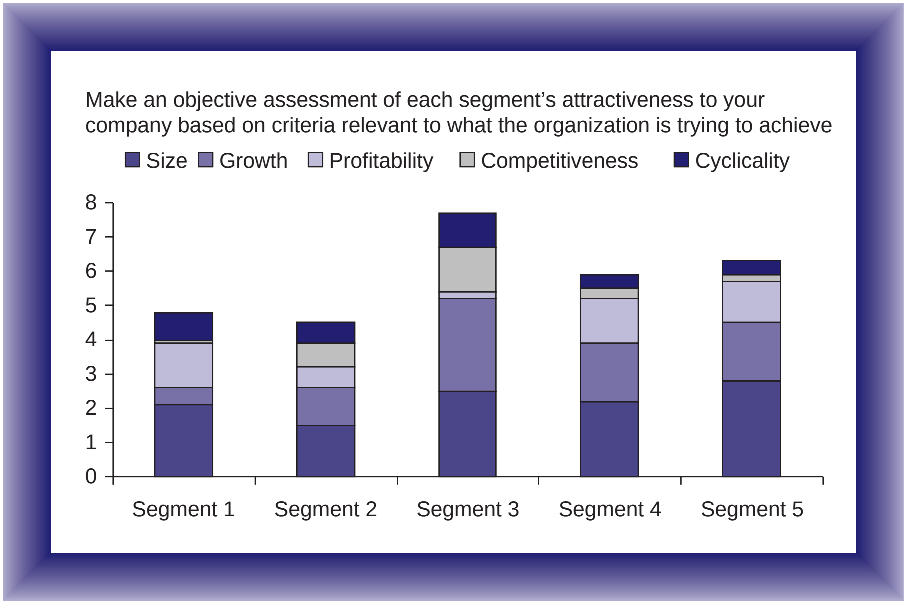


Figure 8.22 Market/segment attractiveness 3

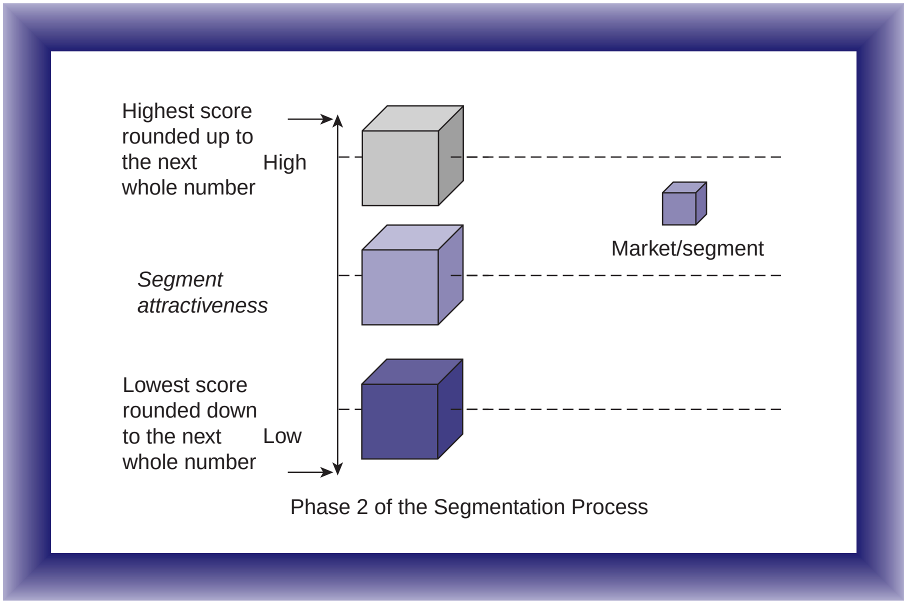


Figure 8.23 Plotting the position of segments on the portfolio matrix 1

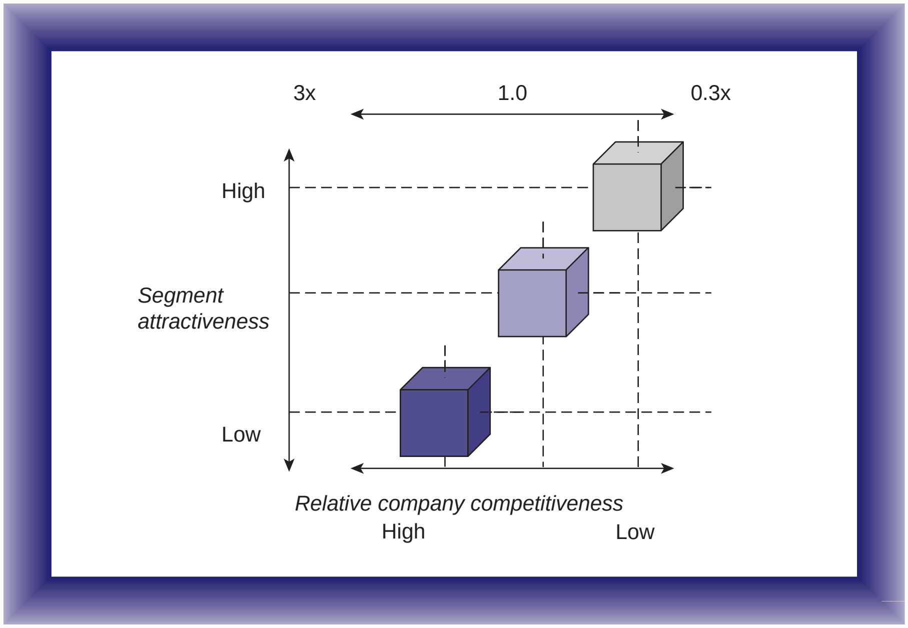


Figure 8.24 Plotting the position of segments on the portfolio matrix 2

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)
2. associate a weight with each need that reflects its relative importance to the segment (identified in Step 5) by distributing 100 points between them
3. set the parameters for competitiveness, where very competitive scores 10 and very uncompetitive scores 0
4. work out the competitiveness score for your company and for your main competitors for each segment using the above to arrive at a total between 0 and 10
5. assess for each segment your own company's competitiveness relative to the best performing competitor

Figure 8.25 Company competitiveness 1

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

Segment 1: Needs and their associated Critical Success Factors		Your company		Competitor A		Competitor B	
	Weighting	Score	Total	Score	Total	Score	Total
1. Product	50	6	3.0	9	4.5	4	2.0
2. Image	25	8	2.0	6	1.5	10	2.5
3. Service	15	8	1.2	8	1.2	6	0.9
4. Price	10	5	0.5	6	0.6	3	0.3
Total	100		6.7		7.8		5.7

Your company's relative competitive strength is your company's Total divided by the highest Total of the competitors expressed as a ratio: 6.7:7.8 = 0.86:1.0

Figure 8.26 Company competitiveness 2

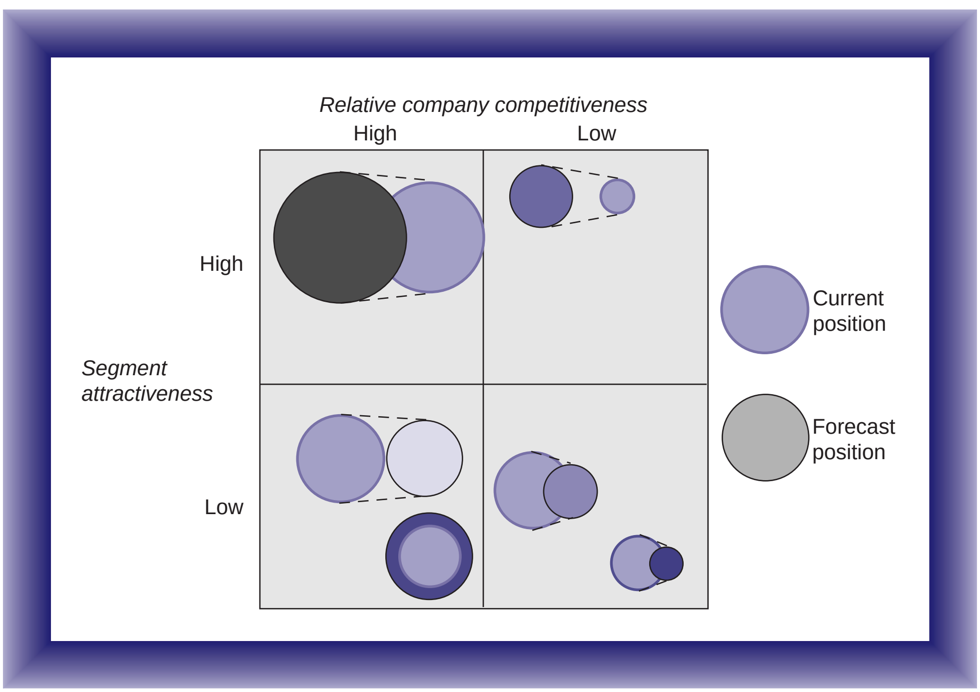


Figure 8.27 Directional policy matrix (DPM)

Summary

In this chapter about the marketing strategy formulation phase of the marketing planning process, we first looked at the differences between objectives and strategies, and at how to set marketing objectives. We saw that, although the marketing audit and SWOT analysis should have provided much of the information required to set marketing objectives, gap analysis might indicate that more needed to be done. Steps might have to be taken to improve productivity and develop new strategies in order to arrive at marketing objectives which met the corporate expectations.

Another consideration was that of managing the service portfolio effectively, bearing in mind that different services have different capacities for either absorbing funds or generating them. By considering the company's output as a 'portfolio', rather than a set of individual services, it was found that underlying strategic issues could influence the way each service was developed and promoted. Indeed, the portfolio matrix provides useful guidelines regarding functional marketing activities.

We saw that developing a competitive marketing strategy is probably the most important phase of the process. Because the planning process is interactive, the steps of setting objectives and strategies, estimating results and considering alternative mixes might have to be reviewed several times before the best formulation emerges.