

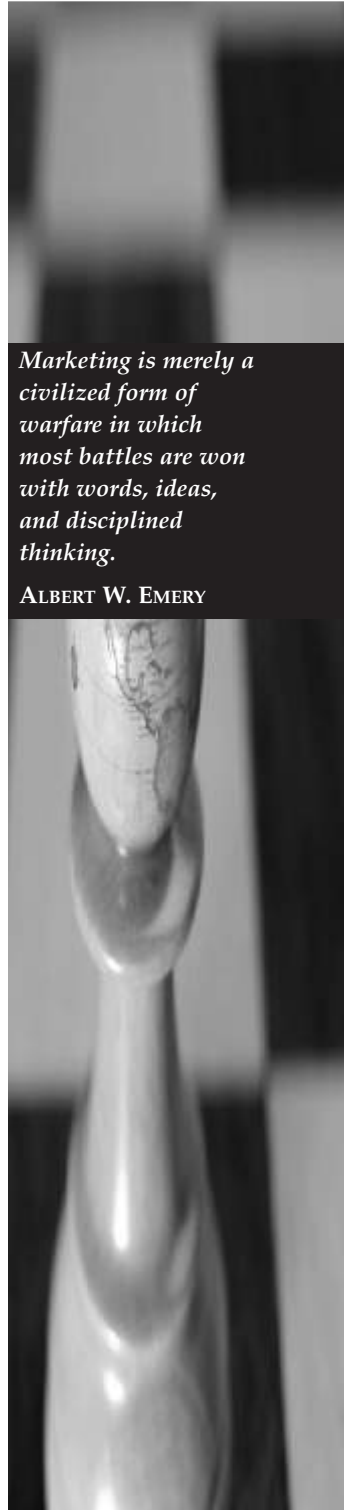
Strategic Marketing

In its strategic role, marketing focuses on a business's intentions in a market and the means and timing of realizing those intentions. The strategic role of marketing is quite different from marketing management, which deals with developing, implementing, and directing programs to achieve designated intentions. To clearly differentiate between marketing management and marketing in its new role, a new term—*strategic marketing*—has been coined to represent the latter. This chapter discusses different aspects of strategic marketing and examines how it differs from marketing management. Also noted are the trends pointing to the continued importance of strategic marketing. The chapter ends with a plan for the rest of the book.

CONCEPT OF STRATEGIC MARKETING

Exhibit 2-1 shows the role that the marketing function plays at different levels in the organization. At the corporate level, marketing inputs (e.g., competitive analysis, market dynamics, environmental shifts) are essential for formulating a corporate strategic plan. Marketing represents the boundary between the marketplace and the company, and knowledge of current and emerging happenings in the marketplace is extremely important in any strategic planning exercise. At the other end of the scale, marketing management deals with the formulation and implementation of marketing programs to support the perspectives of strategic marketing, referring to marketing strategy of a product/market. Marketing strategy is developed at the business unit level.

Within a given environment, marketing strategy deals essentially with the interplay of three forces known as the **strategic three Cs**: the customer, the competition, and the corporation. Marketing strategies focus on ways in which the corporation can differentiate itself effectively from its competitors, capitalizing on its distinctive strengths to deliver better value to its customers. A good marketing strategy should be characterized by (a) a clear market definition; (b) a good match between corporate strengths and the needs of the market; and (c) superior performance, relative to the competition, in the key success factors of the business.



Marketing is merely a civilized form of warfare in which most battles are won with words, ideas, and disciplined thinking.

ALBERT W. EMERY

EXHIBIT 2-1
Marketing's Role in the Organization

<i>Organizational Level</i>	<i>Role of Marketing*</i>	<i>Formal Name</i>
Corporate	Provide customer and competitive perspective for corporate strategic planning.	Corporate marketing
Business unit	Assist in the development of strategic perspective of the business unit to direct its future course.	Strategic marketing
Product/market	Formulate and implement marketing programs.	Marketing management

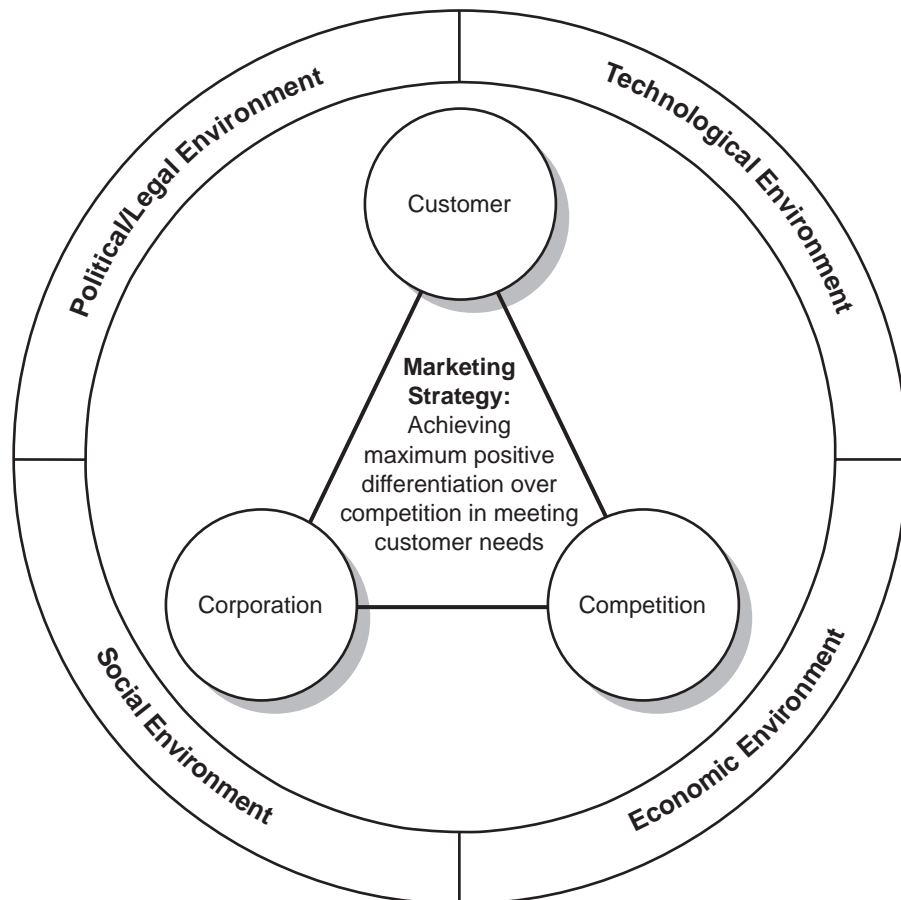
*Like marketing, other functions (finance, research and development, production, accounting, and personnel) plan their own unique roles at each organizational level. The business unit strategy emerges from the interaction of marketing with other disciplines.

Together, the strategic three Cs form the marketing strategy triangle (see Exhibit 2-2). All three Cs—customer, corporation, and competition—are dynamic, living creatures with their own objectives to pursue. If what the customer wants does not match the needs of the corporation, the latter's long-term viability may be at stake. Positive matching of the needs and objectives of customer and corporation is required for a lasting good relationship. But such matching is relative, and if the competition is able to offer a better match, the corporation will be at a disadvantage over time. In other words, the matching of needs between customer and corporation must not only be positive, it must be better or stronger than the match between the customer and the competitor. When the corporation's approach to the customer is identical to that of the competition, the customer cannot differentiate between them. The result could be a price war that may satisfy the customer's but not the corporation's needs. **Marketing strategy**, in terms of these three key constituents, must be defined as an endeavor by a corporation to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs in a given environmental setting.

Based on the interplay of the strategic three Cs, formation of marketing strategy requires the following three decisions:

1. *Where to compete*; that is, it requires a definition of the market (for example, competing across an entire market or in one or more segments).
2. *How to compete*; that is, it requires a means for competing (for example, introducing a new product to meet a customer need or establishing a new position for an existing product).
3. *When to compete*; that is, it requires timing of market entry (for example, being first in the market or waiting until primary demand is established).

EXHIBIT 2-2
Key Elements of Marketing Strategy Formulation



Thus, marketing strategy is the creation of a unique and valuable position, involving a different set of activities. Thus, development of marketing strategy requires choosing activities that are different from rivals.

The concept of strategic marketing may be illustrated with reference to the introduction by Gillette Company of a new shaving product, Mach 3, in April 1998.¹ For some time, Gillette had faced slow growth in its razor's division, partly because Schick, its smaller rival, had recently launched a new razor of its own. Investors had begun to fret about slowing growth and lackluster sales at Gillette. This threatened its basic business, that is, razor and blades market, in which it had 71% of the North American and European market. Apparently, Gillette needed a

new marketing strategy to protect its razor and blades territory. Looking around, Gillette decided to introduce a new razor that its research laboratory had been developing and that was ready to be launched. Gillette had an unusual approach to innovation. Most companies tweaked their offerings in response to competition or demand. Gillette launched a new product only when it had made a genuine technical advance. To make the Mach 3, Gillette had found a way to bond diamond-hard carbon to slivers of steel. The time was on Gillette's side. It needed something revolutionary to strengthen its market position, and its research laboratory had a unique product ready to be launched. Gillette delineated the following marketing strategy:

- *Market (where to compete)*—Gillette decided to introduce Mach 3 throughout the U.S. on the same day.
- *Means (how to compete)*—Gillette decided to offer Mach 3 as a premium product that was priced 35% more than SensorExcel, which itself was 60% more expensive than Atra, its predecessor. Gillette reasoned: "People never remember what they used to pay. But they do want to feel they are getting value for money."
- *Timing (when to compete)*—Gillette decided to introduce the new product before its CEO, Mr. Al Zein, retired. Mr. Zein's ability to communicate had been a hit on both Wall Street and in the company. Much of the Gillette's recent success was attributed to Mr. Zein, and the company wanted Mach 3 to adequately settle in a dominant position before Mr. Zein retired.

Gillette's Mach 3 strategy emerged from a thorough consideration of the strategic three Cs. First, market entry was dictated by customers' willingness to adopt new products in the toiletry field. Eight years ago, Gillette was losing its grip on the razor market to cheap throwaways. Sensor, which replaced Atra razor, saved the company. The company was hopeful that the Mach 3 would have a similar effect. Second, the decision to enter the market was based on full knowledge of the competition, which included its own substitute products, such as Sensor and Atra shavers, as well as companies like Schick. The company was more concerned about its own products competing with Mach 3, and, therefore it ran down stocks of its Sensor and Atra shavers ahead of Mach 3's launch. Third, Gillette's strength as an aggressive successful marketer of packaged goods with its vast experience in shaving products business and adequate financial resources (Gillette spent over \$750 million in developing Mach 3) properly equipped it to enter the market. Finally, the environment (in this case, a trend toward acceptance of technologically advanced products; Mach 3 was covered by 35 patents) substantiated the opportunity.

This strategy seems to have worked well for Gillette. In nine months ending 1998, Gillette shaving products sales were up 28%. And yet, the company has to introduce the product in Europe (with 71% market) as well as in developing countries (Latin America, where the company has 91% market for blades, and India with 69% of the market).

Inasmuch as Gillette did not tailor its product to local peculiarities, it was able to achieve vast economies of scale in manufacturing. The economies of scale were

mirrored on the distribution side as well. The company usually broke into new markets with razors and then jumped into batteries, pens, and toiletries through the established sales channels.

ASPECTS OF STRATEGIC MARKETING

Strategic thinking represents a new perspective in the area of marketing. In this section we will examine the importance, characteristics, origin, and future of strategic marketing.

Importance of Strategic Marketing

Marketing plays a vital role in the strategic management process of a firm. The experience of companies well versed in strategic planning indicates that failure in marketing can block the way to goals established by the strategic plan. A prime example is provided by Texas Instruments, a pioneer in developing a system of strategic planning called the OST system. Marketing negligence forced Texas Instruments to withdraw from the digital watch business. When the external environment is stable, a company can successfully ride on its technological lead, manufacturing efficiency, and financial acumen. As the environment shifts, however, lack of marketing perspective makes the best-planned strategies treacherous. With the intensification of competition in the watch business and the loss of uniqueness of the digital watch, Texas Instruments began to lose ground. Its experience can be summarized as follows:

The lack of marketing skills certainly was a major factor in the . . . demise of its watch business. T.I. did not try to understand the consumer, nor would it listen to the marketplace. They had the engineer's attitude.²

Philip Morris's success with Miller Beer illustrates how marketing's elevated strategic status can help in outperforming competitors. If Philip Morris had accepted the conventional marketing wisdom of the beer industry by basing its strategy on cost efficiencies of large breweries and competitive pricing, its Miller Beer subsidiary might still be in seventh place or lower. Instead, Miller Beer leapfrogged all competitors but Anheuser-Busch by emphasizing market and customer segmentation supported with large advertising and promotion budgets. A case of true strategic marketing, with the marketing function playing a crucial role in overall corporate strategy, Philip Morris relied on its corporate strengths and exploited its competitors' weaknesses to gain a leadership position in the brewing industry.

Indeed, marketing strategy is the most significant challenge that companies of all types and sizes face. As a study by Coopers & Lybrand and Yankelovich, Skelly, and White notes, "American corporations are beginning to answer a 'new call to strategic marketing,' as many of them shift their business planning priorities more toward strategic marketing and the market planning function."³

*Characteristics of
Strategic
Marketing*

Strategic marketing holds different perspectives from those of marketing management. Its salient features are described in the paragraphs that follow.

Emphasis on Long-Term Implications. Strategic marketing decisions usually have far-reaching implications. In the words of one marketing strategist, strategic marketing is a commitment, not an act. For example, a strategic marketing decision would not be a matter of simply providing an immediate delivery to a favorite customer but of offering 24-hour delivery service to all customers.

In 1980 the Goodyear Tire Company made a strategic decision to continue its focus on the tire business. At a time when other members of the industry were deemphasizing tires, Goodyear opted for the opposite route. This decision had wide-ranging implications for the company over the years. Looking back, Goodyear's strategy worked. In the 1990s, it continues to be a globally dominant force in the tire industry.

The long-term orientation of strategic marketing requires greater concern for the environment. Environmental changes are more probable in the long run than in the short run. In other words, in the short run, one may assume that the environment will remain stable, but this assumption is not at all likely in the long run.

Proper monitoring of the environment requires strategic intelligence inputs. Strategic intelligence differs from traditional marketing research in requiring much deeper probing. For example, simply knowing that a competitor has a cost advantage is not enough. Strategically, one ought to find out how much flexibility the competitor has in further reducing price.

Corporate Inputs. Strategic marketing decisions require inputs from three corporate aspects: corporate culture, corporate publics, and corporate resources. **Corporate culture** refers to the style, whims, fancies, traits, taboos, customs, and rituals of top management that over time have come to be accepted as intrinsic to the corporation. **Corporate publics** are the various stakeholders with an interest in the organization. Customers, employees, vendors, governments, and society typically constitute an organization's stakeholders. **Corporate resources** include the human, financial, physical, and technological assets/experience of the company. Corporate inputs set the degree of freedom a marketing strategist has in deciding which market to enter, which business to divest, which business to invest in, etc. The use of corporate-wide inputs in formulating marketing strategy also helps to maximize overall benefits for the organization.

Varying Roles for Different Products/Markets. Traditionally it has been held that all products exert effort to maximize profitability. Strategic marketing starts from the premise that different products have varying roles in the company. For example, some products may be in the growth stage of the product life cycle, some in the maturity stage, others in the introduction stage. Each position in the life cycle requires a different strategy and affords different expectations. Products in the growth stage need extra investment; those in the maturity stage should generate a cash surplus. Although conceptually this concept—different products serving different purposes—has been understood for many years, it has been

articulated for real-world application only in recent years. The lead in this regard was provided by the Boston Consulting Group, which developed a portfolio matrix in which products are positioned on a two-dimensional matrix of market share and growth rate, both measured on a continuous scale from high to low.

The portfolio matrix essentially has two properties: (a) it ranks diverse businesses according to uniform criteria, and (b) it provides a tool to balance a company's resources by showing which businesses are likely to be resource providers and which are resource users.⁴

The practice of strategic marketing seeks first to examine each product/market before determining its appropriate role. Further, different products/markets are synergistically related to maximize total marketing effort. Finally, each product/market is paired with a manager who has the proper background and experience to direct it.

Organizational Level. Strategic marketing is conducted primarily at the business unit level in the organization. At General Electric, for example, major appliances are organized into separate business units for which strategy is separately formulated. At Gillette Company, strategy for the Duracell batteries is developed at the batteries business unit level.

Relationship to Finance. Strategic marketing decision making is closely related to the finance function.⁵ The importance of maintaining a close relationship between marketing and finance and, for that matter, with other functional areas of a business is nothing new. But in recent years, frameworks have been developed that make it convenient to simultaneously relate marketing to finance in making strategic decisions.⁶

Origin of Strategic Marketing

Strategic marketing did not originate systematically. As already noted, the difficult environment of the early 1970s forced managers to develop strategic plans for more centralized control of resources. It happened that these pioneering efforts at strategic planning had a financial focus. Certainly, it was recognized that marketing inputs were required, but they were gathered as needed or were simply assumed. For example, most strategic planning approaches emphasized cash flow and return on investment, which of course must be examined in relation to market share. Perspectives on such marketing matters as market share, however, were either obtained on an ad hoc basis or assumed as constant. Consequently, marketing inputs, such as market share, became the result instead of the cause: a typical conclusion that was drawn was that market share must be increased to meet cash flow targets. The financial bias of strategic planning systems demoted marketing to a necessary but not important role in the long-term perspective of the corporation.

In a few years' time, as strategic planning became more firmly established, corporations began to realize that there was a missing link in the planning process. Without properly relating the strategic planning effort to marketing, the whole process tended to be static.⁷ Business exists in a dynamic setting, and by and large, it is only through marketing inputs that perspectives of changing

social, economic, political, and technological environments can be brought into the strategic planning process.

In brief, while marketing initially got lost in the emphasis on strategic planning, currently the role of marketing is better understood and has emerged in the form of strategic marketing.

Future of Strategic Marketing

A variety of factors point to an increasingly important role for strategic marketing in future years.⁸ First, the battle for market share is intensifying in many industries as a result of declining growth rates. Faced with insignificant growth, companies have no choice but to grasp for new weapons to increase their share, and strategic marketing can provide extra leverage in share battles.

Second, deregulation in many industries is mandating a move to strategic marketing. For example, take the case of the airline, trucking, banking, and telecommunications industries. In the past, with territories protected and prices regulated, the need for strategic marketing was limited. With deregulation, it is an entirely different story. The prospect of Sears, Roebuck and Merrill Lynch as direct competitors would have been laughable as recently as ten years ago. Thus, emphasis on strategic marketing is no longer a matter of choice if these companies are to perform well.

Third, many packaged-goods companies are acquiring companies in hitherto nonmarketing-oriented industries and are attempting to gain market share through strategic marketing. For example, apparel makers, with few exceptions, have traditionally depended on production excellence to gain competitive advantage. But when marketing-oriented consumer-products companies purchased apparel companies, the picture changed. General Mills, through marketing strategy, turned Izod (the alligator shirt) into a highly successful business. Chesebrough-Pond's has done much the same with Health-Tex, making it the leading marketer of children's apparel. On acquiring Columbia Pictures in 1982, the Coca-Cola Company successfully tested the proposition that it could sell movies like soft drinks. By using Coke's marketing prowess and a host of innovative financing packages, Columbia emerged as a dominant force in the motion picture business. It almost doubled its market share between 1982 and 1987 and increased profits by 20 percent annually.⁹ Although in the last few years Izod, Health-Tex, and Columbia Pictures have been sold, they fetched these marketing powerhouses huge prices for their efforts in turning them around.

Fourth, shifts in the channel structure of many industries have posed new problems. Traditional channels of distribution have become scrambled, and manufacturers find themselves using a mixture of wholesalers, retailers, chains, buying groups, and even captive outlets. In some cases, distributors and manufacturers' representatives are playing more important roles. In others, buying groups, chains, and cooperatives are becoming more significant. Because these groups bring greatly increased sophistication to the buying process, especially as the computer gives them access to more and better information, buying clout is being concentrated in fewer hands.

Fifth, competition from overseas companies operating both in the United States and abroad is intensifying. More and more countries around the world are developing the capacity to compete aggressively in world markets. Businesspeople in both developed and developing countries are aware of world market trends and are confident that they can reach new markets. Eager to improve their economic conditions and their living standards, they are willing to learn, adapt, and innovate. Thirty years ago, most American companies were confident that they could beat foreign competitors with relative ease. After all, they reasoned, we have the best technology, the best management skills, and the famous American “can do” attitude. Today competition from Europe, Japan, and elsewhere is seemingly insurmountable. To cope with worldwide competition, renewed emphasis on marketing strategy achieves significance.

Sixth, the fragmentation of markets—the result of higher per capita incomes and more sophisticated consumers—is another factor driving the increased importance of strategic marketing. In the United States, for example, the number of segments in the automobile market increased by one-third, from 18 to 24, during the period from 1988 to 1995 (i.e., two subcompact, two compact, two intermediate, four full size, two luxury, three truck, two van, and one station wagon in 1978 to two minicompact, two subcompact, two compact, two midsized, two intermediate, two luxury, six truck, five van, and one station wagon in 1985).¹⁰ Many of these segments remain unserved until a company introduces a product offering that is tailored to that niche. The competitive realities of fragmented markets require strategic-marketing capability to identify untapped market segments and to develop and introduce products to meet their requirements.

Seventh, in the wake of easy availability of base technologies and shortening product life cycles, getting to market quickly is a prerequisite for success in the marketplace. Early entrants not only can command premium prices, but they also achieve volume break points in purchasing, manufacturing, and marketing earlier than followers and, thus, gain market share. For example, in the European market, the first company to market car radios can typically charge 20 percent more for the product than a competitor who enters the market a year later.¹¹ In planning an early entry into the marketplace, strategic marketing achieves significance.

Eighth, the days are gone when companies could win market share by achieving cost and quality advantages in existing, well-defined markets. As we enter the next century, companies will need to conceive and create new and largely uncontested competitive market space. Corporate imagination and expeditionary policies are the keys that unlock new markets.¹² Corporate imagination involves going beyond served markets; that is, thinking about needs and functionalities instead of conventional customer-product grids; overturning traditional price/performance assumptions; and leading customers rather than following them.¹³ Creating new markets is a risky business; however, through expeditionary policies, companies can minimize the risk not by being fast followers but by the process of low-cost, fast-paced market incursions designed to reach the target market. To successfully develop corporate imagination and expeditionary policies, companies need strategic marketing. Consider this lesson

in auto industry economics. Today it takes about 20 worker-hours to assemble a Ford Taurus with a retail price of, say, \$18,000. Since labor costs about \$42 an hour, the direct-assembly expense is \$840, about 5% of the sticker price. By comparison, the cost of marketing and distributing the car can reach 30%.¹⁴ The costs include advertising, promotions (such as cash rebates and lease incentives), and dealer rent and mortgage payments plus inventory financing. Controlling marketing costs begins even before the vehicle leaves the drawing board or computer screen. By ensuring that a design meets the needs and desires of its customers—size, features, performance, and so on—a manufacturer can sell a new automobile for a higher price and avoid expensive rebates and other promotional gimmicks.

Finally, demographic shifts in American society have created a new customer environment that makes strategic marketing an imperative.¹⁵ In years past, the typical American family consisted of a working dad, a homemaker mom, and two kids. But the 1990 census revealed that only 26 percent of the 93.3 million households then surveyed fit that description. Of those families reporting children under the age of 18, 63 percent of the mothers worked full- or part-time outside the home, up from 51 percent in 1985 and 42 percent in 1980. Smaller households now predominate: more than 55 percent of all households comprise only one or two persons. Even more startling, and frequently overlooked, is the fact that 9.7 million households are now headed by singles. This fastest-growing segment of all—up some 60 percent over the previous decade—expanded mainly because of an increase in the number of men living alone. Further, about 1 in 8 Americans is 65 years or older today. This group is expected to grow rapidly such that by 2030, 1 in 5 Americans will be elderly.¹⁶ And senior citizens are around for a lot longer as life expectancy has risen. These statistics have strategic significance. The mass market has splintered, and companies can't sell their products the way they used to. The largest number of households may fall into the two-wage-earner grouping, but that group includes everyone from manicurists to Wall Street brokers, a group whose lifestyles and incomes are too diverse to qualify as a mass market. We may see every market breaking into smaller and smaller units, with unique products being aimed at defined segments.

STRATEGIC MARKETING AND MARKETING MANAGEMENT

Strategic marketing focuses on choosing the right products for the right growth markets at the right time. It may be argued that these decisions are no different from those emphasized in marketing management. However, the two disciplines approach these decisions from different angles. For example, in marketing management, market segments are defined by grouping customers according to marketing mix variables. In the strategic marketing approach, market segments are formed to identify the group(s) that can provide the company with a sustainable economic advantage over the competition. To clarify the matter, Henderson labels the latter grouping a **strategic sector**. Henderson notes:

A strategic sector is one in which you can obtain a competitive advantage and exploit it. . . . Strategic sectors are the key to strategy because each sector's frame of reference is competition. The largest competitor in an industry can be unprofitable in that the individual strategic sectors are dominated by smaller competitors.¹⁷

A further difference between strategic marketing and marketing management is that in marketing management the resources and objectives of the firm, however defined, are viewed as uncontrollable variables in developing a marketing mix. In strategic marketing, objectives are systematically defined at different levels after a thorough examination of necessary inputs. Resources are allocated to maximize overall corporate performance, and the resulting strategies are formulated with a more inclusive view. As Abell and Hammond have stated:

A strategic market plan is not the same . . . as a marketing plan; it is a plan of all aspects of an organization's strategy in the market place. A marketing plan, in contrast, deals primarily with the delineation of target segments and the product, communication, channel, and pricing policies for reaching and servicing those segments—the so-called marketing mix.¹⁸

Marketing management deals with developing a marketing mix to serve designated markets. The development of a marketing mix should be preceded by a definition of the market. Traditionally, however, market has been loosely defined. In an environment of expansion, even marginal operations could be profitable; therefore, there was no reason to be precise, especially when considering that the task of defining a market is at best difficult. Besides, corporate culture emphasized short-term orientation, which by implication stressed a winning marketing mix rather than an accurate definition of the market.

To illustrate how problematic it can be to define a market, consider the laundry product Wisk. The market for Wisk can be defined in many different ways: the laundry detergent market, the liquid laundry detergent market, or the pre-wash-treatment detergent market. In each market, the product would have a different market share and would be challenged by a different set of competitors. Which definition of the market is most viable for long-term healthy performance is a question that strategic marketing addresses.

A market can be viewed in many different ways, and a product can be used in many different ways. Each time the product-market pairing is varied, the relative competitive strength is varied, too. Many businesspeople do not recognize that a key element in strategy is choosing the competitor whom you wish to challenge, as well as choosing the marketing segment and product characteristics with which you will compete.¹⁹

Exhibit 2-3 summarizes the differences between strategic marketing and marketing management. Strategic marketing differs from marketing management in many respects: orientation, philosophy, approach, relationship with the environment and other parts of the organization, and the management style required. For example, strategic marketing requires a manager to forgo short-term performance in the interest of long-term results. Strategic marketing deals with the business to be in; marketing management stresses running a delineated business.

EXHIBIT 2-3
Major Differences between Strategic Marketing and Marketing Management*

<i>Point of Difference</i>	<i>Strategic Marketing</i>	<i>Marketing Management</i>
Time frame	Long range; i.e., decisions have long-term implications	Day-to-day; i.e., decisions have relevance in a given financial year
Orientation	Inductive and intuitive	Deductive and analytical
Decision process	Primarily bottom-up	Mainly top-down
Relationship with environment	Environment considered ever-changing and dynamic	Environment considered constant with occasional disturbances
Opportunity sensitivity	Ongoing to seek new opportunities	Ad hoc search for a new opportunity
Organizational behavior	Achieve synergy between different components of the organization, both horizontally and vertically	Pursue interests of the decentralized unit
Nature of job	Requires high degree of creativity and originality	Requires maturity, experience, and control orientation
Leadership style	Requires proactive perspective	Requires reactive perspective
Mission	Deals with what business to emphasize	Deals with running a delineated business

*These differences are relative, not opposite ends of a continuum.

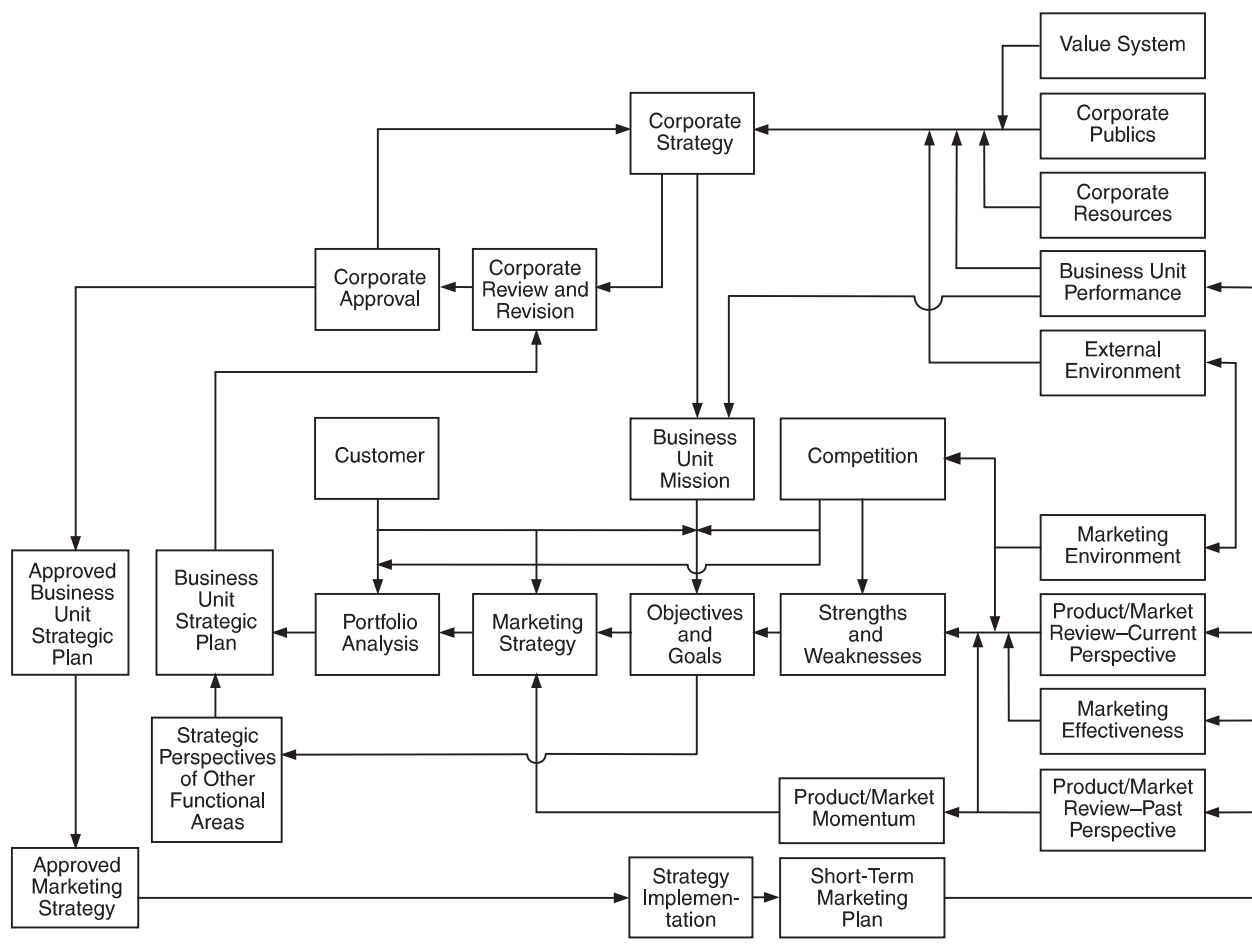
For a marketing manager, the question is: Given the array of environmental forces affecting my business, the past and the projected performance of the industry or market, and my current position in it, which kind of investments am I justified in making in this business? In strategic marketing, on the other hand, the question is rather: What are my options for upsetting the equilibrium of the marketplace and reestablishing it in my favor? Marketing management takes market projections and competitive position as a given and seeks to optimize within those constraints. Strategic marketing, by contrast, seeks to throw off those constraints wherever possible. Marketing management is deterministic; strategic marketing is opportunistic. Marketing management is deductive and analytical; strategic marketing is inductive and intuitive.

THE PROCESS OF STRATEGIC MARKETING: AN EXAMPLE

The process of strategic marketing planning, charted in Exhibit 2-4, may be illustrated with an SBU (health-related remedies) of the New England Products Company (a fictional name). Headquartered in Hartford, Connecticut, NEPC is a worldwide manufacturer and marketer of a variety of food and nonfood products, including coffee, orange juice, cake mixes, toothpaste, diapers, detergents, and health-related remedies. The company conducts its business in more than 100 countries, employs approximately 110,000 people, operates more than 147 manufacturing facilities, and maintains three major research centers. In 1998 (year ending June 30), the company's worldwide sales amounted to \$37.3 billion.

EXHIBIT 2-4

Process of Strategic Marketing



Corporate Strategy

In 1991, the company's strategic plan established the following goals:

- To strengthen significantly the company's core businesses (i.e., toothpaste, diapers, and detergents).
- To view health care products as a critical engine of growth.
- To boost the share of profits from health-related products from 20 percent to 30 percent over the next decade.
- To divest those businesses not meeting the company's criteria for profitability and growth, thus providing additional resources to achieve other objectives.
- To make an 18 percent return on total capital invested.
- To a great extent, to depend on retained earnings for financing growth.

This above strategy rested on the five factors, shown in Exhibit 2-4, that feed into corporate strategy:

- *Value system*—always to be strong and influential in marketing, achieving growth through developing and acquiring new products for specific niches.
- *Corporate publics*—the willingness of NEPC stockholders to forgo short-term profits and dividends in the interest of long-term growth and profitability.
- *Corporate resources*—strong financial position, high brand recognition, marketing powerhouse.
- *Business unit performance*—health-related remedies sales, for example, were higher worldwide despite recessionary conditions.
- *External environment*—increased health consciousness among consumers.

Business Unit Mission

The mission for one of NEPC's 36 business units, health-related remedies, emerged from a simultaneous review of corporate strategy, competitive conditions, customers' perspectives, past performance of the business unit, and marketing environment, as charted in Exhibit 2-4. The business unit mission for health-related remedies was delineated as follows:

- To consolidate operations by combining recent acquisitions and newly developed products and by revamping old products.
- To accelerate business by proper positioning of products.
- To expand the product line to cover the entire human anatomy.

The mission for the business unit was translated into the following objectives and goals:

- To invest heavily to achieve \$5.3 billion in sales by 2003, an increase of 110 percent over \$2.8 billion in 1998.
- To achieve a leadership position in the United States.
- To introduce new products overseas as early as possible to preempt competition.

Marketing objectives for different products/markets emerged from these overall business unit objectives. For example, the marketing objectives for a product to combat indigestion were identified as follows:

- To accelerate research to seek new uses for the product.
- To develop new improvements in the product.

Marketing Strategy

Marketing objectives, customer and competitive perspectives, and product/market momentum (i.e., extrapolation of past performance to the future) form the basis of marketing strategy. In the case of NEPC, the major emphasis of marketing strategy for health-related remedies was on positioning through advertising and on new product development. Thus, the company decided to increase advertising support throughout the planning period and to broaden research and development efforts.

NEPC's strategy was based on the following rationale. Consumers are extremely loyal to health products that deliver, as shown by their willingness to resume buying Johnson & Johnson's Tylenol after two poisoning episodes. But while brand loyalty makes consumers harder to lure away, it also makes them easier to keep, and good marketing can go a long way in this endeavor. The company was able to enlarge the market for its indigestion remedy, which experts thought had hit maturity, through savvy marketing. NEPC used television advertising to sell it as a cure for overindulgence, which led to a 30 percent increase in business during 1993–98.

As NEPC pushes further into health products, its vast research and technological resources will be a major asset. NEPC spends nearly \$1 billion a year on research, and product improvements have always been an important key to the company's marketing prowess.

The overall strategy of the health-related remedies business unit was determined by industry maturity and the unit's competitive position. The industry was found to be growing, while the competitive position was deemed strong.

With insurers and the government trying to drive health care costs down, consumers are buying more and more over-the-counter nostrums. Advertisers are making health claims for products from cereal to chewing gum. As the fitness craze exemplifies, interest in health is higher than ever, and the aging of the population accentuates these trends: people are going to be older, but they are not going to want to feel older. Thus the health-related remedies industry has a significant potential for growth. NEPC is the largest over-the-counter remedies marketer. As shown in the list below, it has products for different ailments. The company's combined strength in marketing and research puts it in an enviable position in the market.

- *Skin*—NEPC produces the leading facial moisturizer. NEPC also leads the teenage acne treatment market. Work is now underway on a possible breakthrough anti-aging product.
- *Mouth*—After being on the market for 28 years, NEPC's mouthwash is the market leader. Another NEPC product, a prescription plaque-fighting mouthwash, may go over the counter, or it may become an important ingredient in other NEPC oral hygiene products.
- *Head*—An NEPC weak spot, its aspirin, holds an insignificant share of the analgesic market. NEPC may decide to compete with an ibuprofen-caffeine combination painkiller.
- *Chest*—NEPC's medicated chest rub is an original brand in a stable that now includes cough syrup, cough drops, a nighttime cold remedy, and nasal spray. Other line extensions and new products are coming, but at a fairly slow pace.

- *Abdomen*—The market share for NEPC's indigestion remedy is up 22 percent in the last three years. Already being sold to prevent traveler's diarrhea, it may be marketed as an ulcer treatment. NEPC also dominates the over-the-counter bulk laxative market. New clinical research shows that its laxative may reduce serum cholesterol.
- *Bones*—NEPC orange juice has a 10 percent share of the market. Orange juice with calcium is now being expanded nationwide and could be combined with a low-calorie version.

Briefly, these inputs, along with the business unit's goals, led to the following business unit strategy: to attempt to improve position, to push for share.

Portfolio Analysis. The marketing strategy for each product/market was reviewed using the portfolio technique (see Chapter 10). By positioning different products/markets on a multifactor portfolio matrix (high/medium/low business strength and high/medium/low industry attractiveness), strategy for each product/market was examined and approved from the viewpoint of meeting business unit missions and goals. Following the portfolio analysis, the approved marketing strategy became a part of the business unit's strategic plan, which, when approved by top management, was ready to be implemented. As a part of implementation, an annual marketing plan was formulated and became the basis for operations managers to pursue their objectives.

Implementation of the Strategic Plan. A few highlights of the activities of the health-related remedies business unit during 1998–2003 show how the strategic plan was implemented.

- Steps were taken to sell its laxative as an anticholesterol agent.
- The company won FDA permission to promote its indigestion remedy to doctors as a preventive for traveler's diarrhea.
- Company research has shown that its indigestion remedy helps treat ulcers. Although some researchers have disputed this claim, the prospect of cracking the multibillion dollar ulcer treatment market is tantalizing.
- The company introduced its orange juice brand with calcium. The company sought and won the approval of the American Medical Women's Association for the product and put the group's seal on its containers.

STRATEGIC MARKETING IMPLEMENTATION

Strategic marketing has evolved by trial and error. In the 1980s, companies developed unique strategic-marketing procedures, processes, systems, and models. Experience shows, however, that most companies' marketing strategies are burdened with undue complexity. They are bogged down in principles that produce similar responses to competition. Changes are needed to put speed and freshness into marketing strategy.

Failings in Strategic Marketing

The following are the common problems associated with marketing strategy formulation and implementation.

1. **Too much emphasis on “where” to compete and not enough on “how” to compete.** Experience shows that companies have devoted much more attention to identifying markets in which to compete than to the means to compete in these markets. Information on where to compete is easy to obtain but seldom brings about sustainable competitive advantage. Further, “where” information is usually easy for competitors to copy. “How” information, on the other hand, is tough to get and tough to copy. It concerns the fundamental workings of the business and the company. For example, McDonald’s motto, QSC & V, is a how-to-competete strategy—it translates into *quality* food products; fast, friendly *service*; restaurant *cleanliness*; and a menu that provides *value*. It is much more difficult to copy the “how” of McDonald’s strategy than the “where.”²⁰

In the next era of marketing strategy, companies will need to focus on how to compete in entirely new ways. In this endeavor, creativity will play a crucial role. For example, a large insurance company substantially improved its business by making improvements in underwriting, claim processing, and customer service, a “how” strategy that could not be replicated by competitors forthwith.

2. **Too little focus on uniqueness and adaptability in strategy.** Most marketing strategies lack uniqueness. For example, specialty stores increasingly look alike because they use the same layout and stock the same merchandise. In the 1980s, when market information was scarce, companies pursued new and different approaches. But today’s easy access to information often leads companies to follow identical strategies to the detriment of all.

Ideas for uniqueness and adaptability may flow from unknown sources. Companies should, therefore, be sensitive and explore all possibilities. The point may be illustrated with reference to Arm and Hammer’s advertising campaign that encouraged people to place baking soda in their refrigerators to reduce odors. The idea was suggested in a letter from a consumer. The introduction of that *unique* application for the product in the early 1970s caused sales of Arm and Hammer baking soda to double within two years.

3. **Inadequate emphasis on “when” to compete.** Because of the heavy emphasis on where and how to compete, many marketing strategies give inadequate attention to “when” to compete. Any move in the marketplace should be adequately timed. The optimum time is one that minimizes or eliminates competition and creates the desired impact on the market; in other words, the optimum time makes it easier for the firm to achieve its objectives. Timing also has strategy implementation significance. It serves as a guide for different managers in the firm to schedule their activities to meet the timing requirement.

Decisions on timing should be guided by the following:

- a. *Market knowledge.* If you have adequate information, it is desirable to market readily; otherwise you must wait until additional information has been gathered.
- b. *Competition.* A firm may decide on an early entry to beat minor competition. If you face major competition, you may delay entry if necessary; for example, to seek additional information.
- c. *Company readiness.* For a variety of reasons, the company may not be ready to compete. These reasons could be lack of financial resources, labor problems, inability to meet existing commitments, and others.

*Addressing the
Problems of
Strategic Marketing*

Having the ability to do all the right things, however, is no guarantee that planned objectives will be realized. Any number of pitfalls may render the best strategies inappropriate. To counter the pitfalls, the following concerns should be addressed:

1. Develop attainable goals and objectives.
2. Involve key operating personnel.
3. Avoid becoming so engrossed in current problems that strategic marketing is neglected and thus becomes discredited in the eyes of others.
4. Don't keep marketing strategy separate from the rest of the management process.
5. Avoid formality in marketing strategy formulation that restrains flexibility and inhibits creativity.
6. Avoid creating a climate that is resistant to strategic marketing.
7. Don't assume that marketing strategy development can be delegated to a planner.
8. Don't overturn the strategy formulation mechanism with intuitive, conflicting decisions.

PLAN OF THE BOOK

Today's business and marketing managers are faced with a continuous stream of decisions, each with its own degree of risk, uncertainty, and payoff. These decisions may be categorized into two broad classes: operating and strategic. With reference to marketing, operating decisions are the domain of marketing management. Strategic decisions constitute the field of strategic marketing.

Operating decisions are those dealing with current operations of the business. The typical objective of these decisions in a business firm is profit maximization. During times of business stagnation or recession, as experienced in the early 1990s, efforts at profit maximization have typically encompassed a cost minimization perspective. Under these conditions, managers are pressured into shorter and shorter time horizons. All too frequently, decisions are made regarding pricing, discounts, promotional expenditures, collection of marketing research information, inventory levels, delivery schedules, and a host of other areas with far too little regard for the long-term impact of the decision. As might be expected, a decision that may be optimal for one time period may not be optimal in the long run.

The second category of decision making, **strategic decisions**, deals with the determination of strategy: the selection of the proper markets and the products that best suit the needs of those markets. Although strategic decisions may represent a very small fraction of the multitude of management decisions, they are truly the most important as they provide the definition of the business and the general relationship between the firm and its environment. Despite their importance, however, the need to make strategic decisions is not always as apparent as the need (sometimes urgency) for successfully completing operating decisions.

Strategic decisions are characterized by the following distinctions:

1. They are likely to effect a significant departure from the established product market mix. (This departure might involve branching out technologically or innovating in other ways.)

2. They are likely to hold provisions for undertaking programs with an unusually high degree of risk relative to previous experience (e.g., using untried resources or entering uncertain markets and competitive situations where predictability of success is noticeably limited).
3. They are likely to include a wide range of available alternatives to cope with a major competitive problem, the scope of these alternatives providing for significant differences in both the results and resources required.
4. They are likely to involve important timing options, both for starting development work and for deciding when to make the actual market commitment.
5. They are likely to call for major changes in the competitive “equilibrium,” creating a new operating and customer acceptance pattern.
6. They are likely to resolve the choice of either leading or following certain market or competitive advances, based on a trade-off between the costs and risks of innovating and the timing vulnerability of letting others pioneer (in the expectation of catching up and moving ahead at a later date on the strength of a superior marketing force).

This book deals with strategic decisions in the area of marketing. Chapter 1 dealt with planning and strategy concepts, and this chapter examined various aspects of strategic marketing. Chapters 3 through 6 deal with analysis of strategic information relative to company (e.g., corporate appraisal), competition, customer, and external environment. Chapter 7 focuses on the measurement of strategic capabilities, and Chapter 8 concentrates on strategic direction via goals and objectives.

Chapters 9 and 10 are devoted to strategy formulation. Organization for strategy implementation and control are examined in Chapter 11. Chapter 12 discusses strategic techniques and models. The next five chapters, Chapters 13 through 17, review major market, product, price, distribution, and promotion strategies. The final chapter, Chapter 18, focuses on global market strategy.

SUMMARY

This chapter introduced the concept of strategic marketing and differentiated it from marketing management. Strategic marketing focuses on marketing strategy, which is achieved by identifying markets to serve, competition to be tackled, and the timing of market entry/exit. Marketing management deals with developing a marketing mix to serve a designated market.

The complex process of marketing strategy formulation was described. Marketing strategy, which is developed at the SBU level, essentially emerges from the interplay of three forces—customer, competition, and corporation—in a given environment.

A variety of internal and external information is needed to formulate marketing strategy. Internal information flows both down from top management (e.g., corporate strategy) and up from operations management (e.g., past performance of products/markets). External information pertains to social, economic, political, and technological trends and product/market environment. The effectiveness of marketing perspectives of the company is another input in strategy formulation. This information is analyzed to identify the SBU's strengths and weaknesses, which together with competition and customer,

define SBU objectives. SBU objectives lead to marketing objectives and strategy formulation. The process of marketing strategy development was illustrated with an example of a health-related product.

Finally, this chapter articulated the plan of this book. Of the two types of business decisions, operating and strategic, this book will concentrate on strategic decision making with reference to marketing.

DISCUSSION QUESTIONS

1. Define strategic marketing. Differentiate it from marketing management.
2. What are the distinguishing characteristics of strategic marketing?
3. What emerging trends support the continuation of strategic marketing as an important area of business endeavor?
4. Differentiate between operating and strategic decisions. Suggest three examples of each type of decision from the viewpoint of a food processor.
5. How might the finance function have an impact on marketing strategy? Explain.
6. Adapt to a small business the process of marketing strategy formulation as presented in Exhibit 2-4.
7. Specify the corporate inputs needed to formulate marketing strategy.

NOTES

- ¹ "Taking It on the Chin," *The Economist* (18 April 1998): 60.
- ² "When Marketing Failed at Texas Instruments," *Business Week* (22 June 1981): 91. See also Bro Uttal, "Texas Instruments Regroups," *Fortune* (9 August 1982): 40.
- ³ *Business Planning in the Eighties: The New Competitiveness of American Corporations* (New York: Coopers & Lybrand, 1984).
- ⁴ For further discussion of the portfolio matrix, see Chapter 10.
- ⁵ See Robert W. Ruekert and Orville C. Walker, Jr., "Marketing's Interaction with Other Functional Units: A Conceptual Framework and Empirical Evidence," *Journal of Marketing* (January 1987): 1-19.
- ⁶ See Chapter 12.
- ⁷ David W. Cravens, "Examining the Impact of Market-Based Strategy Paradigms on Marketing Strategy," *Journal of Strategic Marketing* (September 1998): 197-208.
- ⁸ "Strategic Planning," *Business Week* (26 August 1996): 46.
- ⁹ Laura Landro, "Parent and Partners Help Columbia Have Fun at the Movies," *The Wall Street Journal* (7 December 1984): 1.
- ¹⁰ Alex Taylor III, "Rough Road Ahead," *Fortune* (17 March 1997): 115.
- ¹¹ Don G. Reinertsen, "Whodunit? The Search for New Product Killers," *Electronic Business* (July 1983): 62-66.
- ¹² Gary Hamel and C. K. Prahalad, "Corporate Imagination and Expeditionary Marketing," *Harvard Business Review* (July-August 1991): 81-92.
- ¹³ John Brady and Ian Davis, "Marketing's Mid-Life Crisis," *The McKinsey Quarterly* 2 (1993): 17-28. Also see Adrian J. Slywotzky and Benson P. Shapiro, "Leveraging to Beat the Odds: The New Marketing Mind-Set," *Harvard Business Review* (September-October 1993): 97-107.
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- 15 Ken Dychtwald and Grey Gable, "American Diversity," *American Demographics* (July 1991): 75–77.
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- 18 Derek F. Abell and John S. Hammond, *Strategic Market Planning* (Englewood Cliffs, NJ: Prentice-Hall, 1979), 9.
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- 20 Joel A. Bleeke, "Peak Strategies," *Across the Board* (February 1988): 45–80.