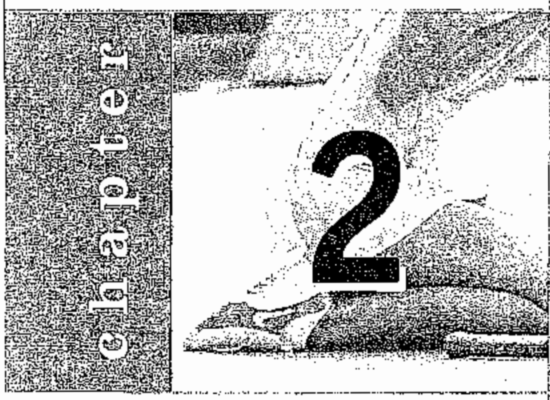


Company and Marketing Strategy

Partnering to Build Customer Relationships

Previewing the Concepts

In the first chapter, we explored the marketing process by which companies create value for consumers in order to capture value in return. On this leg of our journey, we dig deeper into steps two and three of the marketing process—designing customer-driven marketing strategies and constructing marketing programs. To begin, we look at the organization's overall strategic planning. Next, we discuss how marketers, guided by the strategic plan, work closely with others inside and outside the firm to serve customers. We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs. Finally, we look at the important step of measuring and managing return on marketing investment.

Let's look first at Nike. During the past several decades, Nike has forever changed the rules of sports marketing strategy. In the process, it has built the Nike swoosh into one of the world's best-known brand symbols. But the Nike we know today is far, far different from the brash young start-up company of 40 years ago. As Nike has grown and matured—moving from maverick to mainstream—its marketing strategy has matured as well. To stay on top in the intensely competitive sports apparel business, Nike will have to keep finding fresh ways to bring value to its customers.

The Nike "swoosh"—it's everywhere! Just for fun, try counting the swooshes whenever you pick up the sports pages or watch a pickup basketball game or tune into a televised golf match. Through innovative marketing, Nike has built the ever-present swoosh into one of the best-known brand symbols on the planet. But 40-some years ago, when young CPA Phil Knight and college track coach Bill Bowerman cofounded the company, Nike was just a brash, young upstart in the athletic footwear industry.

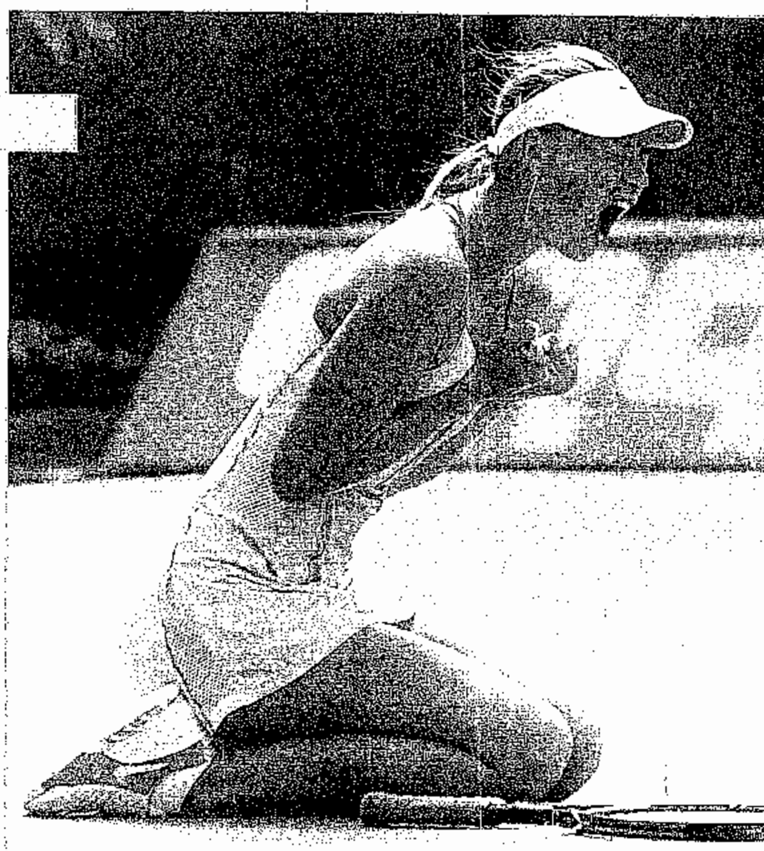
In those early days, Knight and Bowerman ran Nike by the seat of their pants. In 1964, the pair chipped in $500 apiece to start Blue Ribbon Sports. In 1970, Bowerman dreamed up a new sneaker tread by stuffing a piece of rubber into his wife's waffle iron. The Waffle Trainer quickly became the nation's best-selling training shoe. In 1972, the company became Nike, named after the Greek goddess of victory. The swoosh was designed by a graduate student for a fee of $35. By 1979, Nike owned 50 percent of the U.S. running shoe market. It all seemed easy then. Running was in, sneakers were hot, and Nike had the right stuff.

During the 1980s, under Phil Knight's leadership, Nike revolutionized sports marketing. To build its brand image and market share, Nike spent lavishly on big-name endorsements, splashy promotional events, and in-your-face "Just Do It" ads. At Nike, however, good marketing meant more than just promotional hype and promises—it meant consistently building strong relationships with customers based on real value. Nike's initial success resulted from the technical superiority of its running and basketball shoes. To this day, Nike leads the industry in research-and-development spending.

But Nike gave customers much more than good athletic gear. Customers didn't just wear their Nikes, they *experienced* them. As the company stated on its Web page (www.nike.com), "Nike has always known the truth—it's not so much the shoes but where they take you." Beyond shoes, apparel, and equipment, Nike marketed a way of life, a sports culture, a just-do-it attitude. As Phil Knight said at the time: "Basically, our culture and our style is to be a rebel." The company was built on a genuine passion for sports, a maverick disregard for convention, and a belief in hard work and serious sports performance.

Throughout the 1980s and 1990s, still playing the role of the upstart underdog, Nike sprinted ahead of its competition. Between 1988 and 1997, Nike's revenues grew at an annual rate of 21 percent; annual return to investors averaged an eye-popping 47 percent. Nike leveraged its brand strength, moving aggressively into new product categories, sports, and regions of the world. The company slapped its familiar swoosh logo on everything from sunglasses and soccer balls to batting gloves and hockey sticks. Nike invaded a dozen new sports, including baseball, golf, ice and street hockey, skateboarding, wall climbing, and hiking. It seemed that things couldn't be going any better.

In the late 1990s, however, Nike stumbled and its sales slipped. The whole industry suffered a setback, as a "brown shoe" craze for hiking and outdoor shoe styles ate into the athletic sneaker business. Moreover, Nike's creative juices seemed to run dry. Ho-hum new sneaker designs collected dust on retailer shelves as buyers seeking a new look switched to competing brands. To make matters worse, Nike was fighting off allegations that it was overcommercializing sports and exploiting child labor in Asian sweatshops.



But Nike's biggest obstacle may have been its own incredible success. The brand appeared to suffer from big-brand backlash, and the swoosh may have become too common to be cool. As sales moved past the $10 billion mark, Nike moved from maverick to mainstream. Rooting for Nike was like rooting for Microsoft. Instead of antiestablishment, Nike *was* the establishment. Once the brat of sports marketing, Nike now had to grow up and act its age.

And grow up it has. In recent years, Nike's marketing strategy has matured. The company still spends hundreds of millions of dollars each year on very creative advertising, innovative brand-building promotions, and big-name endorsers. For example, Nike signed basketball phenom LeBron James to a $90 million endorsement contract a few years back, and in the Athens Olympics, Nike athletes brought home 50 gold medals plus dozens more silver and bronze.

But Nike has toned down its antiestablishment attitude—its marketing is a bit less edgy. And the company is now devoting much more attention to mundane marketing details. "Gone are the days when Nike execs, working on little more than hunches, would do just about anything and spend just about any amount in the quest for publicity and market share," says one Nike observer. "More and more, Nike is searching for the right balance between its creative and its business sides, relying on a newfound financial and managerial discipline to drive growth."

The new Nike has returned to the basics—focusing on innovation, methodically assessing new market opportunities, developing new product lines, and reworking its information and distribution systems. According to the industry expert:

> In the old days, Nike operated pretty much on [marketing] instinct. It took a guess as to how many pairs of shoes to churn out and hoped it could cram

Objectives

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

them all onto retailers' shelves. Not anymore. Nike has overhauled its computer systems to get the right number of sneakers to more places in the world more quickly. [It] also overhauled its supply-chain system, which often left retailers either desperately awaiting delivery of hot shoes or struggling to get rid of the duds. The old jerry-built compilation strung together 27 different computer systems worldwide, most of which couldn't talk with the others. . . . Nike has spent $500 million to build a new system. [Now, according to Nike,] the percentage of shoes it makes without a firm order from a retailer has fallen from 30 percent to 3 percent, while the lead time for getting new sneaker styles to market has been cut from nine months to six months.

The old seat-of-the-pants Nike had difficulty going global; at the new Nike, more than 50 percent of sales now come from international markets, and these markets are growing rapidly. The old Nike also stumbled with its acquisitions, trying to force its own superheated marketing culture onto them. The new Nike has learned to give its acquired brands some independence. As a result, acquisitions such as Cole Haan dress shoes, Converse retro-style sneakers, Hurley International skateboard gear, Bauer in-line and hockey skates, and Starter Official affordable sneakers now account for more than 13 percent of Nike's revenues and a quarter of its sales growth.

The new, more-mature Nike is once again achieving stunning results. In the past five years, Nike's sales have grown more than 50 percent to almost $15 billion; profits have more than doubled. The company captures some 36 percent of the U.S. athletic shoe market; the next-biggest competitor is Adidas (which recently acquired Reebok) at 21 percent. A relative newcomer to soccer, Nike is now virtually neck-and-neck in the European soccer market with longtime leader Adidas. Nike's evolving marketing prowess over the years has also been good for investors. An investment of $1,000 in Nike in 1980 would be worth more than $64,000 today. And founder Phil Knight's 23 percent stake in Nike is worth almost $6 billion, making him one of the world's richest people.

To stay on top, however, Nike must keep its marketing strategy fresh, finding new ways to deliver the kind of innovation and value that built the brand so powerfully in the past. No longer the rebellious, antiestablishment upstart, Nike must continually reassess and rekindle its meaning to customers. Says Knight, "Now that we've [grown so large], there's a fine line between being a rebel and being a bully. [To our customers,] we have to be beautiful as well as big."[1]

Marketing strategies and programs are guided by broader, companywide strategic plans. Thus, to understand the role of marketing, we must first understand the organization's overall strategic planning process. Like Nike, all companies must look ahead and develop long-term strategies to meet the changing conditions in their industries and to ensure long-term survival.

Companywide Strategic Planning: Defining Marketing's Role

Each company must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of **strategic planning**—the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

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

Strategic planning sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long-range plans, and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans

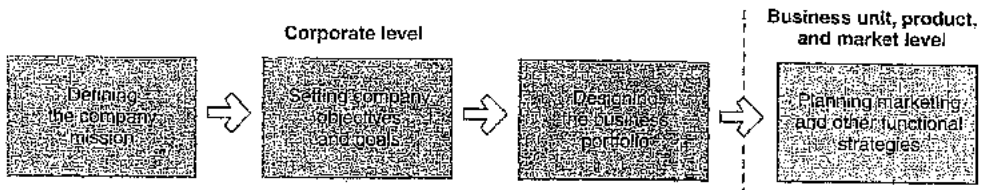


FIGURE 2.1 Steps in strategic planning

that support the companywide plan. Thus, marketing planning occurs at the business-unit, product, and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.[2]

Defining a Market-Oriented Mission

Mission statement
A statement of the organization's purpose—what it wants to accomplish in the larger environment.

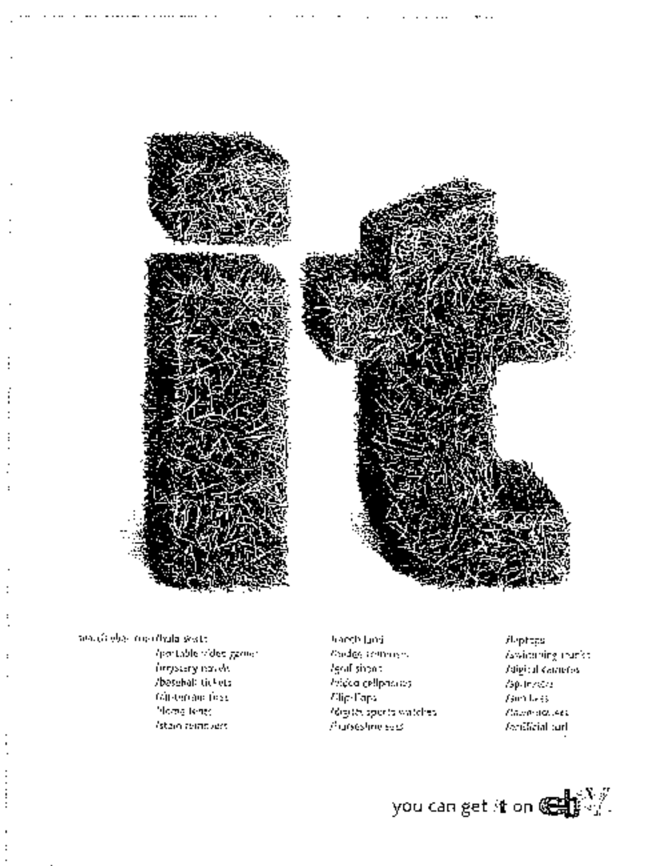
An organization exists to accomplish something. At first, it has a clear purpose or mission, but over time its mission may become unclear as the organization grows, adds new products and markets, or faces new conditions in the environment. When management senses that the organization is drifting, it must renew its search for purpose. It is time to ask: What is our business? Who is the customer? What do consumers value? What *should* our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely.

Many organizations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization. Studies have shown that firms with well-crafted mission statements have better organizational and financial performance.[3]

Some companies define their missions myopically in product or technology terms ("We make and sell furniture" or "We are a chemical-processing firm"). But mission statements should be *market oriented* and defined in terms of customer needs. Products and technologies eventually become outdated, but basic market needs may last forever.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs. For example, Nike isn't just a shoe and apparel manufacturer—it wants "to bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)" Likewise, eBay's mission isn't simply to hold online auctions and trading. Its mission is "to provide a global trading platform where practically anyone can trade practically anything—you can get *it* on eBay." It wants to be a unique Web community in which people can shop around, have fun, and get to know each other, for example, by chatting at the eBay Cafe. Table 2.1 provides several other examples of product-oriented versus market-oriented business definitions.[4]

Management should avoid making its mission too narrow or too broad. A pencil manufacturer that says it is in the communication equipment business is stating its mission too broadly. Missions should be *realistic*. Singapore Airlines



Mission statements: eBay's mission is "to provide a global trading platform where practically anyone can trade practically anything—you can get *it* on eBay."

TABLE 2.1 Market-Oriented Business Definitions

Company	*Product-Oriented Definition*	*Market-Oriented Definition*
Amazon.com	We sell books, videos, CDs, toys, consumer electronics, hardware, housewares, and other products.	We make the Internet buying experience fast, easy, and enjoyable—we're the place where you can find and discover anything you want to buy online.
America Online	We provide online services.	We create customer connectivity, anytime, anywhere.
Disney	We run theme parks.	We create fantasies—a place where America still works the way it's supposed to.
eBay	We hold online auctions.	We provide a global marketplace where practically anyone can trade practically anything—a unique Web community in which people can shop around, have fun, and get to know each other.
Home Depot	We sell tools and home repair and improvement items.	We empower consumers to achieve the homes of their dreams.
Charles Schwab	We are a brokerage firm.	We are the guardian of our customers' financial dreams.
Revlon	We make cosmetics.	We sell lifestyle and self-expression; success and status; memories, hopes, and dreams.
Ritz-Carlton Hotels	We rent rooms.	We create the Ritz-Carlton experience—one that enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.
Wal-Mart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people.

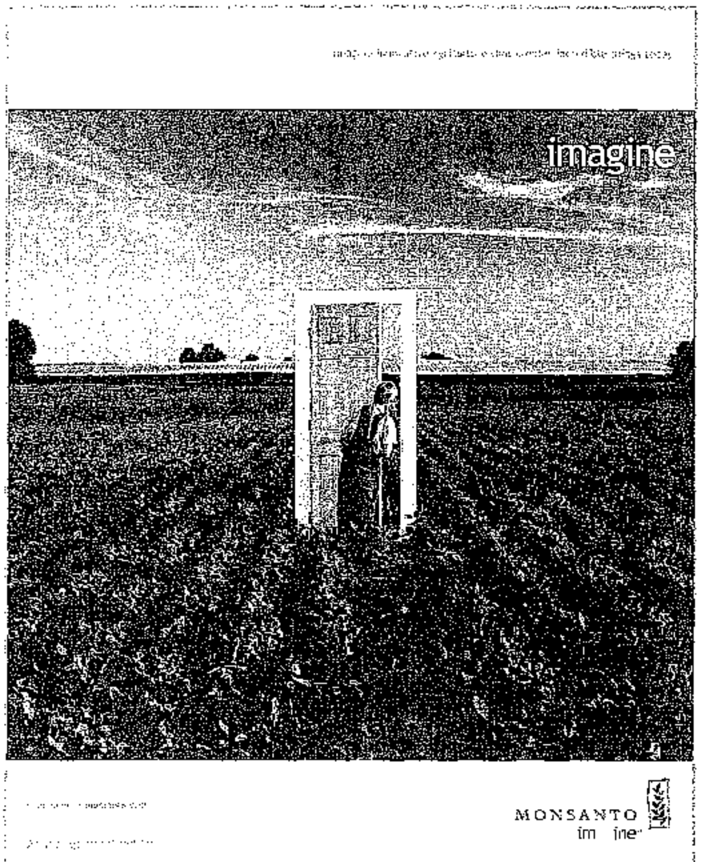
would be deluding itself if it adopted the mission to become the world's largest airline. Missions should also be *specific*. Many mission statements are written for public relations purposes and lack specific, workable guidelines. Too often, they "are platitudes incorporating quality and customer satisfaction, often with an 'employees are our most important assets' kicker," say one analyst. "They're too long to remember, too vague to be meaningful, and too dull to inspire."[5] Such generic statements sound good but provide little real guidance or inspiration.

Missions should fit the *market environment*. The Girl Scouts of America would not recruit successfully in today's environment with its former mission: "to prepare young girls for motherhood and wifely duties." Today, its mission is to be the place "where girls grow strong." The organization should also base its mission on its *distinctive competencies*. Finally, mission statements should be *motivating*. A company's mission should not be stated as making more sales or profits—profits are only a reward for undertaking a useful activity. A company's employees need to feel that their work is significant and that it contributes to people's lives. For example, Microsoft's aim is to help people to "realize their potential"—"your potential, our passion" says the company. Wal-Mart's mission is to "Give ordinary folks the chance to buy the same things as rich people."

Setting Company Objectives and Goals

The company needs to turn its mission into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. For example, Monsanto operates in the agricultural biotechnology business. It defines its mission as "improving the future of farming . . . improving the future of food . . . abundantly and safely." It seeks to help feed the world's exploding population while at the same time sustaining the environment. Monsanto ads ask us to "Imagine innovative agriculture that creates incredible things today."

This mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Monsanto's overall objective is to build profitable customer relationships by developing better agricultural products and getting them to market faster at lower costs. It does this by researching products that safely help crops produce more nutrition and higher yields without chemical spraying. But research is expensive and requires improved profits to plow back into research programs. So improving profits becomes another major Monsanto objective. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's share of the U.S. market, by entering new foreign markets, or both. These goals then become the company's current marketing objectives.[6]



Monsanto defines its mission as "improving the future of farming . . . improving the future of food . . . abundantly and safely." Its ads ask us to "Imagine innovative agriculture that creates incredible things today." This mission leads to specific business and marketing objectives.

Marketing strategies and programs must be developed to support these marketing objectives. To increase its U.S. market share, Monsanto might increase its products' availability and promotion. To enter new foreign markets, the company may cut prices and target large farms abroad. These are its broad marketing strategies. Each broad marketing strategy must then be defined in greater detail. For example, increasing the product's promotion may require more salespeople and more advertising; if so, both requirements need to be spelled out. In this way, the firm's mission is translated into a set of objectives for the current period.

Designing the Business Portfolio

Guided by the company's mission statement and objectives, management now must plan its **business portfolio**—the collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First, the company must analyze its *current* business portfolio and decide which businesses should receive more, less, or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**, whereby management evaluates the products and businesses making up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones.

Business portfolio
The collection of businesses and products that make up the company.

Portfolio analysis
The process by which management evaluates the products and businesses making up the company.

Growth-share matrix
A portfolio-planning method that evaluates a company's strategic business units in terms of their market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks, or dogs.

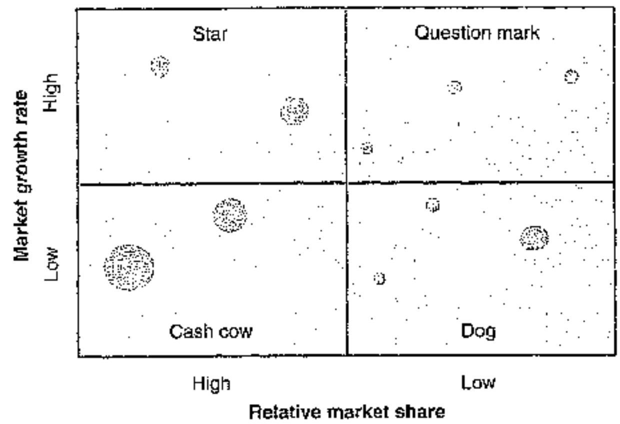
Management's first step is to identify the key businesses making up the company. These can be called the strategic business units. A *strategic business unit* (SBU) is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand.

The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios. It's usually a good idea to focus on adding products and businesses that fit closely with the firm's core philosophy and competencies.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So most standard portfolio-analysis methods evaluate SBUs on two important dimensions—the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.[7]

[illegible] Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth-share matrix** shown in Figure 2.2. On the vertical axis, *market growth rate* provides a measure of market attractiveness.

FIGURE 2.2
The BCG growth-share matrix



On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth-share matrix defines four types of SBUs:

Stars. Stars are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.

Cash cows. Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of cash that the company uses to pay its bills and to support other SBUs that need investment.

Question marks. Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management needs to think hard about which question marks it should try to build into stars and which should be phased out.

Dogs. Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

The ten circles in the growth-share matrix represent a company's ten current SBUs. The company has two stars, two cash cows, three question marks, and three dogs. The areas of the circles are proportional to the SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars, and dogs. The company should take some decisive action concerning its dogs and its question marks. The picture would be worse if the company had no stars, if it had too many dogs, or if it had only one weak cash cow.

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to *build* its share. Or it can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs toward the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

The BCG and other formal methods revolutionized strategic planning. However, such centralized approaches have limitations. They can be difficult, time consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Formal planning approaches can also place too much emphasis on market-share growth or growth through entry into attractive new markets. Using these approaches, many companies plunged into unrelated and new high-growth businesses that they did not know how to manage—with very bad results. At the same time, these companies were often too quick to abandon, sell, or milk to death their healthy mature businesses. As a result, many companies that diversified too broadly in the past now have narrowed their focus and gotten back to the basics of serving one or a few industries that they know best.

Because of such problems, many companies have dropped formal matrix methods in favor of more customized approaches that are better suited to their specific situations. Moreover, unlike former strategic-planning efforts, which rested mostly in the hands of senior managers at company headquarters, today's strategic planning has been decentralized. Increasingly, companies are placing responsibility for strategic planning in the hands of cross-functional teams of divisional managers who are close to their markets.

For example, consider The Walt Disney Company. Most people think of Disney as theme parks and wholesome family entertainment. But in the mid-1980s, Disney set up a powerful, centralized strategic planning group to guide the company's direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge but diverse collection of media and entertainment businesses. The newly transformed company proved hard to manage and performed unevenly. Recently, Disney's new chief executive disbanded the centralized strategic planning unit, decentralizing its functions to divisional managers (see Real Marketing 2.1).

Real Marketing 2.1 The Walt Disney Company: Strategic Planning for a Happy-Ever-After Ending

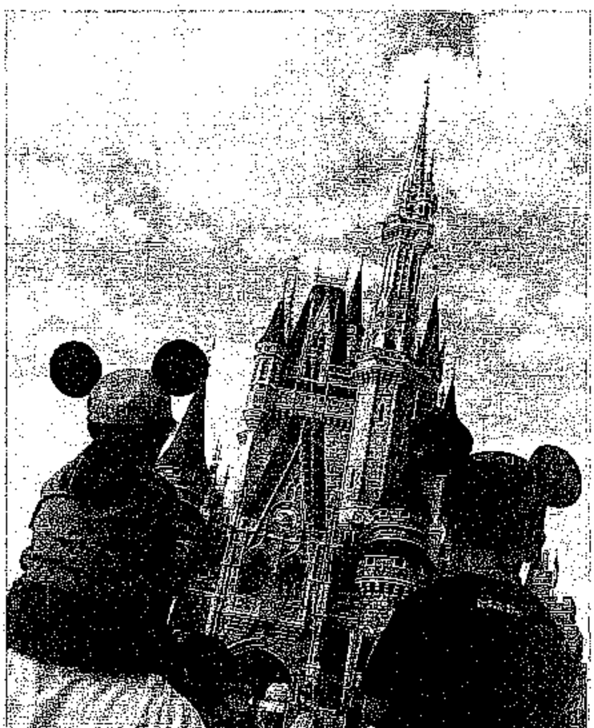
When you think of The Walt Disney Company, you probably think first of theme parks and animated films. And no wonder. Since the release of its first Mickey Mouse cartoon more than 75 years ago, Disney has grown to become the undisputed master of family entertainment. It perfected the art of movie animation. From pioneering films such as *Snow White and the Seven Dwarfs*, *Fantasia*, and *Pinocchio* to more recent features such as *Monsters, Inc.*, *Finding Nemo*, *The Incredibles*, *Valient*, and *Cars*, Disney has brought pure magic to the theaters, living rooms, and hearts and minds of audiences around the world.

But perhaps nowhere is the Disney magic more apparent than at the company's premier theme parks. Each year, some 43 million people flock to The Walt Disney World Resort alone—14 times more than visit Yellowstone National Park—making it the world's number one tourist attraction. What brings so many people to The Walt Disney World Resort? Part of the answer lies in its many attractions. The resort's four major theme parks—Magic Kingdom, Epcot, Disney-MGM Studios, and Disney's Animal Kingdom—brim with such attractions as the Twilight Zone Tower of Terror, Soarin' Over California, the Kilimanjaro Safaris, and Big Thunder Mountain Railroad.

But the real "Disney Magic" lies in the company's obsessive dedication to its mission to "make people happy" and to "make a dream come true." Disney goes to extremes to fulfill guests' expectations and dreams. Its theme parks are so highly regarded for outstanding customer service that many of America's leading corporations send managers to Disney University to learn how Disney does it.

You might be surprised to learn, however, that theme parks and movies are only part of a much bigger Disney story. Parks and resorts account for only about 25 percent of today's Disney empire; movies and entertainment make up another 28 percent. The rest comes from a diverse portfolio of businesses that have been acquired by Disney over the past two decades.

In fact, The Walt Disney Company has become a real study in strategic planning. In 1985, Disney's then-new chief officer, Michael Eisner, set up a high-powered, centralized strategic planning unit, charged with seeking out and nurturing new growth opportunities



For more than 75 years, The Walt Disney Company has been the undisputed master of family entertainment. But it will take masterful strategic planning—along with some big doses of the famed "Disney Magic"—to give the modern Disney a happy-ever-after ending.

(continues)

continued

and setting the company's strategic path. Throughout the late 1980s and the 1990s, seeking growth, the strategic planning group engineered a series of major acquisitions, including the mid-1990s purchase of Capital Cities/ABC, which almost doubled Disney's size.

By the early 2000s, the group had transformed The Walt Disney Company into a $30 billion international media and entertainment colossus. The company now owns all or part of hundreds of companies and divisions, organized into four major business groups:

Studio Entertainment: Four television production companies, eight movie and theatrical production companies, and a distribution company (including Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, Miramax Films, Dimension Films, and Buena Vista Theatrical Productions); and four music labels (Walt Disney Records, Hollywood Records, Buena Vista Records, and Lyric Street Records).

Media Networks: A major broadcast television network (ABC, plus ten company-owned television stations); a dozen cable television networks (including the Disney Channel, Toon Disney, SOAPnet, ESPN, A&E, the History Channel, Lifetime Television, E! Entertainment, and ABC Family); three radio networks (ESPN Radio, ABC Radio, and Disney Radio, plus more than seventy radio stations); and the Walt Disney Internet Group (nineteen Internet sites including Disney Online, Disney's Daily Blast, ABC.com, ESPN.com, Family.com, NASCAR.com, and NBA.com).

Parks and Resorts: Eleven parks and thirty-five resort hotels on three continents (including Disneyland Resort Paris, Tokyo Disney Resort, and Hong Kong Disneyland); Disney Cruise Line; Disney Vacation Club; and ESPN Zone.

Consumer Products: Three Disney Merchandise Licensing divisions; four Disney Publishing divisions (including Hyperion Books, Disney Press, and *Disney Adventures*, the number one children's magazine in the United States); the Baby Einstein Company (developmental media for infants); four Disney Retail groups (including Disney Stores Worldwide and Disney Direct Marketing); and Buena Vista Games (Disney content for the interactive gaming community).

Whew! That's an impressive list. However, for Disney, managing this diverse portfolio of businesses has become a real *Monsters, Inc.* During the last half of the 1980s, the smaller, more focused Disney experienced soaring sales and profits. Revenues grew at an average rate of 23 percent annually; net income grew at 50 percent annually. In contrast, at least until recently, the larger, more complex Disney has struggled for consistent profitability and growth.

Disney's centralized strategic planning group frequently bore the blame for the transformed company's uneven performance. Operating from on high, the group reached for the stars—overreached, according to some. Many critics assert that the company has grown too large, too diverse, and too distant from the core strengths that made it so successful in earlier years. At the same time, the strategic planning group reviewed and often rejected the strategies proposed by the company's business unit managers. The group was criticized for "having too much power and quashing ideas that weren't its own," notes one analyst. It even came to be called by some "the business prevention department."

In 2004, disagreements over Disney's long-term strategic direction erupted into high-level boardroom brawls, resulting in Eisner's ouster as chairman and resignation as CEO. Tellingly, less than two weeks after assuming the reins at The Walt Disney Company, new Chief Executive Robert Iger set a priority of decentralizing the company's strategic planning. In a move popular with most Disney executives, Iger broke up the centralized strategic planning group, returning most of the group's functions to Disney's division managers. He is betting that the individual business units, which are closer to their markets, can do a better job of planning growth strategies than the centralized unit did. As part of an expected corporate overhaul, Iger will no doubt take a fresh look at Disney's disparate portfolio of businesses.

Thus, for Disney, bigger isn't necessarily better. And more decentralized strategic planning seems to make better sense than on-high planning. One thing seems certain: Creating just the right blend of businesses to make up the new Magic Kingdom won't be easy. It will take masterful strategic planning—along with some big doses of the famed "Disney magic"—to give the modern Disney story a happy-ever-after ending.

Sources: Merissa Marr, "Disney Cuts Strategic-Planning Unit," *Wall Street Journal*, March 28, 2005, p. A3; Jacqueline Doherty, "Better Days for Disney," *Barron's*, March 21, 2005, p. 14; Laura M. Holson, "Disney Intends to Overhaul Planning Unit," *New York Times*, March 26, 2005, p. C2; Robert Niles, "Disney Slams Universal in 2005 Theme Park Attendance," December 27, 2005, accessed at www.themeparkinsider.com/flume/200512/2/; Juliana Koranteng, "Parks Persist in the Face of Calamity," *Amusement Business*, January 2006, pp. 6-7; "The Walt Disney Company," *Hoover Company Records*, June 15, 2006, p. 11603; and information from www.disney.go.com, November 2006.

Developing Strategies for Growth and Downsizing

Product/market expansion grid
A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders, and attract top talent. "Growth is pure oxygen," states one executive. "It creates a vital, enthusiastic corporation where people see genuine opportunity." At the same time, a firm must be careful not to make growth itself an objective. The company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company. Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in Figure 2.3.[8] We apply it here to Starbucks:

FIGURE 2.3
The product/market expansion grid

	Existing products	New products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

More than 20 years ago, Howard Schultz hit on the idea of bringing a European-style coffeehouse to America. People needed to slow down, he believed—to "smell the coffee" and enjoy life a little more. The result was Starbucks. This coffeehouse doesn't sell just coffee, it sells *The Starbucks Experience*. "There's the Starbucks ambience," notes an analyst, "The music. The comfy velvety chairs. The smells. The hissing steam." Says Starbucks Chairman Schultz, "We aren't in the coffee business, serving people. We are in the people business, serving coffee." People around the globe now flock to Starbucks, making it a powerhouse premium brand. Some 35 million customers now visit the company's more than 11,000 stores worldwide each week. Starbucks gives customers what it calls a "third place"—away from home and away from work.

Strategies for growth: To maintain its phenomenal growth in an increasingly overcaffeinated marketplace, Starbucks has brewed up an ambitious multipronged growth strategy.

Growth is the engine that keeps Starbucks perking—the company targets (and regularly achieves) jaw-dropping revenue growth exceeding 20 percent each year. Starbucks' success, however, has drawn a full litter of copycats, ranging from direct competitors such as Caribou Coffee to fast-food merchants (such as McDonald's McCafe) and even discounters (Wal-Mart's Kicks Coffee). To maintain its phenomenal growth in an increasingly overcaffeinated marketplace, Starbucks must brew up an ambitious, multipronged growth strategy.

Market penetration
A strategy for company growth by increasing sales of current products to current market segments without changing the product.

First, Starbucks management might consider whether the company can achieve deeper **market penetration**—making more sales to current customers without changing its products. It might add new stores in current market areas to make it easier for more customers to visit. In fact, Starbucks is adding an average of 34 stores a week, 52 weeks a year—its ultimate goal is 30,000 stores worldwide. Improvements in advertising, prices, service, menu selection, or store design might encourage customers to stop by more often, stay longer, or to buy more during each visit. For example, Starbucks has added drive-through windows to many of its stores. A Starbucks Card that lets customers prepay for coffee and snacks or give the gift of Starbucks to family and friends. And to get customers to hang around longer, Starbucks offers wireless Internet access in most of its stores.

Market development
A strategy for company growth by identifying and developing new market segments for current company products.

Second, Starbucks management might consider possibilities for **market development**—identifying and developing new markets for its current products. For instance, managers could review new *demographic markets*. Perhaps new groups—such as seniors or ethnic groups—could be encouraged to visit Starbucks coffee shops for the first time or to buy more from them. Managers also could review new *geographical markets*. Starbucks is now expanding swiftly into new U.S. markets, especially smaller cities. And it's expanding rapidly in new global markets. In 1996, Starbucks had only 11 coffeehouses outside North America. It now has more than 3,000, with plenty of room to grow. "We're just scratching the surface in China," says Starbucks's CEO. "We have 150 stores and the potential for more than 2,000 there."

Product development
A strategy for company growth by offering modified or new products to current market segments.

Diversification
A strategy for company growth through starting up or acquiring businesses outside the company's current products and markets.

Downsizing
Reducing the business portfolio by eliminating products or business units that are not profitable or that no longer fit the company's overall strategy.

Third, management could consider **product development**—offering modified or new products to current markets. For example, Starbucks has introduced new reduced-calorie options, such as Frappuccino Light Blended Beverages. It recently added Chantico, an indulgent chocolate beverage, to its menu to draw in more non-coffee drinkers. To capture consumers who brew their coffee at home, Starbucks has also pushed into America's supermarket aisles. It has a cobranding deal with Kraft, under which Starbucks roasts and packages its coffee and Kraft markets and distributes it. And the company is forging ahead into new consumer categories. For example, it has brought out a line of Starbucks coffee liqueurs.

Fourth, Starbucks might consider **diversification**—starting up or buying businesses outside of its current products and markets. For example, in 1999, Starbucks purchased Hear Music, which was so successful that it spurred the creation of the new Starbucks entertainment division. Beginning with just selling and playing compilation CDs, Hear Music now has its own XM Satellite Radio station. It is also installing kiosks (called Media Bars) in select Starbucks stores that let customers download music and burn their own CDs while sipping their lattes. As a next step, Starbucks is investing in Hear Music retail outlets, which will be music stores first and coffee shops second.

In a more extreme diversification, Starbucks has partnered with Lion's Gate to coproduce movies and then market them in Starbucks coffee houses. Starbucks supported the partnership's first film, *Akeelah and the Bee,* by sprinkling flashcards around the stores, stamping the movie's logo on its coffee cups, and placing spelling-bee caliber words on the store chalkboards. This new venture has left some analysts asking whether Starbucks is diversifying too broadly, at the risk of losing its market focus. They are asking, "What do movies have to do with Starbucks coffee and the Starbucks experience?"[9]

Companies must not only develop strategies for *growing* their business portfolios but also strategies for **downsizing** them. There are many reasons that a firm might want to abandon products or markets. The market environment might change, making some of the company's products or markets less profitable. The firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many foreign markets without the proper research or when a company introduces new products that do not offer superior customer value. Finally, some products or business units simply age and die. One marketing expert summarizes the problem this way:

> Companies spend vast amounts of money and time launching new brands, leveraging existing ones, and acquiring rivals. They create line extensions and brand extensions, not to mention channel extensions and subbrands, to cater to the growing number of niche segments in every market. . . . Surprisingly, most businesses do not examine their brand portfolios from time to time to check if they might be selling too many brands, identify weak ones, and kill unprofitable ones. They tend to ignore loss-making brands rather than merge them with healthy brands, sell them off, or drop them. Consequently, most portfolios have become [jammed] with loss-making and marginally profitable brands. Moreover, the surprising truth is that most brands don't make money for companies. Many corporations generate less than 80 to 90 percent of their profits from fewer than 20 percent of the brands they sell, while they lose money or barely break even on many of the other brands in their portfolios.[10]

When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest, or divest them. Weak businesses usually require a disproportionate amount of management attention. Managers should focus on promising growth opportunities, not fritter away energy trying to salvage fading ones.

Planning Marketing: Partnering to Build Customer Relationships

The company's strategic plan establishes what kinds of businesses the company will operate in and its objectives for each. Then, within each business unit, more detailed planning takes place. The major functional departments in each unit—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives.

Marketing plays a key role in the company's strategic planning in several ways. First, marketing provides a guiding *philosophy*—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups. Second, marketing provides *inputs* to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably.

Customer value and satisfaction are important ingredients in the marketer's formula for success. However, as we noted in Chapter 1, marketers alone cannot produce superior value for customers. Although it plays a leading role, marketing can be only a partner in attracting, keeping, and growing customers. In addition to *customer relationship management*, marketers must also practice *partner relationship management*. They must work closely with partners in other company departments to form an effective *value chain* that serves the customer. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior *value-delivery network*. We now take a closer look at the concepts of a company value chain and value-delivery network.

Partnering with Other Company Departments

Value chain
The series of departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products.

Each company department can be thought of as a link in the company's **value chain**.[11] That is, each department carries out value-creating activities to design, produce, market, deliver, and support the firm's products. The firm's success depends not only on how well each department performs its work but also on how well the activities of various departments are coordinated.

For example, Wal-Mart's goal is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at Wal-Mart play an important role. They learn what customers need and stock the stores' shelves with the desired products at unbeatable low prices. They prepare advertising and merchandising programs and assist shoppers with customer service. Through these and other activities, Wal-Mart's marketers help deliver value to customers.

The value chain: Wal-Mart's ability to offer the right products at low prices depends on the contributions of people in all of the company's departments—marketing, purchasing, information systems, and operations.

However, the marketing department needs help from the company's other departments. Wal-Mart's ability to offer the right products at low prices depends on the purchasing department's skill in developing the needed suppliers and buying from them at low cost. Wal-Mart's information technology department must provide fast and accurate information about which products are selling in each store. And its operations people must provide effective, low-cost merchandise handling.

A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value and on how well the activities of various departments are coordinated. At Wal-Mart, if purchasing can't wring the lowest prices from suppliers, or if operations can't distribute merchandise at the lowest costs, then marketing can't deliver on its promise of lowest prices.

Ideally, then, a company's different functions should work in harmony to produce value for consumers. But, in practice, departmental relations are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view. But when marketing tries to develop customer satisfaction, it can cause other departments to do a poorer job *in their terms*. Marketing department actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches. Thus, the other departments may resist the marketing department's efforts.

Yet marketers must find ways to get all departments to "think consumer" and to develop a smoothly functioning value chain. Marketing managers need to work closely with managers of other functions to develop a system of functional plans under which the different departments can work together to accomplish the company's overall strategic objectives. The idea is to "maximize the customer experience across the organization and its various customer touch points," says a marketing consultant. Jack Welch, GE's highly regarded former CEO, told his employees: "Companies can't give job security. Only customers can!" He emphasized that all GE people, regardless of their department, have an impact on customer satisfaction and retention. His message: "If you are not thinking customer, you are not thinking."[12]

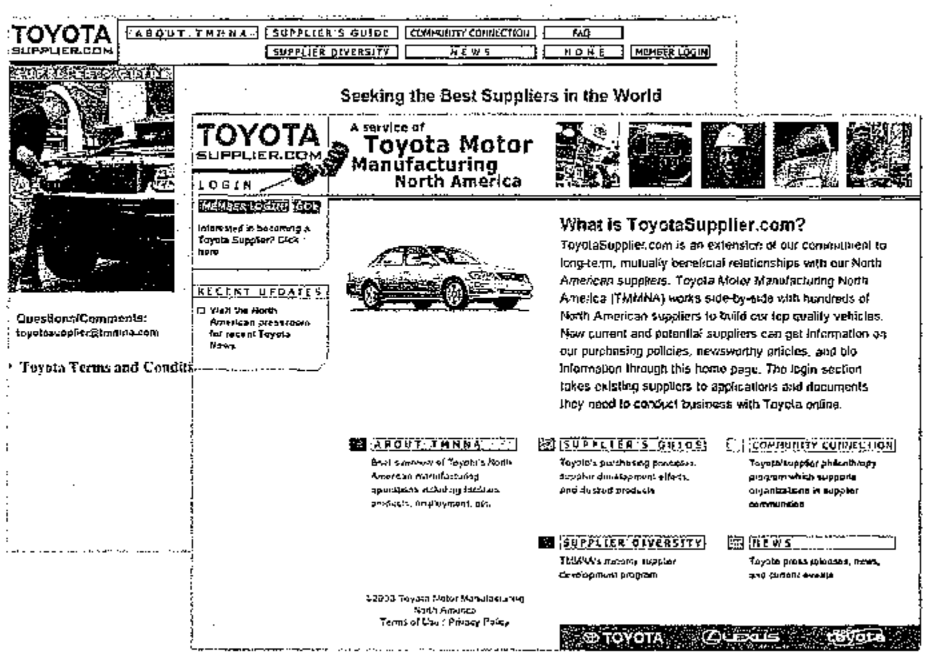
Partnering with Others in the Marketing System

In its quest to create customer value, the firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and, ultimately, customers. Consider McDonald's. McDonald's nearly 32,000 restaurants worldwide serve more than 50 million customers daily, capturing more than a 40 percent share of the burger market.[13] People do not swarm to McDonald's only because they love the chain's hamburgers. In fact, consumers typically rank McDonald's behind Burger King and Wendy's in taste. Consumers flock to the McDonald's *system*, not just to its food products. Throughout the world, McDonald's finely-tuned system delivers a high standard of what the company calls QSCV—quality, service, cleanliness, and value. McDonald's is effective only to the extent that it successfully partners with its franchisees, suppliers, and others to jointly deliver exceptionally high customer value.

More companies today are partnering with the other members of the supply chain to improve the performance of the customer **value-delivery network**. For example, Toyota knows the importance of building close relationships with its suppliers. In fact, it even includes the phrase "achieve supplier satisfaction" in its mission statement.

Value-delivery network
The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

> Achieving satisfying supplier relationships has been a cornerstone of Toyota's stunning success. U.S. competitors often alienate their suppliers through self-serving, heavy-handed dealings. "The [U.S. automakers] set annual cost-reduction targets [for the parts they buy]," says one supplier. "To realize those targets, they'll do anything. [They've unleashed] a reign of terror, and it gets worse every year." Says another, "[Ford] seems to send its people to "hate school" so that they learn how to hate suppliers." By contrast, in survey after survey, auto suppliers rate Toyota as their most preferred customer. Rather than bullying suppliers, Toyota partners with them and helps them to meet its very high expectations. It learns about their businesses, conducts joint improvement activities, helps train their employees, gives daily performance feedback, and actively seeks out supplier concerns. Says one delighted Toyota supplier, "Toyota helped us dramatically improve our production system. We started by making one component, and as we improved, [Toyota] rewarded us with orders for more components. Toyota is our best customer."



Toyota partners with its suppliers and helps them meet its very high expectations. Creating satisfied suppliers helps Toyota produce lower-cost, higher-quality cars, which in turn results in more satisfied customers.

Such high supplier satisfaction means that Toyota can rely on suppliers to help it improve its own quality, reduce costs, and develop new products quickly. For example, when Toyota recently launched a program to reduce prices by 30 percent on 170 parts that it would buy for its next generation of cars, suppliers didn't complain. Instead, they pitched in, trusting that Toyota would help them achieve the targeted reductions, in turn making them more competitive and profitable in the future. In all, creating satisfied suppliers helps Toyota to produce lower-cost, higher-quality cars, which in turn results in more satisfied customers.[14]

Increasingly in today's marketplace, competition no longer takes place between individual competitors. Rather, it takes place between the entire value-delivery networks created by these competitors. Thus, Toyota's performance against Ford depends on the quality of Toyota's overall value-delivery network versus Ford's. Even if Toyota makes the best cars, it might lose in the marketplace if Ford's dealer network provides more customer-satisfying sales and service.

Marketing Strategy and the Marketing Mix

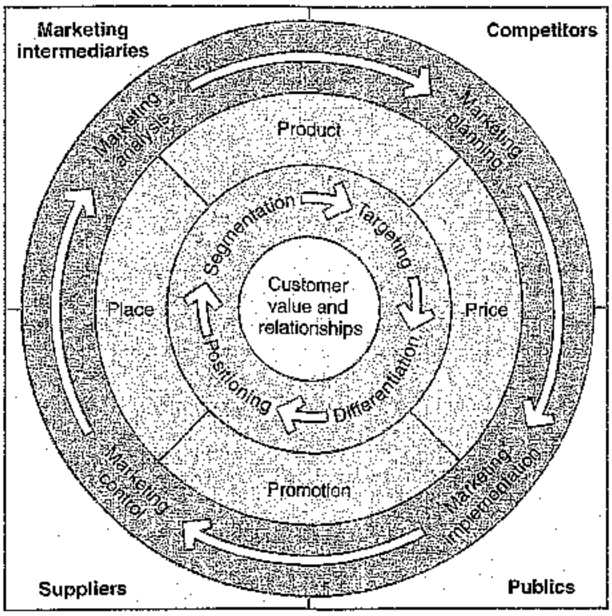
The strategic plan defines the company's overall mission and objectives. Marketing's role and activities are shown in Figure 2.4, which summarizes the major activities involved in managing a customer-driven marketing strategy and the marketing mix.

Consumers stand in the center. The goal is to create value for customers and build strong and profitable customer relationships. Next comes **marketing strategy**—the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how it will serve them (differentiation and positioning). It identifies the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying customers in these segments.

Marketing strategy
The marketing logic by which the business unit hopes to achieve its marketing objectives.

Guided by marketing strategy, the company designs an integrated *marketing mix* made up of factors under its control—product, price, place, and promotion (the four Ps). To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation, and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. We will now look briefly at each activity. Then, in later chapters, we will discuss each one in more depth.

FIGURE 2.4
Managing marketing strategy and the marketing mix



Customer-Driven Marketing Strategy

As we emphasized throughout Chapter 1, to succeed in today's competitive marketplace, companies need to be customer centered. They must win customers from competitors, then keep and grow them by delivering greater value. But before it can satisfy consumers, a company must first understand their needs and wants. Thus, sound marketing requires a careful customer analysis.

Companies know that they cannot profitably serve all consumers in a given market—at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. And most companies are in a position to serve some segments better than others. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments. This process involves *market segmentation, target marketing, differentiation,* and *market positioning.*

Market Segmentation

Market segmentation
Dividing a market into distinct groups of buyers who have distinct needs, characteristics, or behavior and who might require separate products or marketing programs.

Market segment
A group of consumers who respond in a similar way to a given set of marketing efforts.

The market consists of many types of customers, products, and needs. The marketer has to determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, who might require separate products or marketing programs is called **market segmentation.**

Every market has segments, but not all ways of segmenting a market are equally useful. For example, Tylenol would gain little by distinguishing between low-income and high-income pain reliever users if both respond the same way to marketing efforts. A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts. In the car market, for example, consumers who want the biggest, most comfortable car regardless of price make up one market segment. Consumers who care mainly about price and operating economy make up another segment. It would be difficult to make one car model that was the first choice of consumers in both segments. Companies are wise to focus their efforts on meeting the distinct needs of individual market segments.

Market Targeting

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

After a company has defined market segments, it can enter one or many of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

A company with limited resources might decide to serve only one or a few special segments or "market niches." Such "nichers" specialize in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells only 1,500 of its very high-performance cars in the United States each year, but at very high prices—from an eye-opening $287,020 for its Ferrari Superamerica model to an absolutely astonishing $2 million for its FXX super sports car, which can be driven only on race tracks (it sold 10 in the United States last year). Most nichers aren't quite so exotic. White Wave, maker of Silk Soymilk, has found its niche as the nation's largest soymilk producer. And by operating in the shadows of soft drink giants like Coca-Cola and Pepsi, nicher Jones Soda has learned that small can be beautiful—and very profitable (see Real Marketing 2.2).

Alternatively, a company might choose to serve several related segments—perhaps those with different kinds of customers but with the same basic wants. Pottery Barn, for example, targets kids, teens, and adults with the same lifestyle-themed merchandise in different outlets: the original Pottery Barn, Pottery Barn Kids, and PB Teen. Or a large company might decide to offer a complete range of products to serve all market segments. Most companies enter a new market by serving a single segment, and if this proves successful, they add segments. Large companies eventually seek full market coverage. They want to be the General Motors of their industry. GM says that it makes a car for every "person, purse, and personality." The leading company normally has different products designed to meet the special needs of each segment.

Market Differentiation and Positioning

After a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in

Real Marketing

Every great product has a secret formula. Coca-Cola's legendary recipe is locked deep within the vaults beneath its Atlanta headquarters. KFC mixes different parts of its 11 herbs and spices at three separate facilities to safeguard the Colonel's secret blend. And McDonald's hunted down its original special-sauce mix for Big Macs last year as part of its turnaround effort.

Jones Soda, the small Seattle soft drink maker, has its own secret ingredient—one that has created buzz, produced 30 percent yearly revenue growth in a flat beverage market, drawn major distribution partners such as Starbucks and Target, and brought in $34 million in annual revenue. That ingredient: a small but growing following of devout customers. These are not just any customers—Jones Soda knows its niche. It targets young buyers—12- to 24-year-olds—who appreciate the brand's wacky, irreverent attitude. By focusing on these customers, listening to them, and giving them what they want, Jones Soda is thriving in the shadows of the soft drink giants.

Virtually everything about a Jones Soda, from labels to flavors, comes from its carefully targeted customers. That's important because "the reality is that consumers don't need our s___," founder and CEO Peter van Stolk says unapologetically. The world isn't necessarily clamoring for another soda, even if it tastes like blue bubble gum. So how do you sell an unnecessary product? If you're van Stolk, a 41-year-old former ski instructor who started Jones 10 years ago, you hand the product over to customers. Strategy gurus might call that a good example of how to "cocreate unique value." Van Stolk has a more down-to-earth but no less profound way to describe it: "People get fired up about Jones because it's theirs."

It all started with the Web site Jones Soda launched in 1997. Hundreds of comments poured in from customers, and van Stolk quickly took up their suggestions and online votes for neon colors, wacky names (like Fufu Berry, Whoop Ass, MF Grape, Happy, Bugjuice, and Bada Bing!), and offbeat flavors (including blue bubblegum, crushed melon, and twisted lime—or even strange seasonal flavors like fruitcake or turkey and gravy). Even the "Deep Thoughts"—like quotes found on the Web site and underneath bottle caps ("It's not broken, it just needs duct tape")—come straight from Jones enthusiasts.

Van Stolk also encouraged customers to submit photos, and the eccentric and strangely captivating images on Jones's stark black-and-white bottle labels have come largely from fans. And as the site became flooded with hundreds of thousands of cute, but useless, baby snapshots, he launched myJones to offer customers 12-packs of soda customized with their own photos and sayings for $34.95. MyJones has since blossomed into one of the cornerstones of the Jones Soda brand.

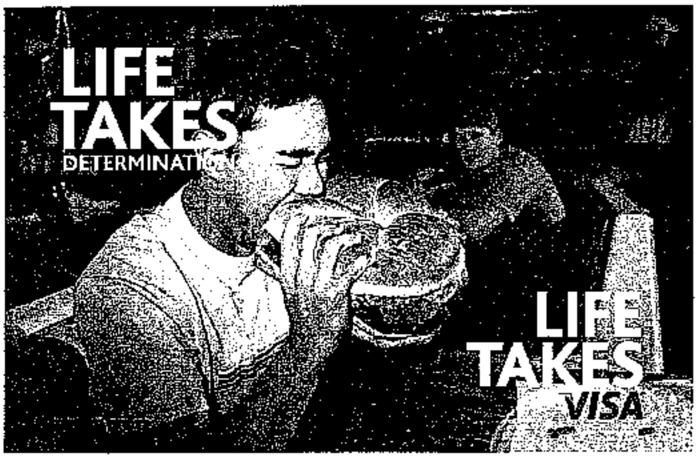
Jones also stays close to its 12- to 24-year-old customers with a pair of roving RVs. The two flame-festooned vehicles spend nine months out of the year visiting Jones-friendly sites, from small skate parks in the middle of nowhere to major extreme-games competitions such as the X Games. The RVs also turn up in places where they're less welcome, such as high schools to which they weren't invited. "The more deviant you can be, the better," says RV driver Chris King, 32, on a crackling cell phone. "Kids love to see you get kicked out of places. I, personally, am banned from Nassau County in New York." The idea is simple. Kids come in and grab a bunch of Jones Soda stuff—buttons, stickers, key chains—while King studies them for a mental inventory of what's hot and what's not.

Jones Soda sticks closely to its niche—virtually everything about a Jones Soda, from labels to flavors, come directly from its carefully targeted customers.

Whereas its mainstream competitors work at making something for everyone, Jones Soda understands the importance of sticking to its niche. As only van Stolk can put it, "The customer's not always right. [Bleep] that. If you're always trying to cater to everyone, you have no soul." To van Stolk, the Web site, the labels, the RVs, and the various stunts just add up to being in sync with target customers. "It's the difference between being real and saying you're real," van Stolk says, taking a not-so-subtle swipe at a certain "Real Thing" megarival. "If you're able to listen to customers from their perspective," he says, "not everything they say will make sense. Not everything they do will be right. But you'll know more about what you have to do because of it."

Staying so close to customers will become more of a challenge as Jones grows and its customers start buying its soda at the likes of Panera Bread, Target, Barnes & Noble, and Starbucks instead of the local skate shop. But so far, Jones Soda has learned that small can be beautiful—and very profitable. Over the past two years, sales have soared 67 percent; profits have more than quadrupled.

Sources: Adapted from Ryan Underwood, "Cracking Jones Soda's Secret Formula," *Fast Company,* March 2005, pp. 74–75. Additional information from Christopher Steiner, "Soda Jerk," *Forbes*, April 11, 2005, p. 74; Kate MacArthur, "Quirky Jones Soda and Steps into Mainstream," *Advertising Age,* March 27, 2006, p. 1; and www.jonessoda.com, accessed December 2006.



Market positioning: Whether it's an everyday moment or the moment of a lifetime, "life takes Visa."

those segments. A product's *position* is the place the product occupies relative to competitors in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be exactly like others on the market, consumers would have no reason to buy it.

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. As one positioning expert puts it, positioning is "how you differentiate your product or company—why a shopper will pay a little more for your brand."[15] Thus, marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

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

BMW makes "the ultimate driving machine"; Ford is "built for the road ahead"; and Kia promises "the power to surprise." MasterCard gives you "priceless experiences"; and whether its an everyday moment or the moment of a lifetime, "life takes Visa." Target says "expect more, pay less." And at Caesar's Palace in Las Vegas, you can "live famously." Such deceptively simple statements form the backbone of a product's marketing strategy.

Differentiation
Actually differentiating the market offering to create superior customer value.

In positioning its product, the company first identifies possible customer value differences that provide competitive advantages upon which to build the position. The company can offer greater customer value either by charging lower prices than competitors do or by offering more benefits to justify higher prices. But if the company *promises* greater value, it must then *deliver* that greater value. Thus, effective positioning begins with **differentiation**, actually differentiating the company's market offering so that it gives consumers more value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing program should support the chosen positioning strategy.

Developing an Integrated Marketing Mix

Marketing mix
The set of controllable tactical marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

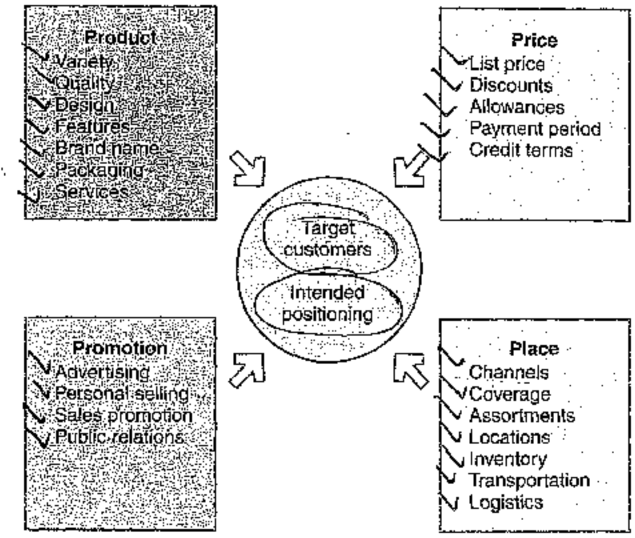
After deciding on its overall marketing strategy, the company is ready to begin planning the details of the marketing mix, one of the major concepts in modern marketing. The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables known as the "four *Ps*": *product, price, place,* and *promotion.* Figure 2.5 shows the marketing tools under each *P*.

Product means the goods-and-services combination the company offers to the target market. Thus, a Ford Escape consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Escape models and dozens of optional features. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.

Price is the amount of money customers have to pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Escape. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive situation and bring them into line with the buyer's perception of the car's value.

Place includes company activities that make the product available to target consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.

FIGURE 2.5
The four P's of the marketing mix



Promotion means activities that communicate the merits of the product and persuade target customers to buy it. Ford Motor Company spends almost $2.4 billion each year on advertising, more than $600 per vehicle, to tell consumers about the company and its many products.[16] Dealership salespeople assist potential buyers and persuade them that Ford is the best car for them. Ford and its dealers offer special promotions—sales, cash rebates, low financing rates—as added purchase incentives.

An effective marketing program blends all of the marketing mix elements into an integrated marketing program designed to achieve the company's marketing objectives by delivering value to consumers. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets.

Some critics think that the four Ps may omit or underemphasize certain important activities. For example, they ask, "Where are services?" Just because they don't start with a *P* doesn't justify omitting them. The answer is that services, such as banking, airline, and retailing services, are products too. We might call them *service products.* "Where is packaging?" the critics might ask. Marketers would answer that they include packaging as just one of many product decisions. All said, as Figure 2.5 suggests, many marketing activities that might appear to be left out of the marketing mix are subsumed under one of the four Ps. The issue is not whether there should be four, six, or ten Ps so much as what framework is most helpful in designing integrated marketing programs.

There is another concern, however, that is valid. It holds that the four Ps concept takes the seller's view of the market, not the buyer's view. From the buyer's viewpoint, in this age of customer relationships, the four Ps might be better described as the four Cs:[17]

4Ps	4Cs
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Thus, while marketers see themselves as selling products, customers see themselves as buying value or solutions to their problems. And customers are interested in more than just the price; they are interested in the total costs of obtaining, using, and disposing of a product. Customers want the product and service to be as conveniently available as possible. Finally, they want two-way communication. Marketers would do well to think through the four Cs first and then build the four Ps on that platform.

Managing the Marketing Effort

In addition to being good at the *marketing* in marketing management, companies also need to pay attention to the *management*. Managing the marketing process requires the four marketing management functions shown in Figure 2.6—*analysis, planning, implementation,* and *control.* The company first develops companywide strategic plans, and then translates them into marketing and other plans for each division, product, and brand. Through implementation, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides information and evaluations needed for all of the other marketing activities.

Marketing Analysis

SWOT analysis
An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a **SWOT analysis**, by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see Figure 2.7). Strengths include internal capabilities, resources, and positive situational factors that may help the company to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance.

The company must analyze its markets and marketing environment to find attractive opportunities and identify environmental threats. It must analyze company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment, while eliminating or overcoming the weaknesses and minimizing the threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Chapter 3.

Marketing Planning

Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product, or brand. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans.

Table 2.2 outlines the major sections of a typical product or brand marketing plan. (See Appendix 1 for a sample marketing plan.) The plan begins with an executive summary, which quickly overviews major assessments, goals, and recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them.

FIGURE 2.6
Marketing analysis, planning, implementation, and control

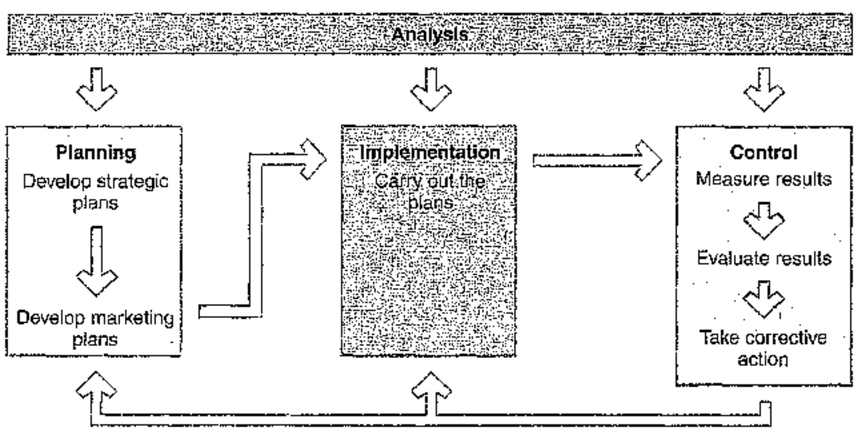


FIGURE 2.7
SWOT analysis

	Positive	Negative
Internal	**Strengths** Internal capabilities that may help a company reach its objectives	**Weaknesses** Internal limitations that may interfere with a company's ability to achieve its objectives
External	**Opportunities** External factors that the company may be able to exploit to its advantage	**Threats** Current and emerging external factors that may challenge the company's performance

A *marketing strategy* consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. It outlines how the company intends to create value for target customers in order to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an action program for implementing the marketing strategy along with the details of a supporting *marketing budget*. The last section outlines the controls that will be used to monitor progress, measure return on marketing investment, and take corrective action.

Marketing Implementation

Marketing implementation
The process that turns marketing strategies and plans into marketing actions in order to accomplish strategic marketing objectives.

Planning good strategies is only a start toward successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing *plans* into marketing *actions* in order to accomplish strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who, where, when,* and *how.*

Many managers think that "doing things right" (implementation) is as important as, or even more important than, "doing the right things" (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another, yet win in the marketplace through faster or better execution. Still, implementation is difficult—it is often easier to think up good marketing strategies than it is to carry them out. "Despite the enormous time and energy that goes into strategy development, . . . companies on average deliver only 63 percent of the financial performance their strategies promise," declares a marketing consultant. "To close the strategy-to-performance gap, [companies need] better planning *and* execution."[16]

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. At Black & Decker, for example, marketing implementation for the company's power tools, outdoor equipment, and other products requires day-to-day decisions and actions by thousands of people both inside and outside the organization. Marketing managers make decisions about target segments, branding, packaging, pricing, promoting, and distributing. They talk with engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cash flows. They also connect with outside people, such as advertising agencies to plan ad campaigns and the news media to obtain publicity support. The sales force urges Home Depot, Lowe's, Wal-Mart, and other retailers to advertise Black & Decker products, provide ample shelf space, and use company displays.

■ Marketers must continually plan their analysis, implementation, and control activities.

Successful marketing implementation depends on how well the company blends its people, organizational structure, decision and reward systems, and company culture into a cohesive action program that supports its strategies. At all levels, the company must be staffed

TABLE 2.2 Contents of a Marketing Plan

Section	*Purpose*
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management to find the plan's major points quickly. A table of contents should follow the executive summary.
Current marketing situation	Describes the target market and company's position in it, including information about the market, product performance, competition, and distribution. This section includes: • A *market description* that defines the market and major segments, then reviews customer needs and factors in the marketing environment that may affect customer purchasing. • A *product review* that shows sales, prices, and gross margins of the major products in the product line. • A review of *competition* that identifies major competitors and assesses their market positions and strategies for product quality, pricing, distribution, and promotion. • A review of *distribution* that evaluates recent sales trends and other developments in major distribution channels.
Threats and opportunities analysis	Assesses major threats and opportunities that the product might face, helping management to anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	States the marketing objectives that the company would like to attain during the plan's term and discusses key issues that will affect their attainment. For example, if the goal is to achieve a 15 percent market share, this section looks at how this goal might be achieved.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to achieve its marketing objectives and the specifics of target markets, positioning, and marketing expenditure levels. How will the company create value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how each responds to the threats, opportunities, and critical issues spelled out earlier in the plan.
Action programs	Spells out how marketing strategies will be turned into specific action programs that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How* much will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows expected revenues (forecasted number of units sold and the average net price) and expected costs (of production, distribution, and marketing). The difference is the projected profit. Once approved by higher management, the budget becomes the basis for materials buying, production scheduling, personnel planning, and marketing operations.
Controls	Outlines the control that will be used to monitor progress and allow higher management to review implementation results and spot products that are not meeting their goals. It includes measures of return on marketing investment.

by people who have the needed skills, motivation, and personal characteristics. The company's formal organization structure plays an important role in implementing marketing strategy; so do its decision and reward systems. For example, if a company's compensation system rewards managers for short-run profit results, they will have little incentive to work toward long-run market-building objectives.

Finally, to be successfully implemented, the firm's marketing strategies must fit with its company culture, the system of values and beliefs shared by people in the organization. A study of America's most successful companies found that these companies have almost cult-like cultures built around strong, market-oriented missions. At companies such as Dell, Nordstrom, Citicorp, and P&G, "employees share such a strong vision that they know in their hearts what's right for their company."[19]

Marketing Department Organization

The company must design a marketing organization that can carry out marketing strategies and plans. If the company is very small, one person might do all of the research, selling, advertising, customer service, and other marketing work. As the company expands, a marketing department emerges to plan and carry out marketing activities. In large companies, this department contains many specialists. Thus, GE and Microsoft have product and market managers, sales managers and salespeople, market researchers, advertising experts, and many other specialists. To head up such large marketing organizations, many companies have now created a *chief marketing officer* (or CMO) position.

Modern marketing departments can be arranged in several ways. The most common form of marketing organization is the *functional organization*. Under this organization, different marketing activities are headed by a functional specialist—a sales manager, advertising manager, marketing research manager, customer service manager, or new-product manager. A company that sells across the country or internationally often uses a *geographic organization*. Its sales and marketing people are assigned to specific countries, regions, and districts. Geographic organization allows salespeople to settle into a territory, get to know their customers, and work with a minimum of travel time and cost.

Companies with many very different products or brands often create a *product management organization*. Using this approach, a product manager develops and implements a complete strategy and marketing program for a specific product or brand. Product management first appeared at Procter & Gamble in 1929. A new company soap, Camay, was not doing well, and a young P&G executive was assigned to give his exclusive attention to developing and promoting this product. He was successful, and the company soon added other product managers.[20] Since then, many firms, especially consumer products companies, have set up product management organizations.

For companies that sell one product line to many different types of markets and customers that have different needs and preferences, a *market* or *customer management organization* might be best. A market management organization is similar to the product management organization. Market managers are responsible for developing marketing strategies and plans for their specific markets or customers. This system's main advantage is that the company is organized around the needs of specific customer segments.

Large companies that produce many different products flowing into many different geographic and customer markets usually employ some *combination* of the functional, geographic, product, and market organization forms. This ensures that each function, product, and market receives its share of management attention. However, it can also add costly layers of management and reduce organizational flexibility. Still, the benefits of organizational specialization usually outweigh the drawbacks.

Marketing organization has become an increasingly important issue in recent years. As we discussed in Chapter 1, many companies are finding that today's marketing environment calls for less focus on products, brands, and territories and more focus on customers and customer relationships. More and more companies are shifting their brand management focus toward *customer management*—moving away from managing just product or brand profitability and toward managing customer profitability and customer equity. And many companies now organize their marketing operations around major customers. For example, companies such as Procter & Gamble and Black & Decker have large teams, or even whole divisions, set up to serve large customers such as Wal-Mart, Target, Safeway, or Home Depot.

Marketing Control

Marketing control
The process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are achieved.

Marketing audit
A comprehensive, systematic, independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities and to recommend a plan of action to improve the company's marketing performance.

Because many surprises occur during the implementation of marketing plans, the marketing department must practice constant marketing control. **Marketing control** involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained. Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance. This may require changing the action programs or even changing the goals.

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets, and channels.

Strategic control involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace. A major tool for such strategic control is a **marketing audit**. The marketing audit is a comprehensive, systematic, independent, and periodic examination of a company's mission, setting objectives and goals, designing a business portfolio, and developing functional plans. *Defining a clear company mission* begins with drafting a formal mission statement, which should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then transformed into detailed *supporting goals and objectives* to guide the entire company. Based on those goals and objectives, headquarters designs a *business portfolio*, deciding which businesses and products should receive more or fewer resources. In turn, each business and product unit must develop *detailed marketing plans* in line with the companywide plan.

2. **Discuss how to design business portfolios and develop strategies for growth and downsizing.**

Guided by the company's mission statement and objectives, management plans its *business portfolio*, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that best fits its strengths and weaknesses to opportunities in the environment. To do this, it must analyze and adjust its *current* business portfolio and develop growth and downsizing strategies for adjusting the *future* portfolio. The company might use a formal portfolio-planning method. But many companies are now designing more customized portfolio-planning approaches that better suit their unique situations. The *product/market expansion grid* suggests four possible growth paths: market penetration, market development, product development, and diversification.

3. **Assess marketing's role in strategic planning and explain how marketers partner with others inside and outside the firm to build profitable customer relationships.**

Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a *marketing-concept philosophy* and *inputs* regarding attractive market opportunities. Within individual business units, marketing designs *strategies* for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. A company's success depends on how well each department performs its customer value-adding activities and how well the departments work together to serve the customer. Thus, marketers must practice *partner relationship management*. They must work closely with partners in other company departments to form an effective *value chain* that serves the customer. And they must partner effectively with other companies in the marketing system to form a competitively superior *value-delivery network*.

4. **Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.**

Consumer value and relationships are at the center of marketing strategy and programs. Through market segmentation, market targeting, differentiation, and market positioning, the company divides the total market into smaller segments, selects segments it can best serve, and decides how it wants to bring value to target consumers. It then designs an *integrated marketing mix* to produce the response it wants in the target market. The marketing mix consists of product, price, place, and promotion decisions.

5. **List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing.**

To find the best strategy and mix and to put them into action, the company engages in marketing analysis, planning, implementation, and control. The main components of a *marketing plan* are the executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programs, budgets, and controls. To plan good strategies is often easier than to carry them out. To be successful, companies must also be effective at *implementation*—turning marketing strategies into marketing actions.

Much of the responsibility for implementation goes to the company's marketing department. Marketing departments can be organized in one or a combination of ways: *functional marketing organization, geographic organization, product management organization*, or *market management organization*. In this age of customer relationships, more and more companies are now changing their organizational focus from product or territory management to customer relationship management. Marketing organizations carry out *marketing control*, both operating control and strategic control. They use *marketing audits* to determine marketing opportunities and problems and to recommend short-run and long-run actions to improve overall marketing performance.

Marketing managers must ensure that their marketing dollars are being well spent. Today's marketers face growing pressures to show that they are adding value in line with their costs. In response, marketers are developing better measures of *return on marketing investment*. Increasingly, they are using customer-centered measures of marketing impact as a key input into their strategic decision making.

Reviewing the Key Terms

Discussing the Concepts

1. There are four major steps in strategic planning. Why is it important for a marketer to perform these steps in order?
2. The BCG growth-share matrix identifies four classifications of SBUs: stars, cash cows, question marks, and dogs. Briefly discuss why management may find it difficult to dispose of a "question mark."
3. Discuss the differences between the four growth strategies identified in the product/market expansion grid. Which option would a smaller company be pursuing if it decided to enter an existing market served by many large, well-known competitors? Assume that the product being introduced by this smaller company is a new offering for the organization, but that this new product offers a number of unique features.
4. Does the "4 Ps" marketing mix framework do an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
5. What is the importance of marketing implementation? How might a company have excellent planning and poor implementation?
6. What is return on marketing investment? Why is it difficult to measure?

Applying the Concepts

1. In a small group, discuss whether the following statement from Burton Snowboards North America, manufacturers and marketers of a leading snowboard brand, meets the five criteria of a good mission statement: "Burton Snowboards is a rider-driven company solely dedicated to creating the best snowboarding equipment on the planet."
2. A company's value chain and value-delivery network are critical to its success. Describe how Reebok relies on its value chain. Sketch Reebok's value-delivery network and highlight the importance of each member in the network.
3. Both Wal-Mart and Target sell merchandise at lower prices with lower margins and higher volumes. Based on your experience with these two retailers and visits to each of their Web sites, describe how the two discount store chains differ in their market segmentation, target marketing, and market positioning strategies.

Focus on Technology

Visit the Web sites of several car manufacturers and you will see the technological innovations and additions offered in today's vehicles. From navigation systems to audio enhancements and DVD systems, these technologies are enhancing today's cars. Microsoft, known mostly for its computer operating systems, has been working with Fiat to develop a new "infotainment" system known as Blue&Me. Currently offered only in limited Fiat models, the system integrates mobile phones, MP3 players, and an Internet connection through controls on the steering wheel. The new technology will also contain a navigation system, weather and traffic forecasts, and antitheft devices.

1. According to the product/market expansion grid, which strategy best describes Microsoft's expansion into automobile applications?
2. Why is Fiat an important member of Microsoft's value-delivery network?
3. Describe why this advanced technology is important to Fiat in terms of positioning its products.

Focus on Ethics

Tyson Foods Inc. has been a leading provider of poultry products for more than 60 years. Its corporate mission statement includes a set of core values that clearly state the importance of being a faith-friendly company and honoring God. Internally, Tyson connects with its employees and has placed 128 part-time chaplains in 78 plants across the United States. But Tyson also wants to send its faith-friendly message to consumers. To reinforce its "Powered by Tyson" campaign, it has recently begun to offer free downloadable prayer books on its Web site. According to Tyson, it provides these books to help consumers discover (or rediscover) the joy and power of saying a word of thanks at mealtime.

1. What do you think of Tyson's strategy to offer the downloadable booklets? Is there a reason to believe it is embracing religion only to make increased profit?
2. In your opinion, does religion belong in a corporate mission statement? Why or why not?
3. Many consumers see chicken as a commodity product with no real difference between brands. Does this strategy make you more or less likely to buy Tyson over another brand?