2 Company and Marketing Strategy
Partnering to Build Customer Relationships

Chapter Preview

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

Let's begin by looking at Nike. Over the past several decades, Nike has built the Nike swoosh into one of the world's best-known brand symbols. Nike's outstanding success results from much more than just making and selling good sports gear. It's based on a customer-focused mission and strategy through which Nike creates valued brand experiences and deep brand community with its customers.

Nike's Mission: Creating Valued Brand Experiences and Deep Brand Community

The Nike swoosh—it's everywhere! Just for fun, try counting the number of swooshes whenever you pick up the sports pages, 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.

Some 47 years ago, when young CPA Phil Knight and college track coach Bill Bowerman cofounded the company, Nike was a brash, young upstart in the athletic footwear industry. In 1964, the pair chipped in $500 apiece to start Blue Ribbon Sports. In 1970, Bowerman cooked 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 introduced its first Nike brand shoe, named after the Greek goddess of victory. And, in 1978, the company changed its name to Nike. By 1979, Nike had sprinted ahead of the competition, owning 50 percent of the U.S. running shoe market.

In the 1980s, Nike revolutionized sports marketing. To build its brand image and market share, Nike lavishly outspent its competitors on big-name endorsements, splashy promotional events, and big-budget, in-your-face "Just Do It" ads. Nike gave customers much more than just good athletic gear. Whereas competitors stressed technical performance, Nike built customer relationships. Beyond shoes, apparel, and equipment, Nike marketed a way of life, a genuine passion for sports, a just-do-it attitude. Customers didn't just *wear* their Nikes, they *experienced* them. As the company stated on its Web page, "Nike has always known the truth—it's not so much the shoes but where they take you."

Nike powered its way through the early 1990s, moving aggressively into a dozen new sports, including baseball, golf, skateboarding, wall climbing, bicycling, and hiking. The still-brash young company slapped its familiar swoosh logo on everything from sunglasses and soccer balls to batting gloves and golf clubs. It seemed that things couldn't be going any better.

In the late 1990s, however, Nike stumbled, and its sales slipped. As the company grew larger, its creative juices seemed to run a bit dry. Its ads began to look like just more of the same, and its ho-hum new sneaker designs collected dust on retailer shelves' as buyers seeking a new look switched to competing brands. Looking back, Nike's biggest obstacle may have been its own incredible success. As sales approached the $10 billion mark, the swoosh may have become too common to be cool. Instead of being *anti*establishment, Nike *was* the establishment, and its hip, once-hot relationship with customers cooled. Nike needed to rekindle its meaning to its customers.

To turn things around, Nike returned to its roots: new-product innovation and a focus on customer relationships. Its newly minted mission: Nike wants "to bring inspiration and innovation to every athlete* in the world (*if you have a body, you are an athlete.)" With its deep pockets, as in the past, Nike can outspend most competitors on marketing by a wide margin. But this time around, the sports marketer set out to create a new kind of customer relationship—a deeper, more involving one. Now, Nike no longer just talks *at* its customers through media ads and celebrity endorsers. Instead, it uses cutting-edge marketing tools to interact *with* customers to build brand experiences and deep brand community.

Nike still invests hundreds of millions of dollars each year on creative advertising. However, it now spends less than one-third of its $593 million annual promotion budget on television and other traditional media, down from 55 percent 10 years ago. These days, behind the bright lights, Nike has developed a host of innovative new relationship-building approaches.

Using community-oriented, digitally led, social-networking tools, Nike is now building communities of customers who talk not just with the company about the brand but with each other. "Nike's latest masterstroke is social networking, online and off," says one Nike watcher. Whether customers come to know Nike through ads, in-person events at a Niketown store, a local Nike running club, or at a one of the company's many community Web sites, more and more people are bonding closely with the Nike brand experience. Consider this example:

Nike creates deep brand community with its customers. For example, the Nike+ running system can be the next best thing to your own personal trainer or jogging buddy.

Twice a week, 30 or more people gather at a Nike store in Portland, Oregon, and go for an evening run. Afterward, the members of the Niketown running club chat in the store over refreshments. Nike's staff keeps track of their performances and hails members who have logged more than 100 miles. The event is a classic example of up-close-and-personal relationship building with core customers.

Nike augments such events with an online social network aimed at striking up meaningful and long-term interactions with even more runners. The Nike+ running Web site lets customers with iPod-linked Nike shoes monitor their performances—the distance, pace, time, and calories burned during their runs. Runners can upload and track their own performances over time, compare them with those of other runners, and even participate in local or worldwide challenges.

Talk about brand involvement. Nike+ can be the next best thing to your own personal trainer or jogging buddy. The Nike+ Web site offers a "Nike Coach" that provides advice and training routines to help you prepare for competitive races. When running, if you have earphones, at the end of every mile a friendly voice tells you how far you've gone and then counts down the final meters. If you hit the wall while running, the push of a button brings up a personally selected "power song" that gives you an extra boost and gets you going again. Back home again, after a quick upload of your running data, Nike+ charts and helps you analyze your run.

In four years, two million Nike+ members have logged more than 233 million miles on the site. Collectively, the Nike+ community has run the equivalent of 9,400 trips around the world or 490 journeys to the moon and back. Last October, a million runners competed virtually in the second annual global "Human Race" 10K, posting their times on Nike+, comparing themselves with runners worldwide, and seeing how their cities or countries performed. The long-term goal is to have 15 percent of the world's 100 million runners using the system.

Thanks to efforts like Nike+, Nike has built a new kinship and sense of community with and between its customers. More than just something to buy, Nike products have once again become a part of customers' lives and times. As a result, the world's largest sportswear company is once again achieving outstanding results. Over the past five years, Nike's global sales and profits have surged nearly 40 percent. In the past three years, Nike's share of the U.S. running shoe market has grown from 48 percent to 61 percent. In 2008 and 2009, as the faltering economy had most sports apparel and footwear competitors gasping for breath, Nike raced ahead. It's global sales grew 14 and 3 percent, respectively. In troubled 2010, despite flat sales, Nike's profits shot ahead 28 percent. By contrast, at largest rival Adidas, sales fell 7 percent, and profits dropped by 68 percent.

In fact, Nike views uncertain economic times as "an incredible opportunity" to take advantage of its strong brand. As in sports competition, the strongest and best-prepared athlete has the best chance of winning. With deep customer relationships comes a powerful competitive advantage. And Nike is once again very close to its customers. As one writer notes, "Nike is blurring the line between brand and experience."[1]

Nike's customer-focused mission and strategy have helped Nike to build strong customer relationships and a deep sense of brand community. As a result, while other sports gear companies are gasping for breath, Nike is sprinting ahead.

Objective OUTLINE

Like Nike, outstanding marketing organizations employ strongly customer-driven marketing strategies and programs that create customer value and relationships. These marketing strategies and programs, however, are guided by broader company-wide strategic plans, which must also be customer focused. Thus, to understand the role of marketing, we must first understand the organization's overall strategic planning process.

Author Comment | Company-wide strategic planning guides marketing strategy and planning. Like marketing strategy, the company's broad strategy must also be customer focused.

Company-Wide Strategic Planning: Defining Marketing's Role (pp 38–45)

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 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 is then turned into detailed supporting objectives that guide the entire company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide 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.

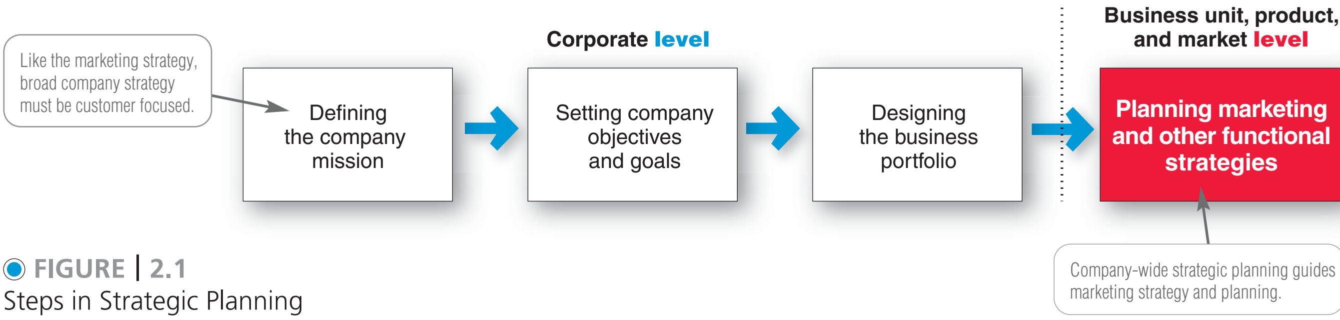


FIGURE | 2.1
Steps in Strategic Planning

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: 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.

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

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 satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. Under Armour's mission isn't just to make performance sports apparel; it's "to make all athletes better through passion, science, and the relentless pursuit of innovation." Likewise, Chipotle's mission isn't to sell burritos. Instead, the restaurant promises "Food with Integrity," highlighting its commitment to the immediate and long-term welfare of customers and the environment. Chipotle's serves only the very best natural, sustainable, local ingredients raised "with respect for the animals, the environment, and the farmers." **Table 2.1** provides several other examples of product-oriented versus market-oriented business definitions.[2]

TABLE | 2.1 Market-Oriented Business Definitions

Company	Product-Oriented Definition	Market-Oriented Definition
Charles Schwab	We are a brokerage firm.	We are the guardian of our customers' financial dreams.
Hulu	We are an online video service.	We help people find and enjoy the world's premium video content when, where, and how they want it—all for free.
General Mills	We make consumer food products.	We nourish lives by making them healthier, easier, and richer.
Home Depot	We sell tools and home repair and improvement items.	We empower consumers to achieve the homes of their dreams.
Nike	We sell athletic shoes and apparel.	We bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)
Revlon	We make cosmetics.	We sell lifestyle and self-expression; success and status; memories, hopes, and dreams.
Ritz-Carlton Hotels & Resorts	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.
Walmart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people. "Save Money. Live Better."

Mission statements should be meaningful and specific yet motivating. They should emphasize the company's strengths in the marketplace. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Says marketing consultant Jack Welch:[3]

> Few leaders actually get the point of forging a mission with real grit and meaning. [Mission statements] have largely devolved into fat-headed jargon. Almost no one can figure out what they mean. [So companies] sort of ignore them or gussy up a vague package deal along the lines of: "our mission is to be the best fill-in-the-blank company in our industry." [Instead, Welch advises, CEOs should] make a choice about how your company will win. Don't mince words! Remember Nike's old mission, "Crush Reebok"? That's directionally correct. And Google's mission statement isn't something namby-pamby like "To be the world's best search engine." It's "To organize the world's information and make it universally accessible and useful." That's simultaneously inspirational, achievable, and completely graspable.

Finally, a company's mission should not be stated as making more sales or profits; profits are only a reward for creating value for customers. Instead, the mission should focus on customers and the customer experience the company seeks to create. Thus, McDonald's mission isn't "to be the world's best and most profitable quick-service restaurant"; it's "to be our customers' favorite place and way to eat." If McDonald's accomplishes this customer-focused mission, profits will follow (see Real Marketing 2.1).

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, Kohler makes and markets familiar kitchen and bathroom fixtures—everything from bathtubs and toilets to kitchen sinks. But Kohler also offers a breadth of other products and services, including furniture, tile and stone, and even small engines and backup power systems. It also owns resorts and spas in the United States and Scotland. Kohler ties this diverse product portfolio together under the mission of "contributing to a higher level of gracious living for those who are touched by our products and services."

This broad mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Kohler's overall objective is to build profitable customer relationships by developing efficient yet beautiful products that embrace the "essence of gracious living" mission. It does this by investing heavily in research and design. Research is expensive and must be funded through improved profit, so improving profits becomes another major objective for Kohler. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's share of domestic and international markets. These goals then become the company's current marketing objectives.

Marketing strategies and programs must be developed to support these marketing objectives. To increase its market share, Kohler might increase its products' availability and promotion in existing markets and expand into new markets. For example, Kohler is boosting production capacity in India and China to better serve the Asian market.[4]

These are Kohler's 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, advertising, and public relations efforts; if so, both requirements will 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

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

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 determine which businesses should receive more, less, or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing.

Real Marketing 2.1

McDonald's: On a Customer-Focused Mission

More than half a century ago, Ray Kroc, a 52-year-old salesman of milk-shake-mixing machines, set out on a mission to transform the way Americans eat. In 1955, Kroc discovered a string of seven restaurants owned by Richard and Maurice McDonald. He saw the McDonald brothers' fast-food concept as a perfect fit for America's increasingly on-the-go, time-squeezed, family-oriented lifestyles. Kroc bought the small chain for $2.7 million, and the rest is history.

From the start, Kroc preached a motto of QSCV—quality, service, cleanliness, and value. These goals became mainstays in McDonald's customer-focused mission statement. Applying these values, the company perfected the fast-food concept—delivering convenient, good-quality food at affordable prices.

McDonald's grew quickly to become the world's largest fast-feeder. The fast-food giant's more than 32,000 restaurants worldwide now serve 60 million customers each day, racking up system-wide sales of more than $79 billion annually. The Golden Arches are one of the world's most familiar symbols, and other than Santa Claus, no character in the world is more recognizable than Ronald McDonald.

In the mid-1990s, however, McDonald's fortunes began to turn. The company appeared to fall out of touch with both its mission and its customers. Americans were looking for fresher, better-tasting food and more contemporary atmospheres. They were also seeking healthier eating options. In a new age of health-conscious consumers and $5 lattes at Starbucks, McDonald's seemed a bit out of step with the times. One analyst sums it up this way:

> McDonald's was struggling to find its identity amid a flurry of new competitors and changing consumer tastes. The company careened from one failed idea to another. It tried to keep pace by offering pizza, toasted deli sandwiches, and the Arch Deluxe, a heavily advertised new burger that flopped. It bought into nonburger franchises like Chipotle and Boston Market. It also tinkered with its menu, no longer toasting the buns, switching pickles, and changing the special sauce on Big Macs. None of these things worked. All the while, McDonald's continued opening new restaurants at a ferocious pace, as many as 2,000 per year. The new stores helped sales, but customer service and cleanliness declined because the company couldn't hire and train good workers fast enough. Meanwhile, McDonald's increasingly became a target for animal-rights activists, environmentalists, and nutritionists, who accused the chain of contributing to the nation's obesity epidemic with "super size" French fries and sodas as well as Happy Meals that lure kids with the reward of free toys.

Although McDonald's remained the world's most visited fast-food chain, the once-shiny Golden Arches lost some of their luster. Sales growth slumped, and its market share fell by more than 3 percent between 1997 and 2003. In 2002, the company posted its first-ever quarterly loss. In the face of changing customer value expectations, the company had lost sight of its fundamental value proposition. "We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's," says current CEO Jim Skinner. The company and its mission needed to adapt.

In early 2003, a troubled McDonald's announced a turnaround plan—what it now calls its "Plan to Win." At the heart of this plan was a new mission statement that refocused the company on its customers. According to the analyst:

> The company's mission was changed from "being the world's best quick-service restaurant" to "being our customers' favorite place and way to eat." The Plan to Win lays out where McDonald's wants to be and how it plans to get there, all centered on five basics of an exceptional customer experience: people, products, place, price, and promotion. While the five Ps smack of corny corporate speak, company officials maintain that they have profoundly changed McDonald's direction and priorities. The plan, and the seemingly simple shift in mission, forced McDonald's and its employees to focus on quality, service, and the restaurant experience rather than simply providing the cheapest, most convenient option to customers. The Plan to Win—which barely fits on a single sheet of paper—is now treated as sacred inside the company.

Under the Plan to Win, McDonald's got back to the basic business of taking care of customers. The goal was to get "better, not just bigger." The company halted rapid expansion and instead poured money back into improving the food, the service, the atmosphere, and marketing at existing outlets. McDonald's redecorated its restaurants with clean, simple, more-modern interiors and

McDonald's new mission—"being our customers' favorite place and way to eat"—coupled with its Plan to Win, got the company back to the basics of creating exceptional customer experiences.

Continued on next page

amenities such as live plants, wireless Internet access, and flat-screen TVs showing cable news. Play areas in some new restaurants now feature video games and even stationary bicycles with video screens. To make the customer experience more convenient, McDonald's stores now open earlier to extend breakfast hours and stay open longer to serve late-night diners—more than one-third of McDonald's restaurants are now open 24 hours a day.

A reworked menu, crafted by Chef Daniel Coudreaut, a Culinary Institute of America graduate and former chef at the Four Seasons in Dallas, now provides more choice and variety, including healthier options, such as Chicken McNuggets made with white meat, a line of Snack Wraps, low-fat "milk jugs," apple slices, Premium Salads, and the Angus burger. Within only a year of introducing its Premium Salads, McDonald's became the world's largest salad seller. The company also launched a major multifaceted education campaign—themed "it's what i **eat** and what i **do** . . . i'm lovin' it"—that underscores the important interplay between eating right and staying active.

McDonald's rediscovered dedication to customer value sparked a remarkable turnaround. Since announcing its Plan to Win, McDonald's sales have increased by more than 50 percent, and profits have more than quadrupled. In 2008, when the stock market lost one-third of its value—the worst loss since the Great Depression—McDonald's stock gained nearly 6 percent, making it one of only two companies in the Dow Jones Industrial Average whose share price rose during that year (the other was Walmart). Through 2010, as the economy and the restaurant industry as a whole continued to struggle, McDonald's outperformed its competitors by a notable margin. Despite the tough times, McDonald's achieved a lofty 15.5 percent three-year compound annual total return to investors versus the S&P 500 average of −5.6 percent.

Thus, McDonald's now appears to have the right mission for the times. Now, once again, when you think McDonald's, you think value—whether it's a college student buying a sandwich for a buck or a working mother at the drive-through grabbing a breakfast latte that's a dollar cheaper than Starbucks. And that has customers and the company alike humming the chain's catchy jingle, "i'm lovin' it."

Sources: Extracts based on information found in Andrew Martin, "At McDonald's, the Happiest Meal Is Hot Profits," *New York Times*, January 11, 2009; Jeremy Adamy, "McDonald's Seeks Ways to Keep Sizzling," *Wall Street Journal*, March 10, 2009, p. A1; and John Cloud, "McDonald's Has a Chef?" *Time*, February 22, 2010, pp. 88–91. Financial and other information and facts from www.aboutmcdonalds.com/mcd/media_center.html/invest.html, accessed October 2010.

Analyzing the Current Business Portfolio

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

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

Management's first step is to identify the key businesses that make up the company, called *strategic business units* (SBUs). An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it's a good idea to add and support 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.[5]

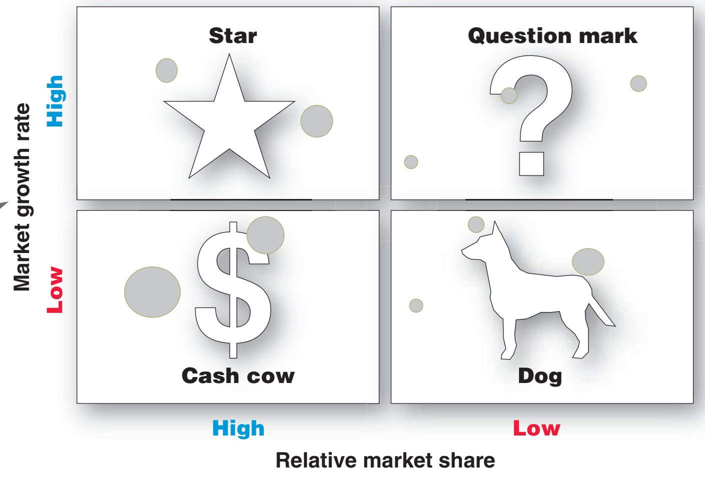
Growth-share matrix
A portfolio-planning method that evaluates a company's SBUs in terms of its market growth rate and relative market share.

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

1. *Stars.* Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
2. *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

FIGURE | 2.2
The BCG Growth-Share Matrix

Under the classic BCG portfolio planning approach, the company invests funds from mature, successful products and businesses (cash cows) to support promising products and businesses in faster-growing markets (stars and question marks), hoping to turn them into future cash cows.



The company must decide how much it will invest in each product or business (SBU). For each SBU, it must decide whether to build, hold, harvest, or divest.

produce a lot of the cash that the company uses to pay its bills and support other SBUs that need investment.

3. *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 has to think hard about which question marks it should try to build into stars and which should be phased out.
4. *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 10 circles in the growth-share matrix represent the company's 10 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 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.

Once it has classified its SBUs, the company must determine what role each will play in the future. It can pursue one of four strategies for each SBU. It can invest more in the business unit 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, it 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. 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 and 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.

Problems with Matrix Approaches. 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.

Because of such problems, many companies have dropped formal matrix methods in favor of more customized approaches that better suit their specific situations. Moreover, unlike former strategic-planning efforts that 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.

Managing the business portfolio: Most people think of Disney as theme parks and wholesome family entertainment, but over the past two decades, it's become a sprawling collection of media and entertainment businesses that requires big doses of the famed "Disney Magic" to manage.

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 its direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge and diverse collection of media and entertainment businesses. The sprawling company grew to include everything from theme resorts and film studios (Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, and others) to media networks (ABC plus Disney Channel, ESPN, A&E, History Channel, and a half dozen others) to consumer products and a cruise line.

The newly transformed company proved hard to manage and performed unevenly. To improve performance, Disney disbanded the centralized strategic planning unit, decentralizing its functions to Disney division managers. As a result, Disney reclaimed its position at the head of the world's media conglomerates. And despite recently facing "the weakest economy in our lifetime," Disney's sound strategic management of its broad mix of businesses has helped it fare better than rival media companies.[6]

Developing Strategies for Growth and Downsizing

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. At the same time, a firm must be careful not to make growth itself an objective. The company's objective must be to manage "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate, and select market opportunities and establish strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in **Figure 2.3**.[7] We apply it here to performance sports apparel maker Under Armour. Only 14 years ago, Under Armour introduced its innovative line of comfy, moisture-wicking shirts and shorts. Since then, it has grown rapidly in its performance-wear niche. Over just the past three years, even as retail sales slumped across the board in the down economy, Under Armour's sales more than doubled, and profits grew 22 percent. Looking forward, the company must look for new ways to keep growing.[8]

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

Market penetration
Company growth by increasing sales of current products to current market segments without changing the product.

First, Under Armour might consider whether the company can achieve deeper **market penetration**—making more sales without changing its original product. It can spur growth

FIGURE | 2.3
The Product/Market Expansion Grid

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

Companies can grow by better penetrating current markets with current products. For example, Under Armour offers an ever-increasing range of styles and colors, has boosted its promotion spending, and recently added new direct distribution channels—its own retail stores, Web site, and toll-free call center.

Through diversification, companies can grow by starting up or buying businesses outside their current product/markets. For example, Under Armour can begin making and marketing fitness equipment. But it must be careful not to overextend its positioning.

Growth: Under Armour has grown at a blistering rate under its multipronged growth strategy.

through marketing mix improvements—adjustments to its product design, advertising, pricing, and distribution efforts. For example, Under Armour offers an ever-increasing range of styles and colors in its original apparel lines. It recently boosted its promotion spending in an effort to drive home its "performance and authenticity" positioning. The company also added direct-to-consumer distribution channels, including its own retail stores, Web site, and toll-free call center. Direct-to-consumer sales grew almost 50 percent last year and now account for more than 15 percent of total revenues.

Second, Under Armour might consider possibilities for **market development**—identifying and developing new markets for its current products. Under Armour could review new *demographic markets*. For instance, the company recently stepped up its emphasis on women consumers and predicts that its women's apparel business will someday be larger than its men's apparel business. The Under Armour "Athletes Run" advertising campaign includes a 30-second "women's only" spot. Under Armour could also pursue new *geographical markets*. For example, the brand has announced its intentions to expand internationally.

Third, Under Armour could consider **product development**—offering modified or new products to current markets. In 2008, in an effort to transform itself from a niche player to a mainstream brand, Under Armour entered the $19 billion athletic footwear market with a line of cross-trainer shoes. Last year, it introduced high-performance running shoes. Although this puts the company into direct competition with sports heavyweights Nike and Adidas, it also offers promise for big growth.

Finally, Under Armour might consider **diversification**—starting up or buying businesses beyond its current products and markets. For example, it could move into nonperformance leisurewear or begin making and marketing Under Armour fitness equipment. When diversifying, companies must be careful not to overextend their brands' positioning.

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

Product development
Company growth by offering modified or new products to current market segments.

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

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 firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many international markets without the proper research or when a company introduces new products that do not offer superior customer value. The market environment might change, making some products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less-profitable products and markets to focus their more limited resources on the strongest ones. Finally, some products or business units simply age and die.

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.

Author Comment | Marketing alone can't create superior customer value. Under the company-wide strategic plan, marketers must work closely with other departments to form an effective internal company value chain and with other companies in the marketing system to create an overall external value delivery network that jointly serves customers.

Planning Marketing: Partnering to Build Customer Relationships (pp 45–47)

The company's strategic plan establishes what kinds of businesses the company will operate 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 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 is the key ingredient in the marketer's formula for success. However, as we noted in Chapter 1, marketers alone cannot produce superior value for customers. Although marketing plays a leading role, it 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 internal *value chain* that serves customers. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external *value delivery network*. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with Other Company Departments

Value chain
The series of internal 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 internal **value chain**.[9] 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 various departments coordinate their activities.

For example, Walmart's goal is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at Walmart 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, Walmart's marketers help deliver value to customers.

However, the marketing department needs help from the company's other departments. Walmart'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. Walmart'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 the company coordinates the activities of various departments. At Walmart, if purchasing can't obtain 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 unbeatable low prices.

The value chain: Walmart's ability to help you "Save money. Live Better." by offering the right products at lower prices depends on the contributions of people in every department.

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, other departments may resist the marketing department's efforts.

Yet marketers must find ways to get all departments to "think consumer" and develop a smoothly functioning value chain. One marketing expert puts it this way: "True market orientation does not mean becoming marketing-driven; it means that the entire company obsesses over creating value for the customer and views itself as a bundle of processes that profitably define, create, communicate, and deliver value to its target customers. . . . Everyone must do marketing regardless of function or department."[10] Thus, whether you're an accountant, an operations manager, a financial analyst, an IT specialist, or a human resources manager, you need to understand marketing and your role in creating customer value.

Partnering with Others in the Marketing System

In its quest to create customer value, the firm needs to look beyond its own internal value chain and into the value chains of its suppliers, distributors, and, ultimately, its customers. Consider McDonald's. People do not swarm to McDonald's only because they love the chain's hamburgers. Consumers flock to the McDonald's *system*, not only to its food products. Throughout the world, McDonald's finely tuned value delivery system delivers a high standard of 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 create "our customers' favorite place and way to eat."

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

More companies today are partnering with other members of the supply chain—suppliers, distributors, and, ultimately, customers—to improve the performance of the customer **value delivery network**. For example, cosmetics maker L'Oréal knows the importance of building close relationships with its extensive network of suppliers, who supply everything from polymers and fats to spray cans and packaging to production equipment and office supplies:[11]

> L'Oréal is the world's largest cosmetics manufacturer, with 25 brands ranging from Maybelline and Kiehl's to Lancôme and Redken. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality, and socially responsible actions. The company carefully screens new suppliers and regularly assesses the performance of current suppliers. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. Whereas some companies make unreasonable demands of their suppliers and "squeeze" them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's supplier Web site, it treats suppliers with "fundamental respect for their business, their culture, their growth, and the individuals who work there. Each relationship is based on . . . shared efforts aimed at promoting growth and mutual profits that make it possible for suppliers to invest, innovate, and compete." As a result, more than 75 percent of L'Oréal's supplier-partners have been working with the company for 10 years or more and the majority of them for several decades. Says the company's head of purchasing, "The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."

The value delivery system: L'Oréal builds long-term supplier relationships based on mutual benefit and growth. It "wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."

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.

Author Comment | Now that we've set the context in terms of company-wide strategy, it's time to discuss customer-driven marketing strategies and programs.

Marketing Strategy and the Marketing Mix (pp 48–53)

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

Consumers are in the center. The goal is to create value for customers and build 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 (differentiation and positioning). It identifies the total market and then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

Marketing strategy
The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

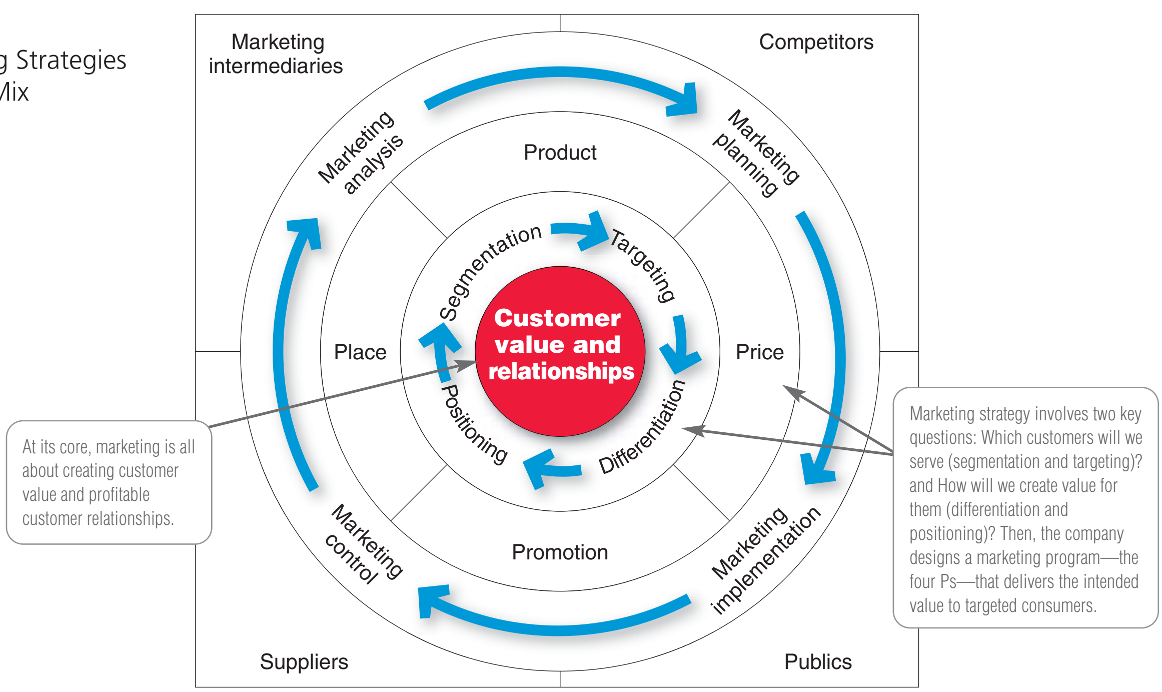
Guided by marketing strategy, the company designs an integrated *marketing mix* made up of factors under its control—product, price, place, and promotion (the four Ps). To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation, and control. Through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

Customer-Driven Marketing Strategy

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

FIGURE | 2.4
Managing Marketing Strategies and the Marketing Mix



Market Segmentation

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

Market segmentation
Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, 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.

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

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 $229,500 for its Ferrari F430 F1 Spider convertible to an astonishing more than $2 million for its FXX super sports car, which can be driven only on race tracks (it usually sells 10 in the United States each year). Most nichers aren't quite so exotic. White Wave, the maker of Silk Soymilk, has found its niche as the nation's largest soymilk producer. And although Logitech is only a fraction the size of giant Microsoft, through skillful niching, it dominates the PC mouse market, with Microsoft as its runner up (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. Abercrombie & Fitch, for example, targets college students, teens, and kids with the same upscale, casual clothes and accessories in three different outlets: the original Abercrombie & Fitch, Hollister, and Abercrombie. Or a large company might decide to offer a complete range of products to serve all market segments. Large car companies such as Honda and Ford do this.

Most companies enter a new market by serving a single segment, and, if this proves successful, they add more segments. For example, Nike started with innovative running shoes for serious runners. Large companies eventually seek full market coverage. Nike now makes and sells a broad range of sports products for just about anyone and everyone, with the goal of "helping athletes at every level of ability reach their potential."[12] It has different products designed to meet the special needs of each segment it serves.

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

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

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

Real Marketing 2.2

Logitech: The Little Mouse That Roars

Among the big tech companies, market leader Microsoft is the king of the jungle. When giant Microsoft looms, even large competitors quake. But when it comes to dominating specific market niches, overall size isn't always the most important thing. For example, in its own corner of the high-tech jungle, Logitech International is the little mouse that roars. In its niches, small but mighty Logitech is the undisputed market leader.

Logitech focuses on what it calls "personal peripherals"—interface devices for PC navigation, Internet communications, home-entertainment systems, and gaming and wireless devices. Logitech's rapidly expanding product portfolio now includes everything from cordless mice and keyboards, gaming controllers, and remote controls to Webcams, PC speakers, headsets, notebook stands, and cooling pads. But it all started with computer mice.

Logitech makes every variation of mouse imaginable. Over the years, it has flooded the world with more than one billion computer mice of all varieties, mice for left- and right-handed people, wireless mice, travel mice, mini mice, 3-D mice, mice shaped like real mice for children, and even an "air mouse" that uses motion sensors to let you navigate your computer from a distance.

In the PC mouse market, Logitech competes head-on with Microsoft. At first glance, it looks like an unfair contest. With more than $58 billion in sales, Microsoft is nearly 30 times bigger than $2.2 billion Logitech. But when it comes to mice and other peripherals, Logitech has a depth of focus and knowledge that no other company in the world—including Microsoft—can match. Whereas mice and other interface devices are pretty much a sideline for software maker Microsoft—almost a distraction—they are the main attraction for Logitech. As a result, each new Logitech device is a true work of both art and science. Logitech's mice, for example, receive raves from designers, expert reviewers, and users alike.

A *BusinessWeek* analyst gives us a behind-the-scenes look at Logitech's deep design and development prowess:

> One engineer, given the moniker "Teflon Tim" by amused colleagues, spent three months scouring the Far East to find just the right nonstick coatings and sound-deadening foam. Another spent hours taking apart wind-up toys. Others pored over the contours of luxury BMW motorcycles, searching for designs to crib. They were members of a most unusual team that spent thousands of hours during a two-year period on a single goal: to build a better mouse. The result: Logitech's revolutionary MX Revolution, the next-generation mouse that hit consumer electronics shelves like a flash of lightning. It represented the company's most ambitious attempt yet to refashion the lowly computer mouse into a kind of control center for a host of PC applications. The sheer scope of the secret mission—which crammed 420 components, including a tiny motor, into a palm-sized device that usually holds about 20—brought together nearly three dozen engineers, designers, and marketers from around the globe.

Part of Logitech's product-development strategy is defensive. Once content to design mice and other peripherals for PC makers to slap their own names on, Logitech over the past half-decade has increasingly focused on selling its branded add-on equipment directly to consumers. Nearly 90 percent of Logitech's annual sales now come from retail. That forces Logitech to deliver regular improvements and new devices to entice new shoppers and purchases.

"We think of mice as pretty simple," says one industry analyst, "but there's a pretty aggressive technology battle going on to prove what the mouse can do." One of Logitech's latest feats of cutting-edge wizardry is its MX Air, which promises to change the very definition of the computer mouse as we know it. More like an airborne remote control than a traditional mouse, you can surf the Web, play games, and control your home theater PC from up to 30 feet away. There's also a cool-factor at play. Wielding the MX Air is like holding a work of art.

And at Logitech, it's not just about mice anymore. Logitech now applies its cool-factor to create sleek, stylish, and functional devices that enhance not only your PC experience but also help you get the most out of everything from Internet navigation to all the new gadgets in today's digital home. For example, Logitech's family of Harmony advanced universal remote controls helps even technology challenged novices tame the complexities of their home-entertainment systems.

Breeding mice and other peripherals has been very good for nicher Logitech. For example, thanks to its dedication to creating the next best mouse, Logitech has captured a dominating 40 percent share of the world mouse market, with giant Microsoft as its runner-up. And although Logitech isn't nearly as big as Microsoft, pound for pound it's more profitable. Over the past seven years, despite tough economic times for the PC and consumer electronics industries, Logitech's sales and profits have more than doubled. Looking ahead, as Logitech forges forward in its personal peripherals niche, Logitech is well positioned to weather the recent economic storms and emerge stronger than ever.

"Our business is about the last inch between people and content and technology," explains Logitech CEO Guerrino De Luca. Nobody spans that last inch better than Logitech. The next time you navigate your PC, watch or listen to downloaded Web audio or video con-

Nichers: In its own corner of the high-tech jungle, Logitech is a little mouse that roars, with giant Microsoft as its runner-up.

tent, or pick up an entertainment-system remote, it's a pretty good bet that you'll have your hand on a Logitech device. It's also a good bet that you'll really like the way it works and feels. "The goal [is] passing the 'ooooh' test," says a Logitech project leader, "creating a visceral experience that communicates both performance and luxury."

Sources: Lisa Johnston and John Laposky, "Logitech Intros Accessories, Ships Billion Mouse," *TWICE*, December 15, 2008, p. 84; Cliff Edwards, "Here Comes Mighty Mouse," *BusinessWeek*, September 4, 2006, p. 76; Cliff Edwards, "The Mouse That Soars," *BusinessWeek*, August 20, 2007, p. 22; Haig Simonian, "Logitech Warns of Gloom Ahead," FT.com, January 21, 2009, www.ft.com/cms/s/0/ba17c7e4-e75b-11dd-aef2-0000779fd2ac.html; "Logitech International S.A.," *Hoover's Company Records*, May 13, 2010, p. 42459; and annual reports and other information from http://ir.logitech.com/overview.cfm?cl=us.en and www.logitech.com, accessed October 2010.

BMW is "The ultimate driving machine." The Ford Escape promises "So much fun. So little fuel." At video site Hulu, you can "Watch Your Favorites. Anytime. Free." YouTube let's you "Broadcast Yourself." At McDonald's you'll be saying "i'm lovin' it," whereas at Burger King you can "Have it your way." Such deceptively simple statements form the backbone of a product's marketing strategy. ● For example, Burger King designs its entire worldwide integrated marketing campaign—from television and print commercials to its Web sites—around the "Have it your way" positioning.

● **Positioning: Burger King builds its entire worldwide marketing campaign around its "Have it your way" positioning.**

In positioning its product(s), the company first identifies possible customer value differences that provide competitive advantages on which to build the position. The company can offer greater customer value by either charging lower prices than competitors or 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

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

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

After determining 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 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—the four *P*s. 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.

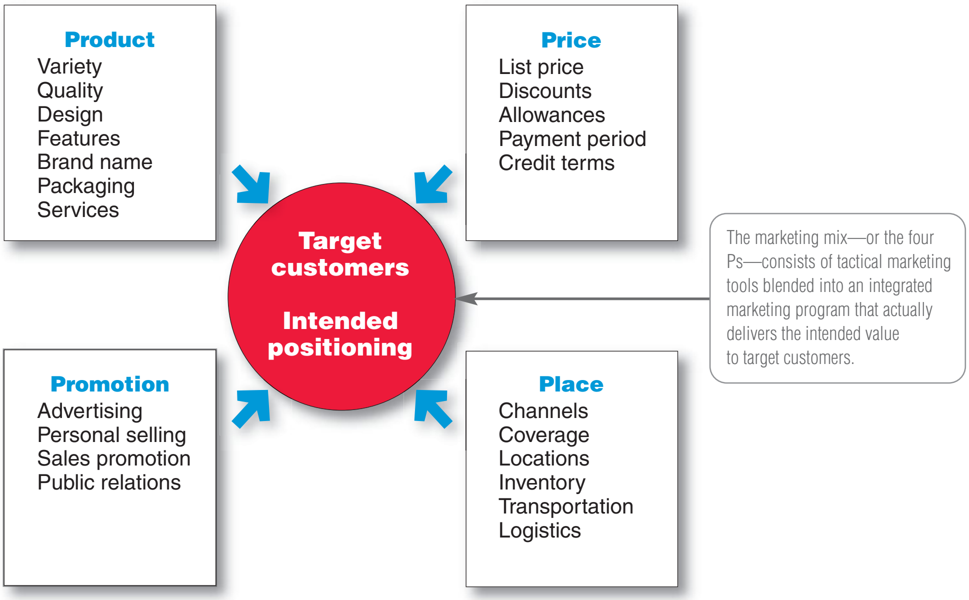
- *Price* is the amount of money customers must pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Escape. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive and economic situations 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 strongly supports them. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.
- *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. Ford spends more than $1.5 billion each year on U.S. advertising to tell consumers about the company and its many products.[13] 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, and low financing rates—as added purchase incentives.

An effective marketing program blends each marketing mix element 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 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,

FIGURE | 2.5
The Four Ps of the Marketing Mix



in this age of customer value and relationships, the four Ps might be better described as the four Cs:[14]

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

Thus, whereas 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.

Author Comment | So far we've focused on the *marketing* in marketing management. Now, let's turn to the *management*.

Managing the Marketing Effort (pp 53–57)

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 company-wide 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 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** (pronounced "swat" 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 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

FIGURE | 2.6
Managing Marketing: Analysis, Planning, Implementation, and Control

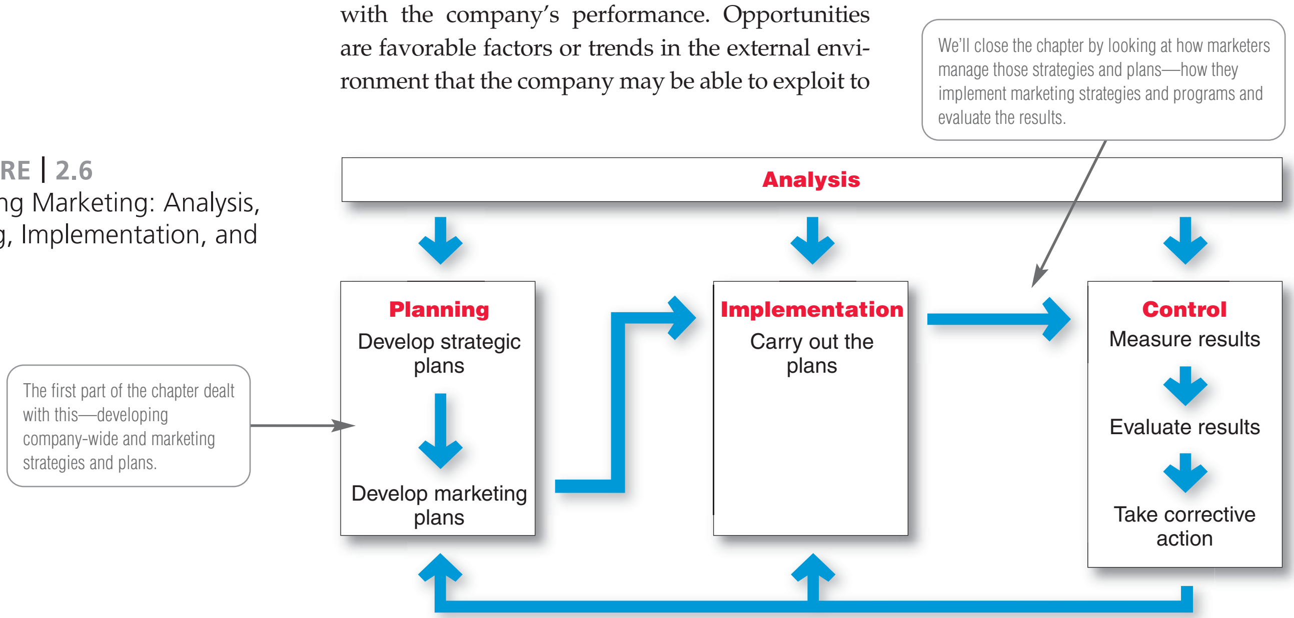
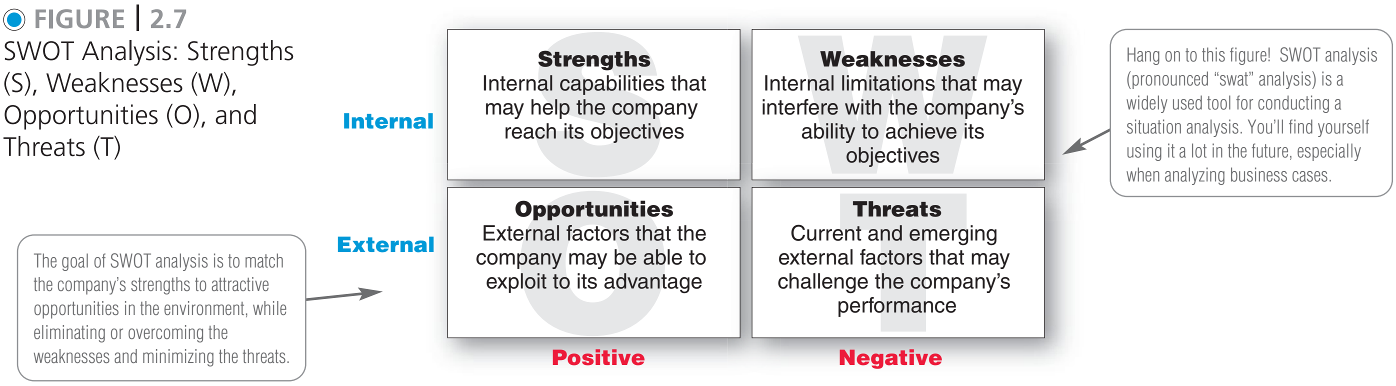


FIGURE | 2.7
SWOT Analysis: Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T)



its advantage. And threats are unfavorable external factors or trends that may present challenges to performance.

The company should analyze its markets and marketing environment to find attractive opportunities and identify environmental threats. It should 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 choosing 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 that quickly reviews 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.

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
Turning marketing strategies and plans into marketing actions 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* 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

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 find the plan's major points quickly. A table of contents should follow the executive summary.
Current marketing situation	Describes the target market and a company's position in it, including information about the market, product performance, competition, and distribution. This section includes the following: • A *market description* that defines the market and major segments and 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 create customer value and relationships 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.

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.

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. At John Deere, for example, marketing implementation for the company's residential, commercial, agricultural, and industrial equipment 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, product development, pricing, promotion, and distribution. 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 and supports John Deere dealers and large retailers like Lowe's in their efforts to convince residential, agricultural, and industrial customers that "Nothing Runs Like a Deere."

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 the research, selling, advertising, customer service, and other marketing work. As the company expands, however, a marketing department emerges to plan and carry out marketing activities. In large companies,

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

this department contains many specialists. It includes 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. This person heads up the company's entire marketing operation and represents marketing on the company's top management team. The CMO position puts marketing on equal footing with other C-level executives, such as the chief operating officer (COO) and the chief financial officer (CFO).[15]

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, an advertising manager, a marketing research manager, a customer service manager, or a 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.

For companies that sell one product line to many different types of markets and customers who 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. Many companies develop special organizations to manage their relationships with large customers. For example, companies such as P&G and Stanley Black & Decker have created large teams, or even whole divisions, to serve large customers, such as Walmart, Target, Safeway, or Home Depot.

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.

Marketing organization has become an increasingly important issue in recent years. More and more, companies are shifting their brand management focus toward *customer management*—moving away from managing only product or brand profitability and toward managing customer profitability and customer equity. They think of themselves not as managing portfolios of brands but as managing portfolios of customers. And rather than managing the fortunes or a brand, they see themselves as managing customer-brand experiences and relationships.

Marketing Control

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

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

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.

Author Comment | Measuring return on marketing investment has become a major marketing emphasis. But it can be difficult. For example, a Super Bowl ad reaches more than 100 million consumers but may cost as much as $3 million for 30 seconds of airtime. How do you measure the specific return on such an investment in terms of sales, profits, and building customer relationships? We'll look at this question again in Chapter 15.

Measuring and Managing Return on Marketing Investment (pp 57–58)

Marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial returns on their spending. They believed that marketing produces intangible creative outcomes, which do not lend themselves readily to measures of productivity or return. But in today's more constrained economy, all that is changing:[16]

> For years, corporate marketers have walked into budget meetings like neighborhood junkies. They couldn't always justify how well they spent past handouts or what difference it all made. They just wanted more money—for flashy TV ads, for big-ticket events, for, you know, getting out the message and building up the brand. But those heady days of blind budget increases are fast being replaced with a new mantra: measurement and accountability. "Marketers have been pretty unaccountable for many years," notes one expert. "Now they are under big pressure to estimate their impact." Another analyst puts in more bluntly: "Marketing needs to stop fostering 'rock star' behavior and focus on rock-steady results."

According to a recent study, as finances have tightened, marketers see return on marketing investment as the second biggest issue after the economy. "Increasingly, it is important for marketers to be able to justify their expenses," says one marketer. For every brand and marketing program, says another, marketers need to ask themselves, "Do I have the right combination of strategy and tactics that will generate the most return in terms of share, revenue and/or profit objectives from my investment?"[17]

Return on marketing investment (or marketing ROI)
The net return from a marketing investment divided by the costs of the marketing investment.

In response, marketers are developing better measures of *marketing ROI*. **Return on marketing investment** (or **marketing ROI**) is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

Marketing ROI can be difficult to measure. In measuring financial ROI, both the *R* and the *I* are uniformly measured in dollars. But there is, as of yet, no consistent definition of marketing ROI. "It's tough to measure, more so than for other business expenses," says one analyst. "You can imagine buying a piece of equipment . . . and then measuring the productivity gains that result from the purchase," he says. "But in marketing, benefits like advertising impact aren't easily put into dollar returns. It takes a leap of faith to come up with a number."[18]

A recent survey found that although two-thirds of companies have implemented return on marketing investment programs in recent years, only 22 percent of companies report making good progress in measuring marketing ROI. Another survey of chief financial officers reported that 93 percent of those surveyed are dissatisfied with their ability to measure marketing ROI. The major problem is figuring out what specific measures to use and obtaining good data on these measures.[19]

A company can assess marketing ROI in terms of standard marketing performance measures, such as brand awareness, sales, or market share. Many companies are assembling such measures into *marketing dashboards*—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance. Just as automobile dashboards present drivers with details on how their cars are performing,

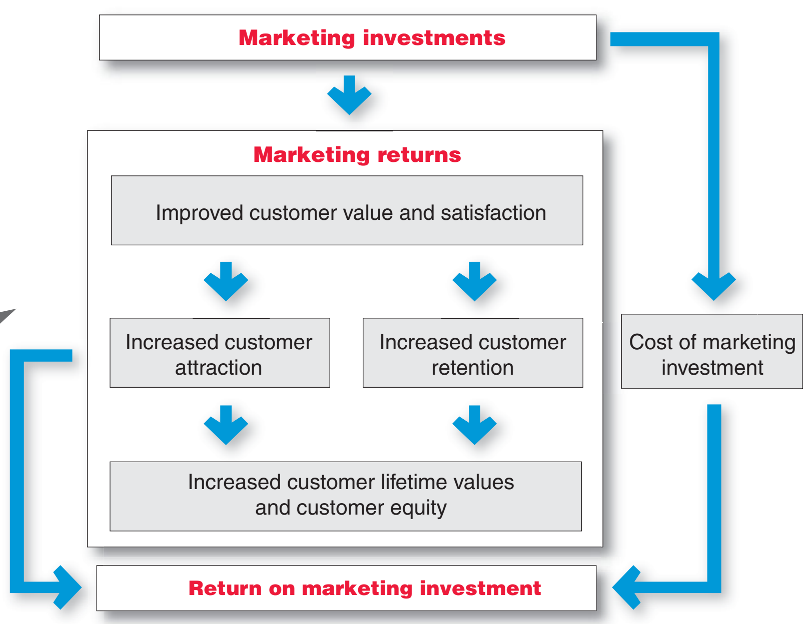
Many companies are assembling marketing dashboards—meaningful sets of marketing performance measures in a single display used to set and adjust their marketing strategies.

the marketing dashboard gives marketers the detailed measures they need to assess and adjust their marketing strategies. For example, VF Corporation uses a marketing dashboard to track the performance of its 30 lifestyle apparel brands—including Wrangler, Lee, The North Face, Vans, Nautica, 7 For All Mankind, and others. VF's marketing dashboard tracks brand equity and trends, share of voice, market share, online sentiment, and marketing ROI in key markets worldwide, not only for VF brands but also for competing brands.[20]

Increasingly, however, beyond standard performance measures, marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, customer lifetime value, and customer equity. These measures capture not only current marketing performance but also future performance resulting from stronger customer relationships. **Figure 2.8** views marketing expenditures as investments that produce returns in the form of more profitable customer relationships.[21] Marketing investments result in improved customer value and satisfaction, which in turn increases customer attraction and retention. This increases individual customer lifetime values and the firm's overall customer equity. Increased customer equity, in relation to the cost of the marketing investments, determines return on marketing investment.

Regardless of how it's defined or measured, the marketing ROI concept is here to stay. "In good times and bad, whether or not marketers are ready for it, they're going to be asked to justify their spending with financial data," says one marketer. Adds another, marketers "have got to know how to count."[22]

FIGURE | 2.8
Return on Marketing Investment
Source: Adapted from Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, "Return on Marketing: Using Consumer Equity to Focus Marketing Strategy," *Journal of Marketing,* January 2004, p. 112.



Beyond measuring return on marketing investment in terms of standard performance measures such as sales or market share, many companies are using customer-relationship measures, such as customer satisfaction, retention, and equity. These are more difficult to measure but capture both current and future performance.

REVIEWING Objectives AND KEY Terms

In Chapter 1, we defined *marketing* and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organization. Then we looked more deeply into marketing strategy and the marketing mix and reviewed the major marketing management functions. So you've now had a pretty good overview of the fundamentals of modern marketing.

Objective 1 Explain company-wide strategic planning and its four steps. (pp 38–40)

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: (1) defining the company's mission, (2) setting objectives and goals, (3) designing a business portfolio, and (4) developing functional plans. The company's *mission* should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then transformed into detailed *supporting goals and objectives*, which in turn guide decisions about the business portfolio. Then each business and product unit must develop *detailed marketing plans* in line with the company-wide plan.

Objective 2 Discuss how to design business portfolios and develop growth strategies. (pp 40–45)

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.

Objective 3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value. (pp 45–47)

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. Marketers must practice *partner relationship management*, working closely with partners in other 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*.

Objective 4 Describe the elements of a customer-driven marketing strategy and mix and the forces that influence it. (pp 48–53)

Customer value and relationships are at the center of marketing strategy and programs. Through market segmentation, targeting, differentiation, and 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 in the selected segments. 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 (the four Ps).

Objective 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. (pp 53–58)

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, the 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.

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.

Marketing managers must ensure that their marketing dollars are being well spent. In a tighter economy, 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.

KEY Terms

OBJECTIVE 1

Strategic planning (p 38)
Mission statement (p 39)

OBJECTIVE 2

Business portfolio (p 40)
Portfolio analysis (p 42)
Growth-share matrix (p 42)
Product/market expansion grid (p 44)
Market penetration (p 44)
Market development (p 45)
Product development (p 45)
Diversification (p 45)

OBJECTIVE 3

Value chain (p 46)
Value delivery network (p 47)

OBJECTIVE 4

Marketing strategy (p 48)
Market segmentation (p 49)
Market segment (p 49)
Market targeting (p 49)
Positioning (p 49)
Differentiation (p 51)
Marketing mix (p 51)

OBJECTIVE 5

SWOT analysis (p 53)
Marketing implementation (p 54)
Marketing control (p 56)
Return on marketing investment (p 57)

PEARSON mymarketinglab

- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulations entitled **Strategic Marketing** and **The Marketing Mix.**

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Explain what is meant by a *market-oriented* mission statement and discuss the characteristics of effective mission statements. (AACSB: Communication)

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

3. Explain why it is important for all departments of an organization—marketing, accounting, finance, operations management, human resources, and so on—to "think consumer." Why is it important that even people who are not in marketing understand it? (AACSB: Communication)

4. Define *positioning* and explain how it is accomplished. Describe the positioning for the following brands: Wendy's, the Chevy Volt, Amazon.com, Twitter, and Coca-Cola. (AACSB: Communication; Reflective Thinking)

5. Define each of the four Ps. What insights might a firm gain by considering the four Cs rather than the four Ps? (AACSB: Communication; Reflective Thinking)

6. What is marketing ROI? Why is it difficult to measure? (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. In a small group, conduct a SWOT analysis, develop objectives, and create a marketing strategy for your school, a student organization you might be involved in, or a local business. (AACSB: Communication; Reflective Thinking)

2. Explain the role of a chief marketing officer. Summarize an article that describes the importance of this position, the characteristics of an effective officer, or any issues surrounding this position. (AACSB: Communication; Reflective Thinking)

3. Marketers are increasingly held accountable for demonstrating marketing success. Research the various marketing metrics, in addition to those described in the chapter and Appendix 2, used by marketers to measure marketing performance. Write a brief report of your findings. (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

Did you buy a Google Nexus One smartphone when it hit the market in early 2010? Didn't think so—few people did. That's why Google stopped selling them in the United States. The phone carried Google's brand and was powered by the Google Android operating system, which was found on other manufacturers' phones.

With the Nexus One, Google made several mistakes. First, in an effort to get products to market faster and make more money through direct sales, Google tried to change the way wireless phones are distributed. Rather than the typical carrier distribution model (buying a phone through AT&T, Verizon Wireless, or another wireless provider), it used a Web-based sales model. The only way to buy a Nexus One was at Google's Web site. Looking back, notes one executive, Google would probably have sold more of the phones through the traditional carrier network. To make matters worse, Google invested little in advertising for the Nexus One. And it was ill-equipped to handle customer service queries, attempting at first to handle them through e-mail instead of offering dedicated customer-service support. Finally, analysts said the phone wasn't much better than other Android phones already on the market. No wonder the Nexus One failed. However, although Google discontinued the phone, its Android operating system remains strong, powering 27 percent of all U.S. smartphones, ahead of second place Apple's 23 percent.

1. Name and describe the four product and market expansion grid strategies and explain which strategy Google implemented with the Nexus One. (AACSB: Communication; Reflective Thinking)
2. Discuss the marketing strategy and tactical mistakes Google made when introducing the Nexus One. (AACSB: Communication; Reflective Thinking)

FOCUS ON Ethics

With 64 percent of the women in the United States overweight or obese and less than half participating in regular physical activity, athletic shoe marketers saw an opportunity: "toning shoes." Marketers tout these shoes as revolutionary; you can tone your muscles, lose weight, and improve your posture just by wearing them and going about your daily business. The claims are based on shoemaker-sponsored studies, and the Podiatric Medical Association agrees that toning shoes have some health value. They purportedly perform their magic by destabilizing a person's gait, making leg muscles work harder. Consumers, particularly women, are buying it. Toning shoe sales reached an estimated $1.5 billion in 2010. Sketchers saw a 69 percent increase in sales due to its shoe that looks like a rocking chair on the bottom. Reebok expected toning shoe sales to increase tenfold to $10 million in 2010. Toning shoes accounted for 20 percent of the women's performance footwear category in 2009, with prices ranging from $80 to more than $200.

However, these shoes have their critics, who claim a shoe that comes with an instruction booklet and an educational DVD to explain proper usage should wave warning flags to consumers. Some doctors claim the shoes are dangerous, causing strained Achilles tendons or worse; one wearer broke her ankle while wearing them. A study by the American Council on Exercise found no benefit in toning shoes over regular walking or other exercise. Noticeably absent from the toning shoe feeding frenzy is Nike, which thinks it's all hype and is sticking to traditional performance athletic shoes. This leader in the women's shoe market, however, is losing market share to competitors.

1. Should these shoemakers capitalize on consumers who want to be fit without doing the work to achieve that goal? Do you think that basing claims on research sponsored by the company is ethical? Explain your reasoning. (AACSB: Communication; Ethical Reasoning)
2. Should Nike have entered this product category instead of giving up market share to competitors? Explain your reasoning. (AACSB: Communication; Ethical Reasoning)

MARKETING & THE Economy

Southwest Airlines

As more and more consumers cut back on spending, perhaps no industry has been hit harder than the airline industry. Even Southwest Airlines, which has posted profits in every one of its 37 years of operation, has felt the pinch. Although Southwest Airlines has suffered less than other airlines, recent passenger traffic has declined, driving down revenues in each of the last two years, which has also hit the company's profits and stock price.

So what's Southwest Airlines doing? For starters, it is expanding beyond the 70-plus cities it now serves and is beginning new flights to heavily trafficked airports. It is also attempting to sweeten the ride by boosting wine and coffee service and rolling out onboard Wi-Fi. But perhaps more important is what no-frills Southwest Airlines *isn't* doing—adding fees. Other airlines are generating millions of dollars in revenues by charging for basics, such as checking baggage, sitting in aisle seats, or using pillows. But Southwest Airlines insists that such fees are no way to grow an airline. Other attempts to jump-start demand include an ad campaign urging consumers to continue traveling despite the still-sluggish economy and a company-wide fare sale with one-way rates as low as $49. It hopes that these efforts will bring customers back and curb the revenue slide.

1. Consider every tactic that Southwest Airlines is employing to curtail slumping sales. Evaluate the degree to which each is effective at accomplishing its goal.
2. Are the company's efforts enough? Is it possible for Southwest Airlines to reverse the effects of a strong industry slump?

MARKETING BY THE Numbers

Appendix 2 discusses other marketing profitability metrics beyond the marketing ROI measure described in this chapter. On the next page are the profit-and-loss statements for two businesses. Review Appendix 2 and answer the following questions.

1. Calculate marketing return on sales and marketing ROI for both companies, as described in Appendix 2. (AACSB: Communication; Analytic Thinking)

2. Which company is doing better overall and with respect to marketing? Explain. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

Business A

Net sales		$800,000,000
Cost of goods sold		375,000,000
Gross margin		$425,000,000
Marketing expenses		
Sales expenses	$70,000,000	
Promotion expenses	30,000,000	
		100,000,000
General and administrative expenses		
Marketing salaries and expenses	$10,000,000	
Indirect overhead	80,000,000	
		90,000,000
Net profit before income tax		$235,000,000

Business B

Net sales		$900,000,000
Cost of goods sold		400,000,000
Gross margin		$500,000,000
Marketing expenses		
Sales expenses	$90,000,000	
Promotion expenses	50,000,000	
		140,000,000
General and administrative expenses		
Marketing salaries and expenses	$ 20,000,000	
Indirect overhead	100,000,000	
		120,000,000
Net profit before income tax		$240,000,000

VIDEO Case

Live Nation

Live Nation may not be a household name. But if you've been to a concert in the past few years, chances are you've purchased a Live Nation product. In fact, Live Nation has been the country's largest concert promoter for many years, promoting as many as 29,000 events annually. But through very savvy strategic planning, Live Nation is shaking up the structure of the music industry.

A recent $120 million deal with Madonna illustrates how this concert promoter is diving into other businesses as well. Under this deal, Live Nation will become Madonna's record label, concert promoter, ticket vendor, and merchandise agent. Similar deals have been reached with other performers such as Jay-Z and U2.

But contracting with artists is only part of the picture. Live Nation is partnering with other corporations as well. A venture with Citi will expand its reach to potential customers through a leveraging of database technologies. Joining forces with ticket reseller powerhouses such as StubHub will give Live Nation a position in the thriving business of secondary ticket sales.

After viewing the video featuring Live Nation, answer the following questions about the role of strategic planning:

1. What is Live Nation's mission?
2. Based on the product/market expansion grid, provide support for the strategy that Live Nation is pursuing.
3. How does Live Nation's strategy provide better value for customers?

COMPANY Case

Trap-Ease America: The Big Cheese of Mousetraps

CONVENTIONAL WISDOM

One April morning, Martha House, president of Trap-Ease America, entered her office in Costa Mesa, California. She paused for a moment to contemplate the Ralph Waldo Emerson quote that she had framed and hung near her desk:

> If a man [can] . . . make a better mousetrap than his neighbor . . . the world will make a beaten path to his door.

Perhaps, she mused, Emerson knew something that she didn't. She *had* the better mousetrap—Trap-Ease—but the world didn't seem all that excited about it.

The National Hardware Show Martha had just returned from the National Hardware Show in Chicago. Standing in the trade show display booth for long hours and answering the same questions hundreds of times had been tiring. Yet, all the hard work had paid off. Each year, National Hardware Show officials held a contest to select the best new product introduced at that year's show. The Trap-Ease had won the contest this year, beating out over 300 new products.

Such notoriety was not new for the Trap-Ease mousetrap, however. *People* magazine had run a feature article on the trap, and the trap had been the subject of numerous talk shows and articles in various popular press and trade publications.

Despite all of this attention, however, the expected demand for the trap had not materialized. Martha hoped that this award might stimulate increased interest and sales.

BACKGROUND

A group of investors had formed Trap-Ease America in January after it had obtained worldwide rights to market the innovative mousetrap. In return for marketing rights, the group agreed to pay the inventor and patent holder, a retired rancher, a royalty fee for each trap sold. The group then hired Martha to serve as president and to develop and manage the Trap-Ease America organization.

Trap-Ease America contracted with a plastics-manufacturing firm to produce the traps. The trap consisted of a square, plastic tube measuring about 6 inches long and 1-1/2 inches in diameter. The tube bent in the middle at a 30-degree angle, so that when the front part of the tube rested on a flat surface, the other end was elevated. The elevated end held a removable cap into which the user placed bait (cheese, dog food, or some other aromatic tidbit). The front end of the tube had a hinged door. When the trap was "open," this door rested on two narrow "stilts" attached to the two bottom corners of the door. (See Exhibit 1.)

The simple trap worked very efficiently. A mouse, smelling the bait, entered the tube through the open end. As it walked up the angled bottom toward the bait, its weight made the elevated end of the trap drop downward. This action elevated the open end, allowing the hinged door to swing closed, trapping the mouse. Small teeth on the ends of the stilts caught in a groove on the bottom of the trap, locking the door closed. The user could then dispose of the mouse while it was still alive, or the user could leave it alone for a few hours to suffocate in the trap.

Martha believed the trap had many advantages for the consumer when compared with traditional spring-loaded traps or poisons. Consumers could use it safely and easily with no risk of catching their fingers while loading it. It posed no injury or poisoning threat to children or pets. Furthermore, with Trap-Ease, consumers avoided the unpleasant "mess" they often encountered with the violent spring-loaded traps. The Trap-Ease created no "clean-up" problem. Finally, the user could reuse the trap or simply throw it away.

Martha's early research suggested that women were the best target market for the Trap-Ease. Men, it seemed, were more willing to buy and use the traditional, spring-loaded trap. The targeted women, however, did not like the traditional trap. These women often stayed at home and took care of their children. Thus, they wanted a means of dealing with the mouse problem that avoided the unpleasantness and risks that the standard trap created in the home.

To reach this target market, Martha decided to distribute Trap-Ease through national grocery, hardware, and drug chains such as Safeway, Kmart, Hechingers, and CB Drug. She sold the trap directly to these large retailers, avoiding any wholesalers or other middlemen.

The traps sold in packages of two, with a suggested retail price of $2.49. Although this price made the Trap-Ease about five to ten times more expensive than smaller, standard traps, consumers appeared to offer little initial price resistance. The manufacturing cost for the Trap-Ease, including freight and packaging costs, was about 31 cents per unit. The company paid an additional 8.2 cents per unit in royalty fees. Martha priced the traps to retailers at 99 cents per unit (two units to a package) and estimated that, after sales and volume discounts, Trap-Ease would produce net revenue from retailers of 75 cents per unit.

To promote the product, Martha had budgeted approximately $60,000 for the first year. She planned to use $50,000 of this amount for travel costs to visit trade shows and to make sales calls on retailers. She planned to use the remaining $10,000 for advertising. So far, however, because the mousetrap had generated so much publicity, she had not felt that she needed to do much advertising. Still, she had placed advertising in *Good Housekeeping* (after all, the trap had earned the *Good Housekeeping* Seal of Approval) and in other "home and shelter" magazines. Martha was the company's only salesperson, but she intended to hire more salespeople soon.

Martha had initially forecasted Trap-Ease's first-year sales at five million units. Through April, however, the company had only sold several hundred thousand units. Martha wondered if most new products got off to such a slow start, or if she was doing something wrong. She had detected some problems, although none seemed overly serious. For one, there had not been enough repeat buying. For another, she had noted that many of the retailers upon whom she called kept their sample mousetraps on their desks as conversation pieces—she wanted the traps to be used and demonstrated. Martha wondered if consumers were also buying the traps as novelties rather than as solutions to their mouse problems.

Martha knew that the investor group believed that Trap-Ease America had a "once-in-a-lifetime chance" with its innovative mousetrap, and she sensed the group's impatience with the company's progress so far. She had budgeted approximately $250,000 in administrative and fixed costs for the first year (not including marketing costs). To keep the investors happy, the company needed to sell enough traps to cover those costs and make a reasonable profit.

BACK TO THE DRAWING BOARD

In these first few months, Martha had learned that marketing a new product was not an easy task. Some customers were very demanding. For example, one national retailer had placed a large order with instructions that Trap-Ease America was to deliver the order to the loading dock at one of the retailer's warehouses between 1:00 and 3:00 p.m. on a specified day. When the truck delivering the order arrived after 3:00 p.m., the retailer had refused to accept the shipment. The retailer had told Martha it would be a year before she got another chance.

As Martha sat down at her desk, she realized she needed to rethink her marketing strategy. Perhaps she had missed something or made some mistake that was causing sales to be so slow. Glancing at the quotation again, she thought that perhaps she should send the picky retailer and other customers a copy of Emerson's famous quote.

Questions for Discussion

1. Martha and the Trap-Ease America investors believe they face a once-in-a-lifetime opportunity. What information do they need to evaluate this opportunity? How do you think the group would write its mission statement? How would *you* write it?
2. Has Martha identified the best target market for Trap-Ease? What other market segments might the firm target?
3. How has the company positioned the Trap-Ease for the chosen target market? Could it position the product in other ways?
4. Describe the current marketing mix for Trap-Ease. Do you see any problems with this mix?
5. Who is Trap-Ease America's competition?
6. How would you change Trap-Ease's marketing strategy? What kinds of control procedures would you establish for this strategy?