CHAPTER 2
COMPANY AND MARKETING STRATEGIES:

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

CHAPTER OVERVIEW

In this chapter, we dig deeper into steps two and three of the marketing process—designing customer value-driven marketing strategies and constructing marketing programs.

First, we look at the organization's overall strategic planning.

Next, we discuss how marketers partner closely with others inside and outside the firm to serve customers.

We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs.

Finally, we look at measuring and managing return on marketing investment (marketing ROI).

COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE

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

Strategic planning sets the stage for the rest of the planning in the firm.

Companies usually prepare annual plans, long-range plans, and strategic plans.

The annual and long-range plans deal with the company's current businesses and how to keep them going.

In contrast, the **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment.

The strategic planning process begins with the company defining its overall purpose and mission.

This mission is turned into objectives that guide the whole company.

Marketing planning occurs at the business-unit, product, and market levels.

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated.

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 statements should be ***market oriented*** and defined in terms of customer needs.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs.

Mission statements should be meaningful and specific, yet motivating.

A company's mission statement should not be stated as making more sales or profits; profits are a reward for creating value for customers.

Setting Company Objectives and Goals

The company turns its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them.

Marketing strategies and programs must be developed to support these marketing objectives.

Each broad marketing strategy must then be defined in greater detail.

Designing the Business Portfolio

A **business portfolio** is the collection of businesses and products that make up the company.

The best business portfolio is the one that matches the company's strengths and weaknesses to opportunities in the environment.

Business portfolio planning involves two steps:

1. The company must analyze its ***current*** business portfolio and decide which businesses should receive more, less, or no investment.
2. It must shape the ***future*** portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**.

Portfolio analysis is where management evaluates the products and businesses making up the company.

The steps in portfolio analysis are:

1. To identify the *strategic business units* (SBU). An SBU is a separately managed unit of the company with its own missions and objectives.
2. To assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios.

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.

Most standard portfolio-analysis methods evaluate SBUs on two dimensions:

1. The attractiveness of the market or industry, and
2. The strength of the position in that market or industry.

The Boston Consulting Group Approach

A company classifies all its SBUs according to the **growth-share matrix**.

The vertical axis: ***market growth rate*** provides a measure of market attractiveness.

The horizontal axis: ***relative market share*** provides a measure of company strength in the market.

The growth-share matrix defines four types of SBUs:

Stars. High-growth, high-share businesses or products. They will turn into cash cows.

Cash cows. Low-growth, high-share businesses or products. They produce a lot of cash that the company uses to pay its bills and support other SBUs that need investment.

Question marks. Low-share business units in high-growth markets. They require a lot of cash to hold their position.

Dogs. Low-growth, low-share businesses and products.

One of four strategies can be pursued for each SBU:

1. The company can invest to *build* its share.
2. It can invest just enough to *hold* its share.
3. It can milk its short-term cash flow, or *harvest.*
4. It can *divest* by selling it or phasing out.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle.

Problems with Matrix Approaches

Difficult, time consuming, and costly to implement.

These approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Many companies have dropped matrix methods in favor of customized approaches better suited to their specific situations.

Developing Strategies for Growth and Downsizing

A company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company.

The **product/market expansion grid** is used in identifying growth opportunities.

- **Market penetration**—making more sales to current customers without changing its products.

- **Market development**—identifying and developing new markets for its current products.
- **Product development**—offering modified or new products to current markets.
- **Diversification**—starting up or buying businesses outside of its current products and markets.

Companies must also develop strategies for **downsizing**.

When a firm finds brands/businesses that are unprofitable or no longer fit the overall strategy, it may prune, harvest, or divest them.

PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

Marketing plays a key role in the company's strategic planning.

1. Marketing provides a guiding *philosophy*—the marketing concept.
2. Marketing provides *inputs* to strategic planners.
3. Marketing designs *strategies* for reaching the unit's objectives.

Customer value is the key ingredient in the marketer's formula for success.

In addition to ***customer relationship management***, marketers must also practice ***partner relationship management.***

Partnering with Other Company Departments

Each company department can be thought of as a link in the company's internal **value chain.**

Success depends on how well the various departments coordinate their activities.

A company's value chain is only as strong as its weakest link.

Ideally, a company's different functions should work in harmony to produce value for consumers.

Other departments may resist marketing's efforts because their actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches.

Yet marketers must find ways to get all departments to "think consumer."

Partnering with Others in the Marketing System

Firms need to look beyond their own value chains and into the value chains of their suppliers, distributors, and customers.

Companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**.

Competition takes place between the entire value-delivery networks created by competitors.

Consumers are in the center. Profitable customer relationships are the goal.

Marketing strategy is next—this is the broad logic under which the company attempts to develop profitable relationships.

Guided by the strategy, the company develops its marketing mix—product, price, place, and promotion.

Customer Value-Driven Marketing Strategy

Marketing requires a deep understanding of customers.

There are many different kinds of consumers, and they exhibit many different kinds of needs.

Companies cannot profitably serve them all.

Companies 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***.

Market Segmentation

Market segmentation is 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.

Every market has segments, but not all ways of segmenting a market are equally useful.

A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts.

Market Targeting

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

A company with limited resources might serve only a few "market niches."

Market niches are segments that major competitors overlook or ignore.

Most companies enter a new market by serving a single segment. If this proves successful, they add segments.

Market Differentiation and Positioning

Product ***position*** is the place the product occupies relative to competitors in consumers' minds.

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

Positioning begins with **differentiation**—*differentiating* the company's market offering so that it gives consumers more value.

Developing an Integrated Marketing Mix

The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

The marketing mix consists of the "four *P*s": ***product, price, place***, and ***promotion***.

- ***Product:*** the goods-and-services combination the company offers to the target market.
- ***Price:*** the amount of money customers have to pay to obtain the product.
- ***Place:*** the company activities that make the product available to target consumers.
- ***Promotion:*** the activities that communicate the merits of the product.

From the buyer's viewpoint, the four Ps might be better described as the four As:

- ***Product = Acceptability***
- ***Price = Affordability***
- ***Place = Accessibility***

- ***Promotion = Awareness***

Acceptability: extent to which the product exceeds customer expectations
Affordability: extent to which customers are willing and able to pay the product's price
Accessibility: extent to which customers can readily acquire the product
A*wareness*: extent to which customers are informed.

MANAGING THE MARKETING EFFORT

Managing the marketing process requires the four marketing management functions of ***analysis, planning, implementation***, and ***control***.

Marketing Analysis

Analysis should be performed to understand the markets and marketing environment the company faces.

SWOT analysis is used to evaluate the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

- Strengths include capabilities, resources, and positive situational factors.
- Weaknesses include negative internal factors and negative situational factors.
- Opportunities are favorable external factors.
- Threats are unfavorable external factors.

Marketing Planning

A detailed marketing plan has to be developed for each business, product, or brand.

Marketing Implementation

Marketing implementation turns ***plans*** into ***actions***.

Implementation addresses the ***who, where, when,*** and ***how***.

Marketing Department Organization

The marketing organization must be designed so it can carry out the strategies/plans that are developed.

In small companies, one person may perform all the marketing functions. In large companies, many specialists are found. Many companies have now created the ***Chief Marketing Officer (CMO)*** position.

The ***functional*** organization is the most common form. This organizational form has the different activities headed by a functional specialist, such as sales, advertising, marketing research, etc.

A ***geographic*** organization might be utilized in a company that sells nationally or internationally.

A ***product management*** organization can be found in companies with many different products or brands.

A ***market*** or ***customer management*** organization is used in companies that sell one product to many different kinds of markets and customers.

Very large companies might utilize a ***combination*** of all these forms.

Marketing Control

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

The control process includes the following:

- ***Operating control*** checks the ongoing performance of the marketing programs against the annual plan.

- ***Strategic control*** looks at whether the company's basic strategies are matched to its opportunities.

MEASURING AND MANAGING RETURN ON MARKETING INVESTMENT

Marketing managers must ensure that their marketing dollars are being well spent.

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

Marketing ROI measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.

Marketing dashboards—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance.

Marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, and customer lifetime value.

Self-Check Questions

2-1. Define *strategic planning* and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process.

2-2. Describe how a company's mission statement and objectives affects the way management plans its business portfolio. (AACSB: Communication; Reflective Thinking)

2-3. Define each of the four Ps. What insights might a firm gain by considering the four Ps?

2-4. How are marketing departments organized? Which organization is best?

2-5. Why must marketers practice marketing control, and how is it done?