

CHAPTER 2 COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER VALUE AND RELATIONSHIPS

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.

JUST THE BASICS

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).

ANNOTATED CHAPTER NOTES/OUTLINE

FIRST STOP

Starbucks’ Customer Value-Driven Marketing Strategy: Delivering “The Starbucks Experience”

Starbucks didn’t sell just coffee, it sold “The Starbucks Experience”— “an uplifting

experience that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time." Starbucks gave customers what it calls a "third place"—a place away from home and away from work.

Over the next two decades, customers flocked to Starbucks cafés. By 2007, some 15,000 Starbucks stores dotted the nation and globe, and the company's sales and profits rose like steam off a mug of hot java.

The more Starbucks grew, however, the more it drifted away from the core mission and values that had made it so successful. The company's almost obsessive focus on growth for growth's sake began to take a toll on the prized Starbucks Experience.

Founder Howard Schultz, who had stepped down as CEO in 2000, expressed concern. Schultz was right that something was wrong. By early 2008, when Schultz reassumed his role as Starbucks president and CEO, the company found itself in hot water.

Within just the previous two years, Starbucks's stock had tumbled nearly 80 percent. According to one analyst, "The financial vultures circled. Obituaries were drafted."

Instead of presiding over the brand's demise, however, Schultz reacted quickly to restore its luster. Starbucks needed to shift its focus back to customers—to "reignite the emotional attachment with customers."

To emphasize the point, Schultz transported 10,000 Starbucks store managers to a morale-building reorientation in New Orleans. A short time later, Starbucks closed all of its U.S. locations for three hours to conduct nationwide employee training on the basics of producing satisfying customer experiences.

Today, a rejuvenated Starbucks is once again fully engaged with customers and delivering the one-of-a-kind Starbucks Experience. And once again, sales and profits are really perking. Over the past six years, revenues have increased 70 percent and profits have shot up fivefold.

The moral of the Starbucks story: Good marketing strategy means keeping your eye squarely on delivering customer value. The objective isn't just growth or sales or profits; it's engaging customers in a meaningful way and creating value for them.

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.

The stages of the strategic planning process are outlined in Figure 2.1.

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

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

Use **Key Term** *Strategic Planning* here.

Use **Chapter Objective 1** here.

Use **Figure 2.1** here.

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.

Use **Key Term** *Mission Statement* here.

Use **Discussion Question 2-1** here.

Use **Table 2.1** here.

Use **Critical Thinking Exercise 2-8** here.

Use **Online, Social Media, and Mobile Marketing** here.

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**.

Use **Key Term Business Portfolio** here.

Use **Marketing at Work 2.1** here.

Use **Chapter Objective 2** here.

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** (see Figure 2.2).

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.

<p>Use Key Terms <i>Portfolio Analysis</i> and <i>Growth-Share Matrix</i> here. Use Figure 2.2 here.</p>
--

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 (see Figure 2.3).

- **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.

Use **Key Terms** *Product/Market Expansion Grid, Market Penetration, Market Development, Product Development, and Diversification* here.

Use **Figure 2.3** here.

Use **Critical Thinking Exercise 2-7** here.

Use **Discussion Question 2-2** here.

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*.

Use **Chapter Objective 3** here.

Partnering with Other Company Departments

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

Use **Key Term Value Chain** here.

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.

Use **Key Term** *Value Delivery Network* here.
Use **Linking the Concepts** here.

MARKETING STRATEGY AND THE MARKETING MIX

Figure 2.4 shows the major activities in managing marketing strategy and the marketing mix.

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.

Use **Key Term** *Marketing Strategy* here.
Use **Figure 2.4** here.

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.

Use **Key Terms** *Market Segment, Market Segmentation, Market Targeting, Differentiation, and Positioning* here.
Use **Chapter Objective 4** here.
Use **Marketing Ethics** here.
Use **Marketing at Work 2.2** here.

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.

Use **Discussion Question 2-3** here

Developing an Integrated Marketing Mix

Use **Key Term** *Marketing Mix* here.
Use **Figure 2.5** here.
Use **Discussion Question 2-4** here.

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 Ps": **product, price, place, and promotion**. (Figure 2.5)

- **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

Awareness: 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*.

Use **Figure 2.6** here.

Marketing Analysis

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

Use **Key Term SWOT Analysis** here.

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.

Use **Figure 2.7** here.

Use **Critical Thinking Exercise 2-6** here.

Marketing Planning

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

Table 2.2 shows the major sections of a marketing plan for a product or a brand.

Use **Table 2.2** here.
Use **Chapter Objective 5** here.

Marketing Implementation

Marketing implementation turns *plans* into *actions*.

Use **Key Term Marketing Implementation** here.

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.

Use **Discussion Question 2-5** here.

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.

Use **Discussion Question 2-6** here.
Use **Key Term Marketing Control** here.

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. (Figure 2.8)

Use **Key Term Marketing Return on Investment** here.
Use **Chapter Objective 5** here.
Use **Marketing by the Numbers** here.
Use **Figure 2.8** here.

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.

END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion 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. (AASCB: Communication)

Answer:

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the companywide plan. Marketing planning occurs at the business-unit, product, and market levels. Marketing supports company strategic planning with more detailed plans for specific marketing opportunities.

Marketing plays a key role in the company's strategic planning in several ways: (1) it provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups, (2) it provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them, and (3) within individual business units, marketing designs strategies for reaching the unit's objectives.

2-2. Name and define the four product/market growth strategies. (AACSB: Communications; Reflective Thinking)

Answer:

The four product/market growth strategies are:

1. *Market penetration* – making more sales in its current product lines and markets. It can spur growth through marketing mix improvements—adjustments to its product design, advertising, pricing, and distribution efforts.
2. *Market development*—identifying and developing new markets for its current products.
3. *Product development*—offering modified or new products to current markets.
4. *Diversification*—starting up or buying businesses outside of its current products and markets.

2-3. Define each of the four Ps. What insights might a firm gain by considering the four As rather than the four Ps? (AACSB: Communication; Reflective Thinking)

Answer:

The four Ps of marketing are: product, price, place, and promotion. *Product* means the goods-and-services combination the company offers to the target market. *Price* is the amount of money customers have to pay to obtain the product. *Place* includes company activities that make the product available to target consumers. *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it.

From the buyer’s viewpoint, in this age of customer value and relationships, the four Ps might be better described as the four As:

Four Ps	Four As
Product	Acceptability
Price	Affordability
Place	Accessibility
Promotion	Awareness

Under this more customer-centered framework, *acceptability* is the extent to which the product exceeds customer expectations; *affordability* the extent to which customers are willing and able to pay the product’s price; *accessibility* the extent to which customers can readily acquire the product; and *awareness* the extent to which customers are informed about the product’s features, persuaded to try it, and reminded to repurchase. The 4As relate closely to the traditional 4Ps. Product design influences acceptability, price affects affordability, place affects accessibility, and promotion influences awareness.

2-4. How are marketing departments organized? Which organization is best?
(AACSB: Communication, Reflective Thinking)

Answer:

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. 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.

2-5. Why must marketers practice marketing control, and how is it done? (AACSB: Communication)

Answer:

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.

Critical Thinking Exercises

2-6. Form a small group and conduct a SWOT analysis for your school, a group that you are a member of, a publicly traded company, a local business, or a nonprofit organization. Based on your analysis, suggest a strategy from the product/market expansion grid and an appropriate marketing mix to implement that strategy. (AACSB: Communication; Reflective Thinking)

Answer:

Students' analyses and recommendations will vary, but they should be aware of the elements of a marketing plan. A SWOT analysis evaluates an organization'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 or organization to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors

that may interfere with the organization's performance. Opportunities are favorable factors or trends in the external environment that the organization may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance. Objectives should logically follow conclusions from the SWOT analysis, and the strategy recommended should support the objectives. The marketing strategy should identify the target market(s), positioning, and the marketing mix (product, price, place, and promotion).

2-7. The Boston Consulting Group (BCG) Matrix is a useful strategic tool. Another classic portfolio planning method useful to marketers is the GE/McKinsey Matrix (see www.quickmba.com/strategy/matrix/ge-mckinsey/). How is the GE/McKinsey Matrix similar to and different from the BCG matrix? (AACSB: Communication; Reflective Thinking)

Answer:

The GE/McKinsey Matrix (see www.quickmba.com/strategy/matrix/ge-mckinsey/) is similar to the BCG matrix because it maps SBUs on a grid and uses similar but different variables to plot the units. Whereas BCG uses market growth rate on the vertical axis, the GE matrix uses more variables to measure industry attractiveness, such as market growth rate, market size, demand variability, industry profitability, industry rivalry, global opportunities, and macroenvironmental factors. Factors are assigned weights and a score for industry attractiveness is determined. Likewise, business unit strength is used instead of just market share on the horizontal axis and considers market share, growth in market share, production capacity, brand equity, distribution channel access, and profit margins. SBUs are plotted as circles, with the size of the circle reflecting the size of the market and a slice representing that SBU's market share in that market and an arrow reflecting the expected future position of the circle.

2-8. Create a mission statement for a nonprofit organization you would be interested in starting. Have another student evaluate your mission statement while you evaluate the other student's statement, suggesting areas of improvement. (AACSB: Communication; Reflective Thinking)

Answer:

Some organizations define their missions myopically in product or technology terms, but mission statements should be *market oriented* and defined in terms of satisfying basic customer needs—even for non-profit organizations. For example, a nonprofit organization might be a house that offers emergency shelter for people in need, but defining its mission as a house could be too narrow. Perhaps the organization can also provide funds to pay for a hotel room for someone in need, thus defining its

mission as providing shelter is broader than providing a house for people to stay in emergencies. Mission statements should be *meaningful and specific yet motivating*. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Instead, they should emphasize the company's strengths and tell forcefully how it intends to succeed. Finally, an organization's mission should on customers and the customer experience the organization seeks to create.

Minicases and Applications

Online, Social Media, and Mobile Marketing: Google's Mission

Founded in 1998 as an Internet search engine, Google's mission statement remains the same to this day: to "organize the world's information and make it universally accessible and useful." Google is certainly successful, with revenues growing from \$3.2 billion in 2002 to \$66 billion in 2014, 90 percent of which comes from advertisers. Google is expanding rapidly into other areas well beyond its search engine, such as self-driving cars, smart contact lenses that measure a person's blood sugar levels, Internet-bearing balloons to create Internet hotspots anywhere on earth, and even magnetic nanoparticles to search for disease within the human bloodstream. Google has been on a buying frenzy recently, purchasing security, biotech, and robotic companies in a quest to capitalize on the Internet of Things (IoT) phenomenon. Experts predict there will be 25 million connected devices in our homes and workplaces by 2020. Google recently announced its new IoT operating system, dubbed Brillo (after the Brillo scrubbing pad because it is a scrubbed-down version of its Android operating system), targeted to developers of smart products connected to the Internet, such as ovens, thermostats, and even toothbrushes. It has also developed Weave, the corresponding IoT language that will allow smart products to speak to each other. Perhaps one day you will be sitting in your Google self-driving car, streaming the news, checking your blood sugar, and cooling your home by turning down your thermostat on the way home from work.

2-9. Conduct research on Google to learn more about its products and services. Some say the time has come for Google to create a new mission statement. Do you agree? Explain. (AACSB: Communication; Reflective Thinking)

Answer:

For a list of Google's current products, see www.google.com/about/products/. Another source lists Google's products as well as discontinued products: http://en.wikipedia.org/wiki/List_of_Google_products. A list of Google's mergers and acquisitions since 2001 can help students see the direction the company might be heading: http://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Google.

Students could argue that even though Google's products have expanded to tangible

products, the focus is still on making information useful. For example, self-driving cars rely on organizing information from the Internet (such as Google Maps) and sensors around the car to make it accessible and usable to perform its function. Therefore, Google is still organizing information and making it useful.

2-10. Create a new mission statement for Google that will take it through the rest of this century. (AACSB: Communication; Reflective Thinking)

Answer:

Students' answers will vary. Perhaps instead of organizing the world's information, the company's mission could focus more on harnessing information to make the world a better place.

Marketing Ethics: Family Feud

Otsuka Kagu, a well-known furniture store in Japan, made news recently because of an ugly family feud between the founding father and his daughter. Mr. Otsuka started the store in 1969 and built it into one of Japan's leading furniture retailers, now a publicly traded company. Mr. Otsuka's business model focused on high-end customers using a membership system, large showrooms, customer advisors, and strong relationships with a wide range of suppliers. This strategy worked until the 2008 worldwide financial crisis, when the company started experiencing losses as customers sought out lower-priced rivals like IKEA. As a result, Mr. Otsuka put his daughter in charge as president of the company. Ms. Otsuka cut prices, renovated stores, and created a line of lower-priced walk-in stores, bringing the company back to profitability. Although customers apparently approved of Ms. Otsuka's actions, her father and many employees did not. So Mr. Otsuka fired his daughter and reverted to the company's original strategy. Mr. Otsuka even went so far as to call his daughter a "bad child" and label her marketing actions "terrorism." When the company's profitability once again suffered, shareholders voted to bring back Ms. Otsuka as president of the company.

2-11. Do you think Mr. Otsuka's demands to continue focusing on high-end customers are reasonable? (AACSB: Communication; Ethical Reasoning)

Answer:

Students' responses will vary. Mr. Otsuka can do whatever he wants if the company was not publically traded. But since Otsuka Kagu is shareholder owned, he needs to consider management's responsibility to investors' concerns. Companies need to conduct a SWOT analysis to evaluate the company's overall strengths, weaknesses, opportunities, and threats. While this company has many strengths, changes in the economic and competitive environments pose threats that have hurt the company's

profitability. However, changing focus to compete head-on with lower-priced competitors introduces new challenges. See Shigeru Asab, “Continuity and Innovation of a Family Firm, Otsuka Kagu Governance Is Not an Issue,” *The Japan News*, available at www.yomiuri.co.jp/adv/wol/dy/opinion/society_150504.html for an interesting discussing of this company.

2-12. Discuss an example of a company that successfully changed its marketing strategy. (AACSB: Communication; Reflective Thinking)

Answer:

Students can search “changing marketing strategy” and several articles highlighting how companies changed focus and succeeded result. For example, read about PayPal, Gap, Nintendo, and others at www.therichest.com/business/companies-business/six-companies-that-changed-direction-and-found-success/; Domino’s Pizza turnaround at www.qsrmagazine.com/menu-innovations/many-acts-domino-s-pizza; Google, Facebook, Apple, and others at www.chargify.com/blog/6-companies-that-succeeded-by-changing-their-business-model/; and Netflix at www.cbsnews.com/news/why-netflix-got-its-strategy-right/.

Marketing by the Numbers: Apple versus Microsoft

In 2014, Apple reported profits of more than \$50 billion on sales of \$182 billion. For that same period, Microsoft posted a profit of almost \$30 billion on sales of \$88 billion. So Apple is a better marketer, right? Sales and profits provide information to compare the profitability of these two competitors, but between these numbers is information regarding the efficiency of marketing efforts in creating those sales and profits. Appendix 3, Marketing by the Numbers, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the Appendix 2 to answer the questions using the following information from the two companies’ incomes statements (all numbers are in thousands):

	Apple	Microsoft
Sales	\$182,795,000	\$86,833,000
Gross Profit	\$70,537,000	\$59,899,000
Marketing Expenses	\$8,994,750	\$15,474,000
Net Income (Profit)	\$52,503,000	\$27,759,000

2-13. Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for each company. Which company is performing better? (AACSB: Communication; Use of IT; Analytic Thinking)

Answer:

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Net sales}}$$

$$\text{Profit Margin}_{\text{Apple}} = \frac{\$52,503,000}{\$182,795,000} = 0.2872 = 28.72\%$$

$$\text{Profit Margin}_{\text{Microsoft}} = \frac{\$27,759,000}{\$86,833,000} = 0.3197 = 31.97\%$$

Net Marketing Contribution (NMC) = net sales – cost of goods sold – marketing expenses

Because Gross Profit = net sales – cost of goods sold, students just need to subtract marketing expenses from gross profit:

$$\text{NMC}_{\text{Apple}} = \$70,537,000 - \$8,994,750 = \$61,542,250$$

$$\text{NMC}_{\text{Microsoft}} = \$59,899,000 - \$15,474,000 = \$44,425,000$$

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}}$$

$$\text{Marketing ROS}_{\text{Apple}} = \frac{\$61,542,250}{\$182,795,000} = 0.3367 = 33.67\%$$

$$\text{Marketing ROS}_{\text{Microsoft}} = \frac{\$44,425,000}{\$86,833,000} = 0.5116 = 51.16\%$$

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}}$$

$$\text{Marketing ROI}_{\text{Apple}} = \frac{\$61,542,250}{\$86,833,000} = 6.8420 = 684.20\%$$

$$\text{Marketing ROI}_{\text{Microsoft}} = \frac{\$8,994,750}{\$15,474,000} = 2.8709 = 287.09\%$$

Although Apple has larger absolute sales, gross profits, expenses, net marketing contribution, and profits, Microsoft is performing more efficiently as measured by the profit margin and Marketing Return on Sales. However, Apple is performing significantly better on Marketing Return on Investment, which means Microsoft is not getting as great of a marketing return, albeit still very good, for the investment it has made in marketing compared to Apple.

2-14. Go to Yahoo! Finance (<http://finance.yahoo.com>) and find the income statements for two other competing companies. Perform the same analyses for these companies that you performed for the previous question. Which company is doing better overall and with respect to marketing? For marketing expenses, use 75 percent of the company's reported "Selling General and Administrative" expenses, as not all of the expenses in that category are marketing expenses. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

Answer:

Students' answers will vary. The information used in the previous question can be found at: Apple:

<http://finance.yahoo.com/q/is?s=AAPL+Income+Statement&annual>; and Microsoft: <http://finance.yahoo.com/q/is?s=MSFT+Income+Statement&annual>. The information students need is: Total Revenue, Gross Profit, Selling General and Administrative (use 75% to represent marketing expenses), and Net Income.

Video Case: Konica Minolta

Konica Minolta has been in business since 1873. For decades, it was a successful photo company selling cameras, equipment, and supplies primarily to final consumers. But dramatic changes in the marketing environment forced the company to reevaluate its marketing strategy and ultimately to abandon what had been its primary industry.

Today, Konica Minolta has a successful business-to-business strategy centered on office equipment and print products for commercial printers. The company has also developed a health-care and medical group, an optics group, and a division that produces components for mobile phones and televisions. With the advent and growth of social media, Konica Minolta's marketing strategy continues to evolve.

After viewing the video featuring Konica Minolta, answer the following questions:

- 2-15. What is Konica Minolta's mission?
- 2-16. What market conditions led Konica Minolta to reevaluate its marketing strategy?
- 2-17. How has Konica Minolta modified its marketing mix? Are these changes in line with its mission?

Company Cases

2 Samsung / 1 FedEx / 3 Sony

See Appendix 1 for cases appropriate for this chapter.

Case 2, Samsung: A Strategic Plan for Success. Once an off-brand, strategic planning has made Samsung the number one consumer electronics company.

Case 1, FedEx: Making Every Customer Experience Outstanding. From the time FedEx opened for business over 40 years ago, the company strategy has been built on a foundation of obsessive customer focus.

Case 3, Sony: Battling the Marketing Environment's "Perfect Storm." Where Samsung has succeeded through sound strategic planning, Sony is struggling due to the lack thereof.

MyMarketingLab

If assigned by your instructor, complete these writing sections from your Assignments in the MyLab.

- 2-18. Explain the roles of market segmentation, market targeting, differentiation, and positioning in implementing an effective marketing strategy. (AACSB: Communication)
- 2-19. Marketers are increasingly held accountable for demonstrating marketing success. Research the various marketing metrics, in addition to those described in the chapter and Appendix 3, used by marketers to measure marketing performance. Write a brief report of your findings. (AACSB: Written and Oral Communication; Reflective Thinking)

GREAT IDEAS

Barriers to Effective Learning

- 1. Students will largely be unfamiliar with strategic planning and its concepts and objectives. Making this come alive with the examples in the textbook, or your own examples from your own experience, will help them deal with the complex issues in this section.

2. Working through a mission statement for the marketing department of your university, or for the business college within which it exists, may give the students a greater appreciation for the difficulty and importance of defining a mission that lives and breathes life into the objectives that follow.
3. The Boston Consulting Group's portfolio analysis tool can also be difficult to understand. Again, working through examples with companies the students should be familiar with will aid understanding.
4. University business courses rarely talk about cross-functional teamwork, so this may come as a surprise to students. If they have worked in internships with large companies, they may well have seen functional silos at work, and their coursework only serves to reinforce that mentality. Examples of companies failing because of a lack of teamwork—which can happen frequently at small companies in particular—will open many students' eyes to the importance of ensuring that all functions work in concert to make the company a success.
5. Value chains and supply chains are important concepts that also are typically not discussed in other courses. Getting students to understand these concepts is important for their understanding of the remainder of the course. Showing how sloppy quality in a component purchased from a vendor ultimately affects customer satisfaction will help.
6. Market segmentation and targeting are universally new concepts to students, unless they happen to have a parent who works in marketing. Although this is discussed in detail in a future chapter, showing how a large, amorphous market can be broken down in more and more detailed groups of buyers will help.
7. Market positioning can be difficult to understand as well. Students will normally think of a product in terms of its features, and although positioning includes the features, it also spans the concepts of benefits and perceptions. Using examples of brands at opposite ends of a price continuum, such as Rolex versus Swatch watches, helps drive home what positioning means.

Student Projects

1. Look at the mission statements of five companies in the same industry. How do their mission statements differ and how are they alike? Which ones do you believe are good?
2. A business portfolio is the collection of businesses or products that make up the company. Take a look at Ford (www.ford.com). Describe Ford's business portfolio in terms of both businesses and products.
3. Using the Boston Consulting Group's growth-share matrix, place Ford's vehicles on the grid. Which are the stars, the cash cows, the question marks, and the dogs?
4. Still using Ford as our example, discuss the product positioning of their SUVs and trucks.

Small Group Assignment

Form students into groups of three to five. Each group should read the opening vignette to the chapter on Starbucks. Each group should answer the following questions:

1. What has caused Starbucks lasting popularity?
2. What has been the company's primary strategy?
3. What is Starbucks doing to ensure its future growth and success?

Each group should then share its findings with the class.

Individual Assignment

Consider the fashion retailers H&M (<http://www.hm.com/us/>) and Zara (<http://www.zara.com/us/>). What is the positioning strategy of each? How are they similar? How are they different?

Think-Pair-Share

Consider the following questions, formulate answers, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. Design a mission statement for your college/university.
2. What are some of the problems with using a matrix approach (such as the BCG matrix)?
3. What is the difference between market development and product development?
4. Under what conditions might downsizing be a usable strategy?

Classroom Exercise/Homework Assignment

Develop a strategy for attracting new students to your college or university. Write a statement that describes your college/university's fit between the goal of attracting the best students and its capabilities for then educating those students

Classroom Management Strategies

This chapter starts outlining some fairly difficult subjects for students. Strategic planning, growth-share matrices, and even the development of the marketing mix are relatively tough concepts for a second chapter in a beginning marketing text. Therefore, when planning how to present the material, be sure to leave plenty of time to go through at least some of the Applying the Concepts, as well as defining what the Key Terms really mean in the everyday working world. Several of the concepts presented in this chapter become important later in the text, and if the students come away understanding this chapter, they will have an easier time later in the semester.

1. Company-wide Strategic Planning can be covered in about 15 minutes. Focus on the "thread" that ties together the corporate strategic plan, corporate and business

- unit objectives, and the business or product portfolio. This last topic should be prominent in the discussion, as it sets the stage for later discussions of new product development.
2. The second major section of the chapter, Planning Marketing, can be covered in 5 minutes. Although this section is important and touches on issues that will come up later in the text, it does not need to have the same level of focus as the other topics in this chapter.
 3. The next section, Marketing Strategy, is extremely important; 20 minutes should be devoted to this topic. In particular, ensuring the students understand the true meaning of developing an intelligent marketing mix will set the stage for such later topics as integrated marketing communications, because they will already have thought about how different components of a plan should work together. Finally, 20 minutes should also be devoted to Managing the Marketing Effort. This section should really drive home the notion that marketing isn't just a creative endeavor. For instance, when discussing marketing analysis and the marketing environment, you can point out how these topics are a big part of what market research is all about.

PROFESSORS ON THE GO

Company and Marketing Strategy: Partnering to Build Customer Relationships

Key Concepts

Market-oriented mission statements
Setting goals and objectives
Designing and analyzing a business portfolio

- In a small group, discuss whether the following statement from Amazon.com meets the criteria of a good mission statement. “Our vision is to be the earth’s most concentric company; to build a place where people can come to find and discover anything they might want to buy online.”
- The BCG growth-share matrix identifies four classifications of SBUs: Stars, Cash Cows, Question Marks, and Dogs. Briefly discuss why management may find it difficult to dispose of a “Question Mark.”
- Which of the following two terms do you think best describes the process of developing and maintaining a fit between the organization’s goals and capabilities and its changing marketing opportunities: strategic planning or corporate planning. Why?

Key Concepts

Market segmentation, target marketing, and market positioning
The 4 Ps of marketing

- Discuss each of the three steps that a company must perform in choosing the best market segments and designing strategies to maximize profitability in selected segments.
- Nordstrom’s and Kohl’s are two department stores. Visit their Web sites (www.nordstroms.com and www.kohls.com) to familiarize yourself with each. Who do you think each is targeting? How might they be trying to position themselves in the marketplace?
- Do you think that the “4 Ps” marketing mix framework does an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
- Why would a focus on the 4 Cs be more important than the 4 Ps?