

# CHAPTER INSTRUCTOR NOTES

## Chapter 2 – External and Customer Analysis

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1. External Analysis—Figure 2.1 highlights that external analysis is about the identification of trends, threats/opportunities, and strategic uncertainties and that this can lead to strategic decisions and to the analysis of information-need areas and scenarios. The concept of information-need areas is particularly important and powerful. It is worth talking through Figure 2.1.
2. Segmentation analysis—the definition of segmentation is worth emphasizing—it is the identification of customer groups that respond differently to competitive offerings.
3. Customer motivations—Figure 2.7 describes the four steps—identify, group & structure, assess importance, and assign roles to motivations. Asking students to work through a category such as athletic shoes or snack foods would likely create an interesting discussion of customer behavior in these categories.
4. Unmet needs—a powerful indicator of market opportunities. Ethnographic research is described as a way to uncover unmet needs that customers cannot express.

### External Analysis

Discuss strategic uncertainties and how they differ from strategic decisions. What are the strategic uncertainties facing Ford? What strategic decisions might be affected or precipitated by the strategic uncertainties? For example, the future of the hybrid or the hydrogen powered car would be an uncertainty.

- Why is external analysis a creative exercise?

### Segmentation Analysis

Ask for examples of firms that have done segmentation well. That question could be asked in general and then more specifically—what firms have segmented by benefit (BMW), usage (University of Michigan), loyalty (airlines' frequent flyer programs), and price/value (Walmart)? Push the class to identify how the offering is different because of the target segment.

- List the features and associated benefit for the product or service.
- Identify the target market.
- Evaluate each benefit on a 1 to 10 scale as to how compelling it is for the segment.

### Customer Motivation

Ask what toothpaste everyone uses and why? The answer is likely that many people use the same toothpaste as their parents. So what is the motivation? The discussion should make the point that what motivates people is not just product attributes, but things like emotional benefits caused by familiarity and links to family.

Ask “What is the motivation when you buy a car?” The point will be to see the variety of motivations that come out and, again, to see that customers overemphasize attributes and deemphasize emotional and self-expressive benefits. Ask how you can determine the non-attribute benefits if asking customers does not work so well.

### **Unmet Needs**

Ask what unmet needs exist in the automobile market. Pick a few and see if you can come up with products or programs that would be responsive. Or try school lunches.

### **END OF CHAPTER DISCUSSION QUESTIONS**

1. Why do a strategic analysis? What are the objectives? What, in your view, are the three keys to making a strategic analysis helpful and important? Is there a downside to conducting a full-blown strategic analysis?

By doing a strategic analysis, the company will ask rigorous questions that might not otherwise be asked because the company's current situation may be taken for granted. The objectives of strategic analysis should be to suggest strategy alternatives, contribute to the investment decision, and to develop strategic options that include the value proposition, assets and competencies, and functional strategies and programs. The purpose here is to jump-start growth; help sustain market position; increase income and cash flow which goes back to shareholder value.

Possible answers include: 1) focus on outputs and not get bogged down in detail, 2) make sure that the right scope(s) are selected, 3) make sure that the necessary research to support the analysis is done.

A possible downside to conducting a full-blown strategic analysis is that the time taken to do the analysis is so long that the window of opportunity is passed. An interesting observation is that many companies do strategic planning when times are good (because they have the time and money) and not when times are bad (they don't have the money or the people in place to do the strategic planning) – a time that could most benefit from identifying growth opportunities.

2. Consider the buyer “hot buttons” described in the insert on page 30. What are the implications for Betty Crocker? What new business areas might be considered, given each hot button? Answer the same questions for a grocery store chain such as Safeway.

Considering the “hot buttons” described in the insert (freshness, naturalness, ethnic eating, gourmet eating, meal solutions, low-carbohydrate foods, convenience), the implications for Betty Crocker are that the company should make sure they have, or have in development, products that respond to the current “hot buttons” or it will miss market opportunities and a possible loss of existing business.

The same is true for Safeway. Safeway’s product offerings must respond to the “hot buttons” because they are what cause customers to buy products. The absence of products that respond to the hot buttons means customers will seek alternative sources to satisfy their hot buttons.

3. Consider the segments in the male shopper insert on page 26. Describe each further. What cars would they drive? What kind of vacation would they take? What shirt brand would they buy?

One point is that you want to describe in detail any target segment. So the exercise should provide more texture for each segment. Another point is that there are many variables that could be used to define segments. What is this one? Is it demographics or lifestyle or life stage? Probably not just one... it may be some combination of variables. What do you think of the labels? What firms could or should use this segmentation scheme?

4. What is a customer buying at Nordstrom? At Banana Republic? At Zara?

Since each of the above retailers are clothing stores, it seems rather obvious that the customer is buying more than clothes. In the case of Nordstrom, the customer is buying: the brand, the liberal return policy, the ambience of shopping in the store, enhanced customer service in selecting clothing. At Banana Republic, the customer is buying trendiness, urban, and hot new fashions. Critics say that Banana Republic has compromised this image with low price points and promotions. Zara customers want imitations of new designs at a low price. Quality is not valued as clothes are not expected to last more than a year.

5. Pick a company or brand or business on which to focus, such as cereals. What are the major segments? What are the customer motivations by segments? What are the unmet needs?

In the case of the cereal business, some of the major segments may be: natural, un-sweetened, fresh, sweetened, and healthy. Motivations for each may be: for natural cereal, the customer motivation might be to avoid perceived unhealthy ingredients; in the case of un-sweetened cereal, the customer motivation would be for a low calorie, low carbohydrate food. In the case of fresh cereal, the customer motivation may be for freshness and flavor and to avoid preservatives. In the case of sweetened cereal, the customer motivation might be for the extra taste provided by sugar. And for healthy cereal, the motivation may be for enhanced physical well-being. The unmet needs might be for a cereal in a bar form for those on the run or for cereals that are made for non-breakfast consumption, gluten-free, or for diabetic’s consumption.

### **Additional Suggestion:**

To learn about trends and the importance of environmental scanning it is useful to review articles from *The Futurist* published by The World Future Society. In November each year the Society publishes *Outlook* which forecasts events and trends for upcoming years. There are very interesting projections which will provoke very lively classroom discussions.

## **BEST PRACTICE DISCUSSION QUESTIONS**

### **Glossier: Using Beauty to Talk Back to Consumers**

1. What is Glossier's key customer analysis tool?

Since its founding, Glossier has focused on exploring and satisfying its customers' *unmet needs*. The company identified the lack of personalization in the makeup purchasing process as a major pain point among consumers, and introduced a brand that encourages women to share beauty tips and recommendations with each other. Today, Glossier continues this practice of uncovering and fulfilling perceived customer gaps in a number of ways, including mining user-generated content on its website for future product ideas.

2. What, if anything, should major cosmetic competitors such as L'Oreal or Estee Lauder do in response to Glossier's success? What customer-based actions can Glossier take to protect itself against these moves?

Though Glossier is still at an early point in its growth trajectory, the success of its business model signals that it could pose a long-term threat to other industry players. As a next step, major cosmetic competitors such as L'Oreal or Estee Lauder could imitate some aspects of Glossier's strategy while also identifying other unique unmet customer needs and adjusting their offerings to fit them. To do this, they could consider creating online communities where customers can converse, conducting qualitative research via focus groups, in-depth interviews or ethnographic analysis, and mapping out the ideal customer experience. In response to these moves, Glossier may want to leverage other customer analysis tools such as further segmenting its consumer base according to their needs, motivations, and characteristics. Further, Glossier should focus on creating customer loyalty as a way to protect the business it has built.

### **P&G Customer Analysis Guides Marketing Communications in China**

1. Do you think "Delight, don't dilute" is a principle that P&G can easily apply to other emerging markets? Why or why not? What customer analysis tool would be most helpful in making this determination?

To determine whether the "Delight, don't dilute" principle will be as impactful in other emerging markets, P&G should more deeply consider *customer motivations*. Prior to further expansion, it would be beneficial to assess what elements of the Pampers product customers

value the most, what their purchasing objectives are, and whether those objectives differ by segment. Collectively, this data will help P&G optimally position Pampers within each new market it enters.

2. Why were the photos of sleeping babies more effective than just reporting P&G research reports?

Research had revealed that new parents in China were very concerned over the impact on a child's development that low quality sleep could have. Utilizing photos of babies peacefully sleeping in Pampers diapers allowed P&G to frame the product as an aide to quality sleep, a message that may not have come across as explicitly in research reports. The company's ability to tap into this core customer motivation with its marketing content was key to it successfully growing market share in China and increasing the size of the overall disposable diapers market.