2 Strategic Planning for Competitive Advantage

LEARNING OUTCOMES

After studying this chapter, you will be able to . . .

- 2-1 Understand the importance of strategic planning
- 2-2 Define strategic business units (SBUs)
- 2-3 Identify strategic alternatives and know a basic outline for a marketing plan
- 2-4 Develop an appropriate business mission statement
- 2-5 Describe the components of a situation analysis
- 2-6 Identify sources of competitive advantage
- 2-7 Explain the criteria for stating good marketing objectives
- 2-8 Discuss target market strategies
- 2-9 Describe the elements of the marketing mix
- 2-10 Explain why implementation, evaluation, and control of the marketing plan are necessary
- 2-11 Identify several techniques that help make strategic planning effective

After you finish this chapter go to PAGE 29 for STUDY TOOLS.

2-1 THE NATURE OF STRATEGIC PLANNING

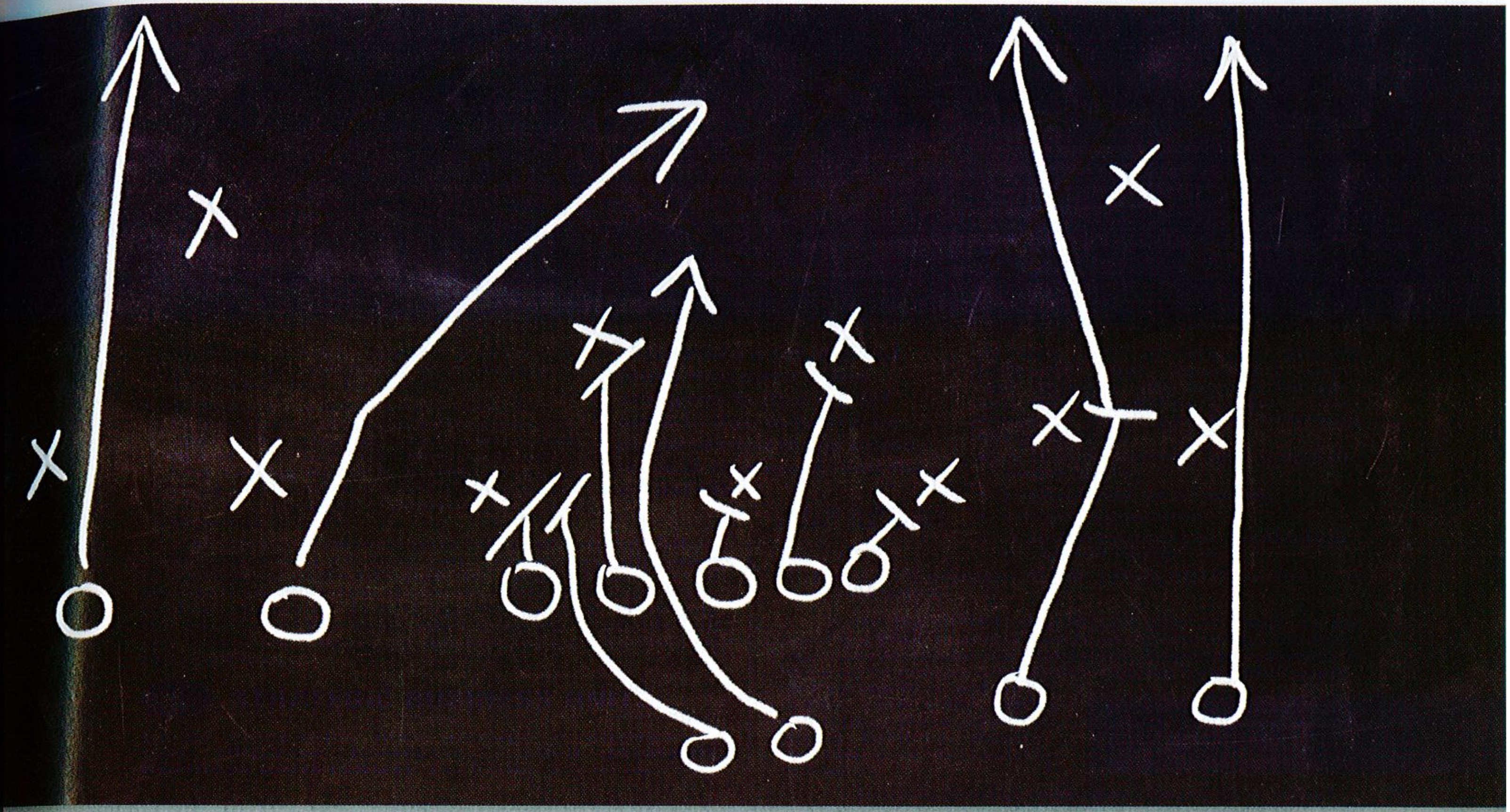
Strategic planning is the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities. The goal of strategic planning is long-run profitability and growth. Thus, strategic decisions require long-term commitments of resources.

A strategic error can threaten a firm's survival. On the other hand, a good strategic plan can help protect and grow the firm's resources. For instance, if the March of Dimes had decided to focus only on fighting polio, the organization would no longer exist because polio is widely viewed as a conquered disease. The March of Dimes survived by making the strategic decision to switch to fighting birth defects.

Strategic marketing management addresses two questions: (1) What is the organization's main activity at a particular time? (2) How will it reach its goals? Here are some examples of strategic decisions:

- In an effort to halt decreasing sales and compete with other fast food and fast causal chains, McDonald's has unveiled plans to allow customers to customize their orders for the first time. The new offering, called Create a Taste, lets customers use their tablet computers to choose toppings for their sandwiches.[1]
- Coach, the iconic leather goods company that became successful with wallets and handbags, is making an effort to reinvent itself as a lifestyle brand. The company has introduced a variety of products, including footwear, women's apparel, jewelry, sunglasses, and watches. It even designed a luxury baseball glove for men.[2]
- Following founder Howard Schultz's vision of maintaining an entrepreneurial approach to strategy, Starbucks recently opened the Starbucks Reserve Roastery and Tasting Room in Seattle to appeal to upscale coffee lovers. The company also has plans to expand its food and beverage menu.[3]

strategic planning the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities



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"There are a lot of great ideas that have come and gone in [the digital advertising] industry. Implementation many times is more important than the actual idea."

—DAVID MOORE, CEO OF 24/7 REAL MEDIA

All these decisions have affected or will affect each organization's long-run course, its allocation of resources, and ultimately its financial success. In contrast, an operating decision, such as changing the package design for Post Grape-Nuts cereal or altering the sweetness of a Kraft salad dressing, probably will not have a big impact on the long-run profitability of the company.

2-2 STRATEGIC BUSINESS UNITS

Large companies may manage a number of very different businesses, called strategic business units (SBUs). Each SBU has its own rate of return on investment, growth potential, and associated risks, and requires its own strategies and funding. When properly created, an SBU has the following characteristics:

- A distinct mission and a specific target market
- Control over its resources
- Its own competitors
- A single business or a collection of related businesses
- Plans independent of the other SBUs in the total organization.

In theory, an SBU should have its own resources for handling basic business functions: accounting, engineering, manufacturing, and marketing. In practice, however, because of company tradition, management philosophy, and production and distribution economies, SBUs sometimes share manufacturing facilities, distribution channels, and even top managers.

strategic business unit (SBU) a subgroup of a single business or collection of related businesses within the larger organization

2-3 STRATEGIC ALTERNATIVES

There are several tools available that a company, or SBU, can use to manage the strategic direction of its portfolio of businesses. Three of the most commonly used tools are Ansoff's strategic opportunity matrix, the Boston Consulting Group model, and the General Electric model. Selecting which strategic alternative to pursue depends on which of two philosophies a company maintains about when to expect profits—right away or after increasing market share. In the long run, market share and profitability are compatible goals. For example, Amazon lost hundreds of millions of dollars its first few years, and the company posted quarterly net losses as recently as 2013. Amazon's primary goal is market share—not profit. It sacrifices short-term profit for long-term market share, and thus larger long-term profits.[4]

EXHIBIT 2.1 ANSOFF'S OPPORTUNITY MATRIX

	Present Product	New Product
Present Market	*Market Penetration* Starbucks sells more coffee to customers who register their reloadable Starbucks cards.	*Product Development* Starbucks develops powdered instant coffee called Via.
New Market	*Market Development* Starbucks opens stores in Brazil and Chile.	*Diversification* Starbucks launches Hear Music and buys Ethos Water.

2-3a Ansoff's Strategic Opportunity Matrix

One method for developing alternatives is Ansoff's strategic opportunity matrix (see Exhibit 2.1), which matches products with markets. Firms can explore these four options:

- **Market penetration:** A firm using the **market penetration** alternative would try to increase market share among existing customers. FTR Energy Services, a division of Frontier Communications, introduced a Green-e certified energy service into New York, Ohio, and Indiana markets served by Frontier's telephone and broadband services. Though these markets were already served by separate, well-established energy companies, FTR Energy hoped to penetrate the energy market by allowing customers to lock in competitive rates and offering five percent cash back on energy usage.[5] Customer databases, discussed in Chapter 9, would help managers implement this strategy.
- **Market development: Market development** means attracting new customers to existing products. Ideally, new uses for old products stimulate additional sales among existing customers while also bringing in new buyers. McDonald's, for example, has opened restaurants in Russia, China, and Italy and is eagerly expanding into Eastern European countries. In the nonprofit arena, the growing emphasis on continuing education and executive development by colleges and universities is a market development strategy.
- **Product development:** A **product development** strategy entails the creation of new products for present markets. In January 2014, Beats Electronics launched Beats Music, a subscription-based streaming music service that offers advanced personalization systems and forward-thinking family sharing plans. Beats hopes this service's novel features, sleek design, and celebrity endorsements will catapult it to the front of the music streaming pack, which is currently fronted by competitors such as Spotify and Rdio.[6]
- **Diversification: Diversification** is a strategy of increasing sales by introducing new products into new markets. For example, UGG, a popular footwear brand known for its casual boots, has introduced an upscale men's footwear collection. The shoes are inspired by rock'n'roll legends such as Jimi Hendrix and Jim Morrison, and are meant to appeal to new customers. "There are some UGG customers that will be interested in the Collection product, but it will also bring in new customers for us," says Leah Larson, UGG's vice president and creative director.[7] A diversification strategy can be risky when a firm is entering unfamiliar markets. However, it can be very profitable when a firm is entering markets with little or no competition.

market penetration a marketing strategy that tries to increase market share among existing customers

market development a marketing strategy that entails attracting new customers to existing products

product development a marketing strategy that entails the creation of new products for present markets

diversification a strategy of increasing sales by introducing new products into new markets

Source: Deckers Consumer Direct Corporation

UGG, a popular footwear brand, introduced an upscale men's footwear collection that was inspired by Jimi Hendrix and Jim Morrison.

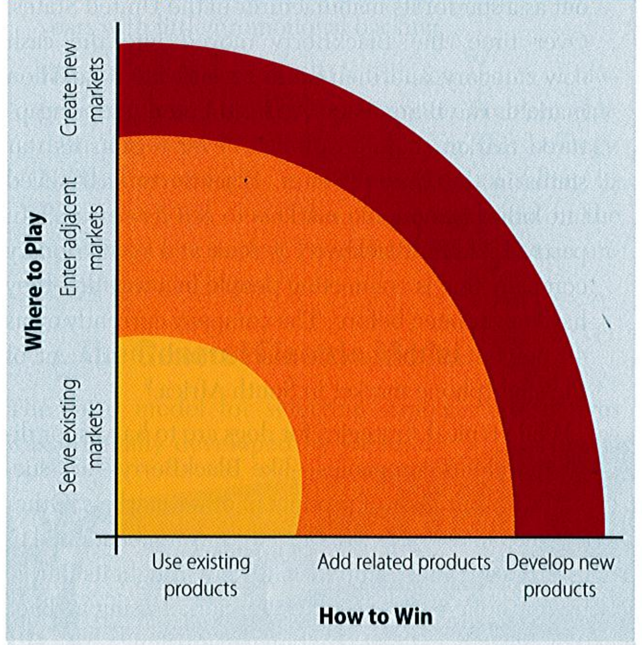
2-3b The Innovation Matrix

Critics of Ansoff's matrix mention that the matrix does not reflect the reality of how businesses grow—that modern businesses plan growth in a more fluid manner based on current capabilities rather than the clear-cut sectors outlined by the opportunity matrix. To reflect this, Bansi Nagji and Geoff Tuff, global innovation managers at Monitor Group, have recently developed a system that enables a company to see exactly what types of assets need to be developed and what types of markets are possible to grow into (or create) based on the company's core capabilities, as shown in Exhibit 2.2.

The layout of the innovation matrix demonstrates that as a company moves away from its core capabilities (the lower left) it traverses a range of change and innovation rather than choosing one of the four sectors in Ansoff's matrix. These ranges are broken down into three levels:

1. **Core Innovation:** Represented by the yellow circle in Exhibit 2.2, these decisions implement changes that use existing assets to provide added convenience to existing customers and potentially entice customers from other brands. Packaging changes, such as Tide's laundry detergent pods, fall into this category.
2. **Adjacent Innovation:** Represented by the orange arc in Exhibit 2.2, these decisions are designed to take company strengths into new markets. This space uses existing abilities in new ways. For example, Botox, the popular cosmetic drug, was originally developed to treat intestinal problems and to treat crossed eyes. Leveraging the drug into cosmetic medicine has dramatically increased the market for Botox.
3. **Transformational Innovation:** Represented by the red arc in Exhibit 2.2, these decisions result in brand-new markets, products, and often new businesses. The company must rely on new, unfamiliar assets to develop the type of breakthrough decisions that fall in this category. The wearable, remote-controlled GoPro documentary video camera is a prime example of developing an immature market with a brand-new experience.[8]

EXHIBIT 2.2 INNOVATION MATRIX



Based on Bansi Nagji and Geoff Tuff, "A Simple Tool You Need to Manage Innovation," *Harvard Business Review*, May 2012 http://hbr.org/2012/05/managing-your-innovation-portfolio/ar/1 (Accessed June 1, 2012).

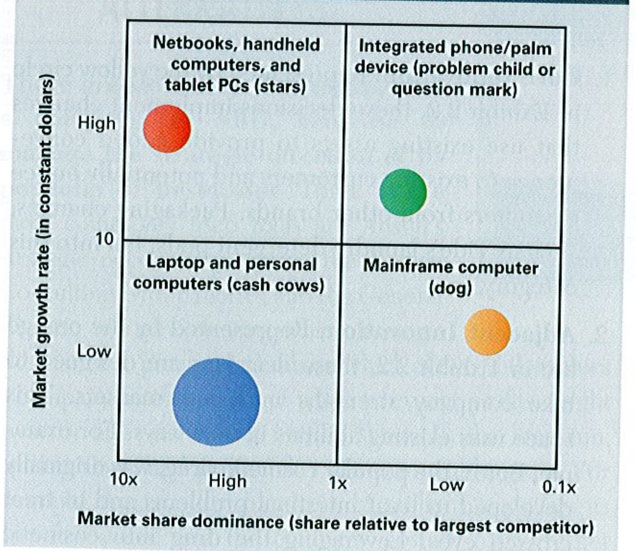
2-3c The Boston Consulting Group Model

Management must find a balance among the SBUs that yields the overall organization's desired growth and profits with an acceptable level of risk. Some SBUs generate large amounts of cash, and others need cash to foster growth. The challenge is to balance the organization's portfolio of SBUs for the best long-term performance.

To determine the future cash contributions and cash requirements expected for each SBU, managers can use the Boston Consulting Group's portfolio matrix. The **portfolio matrix** classifies each SBU by its present or forecast growth and market share. The underlying assumption is that market share and profitability are strongly linked. The measure of market share used in the portfolio approach is *relative market share*, the ratio between the company's share and

portfolio matrix a tool for allocating resources among products or strategic business units on the basis of relative market share and market growth rate

EXHIBIT 2.3 PORTFOLIO MATRIX FOR A LARGE COMPUTER MANUFACTURER



the share of the largest competitor. For example, if a firm has a 50 percent share and the competitor has five percent, the ratio is 10 to 1. If a firm has a 10 percent market share and the largest competitor has 20 percent, the ratio is 0.5 to 1.

Exhibit 2.3 is a hypothetical portfolio matrix for a computer manufacturer. The size of the circle in each cell of the matrix represents dollar sales of the SBU relative to dollar sales of the company's other SBUs. The portfolio matrix breaks SBUs into four categories:

- **Stars:** A **star** is a fast-growing market leader. For example, the iPad is one of Apple's stars. Star SBUs usually have large profits but need lots of cash to finance rapid growth. The best marketing tactic is to protect existing market share by reinvesting earnings in product improvement, better distribution, more promotion, and production efficiency. Management must capture new users as they enter the market.
- **Cash cows:** A **cash cow** is an SBU that generates more cash than it needs to maintain its market share. It is in a low-growth market, but the product has a dominant market share. Personal computers and laptops are categorized as cash cows in Exhibit 2.3. The basic strategy for a cash cow is to maintain market dominance by being the price leader and making technological improvements in the product. Managers should resist pressure to extend the basic line unless they can dramatically increase demand. Instead, they should allocate excess cash to the product categories where growth prospects are the greatest. For example, Heinz has two cash cows: ketchup and Weight Watchers frozen dinners.
- **Problem children:** A **problem child**, also called a **question mark**, shows rapid growth but poor profit margins. It has a low market share in a high-growth industry. Problem children need a great deal of cash. Without cash support, they eventually become dogs. The strategy options are to invest heavily to gain better market share, acquire competitors to get the necessary market share, or drop the SBU. Sometimes a firm can reposition the products of the SBU to move them into the star category. Elixir guitar strings, made by W. L. Gore & Associates, makers of Gore-Tex and Glide floss, were originally tested and marketed to Walt Disney theme parks to control puppets. After trial and failure, Gore repositioned and marketed heavily to musicians, who have loved the strings ever since.
- **Dogs:** A **dog** has low growth potential and a small market share. Most dogs eventually leave the marketplace. In the computer manufacturer example, the mainframe computer has become a dog. Another example is BlackBerry's smartphone line, which started out as a star for its manufacturer in the United States. Over time, the BlackBerry moved into the cash cow category, and then more recently, to a question mark, as the iPhone and Android-based phones captured market share. Even if it never regains its star status in the United States, BlackBerry has moved into other geographic markets to sell its devices. In parts of Africa, Blackberry is seen as a revolutionary company that is connecting people in a way that they have never been before. The company currently owns 48 percent of the mobile market and 70 percent of the smartphone market in South Africa.[9]

While typical strategies for dogs are to harvest or divest, sometimes companies—like BlackBerry—are successful with this class of product in other markets. Other companies may revive products that were abandoned as dogs. In early 2014, Church's Chicken brought its Purple Pepper dipping sauce back to the market using a "Back by Popular Demand" promotional campaign.[10]

After classifying the company's SBUs in the matrix, the next step is to allocate future resources for each. The four basic strategies are to:

star in the portfolio matrix, a business unit that is a fast-growing market leader

cash cow in the portfolio matrix, a business unit that generates more cash than it needs to maintain its market share

problem child (question mark) in the portfolio matrix, a business unit that shows rapid growth but poor profit margins

dog in the portfolio matrix, a business unit that has low growth potential and a small market share

- **Build:** If an organization has an SBU that it believes has the potential to be a star (probably a problem child at present), building would be an appropriate goal. The organization may decide to give up short-term profits and use its financial resources to achieve this goal. Apple postponed further work on the iPad to pursue the iPhone. The wait paid off when Apple was able to repurpose much of the iOS software and the iPhone's App Store for the iPad, making development less expensive and getting the product into the marketplace more quickly.[11]
- **Hold:** If an SBU is a very successful cash cow, a key goal would surely be to hold or preserve market share so that the organization can take advantage of the very positive cash flow. Fashion-based reality series *Project Runway* is a cash cow for the Lifetime cable television channel and parent companies Hearst and Disney. New seasons and spin-off editions such as *Project Runway: Under the Gunn* are expected for years to come.[12]
- **Harvest:** This strategy is appropriate for all SBUs except those classified as stars. The basic goal is to increase the short-term cash return without too much concern for the long-run impact. It is especially worthwhile when more cash is needed from a cash cow with long-run prospects that are unfavorable because of a low market growth rate. For instance, Lever Brothers has been harvesting Lifebuoy soap for a number of years with little promotional backing.
- **Divest:** Getting rid of SBUs with low shares of low-growth markets is often appropriate. Problem children and dogs are most suitable for this strategy. Nestle, for example, is in the process of selling its PowerBar SBU. Once the pioneering brand in the nutritional bar market, PowerBar has become an underperforming brand.[13]

2-3d The General Electric Model

The third model for selecting strategic alternatives was originally developed by General Electric. The dimensions used in this model—market attractiveness and company strength—are richer and more complex than those used in the Boston Consulting Group model, but are harder to quantify.

EXHIBIT 2.4 GENERAL ELECTRIC MODEL

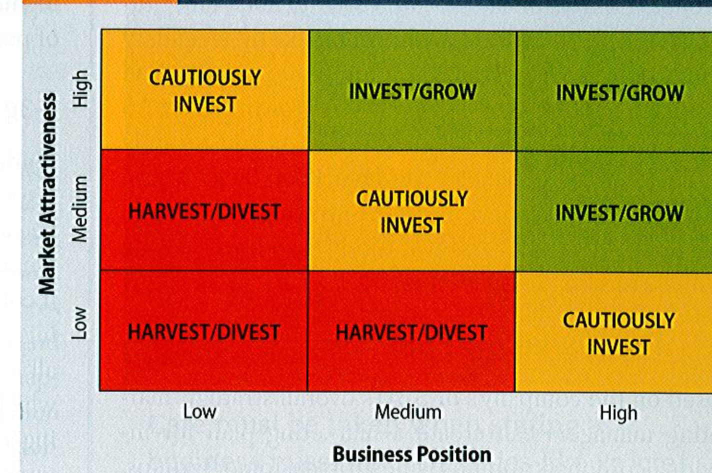
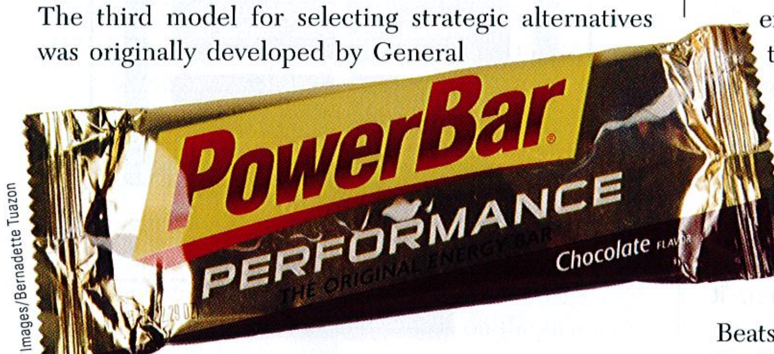


Exhibit 2.4 presents the GE model. The horizontal axis, Business Position, refers to how well positioned the organization is to take advantage of market opportunities. Business position answers questions such as: Does the firm have the technology it needs to effectively penetrate the market? Are its financial resources adequate? Can manufacturing costs be held down below those of the competition? Can the firm cope with change? The vertical axis measures the attractiveness of a market, which is expressed both quantitatively and qualitatively. Some attributes of an attractive market are high profitability, rapid growth, a lack of government regulation, consumer insensitivity to a price increase, a lack of competition, and availability of technology. The grid is divided into three overall attractiveness zones for each dimension: high, medium, and low.

Those SBUs (or markets) that have low overall attractiveness (indicated by the red cells in Exhibit 2.4) should be avoided if the organization is not already serving them. If the firm is in these markets, it should either harvest or divest those SBUs. The organization should selectively maintain markets with medium attractiveness (indicated by the yellow cells in Exhibit 2.4). If attractiveness begins to slip, then the organization should withdraw from the market.

Conditions that are highly attractive—a thriving market plus a strong business position (the green cells in Exhibit 2.4)—are the best candidates for investment. For example, when Beats Electronics launched a new line of over-the-ear headphones in 2008, the consumer headphone market



AP Images/Bernadette Tuazon

was strong but steady, led by inexpensive, inconspicuous earbuds. Four years later, the heavily branded and premium-priced Beats by Dr. Dre—helmed by legendary hip-hop producer Dr. Dre—captured 40 percent of all U.S. headphone sales, fueling market growth from $1.8 billion in 2011 to $2.4 billion in 2012. As you recently learned, Beats announced the launch of Beats Music in early 2014. This new market is growing quickly and is highly competitive, and will surely take Beats' strong business position to penetrate.[14]

2-3e The Marketing Plan

Based on the company's or SBU's overall strategy, marketing managers can create a marketing plan for individual products, brands, lines, or customer groups. **Planning** is the process of anticipating future events and determining strategies to achieve organizational objectives in the future. **Marketing planning** involves designing activities relating to marketing objectives and the changing marketing environment. Marketing planning is the basis for all marketing strategies and decisions. Issues such as product lines, distribution channels, marketing communications, and pricing are all delineated in the **marketing plan**. The marketing plan is a written document that acts as a guidebook of marketing activities for the marketing manager. In this chapter, you will learn the importance of writing a marketing plan and the types of information contained in a marketing plan.

2-3f Why Write a Marketing Plan?

By specifying objectives and defining the actions required to attain them, you can provide in a marketing plan the basis by which actual and expected performance can be compared. Marketing can be one of the most expensive and complicated business activities, but it is also one of the most important. The written marketing plan provides clearly stated activities that help employees and managers understand and work toward common goals.

Writing a marketing plan allows you to examine the marketing environment in conjunction with the inner workings of the business. Once the marketing plan is written, it serves as a reference point for the success of future activities. Finally, the marketing plan allows the marketing manager to enter the marketplace with an awareness of possibilities and problems.

planning the process of anticipating future events and determining strategies to achieve organizational objectives in the future

marketing planning designing activities relating to marketing objectives and the changing marketing environment

marketing plan a written document that acts as a guidebook of marketing activities for the marketing manager

2-3g Marketing Plan Elements

Marketing plans can be presented in many different ways. Most businesses need a written marketing plan because a marketing plan is large and can be complex. Details about tasks and activity assignments may be lost if communicated orally. Regardless of the way a marketing plan is presented, some elements are common to all marketing plans. Exhibit 2.5 shows these elements, which include defining the business mission, performing a situation analysis, defining objectives, delineating a target market, and establishing components of the marketing mix. Other elements that may be included in a plan are budgets, implementation timetables, required marketing research efforts, or elements of advanced strategic planning.

EXHIBIT 2.5 ELEMENTS OF A MARKETING PLAN

2-3h Writing the Marketing Plan

The creation and implementation of a complete marketing plan will allow the organization to achieve marketing objectives and succeed. However, the marketing plan is only as good as the information it contains and the effort, creativity, and thought that went into its creation. Having a good marketing information system and a wealth of competitive intelligence (covered in Chapter 9) is critical to a thorough and accurate situation analysis. The role of managerial intuition is also important in the creation and selection of marketing strategies. Managers must weigh any information against its accuracy and their own judgment when making a marketing decision.

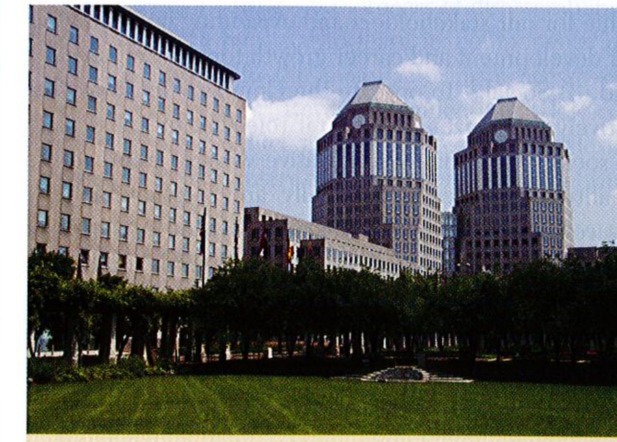
Note that the overall structure of the marketing plan (Exhibit 2.5) should not be viewed as a series of sequential planning steps. Many of the marketing plan elements are decided simultaneously and in conjunction with one another. Further, every marketing plan has different content, depending on the organization, its mission, objectives, targets, and marketing mix components. There is not one single correct format for a marketing plan. Many organizations have their own distinctive format or terminology for creating a marketing plan. Every marketing plan should be unique to the firm for which it was created. Remember, however, that although the format and order of presentation should be flexible, the same types of questions and topic areas should be covered in any marketing plan.

2-4 DEFINING THE BUSINESS MISSION

The foundation of any marketing plan is the firm's mission statement, which answers the question "What business are we in?" The way a firm defines its business mission profoundly affects the firm's long-run resource allocation, profitability, and survival. The mission statement is based on a careful analysis of benefits sought by present and potential customers and an analysis of existing and anticipated environmental conditions. The firm's mission statement establishes boundaries for all subsequent decisions, objectives, and strategies.

A mission statement should focus on the market or markets the organization is attempting to serve rather than on the good or service offered. Otherwise, a new technology may quickly make the good or service obsolete and the mission statement irrelevant to company functions. Business mission statements that are stated too narrowly suffer from **marketing myopia**—defining a business in terms of goods and services rather than in terms of the benefits customers seek. In this context, *myopia* means narrow, short-term thinking. For example, Frito-Lay defines its mission as being in the snack-food business rather than in the corn chip business. The mission of sports teams is not just to play games but also to serve the interests of the fans.

Alternatively, business missions may be stated too broadly. "To provide products of superior quality and value that improve the lives of the world's consumers" is probably too broad a mission statement for any firm except Procter & Gamble. Care must be taken when stating what business a firm is in. For example, the mission of Ben & Jerry's centers on three important aspects of its ice cream business: (1) Product: "To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment"; (2) Economic: "To operate the Company on a sustainable financial basis of profitable growth, increasing



Bryan Busovicki/Shutterstock.com

Care must be taken when stating a business mission. Companies like Procter and Gamble have earned the right to be broad in their mission's wording.

mission statement a statement of the firm's business based on a careful analysis of benefits sought by present and potential customers and an analysis of existing and anticipated environmental conditions

marketing myopia defining a business in terms of goods and services rather than in terms of the benefits customers seek value for our stakeholders and expanding opportunities for development and career growth for our employees"; and (3) Social: "To operate the Company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally, and internationally."[15] By correctly stating the business mission in terms of the benefits that customers seek, the foundation for the marketing plan is set. Many companies are focusing on designing more appropriate mission statements because these statements are frequently displayed on the companies' Web sites.

2-5 CONDUCTING A SITUATION ANALYSIS

Marketers must understand the current and potential environment in which the product or service will be marketed. A situation analysis is sometimes referred to as a **SWOT analysis**—that is, the firm should identify its internal strengths (**S**) and weaknesses (**W**) and also examine external opportunities (**O**) and threats (**T**).

When examining internal strengths and weaknesses, the marketing manager should focus on organizational resources such as production costs, marketing skills, financial resources, company or brand image, employee capabilities, and available technology. For example, when Dell's stock fell sharply throughout the mid-2010s, management needed to examine strengths and weaknesses in the company and its competition. Dell had a $6 billion server business (strength), but the shrinking PC market accounted for a significant 24 percent of sales (weakness). Competitors like IBM and Hewlett-Packard (HP) were moving heavily into software and consulting, so to avoid them, Dell moved into the enterprise IT and services market. The shift was not enough to offset poor sales in other areas, however, and in 2013, the company entered buyout talks with private investors such as Blackstone and company founder Michael S. Dell. Dell ultimately went private and continues to sell computers, software, and related services.[16] Another issue to consider in this section of the marketing plan is the historical background of the firm—its sales and profit history.

When examining external opportunities and threats, marketing managers must analyze aspects of the marketing environment. This process is called **environmental scanning**—the collection and interpretation of information about forces, events, and relationships in the external environment that may affect the future of the organization or the implementation of the marketing plan. Environmental scanning helps identify market opportunities and threats and provides guidelines for the design of marketing strategy. Increasing competition from overseas firms and the fast growth of digital technology essentially ended Kodak's consumer film business. After emerging from bankruptcy, Kodak has repositioned the firm as a smaller, business-to-business company that offers commercial printing and digital imaging services.[17] The six most often studied macroenvironmental forces are social, demographic, economic, technological, political and legal, and competitive. These forces are examined in detail in Chapter 4.

2-6 COMPETITIVE ADVANTAGE

Performing a SWOT analysis allows firms to identify their competitive advantage. A competitive advantage is a set of unique features of a company and its products that are perceived by the target market as significant and superior to those of the competition. It is the factor or factors that cause customers to patronize a firm and not the competition. There are three types of competitive advantage: cost, product/service differentiation, and niche.


Yargin/Shutterstock.com

Hydraulic fracturing is a competitive advantage for the United States in the global natural gas market.

SWOT analysis identifying internal strengths (S) and weaknesses (W) and also examining external opportunities (O) and threats (T)

environmental scanning collection and interpretation of information about forces, events, and relationships in the external environment that may affect the future of the organization or the implementation of the marketing plan

competitive advantage a set of unique features of a company and its products that are perceived by the target market as significant and superior to those of the competition

2-6a Cost Competitive Advantage

Cost leadership can result from obtaining inexpensive raw materials, creating an efficient scale of plant operations, designing products for ease of manufacture, controlling overhead costs, and avoiding marginal customers. Hydraulic fracturing (or fracking) is a controversial mining technique used to release petroleum, natural gas, and other valuable chemicals from layers of rock in the earth's crust. In the United States, fracking has revealed a vast supply of natural gas locked in shale rock, greatly reducing the cost of energy across the country and making the United States a primary player in the global natural gas market. According to George Blitz, vice president of energy and climate change at Dow Chemical Company, the shale gas boom has given the United States the biggest competitive advantage the industry has seen in several decades.[18] Having a **cost competitive advantage** means being the low-cost competitor in an industry while maintaining satisfactory profit margins. Costs can be reduced in a variety of ways:

- **Experience curves: Experience curves** tell us that costs decline at a predictable rate as experience with a product increases. The experience curve effect encompasses a broad range of manufacturing, marketing, and administrative costs. Experience curves reflect learning by doing, technological advances, and economies of scale. Firms like Boeing use historical experience curves as a basis for predicting and setting prices. Experience curves allow management to forecast costs and set prices based on anticipated costs as opposed to current costs.
- **Efficient labor:** Labor costs can be an important component of total costs in low-skill, labor-intensive industries such as product assembly and apparel manufacturing. Many U.S. publishers and software developers send data entry, design, and formatting tasks to India, where skilled engineers are available at lower overall cost.
- **No-frills goods and services:** Marketers can lower costs by removing frills and options from a product or service. Southwest Airlines, for example, offers low fares but no seat assignments or meals. Low costs give Southwest a higher load factor and greater economies of scale, which, in turn, mean lower prices.
- **Government subsidies:** Governments can provide grants and interest-free loans to target industries. Such government assistance enabled Japanese semiconductor manufacturers to become global leaders.
- **Product design:** Cutting-edge design technology can help offset high labor costs. BMW is a world leader in designing cars for ease of manufacture and assembly. Reverse engineering—the process of disassembling a product piece by piece to learn its components and obtain clues as to the manufacturing process—can also mean savings. Reverse engineering a low-cost competitor's product can save research and design costs. The car industry often uses reverse engineering.
- **Reengineering:** Reengineering entails fundamental rethinking and redesign of business processes to achieve dramatic improvements in critical measures of performance. It often involves reorganizing functional departments such as sales, engineering, and production into cross-disciplinary teams.
- **Production innovations:** Production innovations such as new technology and simplified production techniques help lower the average cost of production. Technologies such as computer-aided design (CAD) and computer-aided manufacturing (CAM) and increasingly sophisticated robots help companies such as Boeing, Ford, and General Electric reduce their manufacturing costs.
- **New methods of service delivery:** Medical expenses have been substantially lowered by the use of outpatient surgery and walk-in clinics. Online-only magazines deliver great savings, and even some print magazines are exploring ways to go online to save material and shipping costs.

2-6b Product/Service Differentiation Competitive Advantage

Because cost competitive advantages are subject to continual erosion, product/service differentiation tends to provide a longer-lasting competitive advantage. The durability of this strategy tends to make it more attractive to many top managers. A **product/service differentiation competitive advantage** exists when a firm provides something that is unique and valuable to buyers beyond simply offering a lower price than that of the competition. Examples include brand names (Lexus), a strong dealer network (Caterpillar for construction work), product reliability (Maytag appliances), image (Neiman Marcus in retailing), or service

cost competitive advantage being the low-cost competitor in an industry while maintaining satisfactory profit margins

experience curves curves that show costs declining at a predictable rate as experience with a product increases

product/service differentiation competitive advantage the provision of something that is unique and valuable to buyers beyond simply offering a lower price than that of the competition

Kevin Brine/Shutterstock.com

Customers have a loyalty to Caterpillar due to its strong network of dealerships.

(Zappos). Uniqlo, a fast-fashion retailer with 840 stores in Japan and 1,170 stores outside Japan, is among the top five global clothing retailers. The company provides high-quality casual wear at reasonable prices. It differentiates itself from the competition in several ways. First, it develops and brands innovative fabrics like HeatTech, which turns moisture into heat and has air pockets in the fabric to retain that heat. HeatTech is thin and comfortable, and enables stylish designs different from the standard apparel made for warmth. Second, Uniqlo emphasizes the in-store experience, which involves carefully hiring, training, and managing all touchpoints with the customer. Every morning, for example, Uniqlo employees practice interacting with shoppers. Finally, the company has a recycling effort that moves millions of articles of discarded Uniqlo clothing to needy people around the world.[19]

2-6c Niche Competitive Advantage

A **niche competitive advantage** seeks to target and effectively serve a single segment of the market (see Chapter 8). For small companies with limited resources that potentially face giant competitors, niche targeting may be the only viable option. A market segment that has good growth potential but is not crucial to the success of major competitors is a good candidate for developing a niche strategy.

Many companies using a niche strategy serve only a limited geographic market. Stew Leonard's is an extremely successful but small grocery store chain found only in Connecticut and New York. Blue Bell Ice cream is available in only about 26 percent of the nation's supermarkets, but it ranks as one of the top three best-selling ice creams in the country.[20]

The Chef's Garden, a 225-acre Ohio farm, specializes in growing and shipping rare artisan vegetables directly to its customers. Chefs from all over the world call to order or request a unique item, which is grown and shipped by the Chef's Garden. The farm provides personal services and specialized premium vegetables that aren't available anywhere else and relies on its customers to supply it with ideas for what they would like to be able to offer in their restaurants. The excellent service and feeling of contribution keep chefs coming back.[21]

niche competitive advantage the advantage achieved when a firm seeks to target and effectively serve a small segment of the market

sustainable competitive advantage an advantage that cannot be copied by the competition

2-6d Building Sustainable Competitive Advantage

The key to having a competitive advantage is the ability to sustain that advantage. A **sustainable competitive advantage** is one that cannot be copied by the competition. For example, Netflix, the online movie subscription service, has a steady hold over the movie rental market. No company has come close to the incomparable depth of titles available to be sent directly to homes or streamed online. Blockbuster tried to set up a similar online subscription service tied to new releases and Amazon.com offers free streaming to Prime members, but so far neither has been able to compete with the convenience and selection offered by Netflix. Netflix's 27.5 million subscribers have a twenty-eight-day delay on most of the latest movies, but Netflix says that only a couple hundred customers have complained about the delay. Redbox Instant, an up-and-coming streaming service from Verizon and Coinstar, builds on the popular Redbox kiosk-based rental service, allowing customers to stream movies *and* rent up to four physical DVDs for just $8 a month. Redbox Instant does not offer television shows, however—a key advantage of Netflix's service.[22] In contrast, when Datril was introduced into the pain-reliever market, it was touted as being exactly like Tylenol, only cheaper. Tylenol responded by lowering its price, thus destroying Datril's competitive advantage and ability to remain on the market. In this case, low price was not a sustainable competitive advantage. Without a competitive advantage, target customers do not perceive any reason to patronize an organization instead of its competitors.

The notion of competitive advantage means that a successful firm will stake out a position unique in some manner from its rivals. Imitation by competitors indicates

Courtesy of Chapel House Photography

The ability to stream movies and rent up to four physical DVDs for just $8 a month is a compelling competitive advantage for Redbox Instant.

a lack of competitive advantage and almost ensures mediocre performance. Moreover, competitors rarely stand still, so it is not surprising that imitation causes managers to feel trapped in a seemingly endless game of catch-up. They are regularly surprised by the new accomplishments of their rivals.

Rather than copy competitors, companies need to build their own competitive advantages. The sources of tomorrow's competitive advantages are the skills and assets of the organization. Assets include patents, copyrights, locations, equipment, and technology that are superior to those of the competition. Skills are functions such as customer service and promotion that the firm performs better than its competitors. Marketing managers should continually focus the firm's skills and assets on sustaining and creating competitive advantages.

Remember, a sustainable competitive advantage is a function of the speed with which competitors can imitate a leading company's strategy and plans. Imitation requires a competitor to identify the leader's competitive advantage, determine how it is achieved, and then learn how to duplicate it.

2-7 SETTING MARKETING PLAN OBJECTIVES

Before the details of a marketing plan can be developed, objectives for the plan must be stated. Without objectives, there is no basis for measuring the success of marketing plan activities.

A **marketing objective** is a statement of what is to be accomplished through marketing activities.

A strong marketing objective for Purina might be: "To increase sales of Purina brand cat food between January 1, 2016 and December 31, 2016 by 15 percent, compared to 2012 sales of $300 million."

Objectives must be consistent with and indicate the priorities of the organization. Specifically, objectives flow from the business mission statement to the rest of the marketing plan.

Carefully specified objectives serve several functions. First, they communicate marketing management philosophies and provide direction for lower-level marketing managers so that marketing efforts are integrated and pointed in a consistent direction. Objectives also serve as motivators by creating something for employees to strive for. When objectives are attainable

marketing objective a statement of what is to be accomplished through marketing activities

MARKETING OBJECTIVES SHOULD BE . . .

- **Realistic:** Managers should develop objectives that have a chance of being met. For example, it may be unrealistic for start-up firms or new products to command dominant market share, given other competitors in the marketplace.
- **Measurable:** Managers need to be able to quantitatively measure whether or not an objective has been met. For example, it would be difficult to determine success for an objective that states, "To increase sales of cat food." If the company sells one percent more cat food, does that mean the objective was met? Instead, a specific number should be stated, "To increase sales of Purina brand cat food from $300 million to $345 million."
- **Time specific:** By what time should the objective be met? "To increase sales of Purina brand cat food between January 1, 2016, and December 31, 2016."
- **Compared to a benchmark:** If the objective is to increase sales by 15 percent, it is important to know the baseline against which the objective will be measured. Will it be current sales? Last year's sales? For example, "To increase sales of Purina brand cat food by 15 percent over 2012 sales of $300 million."

and challenging, they motivate those charged with achieving the objectives. Additionally, the process of writing specific objectives forces executives to clarify their thinking. Finally, objectives form a basis for control: the effectiveness of a plan can be gauged in light of the stated objectives.

2-8 DESCRIBING THE TARGET MARKET

Marketing strategy involves the activities of selecting and describing one or more target markets and developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets.

2-8a Target Market Strategy

A market segment is a group of individuals or organizations who share one or more characteristics. They therefore may have relatively similar product needs. For example, parents of newborn babies need formula, diapers, and special foods.

The target market strategy identifies the market segment or segments on which to focus. This process begins with a **market opportunity analysis (MOA)**—the description and estimation of the size and sales potential of market segments that are of interest to the firm and the assessment of key competitors in these market segments. After the firm describes the market segments, it may target one or more of them. There are three general strategies for selecting target markets.

Target markets can be selected by appealing to the entire market with one marketing mix, concentrating on one segment, or appealing to multiple market segments using multiple marketing mixes. The characteristics, advantages, and disadvantages of each strategic option are examined in Chapter 8. Target markets could be eighteen- to twenty-five-year-old females who are interested in fashion (*Vogue* magazine), people concerned about sugar and calories in their soft drinks (Diet Pepsi), or parents without the time to potty train their children (Booty Camp classes where kids are potty trained).

Any market segment that is targeted must be fully described. Demographics, psychographics, and buyer behavior should be assessed. Buyer behavior is covered in Chapters 6 and 7. If segments are differentiated by ethnicity, multicultural aspects of the marketing mix should be examined. If the target market is international, it is especially important to describe differences in culture, economic and technological development, and political structure that may affect the marketing plan. Global marketing is covered in more detail in Chapter 5.

2-9 THE MARKETING MIX

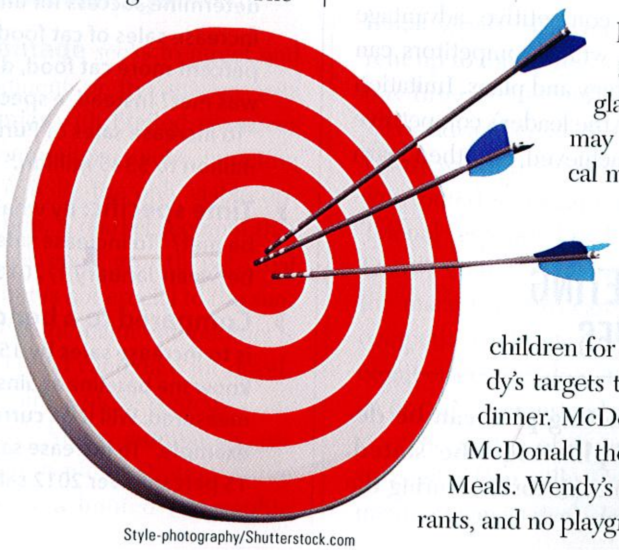
The term marketing mix refers to a unique blend of product, place (distribution), promotion, and pricing strategies (often referred to as the four Ps) designed to produce mutually satisfying exchanges with a target market. The marketing manager can control each component of the marketing mix, but the strategies for all four components must be blended to achieve optimal results. Any marketing mix is only as good as its weakest component. For example, the first pump toothpastes were distributed over cosmetics counters and failed. Not until pump toothpastes were distributed the same way as tube toothpastes did the products succeed. The best promotion and the lowest price cannot save a poor product. Similarly, excellent products with poor placing, pricing, or promotion will likely fail.

Successful marketing mixes have been carefully designed to satisfy target markets. At first glance, McDonald's and Wendy's may appear to have roughly identical marketing mixes because they are both in the fast-food hamburger business. However, McDonald's has been most successful at targeting parents with young children for lunchtime meals, whereas Wendy's targets the adult crowd for lunches and dinner. McDonald's has playgrounds, Ronald McDonald the clown, and children's Happy Meals. Wendy's has salad bars, carpeted restaurants, and no playgrounds.

marketing strategy the activities of selecting and describing one or more target markets and developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets

market opportunity analysis (MOA) the description and estimation of the size and sales potential of market segments that are of interest to the firm and the assessment of key competitors in these market segments

marketing mix (four Ps) a unique blend of product, place (distribution), promotion, and pricing strategies designed to produce mutually satisfying exchanges with a target market



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Variations in marketing mixes do not occur by chance. Astute marketing managers devise marketing strategies to gain advantages over competitors and best serve the needs and wants of a particular target market segment. By manipulating elements of the marketing mix, marketing managers can fine-tune the customer offering and achieve competitive success.

2-9a Product Strategies

Of the four Ps, the marketing mix typically starts with the product. The heart of the marketing mix, the starting point, is the product offering and product strategy. It is hard to design a place strategy, decide on a promotion campaign, or set a price without knowing the product to be marketed.

The product includes not only the physical unit but also its package, warranty, after-sale service, brand name, company image, value, and many other factors. A Godiva chocolate has many product elements: the chocolate itself, a fancy gold wrapper, a customer satisfaction guarantee, and the prestige of the Godiva brand name. We buy things not only for what they do (benefits) but also for what they mean to us (status, quality, or reputation).

Products can be tangible goods such as computers, ideas like those offered by a consultant, or services such as medical care. Products should also offer customer value. Product decisions are covered in Chapters 10 and 11, and services marketing is detailed in Chapter 12.

2-9b Place (Distribution) Strategies

Place, or distribution, strategies are concerned with making products available when and where customers want them. Would you rather buy a kiwi fruit at the 24-hour grocery store within walking distance or fly to Australia to pick your own? A part of this P—place—is physical distribution, which involves all the business activities concerned with storing and transporting raw materials or finished products. The goal is to make sure products arrive in usable condition at designated places when needed. Place strategies are covered in Chapters 13 and 14.

2-9c Promotion Strategies

Promotion includes advertising, public relations, sales promotion, and personal selling. Promotion's role in the marketing mix is to bring about mutually satisfying exchanges with target markets by informing, educating, persuading, and reminding them of the benefits of an organization or a product. A good promotion strategy, like using a beloved cartoon character such as SpongeBob SquarePants to sell gummy snacks, can dramatically increase sales. Each element of this P—promotion—is coordinated and managed with the others to create a promotional blend or mix. These integrated marketing communications activities are described in Chapters 16, 17, and 18. Technology-driven and social media aspects of promotional marketing are covered in Chapter 19.

2-9d Pricing Strategies

Price is what a buyer must give up in order to obtain a product. It is often the most flexible of the four Ps—the quickest element to change. Marketers can raise or lower prices more frequently and easily than they can change other marketing mix variables. Price is an important competitive weapon and is very important to the organization because price multiplied by the number of units sold equals total revenue for the firm. Pricing decisions are covered in Chapters 20 and 21.

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The Game of Organizing E-Mail

E-mail has become a necessity for students and business professionals, as well as an integral part of many personal lives. With so much riding on e-mail, inboxes can overflow and important e-mails can fall by the wayside. One company is out to change that. Baydin is a software developer that sells Boomerang, a product that allows users to "snooze" e-mails. The user sets the time for the e-mail to reappear in the inbox, and Boomerang moves it into a folder out of the inbox until the specified time. To promote their e-mail management products for Outlook, Baydin also developed *The Email Game*. The game sets a timer for each message and accrues points for decisions made in a timely manner. Baydin guarantees the game will get you through your e-mail 40 percent faster or your money back.[23]

[23] "How to Play the Email Game," The Email Game, http://emailgame.baydin.com/index.html (Accessed February 12, 2015).

2-10 FOLLOWING UP ON THE MARKETING PLAN

One of the keys to success overlooked by many businesses is to actively follow up on the marketing plan. The time spent researching, developing, and writing a useful and accurate marketing plan goes to waste if the plan is not used by the organization. One of the best ways to get the most out of a marketing plan is to correctly implement it. Once the first steps to implementation are taken, evaluation and control will help guide the organization to success as laid out by the marketing plan.

2-10a Implementation

Implementation is the process that turns a marketing plan into action assignments and ensures that these assignments are executed in a way that accomplishes the plan's objectives. Implementation activities may involve detailed job assignments, activity descriptions, time lines, budgets, and lots of communication. Implementation requires delegating authority and responsibility, determining a time frame for completing tasks, and allocating resources. Sometimes a strategic plan also requires task force management. A *task force* is a tightly organized unit under the direction of a manager who, usually, has broad authority. A task force is established to accomplish a single goal or mission and thus works against a deadline.

Implementing a plan has another dimension: gaining acceptance. New plans mean change, and change creates resistance. One reason people resist change is that they fear they will lose something. For example, when new-product research is taken away from marketing research and given to a new-product department, the director of marketing research will naturally resist this loss of part of his or her domain. Misunderstanding and lack of trust also create opposition to change, but effective communication through open discussion and teamwork can be one way of overcoming resistance to change.

Although implementation is essentially "doing what you said you were going to do," many organizations repeatedly experience failures in strategy implementation. Brilliant marketing plans are doomed to fail if they are not properly implemented. These detailed communications may or may not be part of the written marketing plan. If they are not part of the plan, they should be specified elsewhere as soon as the plan has been communicated. Strong, forward-thinking leadership can overcome resistance to change, even in large, highly integrated companies where change seems very unlikely.

implementation the process that turns a marketing plan into action assignments and ensures that these assignments are executed in a way that accomplishes the plan's objectives

evaluation gauging the extent to which the marketing objectives have been achieved during the specified time period

control provides the mechanisms for evaluating marketing results in light of the plan's objectives and for correcting actions that do not help the organization reach those objectives within budget guidelines

marketing audit a thorough, systematic, periodic evaluation of the objectives, strategies, structure, and performance of the marketing organization

2-10b Evaluation and Control

After a marketing plan is implemented, it should be evaluated. **Evaluation** entails gauging the extent to which marketing objectives have been achieved during the specified time period. Four common reasons for failing to achieve a marketing objective are unrealistic marketing objectives, inappropriate marketing strategies in the plan, poor implementation, and changes in the environment after the objective was specified and the strategy was implemented.

Once a plan is chosen and implemented, its effectiveness must be monitored. **Control** provides the mechanisms for evaluating marketing results in light of the plan's objectives and for correcting actions that do not help the organization reach those objectives within budget guidelines. Firms need to establish formal and informal control programs to make the entire operation more efficient.

Perhaps the broadest control device available to marketing managers is the **marketing audit**—a thorough, systematic, periodic evaluation of the objectives, strategies, structure, and performance of the marketing organization. A marketing audit helps management allocate marketing resources efficiently.

Although the main purpose of the marketing audit is to develop a full profile of the organization's marketing effort and to provide a basis for developing and revising the marketing plan, it is also an excellent way to improve communication and raise the level of marketing consciousness within the organization. It is a useful vehicle for selling the philosophy and techniques of strategic marketing to other members of the organization.

2-10c Post-audit Tasks

After the audit has been completed, three tasks remain. First, the audit should profile existing weaknesses and inhibiting factors, as well as the firm's strengths and the new opportunities available to it. Recommendations have to be judged and prioritized so that those with the potential to contribute most to improved marketing performance can be implemented first. The usefulness of the data also depends on the auditor's skill in interpreting and presenting the data so decision makers can quickly grasp the major points.

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Four Characteristics of a Marketing Audit

- **Comprehensive:** The marketing audit covers all the major marketing issues facing an organization—not just trouble spots.
- **Systematic:** The marketing audit takes place in an orderly sequence and covers the organization's marketing environment, internal marketing system, and specific marketing activities. The diagnosis is followed by an action plan with both short-run and long-run proposals for improving overall marketing effectiveness.
- **Independent:** The marketing audit is normally conducted by an inside or outside party that is independent enough to have top management's confidence and has the ability to be objective.
- **Periodic:** The marketing audit should be carried out on a regular schedule instead of only in a crisis. Whether it seems successful or is in deep trouble, any organization can benefit greatly from such an audit.

The second task is to ensure that the role of the audit has been clearly communicated. It is unlikely that the suggestions will require radical change in the way the firm operates. The audit's main role is to address the question "Where are we now?" and to suggest ways to improve what the firm already does.

The final post-audit task is to make someone accountable for implementing recommendations. All too often, reports are presented, applauded, and filed away to gather dust. The person made accountable should be someone who is committed to the project and who has the managerial power to make things happen.

2-11 EFFECTIVE STRATEGIC PLANNING

Effective strategic planning requires continual attention, creativity, and management commitment. Strategic planning should not be an annual exercise in which managers go through the motions and forget about strategic planning until the next year. It should be an ongoing process because the environment is continually changing and the firm's resources and capabilities are continually evolving.

Sound strategic planning is based on creativity. Managers should challenge assumptions about the firm and the environment and establish new strategies. For example, major oil companies developed the concept of the gasoline service station in an age when cars needed frequent and rather elaborate servicing. These major companies held on to the full-service approach, but independents were quick to respond to new realities and moved to lower-cost self-service and convenience store operations. Major companies took several decades to catch up.

Perhaps the most critical element in successful strategic planning is top management's support and participation. At Google, for example, top managers support their employees' strategic plans and even assist in entry-level employees' development as strategic planners. This has created a top-to-bottom culture of strategic excellence at Google.[24]

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