Ch 2

Value Delivery Process

1. Choosing the value → segment the market, target, develop offering's value positioning
2. Provide value
3. Communicate the value

Value Chain

- Value Chain: Tool for identifying ways to create more customer value

- Firm is the synthesis of activities performed for value creation / delivery (design, produce, deliver and support product)

→ consists of 9 activities ; 5 primary , 4 support

- Primary :
- Inbound Logistics → Bringing materials into the business
- Operations → converting materials into final products
- Outbound Logistics → Shipping out final products
- Marketing → communicating the final value to the right segment
- Service → Transactions with Customers

- Specialized Departments handle support activities :
- Procurement → Process of acquiring goods/services from external sources, through purchasing & contracting
- Technology Development
- Human Resource management → hiring, developing, managing, and retaining employees
- Firm Infrastructure → covers cost of general management, planning, finance, accounting, legal, and govt. affairs

- Firm's Task:
- Examine cost in each value creating activity and look for ways for improving it.
- Study 'best of class' practices of best companies
- Estimate competitors' costs and performance as benchmarks for comparison

Core Business Processes

- Market-sensing: All activities in Gathering and acting upon info about the market

- New-offering realization : All activities in researching, developing, and launching new high-quality offerings quickly and within budget

- Customer-acquisition: All the activities in defining target markets, and prospecting for new customers

- Customer relationship management: All activities in building deeper understanding, relationships, and offerings to individual customers

- Fulfillment management process: All activities in receiving and approving orders, shipping the goods on time, and collecting the payment

- Companies re-engineer their workflows and build cross-functional teams to be responsible for each process
- Firm looks for competitive advantages beyond its own operations into value chains of suppliers, distributors, and customers

  e.g: supply chain by teaming up with suppliers and distributors

- Less critical resources are outsourced if they can be obtained at a better quality, and on lower costs

- Competitive advantage accrues to companies that possess distinctive capabilities or excellence in broader business process

Core Competencies

- Characteristics:
- Source of competitive advantage + makes significant contribution to perceived customer contribution
- It has applications in a wide variety of markets
- It is difficult for competitors to imitate

- Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly locking 'activity systems'

- Steps for Business realignment to maximise core competencies:
- (Re)defining business concept (idea)
- (Re) shaping the business scope
- (Re) positioning the company's brand identity

Value Exploration
→ How company identifies new value opportunities

Value Creation
→ How a company efficiently creates more promising new value operations

Value Delivery
→ How a company uses its capabilities and infrastructure to deliver the new value offerings more efficiently

Role of Strategic Planning

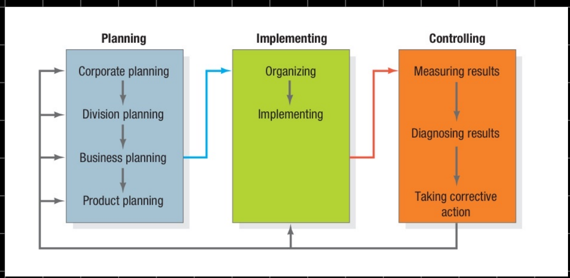
→ The process of developing and maintaining a strategic fit b/w the organization's goals and capabilities and its changing market opportunities

- Strategic Planning In key Areas:
- Managing business as an investment portfolio
- Assess business's strength by considering market's growth rate and company's position and fit in that market
- Establishing a strategy

- Organizational Levels:
- Corporate → designs a corporate strategic plan to guide the whole enterprise; makes decision on allocation of resources to each division (FAST HQ)
- Division → Establish plan to cover allocation of funds to business unit within division (Franchise / campus)
- Business Unit → Develops strategic Plan to carry unit into a profitable future (Dept)
- Product → Develops marketing Plan (Programmes at FAST)

- Marketing Plan: Central Instrument for directing and coordinating the marketing effort
- Strategic Marketing Plan: Lays out target markets and firm's value proposition, based on an analysis of the best market opportunities
- Tactical Marketing Plan: Specifies marketing Tactics, product features, promotion, merchandising, pricing, sales channels, and service

- Focus on customers
- Respond effectively to changing customer needs
- Have well-staffed marketing dept
- All depts understand customer is the king



Corporate & Division Strategic Planning

- **Planning Activities of Corporate HQ:**

1. Defining the corporate mission
2. Establish strategic Business Units
3. Assign resources to each Strategic Business Unit
4. Assessing growth opportunities

Defining Corporate Mission

- **Mission Statement:** A statement of organization's purpose - what it wants to accomplish in the larger environment

- Missions can change with time
- Missions reflect a vision
- Must be market-oriented

- **Characteristics of mission statement:**
- They focus on a limited number of Goals
- Stress the company's major policies and values → They narrow range of individual discretion so employees act consistently
- They define the major competitive spheres within which the company will operate → key-competitive dimensions summarized
- They take a long-term view → mission to be changed only when it stops being relevant
- Short, memorable, and meaningful as possible

- **Peter Clucker's Q's for creating mission statement:**
- What is our business ?
- Who is our customer?
- What is of value to the customer
- What will the business be
- What should the business be

- **Competitive Spheres:**
→ Industry
→ Product & Apps
→ Competence
→ Market Segment
→ Vertical channels
→ Geographics

Establishing & Assigning Resources to SBU

- A business is a customer-satisfying process, not a good-producing process

- **Characteristics of SBU:**
- Single / collection of related businesses that can be planned seperately from the rest of the company
- Has its own set of competitors
- Has a manager responsible for strategic planning and profit performance

Company	Product definition	Market definition
Daewoo Pakistan	We run buses	We are a people-and-goods mover
Xerox	We make copying equipment	We improve office productivity
PSO	We sell gasoline	We supply energy
Columbia Pictures	We make movies	We entertain people
Beaconhouse	We run schools & university	We educate people

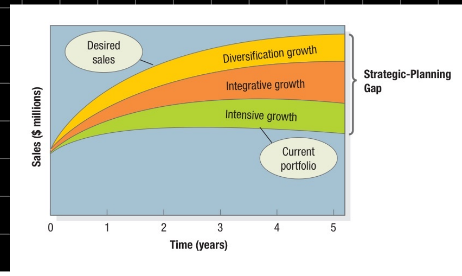
→ Purpose of identifying SBUs is to develop seperate strategies and assign appropriate funding

- Portfolio-planning models are used to make investment decisions
e.g: GE / BCG Matrix

Business Portfolio
- Collection of Businesses and products that makeup the company

Portfolio Analysis
- Process of evaluation of products & businesses that makeup the company

Assessing Growth opportunities



	Current Products	New Products
Current Markets	1. Market-penetration strategy	3. Product-development strategy
New Markets	2. Market-development strategy	(Diversification strategy)

- **Intensive Growth:**
- First course of action should be a review of opportunities for improving existing businesses
- Product-market expansion grid is used for detecting new intensive growth opportunities
- The company first considers whether it could gain more market share with its current products in their current markets using a market-penetration strategy
- Next, it considers whether it can find/develop new markets for its current products, in a market development strategy
- Then, it considers of developing new products of potential interest to its current markets with product development strategy
- Later, the firm also reviews opportunities to develop new products for new markets using diversification strategy

- **Market Penetration:** company growth by increasing sales of current products to current market segments without changing the product
- **Market Development:** company growth by identifying and developing new market segments for current company products
- **Product Development:** company growth by offering modified or new products to current market segments
- **Diversification:** company growth through starting up/acquiring businesses outside the company's current products and markets

- **Integrative Growth:**
- All about Integrations
- Backward Integration → Acquire Suppliers
- Forward Integration → Acquire distributors, whole sellers, retailers
- Horizontal Integration → Acquire competitors

- **Diversification Growth:**
- when good opportunities exist outside the present business → refers to new line of businesses, not products
- The industry is highly attractive and the company has the right mix of business strengths to succeed.

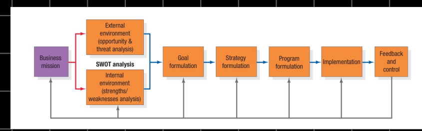
- **Downsizing & Divesting Older Businesses:**
- companies must fully prune, divest or harvest old businesses.
- By this, needed resources are released for other uses and reduce costs → e.g: layoffs, production of a new wing in the firm

- **Organization & its culture:**
- consists of structures, policies, corporate culture
- structures, and policies can be changed via managers (although difficult)
- culture is hard to change, adapting culture is key to success
- Corporate culture is transmitted from the CEO, and is propagated into the company

- **Marketing Innovation:**
- senior management should identify and encourage fresh ideas from 3 groups:
- Employees with youthful/diverse perspectives
- Employees far removed from company's HQ
- Employees new to industry

- Develop strategy by identifying & selecting among different views of the future
- Pioneer scenario analysis which develops plausible representations of firm's possible future using assumptions about forces driving the market and different uncertainties

Business Unit Strategic Planning



- Business Mission
- Business Unit defines its specific mission within the broader company mission

- SWOT Analysis
- Overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis

External Environmental Analysis
Opportunity & Threats

- Macro and Microenvironment Analysis
- MIS should be setup

- Market Opportunity:
- An area of buyer need and interest that a company has a high probability of satisfying
- 3 main sources:

1. offer sth that is in short supply → requires little marketing talent
2. supply existing product/service in a new/superior way
   - Problem Detection method asks consumers for suggestions
   - Ideal method asks consumers imagining an ideal version of product/service
   - Consumption chain method asks consumers to chart their steps in acquiring, using, and disposing of a product

Marketers need to be good at spotting opportunities. Consider the following:

- ***A company may benefit from converging industry trends and introduce hybrid products or services that are new to the market.*** Major cell manufacturers have released phones with digital photo and video capabilities, and Global Positioning Systems (GPS).
- ***A company may make a buying process more convenient or efficient.*** Consumers can use the Internet to find more books than ever and search for the lowest price with a few clicks.
- ***A company can meet the need for more information and advice.*** Angie's List connects individuals with local home improvement contractors and doctors that have been reviewed by others.
- ***A company can customize a product or service.*** Timberland allows customers to choose colors for different sections of their boots, add initials or numbers to their boots, and choose different stitching and embroidery.
- ***A company can introduce a new capability.*** Consumers can create and edit digital "iMovies" with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world.
- ***A company may be able to deliver a product or service faster.*** FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Post Office.
- ***A company may be able to offer a product at a much lower price.*** Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less.

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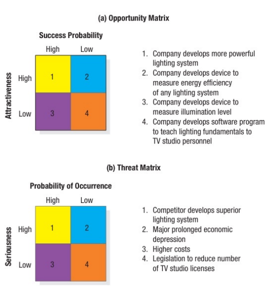

Fig. 2.4
Opportunity and Threat Matrices

To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to ask questions like:

1. Can we articulate the benefits convincingly to a defined target market(s)?
2. Can we locate the target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

In the opportunity matrix in Figure 2.4 (a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.

- Environmental Threat:
- Challenge posed by an unfavourable trend / development that, in absence of defensive marketing action, would lead to lower sales/profit - refer to threat matrix

Internal Environment Analysis

- Involves analyzing an organizations' strengths and weaknesses
- Strengths and weaknesses can be analyzed using forms
- Main challenge is whether to limit itself to those opportunities for which it poses required strengths or consider those that might require it to find or develop new strengths

Goal Formulation

what business unit want to achieve

- After SWOT analysis, goal formulation is necessary
- Goals are objectives that are specific with respect to magnitude and time
- SBU sets these objectives, and then manages by objectives (MBO)

- Objectives
- They must be arranged hierarchically, from most important to the least
- Should be quantitative whenever possible → "increase ROI by 15% within 2 yrs" over "increase ROI within 2 yrs"
- Goals should be realistic → should arise from SBU analysis not from wishful thinking
- Objectives must be consistent → not possible to maximise sales and profits simultaneously

Strategic Formulation

- Strategy → Game plan for achieving the goal
- Involves marketing strategy, compatible technology strategy, and sourcing strategy

- Vision → Long-Term Goal
  ↓
  Mission → Steps taken to achieve vision
  ↓
  Goals → steps taken to achieve mission
  ↓
  Objectives → Basic tasks

Examples

- Overall cost Leadership
- Lowest production, distribution costs underprice competitors, and win market share
- Less skill in marketing
- other firms might compete with still lower costs

- Differentiation
- Business concentrate on achieving superior performance in an important customer benefit area

- Focus
- Business focuses/targets one/more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment

- Strategic Alliances → for complementing / leveraging capabilities and resources

→ Product/Service Alliances
- One company licenses another to produce its product / two companies jointly market their complementary products or a new product

→ Promotional Alliances
- One company agrees to carry a promotion for another company's product / service

- Partner Relationship Management (PRM)

→ Logistics Alliance
- One company offers logistical services for another company's product

→ Pricing Collaboration
- One or more companies join in a special pricing collaboration → mutual discounts

Program Formulation, Implementation

- Great Marketing Strategy can fail if not properly implemented
- After formulating marketing programs, the costs must be estimated
- Stakeholders (customers, employees, suppliers/distributors) must be nurtured
  dynamic relationship connects stakeholder groups

- Strategy is one of the 7 elements in business practice

→ Strategy, Structure, Systems - First 3 are considered "hardware" of success
→ Style, Skills, Staff, Shared Values - Next 4 are "software"

- Style → Employees share a common way of thinking and behaving
- Skills → Employees have skills needed to carry out company's strategy
- Staffing → Company has hired able people, trained them well, and assigned them to right jobs
- Shared Values → Employees sharing same guiding values

Feedback & Control

- More important to be effective than to be efficient
- Need to track results, and monitor new developments
- Need to continuously examine changing environment and to adopt to new goals and behaviours

Product Planning: Marketing Plan

- Marketing Plan
- A written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives
- Contains tactical guidelines for marketing programs and financial allocations over the planning period

- Sections in a Marketing Plan

→ Executive Summary and table of contents
- Plan opened with this including brief summary of main goals, and recommendations

→ Situation Analysis
- Presents relevant background data on sales, costs, market, competitors, and various forces in macroenvironment

→ Marketing Strategy
- Marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning
- Requires inputs from other areas such as purchasing, manufacturing, sales, finance, and human resources

→ Financial Projections
- Includes a sale forecast, an expense forecast, and a break-even analysis
- On revenue side, forecasted sales volume by month, and product category is included
- On expense side, expected cost of marketing is broken down into finer categories
- Risk analysis can be used for estimating profits

estimates how many units a firm must sell monthly / how many years it will take to offset its monthly fixed costs and average per unit variable costs

→ 3 estimates obtained (optimistic, pessimistic, most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and strategy for the planning period

→ Computer simulates possible outcomes and computes a distribution showing the range of possible rates of of returns and their probabilities

→ Implementation Controls
- Outlines controls for monitoring and adjusting implementation of the plan.
- Spells out goals, and budget for each month or quarter, so management can review each period's results and take corrective action if needed
- Can include contingency plans

Role of Research

- Research used to measure progress towards objectives and identify areas of improvement
- Helps learn about customers' requirements, expectations, perceptions, satisfaction, loyalty
- Plan should outline what marketing research will be conducted and when + how the findings will be applied

Role of Relationships

- Plan influences how marketing personnel work with each other and with other departments to deliver value and satisfy customers
- It affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives
- It influences company's dealings with other stakeholders including govt. regulators, media, and community at large

From Marketing Plan To Marketing Action

- Yearly marketing plans created
- Planning starts well in advance of implementation date to allow time for marketing research, analysis, management review, and coordination b/w depts
- Ongoing results are monitored, any deviations are investigated + corrective steps taken, as each action program begins
- Contingency plans can be made
- Plan defines how progress towards objectives will be measured
- budgets, schedules, marketing metrics used for monitoring, and evaluating results

- Budgets allow comparison of planned expenditures with actual expenditures for a given period
- Schedules allow management to see when tasks were supposed to be completed and when they actually were
- Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward towards its objectives