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Note on Marketing Strategy

Long ago, Peter Drucker wrote that any business enterprise has only two basic functions: marketing and innovation.[1] All else, he implied, was detail. The central role of marketing in the enterprise stems from the fact that marketing is the process via which a firm creates value for its chosen customers. Value is created by meeting customer needs. Thus, a firm needs to define itself not by the product it sells, but by the customer benefit provided.

Having created the value for its customers, the firm is then entitled to capture a portion of it through pricing. To remain a viable concern, the firm must sustain this process of creating and capturing value over time. Within this framework, the plan by which value is created on a sustained basis is the firm's Marketing Strategy. Marketing Strategy involves two major activities: (i) selecting a target market and determining the desired positioning of product in target customers' minds and (ii) specifying the plan for the marketing activities to achieve the desired positioning. **Figure A** presents a schematic describing a general process of marketing strategy development. As shown, five major areas of analysis underlie marketing decision making. We begin with analysis of the 5 C's—customers, company, competitors, collaborators, and context. We ask:

Customer Needs	What needs do we seek to satisfy?
Company Skills	What special competence do we possess to meet those needs?
Competition	Who competes with us in meeting those needs?
Collaborators	Who should we enlist to help us and how do we motivate them?
Context	What cultural, technological and legal factors limit what is possible?

This leads first to specification of a target market and desired positioning and then to the marketing mix. This results in customer acquisition and retention strategies driving the firm's profitability.

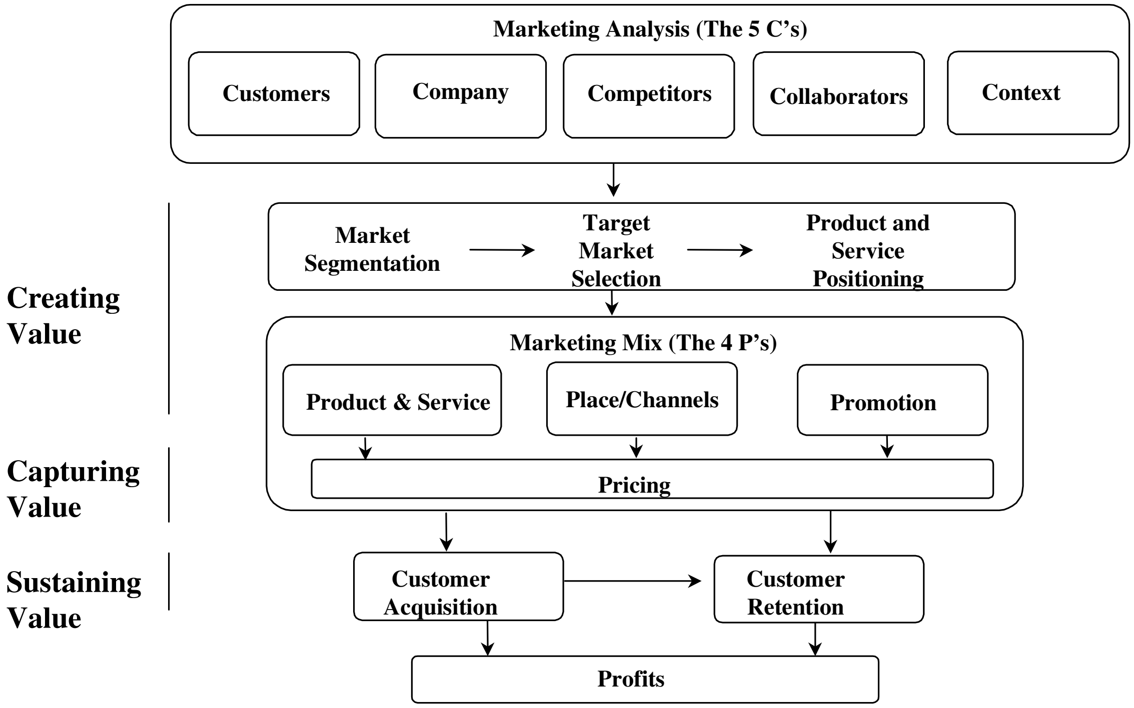
This note develops this framework. We organize the presentation by first setting out the major decisions to be made; then we elaborate on the 5 C's analysis required to support effective decision making. As an overview note, we do not provide depth in presenting the actual analytical

[1] Peter F. Drucker, *The Practice of Management* (New York: Harper, 1954)

Professor Robert J. Dolan prepared this note as the basis for class discussion.

techniques. However, throughout the note we provide references to textbooks which contain in-depth coverage of the issues.[2]

Figure A Schematic of Marketing Process[3]



Target Market Selection and Product[4] Positioning

Marketing strategy development begins with the customer. A prerequisite to the development of the rest of the marketing strategy is specification of the target markets the company will attempt to serve. Marketers have generally been moving from serving large mass markets to specification of smaller segments with customized marketing programs. Indeed, a popular phrase today is "markets of one" suggesting that marketing campaigns can and should be customized to individuals. In the days of "you can have any color you want as long as it's black," production capabilities and limited information on consumers' varying wants acted as constraints on the development of programs customized to individual consumers. Now, new technologies enable firms to practice customized marketing on an economical basis in many situations.[5]

[2] The idea for a note of this type as a useful adjunct to studying marketing originated with Professor Raymond E. Corey in his "Marketing Strategy: An Overview," written in 1978, HBS No. 579-054.

[3] This figure derives from similar representations developed over the years by HBS marketing faculty and other academics.

[4] Throughout this note, we will use the term "product" although the logic conveyed applies equally to situations in which customer value is delivered by a product/service bundle or a service alone.

[5] The development of customization strategies is covered in B.J. Pine II, *Mass Customization* (Boston, Mass.: Harvard Business School Press, 1993), and D. Peppers and M. Rogers, *The One to One Future* (New York: Currency/Doubleday, 1993).

The two key questions are:

1. Which potential buyers should the firm attempt to serve? To answer this, the firm must first determine the most appropriate way to describe and differentiate customers. This is the process of segmentation.

2. How much customization should the firm offer in its programs, i.e., at which point on the continuum from

   Mass Market- Market Segments - Market Niches - Individuals

   will the firm construct plans?

Markets can be segmented in a variety of ways.[6] Among the most widely used bases are:

- demographic (e.g., age, income, gender, occupation)
- geographic (e.g., nation, region of country, urban vs. rural)
- lifestyle (e.g., hedonistic vs. value oriented).

These three types of bases—demographic, geographic, and lifestyle—are general descriptors of consumers. Often, a useful segmentation of the market is derived by using segmentation bases which describe a customer's behavior or relationship to a product, e.g.,

User Status:	Non-User vs. User
Usage Rate:	Light, Medium, Heavy User
Benefits Sought:	Performance-Oriented vs. Price-Oriented
Loyalty Status:	None, Moderate, Strong, Totally Loyal
Attitude Toward Product:	Unsatisfied, Satisfied, Delighted

For example, a personal computer manufacturer segmenting the market on the basis of user status might choose to target first-time home-use computer buyers; another may target mainly those who already owned but wish to "trade-up." The firms' explicit choice of target markets has obvious, important implications for both the features to include in their computers and their communications efforts. Segmentation schemes yielding these clear implications for marketing are most useful. There is little point in using a segmentation basis to define groups to be marketed to in the same way.

The process of selecting the segments to serve is critical because ultimately the customer has the right to dictate the rules via which the marketing game will be played, i.e., a customer uses the purchase criteria he or she decides to use and these in effect are the "rules of the game." Thus, the firm's selecting a target market is tantamount to choosing the rules of the game, and consequently target market selection should consider:

- The firm's comparative strengths and weaknesses vis-a-vis competition given the target market's purchase criteria.
- The firm's corporate goals and the fit of the segment with these goals.
- The resources necessary to market successfully to the target segment.
- The need for/availability of appropriate collaborators to market successfully.
- The likely financial returns from the segment.

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[6] A good reference on the process of segmentation is in V.R. Rao and J.H. Steckel, "Segmenting Markets: Who Are the Potential Buyers," *Analysis for Strategic Marketing* (Reading, Mass.: Addison-Wesley, 1998), Chapter 2.

As part of the segmentation and target market selection process, the firm has to play out scenarios, i.e., consider the question: if we pursue this segment, how would we approach it and how would we want potential buyers to see us? The answer should be formalized in a "positioning statement" specifying the position the firm wishes to occupy in the target customers' minds.[7] The precise form of a positioning statement can vary but a form typically quite useful is to fill in:

____________	is	____________
Our Product/Brand		(single most important claim)
		____________
	among all	(competitive frame)
		____________
	because	(single most important support)

In some cases, the positioning cannot be sufficiently well captured via a focus on "single most important" claim, e.g., a computer manufacturer may want to be seen as both "easy-to-use" and "fast," so the positioning statement form can be adjusted. But, an explicit statement of the positioning idea is critical.

The absolute importance of target market selection and positioning is well conveyed in a best-selling marketing textbook:

> "The advantage of solving the *positioning problem* is that it enables the company to solve the *marketing mix problem*. The marketing mix—product, price, place, and promotion—is essentially the working out of the tactical details of the positioning strategy."[8]

The Marketing Mix

Neil Borden[9] of Harvard Business School used the term "marketing mix" to describe the set of activities comprising a firm's marketing program. He noted how firms blend mix elements into a program and how even firms competing in a given product category can have dramatically different mixes at work. He specified 12 mix elements, viz.

1. Merchandising–Product Planning
2. Pricing
3. Branding
4. Channels of Distribution
5. Personal Selling

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[7] This conception of "positioning" has been popularized by Ries and Trout in *Positioning: The Battle for Your Mind*, 1st ed. (Revised, McGraw-Hill, 1986).

[8] P. Kotler, *Marketing Management: Analysis, Planning, Implementation and Control*, 8th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1997), p. 310.

[9] N.H. Borden, "The Concept of the Marketing Mix." Reprinted in R.J. Dolan, *Strategic Marketing Management* (Boston, Mass.: Harvard Business School Press, 1991).

6. Advertising
7. Promotions
8. Packaging
9. Display
10. Servicing
11. Physical Handling
12. Fact-Finding and Analysis–Market Research

Over time, an aggregation and regrouping of these elements has become popular. As shown in **Figure A**, the "4 P's" of Product, Price, Promotion and Place are often used to set out the "marketing mix" in an easy to recall way. We now discuss the major issues in setting the "4 P's" in the following sequence:

1. Product
2. Place (Channels of Distribution)
3. Promotion (Communications Strategy)
4. Pricing

Product

(a) Product Definition

Product decisions start with an understanding of what a product is, viz. the product offering is not the thing itself, but rather the total package of benefits obtained by the customer. This idea has had a number of names, e.g., the "total product concept," "the augmented product," or "the integrated product." For marketing strategy development purposes, the product has to be considered from the point-of-view of value delivered to the customer. Value can be delivered simultaneously by a number of vehicles, e.g.,

- the physical product itself
- the brand name
- the company reputation
- pre-sale education provided by salespeople
- post-sale technical support
- repair service
- financing plans
- convenient availability
- word-of-mouth references provided by earlier adopters of the product
- reputation of outlet where purchased

For example, a shirt from the Lands' End Catalog is not just a shirt but one shipped within 24 hours of order and unconditionally guaranteed.[10] This broad conception of a "product" is key to seeing possible points of differentiation from competitors.

(b) Product Line Planning Decisions

A taxonomy of product line planning decisions is best developed by considering examples of some product planning decisions firms face.

• *Product Line Breadth:* A desktop computer manufacturer considers also selling laptops; a maker of men's golf attire considers adding a women's line; an automobile manufacturer considers a mini-van or sport utility vehicle. Product line *breadth* decisions are how many different lines will the company offer. A guiding principle in answering breadth questions is the company's position on desired consistency or similarity between the lines it offers. Some firms focus, e.g., "we market only products which draw on our skills in small motor technology" while others are more broad: "we sell products which draw on our superior consumer products marketing skills."

• *Product Line Length:* A beer producer in the mass part of the market is considering if it should develop an entry in the premium segment; the high-end computer manufacturer considering the product line breadth issue above also has to decide if it wants to compete in the emerging "under $999" market sector. These are product line *length* decisions, i.e., how many items will there be in a line providing coverage of different price points.

• *Product Line Depth:* The men's golf attire manufacturer considers whether to offer its $110 crew neck sweater in five colors or just three. Thus, a product line *depth* decision, i.e., how many types of a given product.

These are the three major types of product line planning decisions. Important considerations in making these decisions are:

- Does the product satisfy target customer wants in a way that is profitable for the firm?
- Does it offer opportunity for differentiation from competitors when the "product" is appropriately viewed as the total set of benefits delivered to consumers?
- What is the impact of this product on the rest of the line? Will it be a *complement* to other products, enhancing their value to the customer (e.g., a color-coordinated sweater enhancing the value of the matching golf shirt) or will it be a *substitute* possibly cannibalizing sales (e.g., an entry in the low-end of the personal computer machine taking sales from the same manufacturer's high-end, higher-margin items)?
- What is the impact of the items on the brand and company's reputation? The brand's equity is often a key asset and the product may enhance it or it may detract from it. A key issue is whether there would be damage to the brand, e.g., did Lipton Soup detract from the equity as a tea supplier, did Sears Financial Network hurt Sears' retail operations?[11]

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[10] This example is offered by Regis McKenna as an illustration of an "integral product" in his "Marketing in an Age of Diversity," *Harvard Business Review*, September-October 1988.

[11] These examples are offered and this topic is considered in detail in D.A. Aaker, *Managing Brand Equity* (New York: Free Press, 1991), particularly Chapter 9.

(c) Individual Item Decisions

As reflected in the discussion above, decisions on individual items need to be considered within the context of the firm's full product line due to item interrelationships. At the individual item level, decisions to be made are whether to undertake efforts to:

- delete an item from the line
- reposition an existing product within the line
- improve the performance of an existing product to strengthen its positioning
- introduce a new product within an existing line
- introduce a product to establish a new line

(d) The New Product Development Process

Generally, a proactive approach to new product development follows some form of a sequential process, e.g., a five-step process of:

1. Opportunity Identification
2. Design
3. Testing
4. Product Introduction
5. Life Cycle Management[12]

In the Opportunity Identification stage, the firm identifies a customer problem which it can solve. In addition, it identifies the concept for a product to ensure both a product/market fit (the product fits the needs of the customer) and a product/company fit (it fits with the manufacturing and operational skills of the firm).

The next two stages of Design and Testing are linked in an iterative process. For example, the firm might first embody the product idea in a concept statement which is tested via presentation to potential customers. Given a favorable reaction, the concept could then be developed into a mock-up to permit more effective communication of what the product would look like when actually marketed. An unfavorable reaction from consumers in any testing results in an iteration back to the design stage.

Testing with consumers can be done via a number of procedures,[13] e.g., surveys, taste tests, simulated test markets (in which mock stores are set up and consumers recruited to shop in the mock store environment), and actual test markets for consumer goods and beta tests for industrial goods. Testing is appropriate not only for the product itself but also for the supporting elements of the marketing mix, such as the communication strategy and price.

[12] This particular model is presented by G.C. Urban and J.R. Hauser in *Design and Marketing of New Products*, 2nd ed. (Englewood Cliffs, N.J.: Prentice Hall, 1993).

[13] These methods are described in C.M. Crawford, *New Product Management*, 5th ed. (Homewood, Ill.: Irwin 1997) and R.J. Dolan, *Managing the New Product Development Process* (Reading, Mass.: Addison-Wesley, 1993).

After the firm has settled on the product and a supporting plan, it reaches Product Introduction. Decisions at this stage involve the geographic markets to which the product will be introduced and whether markets will be approached at the same time or sequentially over time (e.g., a regional rollout).

After introduction, a process of Product Life Cycle Management begins. First, the firm should continually be learning more about consumers from their reactions to the introduced product. This added learning may suggest product repositioning or marketing mix changes. Second, the marketing environment is always changing. For example, customer wants are not static; market segment sizes change; competitive offerings change; technology impacts the firm's capabilities and costs. Thus, managing the product line is a dynamic process over time.

Place: Marketing Channels

The marketing channel is the set of mechanisms or network via which a firm "goes to market," i.e., is "in touch" with its customer for a variety of tasks ranging from demand generation to physical delivery of the goods. The customer's requirements for effective support determine the functions which the members of the channel must collectively provide. Kash Rangan[14] of Harvard Business School has identified eight "generic" channel functions which serve as a starting place for assessing needs in a particular context:

1. Product Information
2. Product Customization
3. Product Quality Assurance
4. Lot Size (e.g., the ability to buy in small quantities)
5. Product Assortment (refers to breadth, length, and width of product lines)
6. Availability
7. After-Sale Service
8. Logistics

An important point with respect to channel design is that while there are options about whether a particular institution (e.g., a distributor) is included in the channel or not, the setting implicates specific tasks which need to be accomplished by someone in the channel. One can eliminate a layer in the chain but not the tasks that layer performed. The popular phrase "we've cut out the middleman and passed the savings on to you" seems to indicate that the middleman represent all costs but no value-added. The functions done by the middleman now have to be done by someone else. Thus, the recommended approach is to develop "customer-driven" systems assessing the channel structure and management mechanisms that will best perform the needed functions.[15]

[14] V.K. Rangan, "Designing Channels of Distribution," HBS No. 594-116, also reprinted in V.K Rangan, B.P. Shapiro, and R.T. Moriarty, *Business Marketing Strategy: Concepts and Applications* (Homewood, Ill.: Irwin, 1995).

[15] This approach is advocated and described in detail in L.W. Stern, A.I. El-Answry and A.T. Coughlan, *Marketing Channels*, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1996); particularly Chapter 5.

The two major decisions in channels are:

(i.) channel design
– which involves both a length and breadth issue

(ii.) channel management
– i.e., what policies and procedures will be used to have the necessary functions performed by the various parties.

(a) Channel Design

With an understanding of customer requirements in place, a primary question in channel design is whether distribution will be "direct," "indirect" or both, i.e., some customers served one way and others another. In direct distribution, there is no independent party between the firm and its customers, e.g., the "blue suits" of the firm's salesforce visit the customer premises and sell computer mainframes. Through 1980, this was the only way IBM sold its products. In indirect distribution, there is a third party. This party may operate under contract to the firm (e.g., as in a franchise system) or it may act independently (e.g., as in a situation where a retailer pays for and takes title to the firm's goods and then is free to sell them at whatever price and in whatever fashion it desires).

Through the 1960s, the conventional wisdom was that a firm should either go to market direct or indirect, but not both because of the channel conflict which would result. The bias was toward going direct as soon as sales volume justified it, because it provided more control and direct contact with customers.

By the early 1980s, more firms began simultaneously serving different target markets, each requiring different channel functions (e.g., one segment needed intense pre-sale education; another did not). Thus there came a need to manage "dual distribution" wherein different systems are used to reach each market segment efficiently and effectively. A firm salesforce served some segments; a distributor served others. This move away from only one method of "going to market" has accelerated. Now a firm may sell through retail outlets and via direct mail; use its own salesforce to call on some accounts; rely on distributors to call smaller ones; and rely on other customers to find the company's 800 number, Web site, or submit an order directly to the firm through some Electronic Data Interchange System. In many firms, the economics of reaching the full set of its chosen target segments are such that a single approach for all customers simply won't work. Thus, rather than making one decision, the firm needs to make a coordinated set of decisions by market segment recognizing and preparing to manage the conflicts that may arise across the different channel types.

In addition to customer requirements, the major considerations in channel length issues are:

— *account concentration*: If a few customers represent the bulk of sales opportunities (e.g., jet engines), a direct selling approach can be cost effective. If the target group is larger in number and more diffuse (e.g., toothpaste), then the services of someone like a retailer who can spread the costs of an account relationship over many products is warranted.

— *degree of control and importance of direct customer contact:* One reason to go direct may be the lack of intermediaries from whom the firm could secure adequate attention, i.e., the firm lacks the power to gain some control over the intermediaries to ensure the necessary tasks are performed. Also, direct customer contact may be seen as a critical way to gain market understanding as an input to future product development efforts.

The second part of the channel design issue is channel breadth, i.e., how intense should the firm's presence be in a market area? Does the firm wish to intensively distribute its product, making for maximal customer convenience (e.g., placing the product "within arm's reach of desire," as Coca-Cola terms it,) or does it wish to be more selective? More selectivity may be warranted if there is a market education or development task to be done. Thus, some automobile manufacturers, typically high-end (e.g., Infiniti), limit the number of dealers in an area to reduce the dealer's concern that the benefits of developing potential customers in a given area would accrue to another dealer "free-riding" on these efforts.

In general, the strength of the argument for limiting distribution to selective or exclusive levels increases with

- the customer's willingness to travel and search for the good,
- the unit cost of stocking the good,
- the amount of true "selling" or market development which needs to be done.

As a product becomes more well known, there is a tendency to become less selective in distribution. For example, personal computers moved from computer specialty stores to mass merchants and warehouse clubs over time as customer education requirements decreased. Thus, the right channel structure changes over time. This presents a significant challenge as the firm seeks to maintain flexibility in channels while complex legal and other relationship elements tend to cement distribution arrangements.

(b) Channel Management

Conflict between "partners" in a distribution system is not uncommon—more than a few litigations have been filed over issues like:

- "we provided a great product, but they never sold it the way they agreed to"
- "we developed the market, but they were never able to supply the product on a reliable basis"
- "they began distributing through a discounter right in the middle of the territory we spent years developing"

Many conflicts do not result in litigation but color the relationship, e.g., a beer distributor lamenting "somehow their [the manufacturer's] view is that every time sales go up, it's their great advertising; when sales go down, it's our lousy sales promotion." In a general sense, all parties in the marketing system want the product to "do well." But conflicts can arise from:

1. lack of congruence in goals, e.g., the manufacturer's #1 priority may be to "build the consumer franchise," while the distributor's is to make money this quarter.

2. lack of consensus on who is doing what, e.g., who is to perform certain functions such as after-the-sale service; who handles small accounts; who handles global or national accounts when assignments were originally made along a smaller geographic basis.

Channel management is a day-to-day "work-on-it" task rather than a solve-it-once situation. Attention to proper design of contracts and other explicit understandings can help to reduce the potential for conflict. Good communications, e.g., through dealer panels, can help facilitate development of understanding and trust which will almost always be necessary to resolve issues since contracts cannot typically anticipate all the situations which may arise.

Promotion: Marketing Communications

The next element of the marketing mix is deciding the appropriate set of ways in which to communicate with customers to foster their awareness of the product, knowledge about its features, interest in purchasing, likelihood of trying the product/and or repeat purchasing it. Effective marketing requires an integrated communications plan combining both personal selling efforts and non-personal ones such as advertising, sales promotion, and public relations.

(a) Tasks and Tools

A useful mnemonic for the tasks in planning communications strategy is the 6 M's model:

1. Market – to whom is the communication to be addressed?
2. Mission – what is the objective of the communication?
3. Message – what are the specific points to be communicated?
4. Media – which vehicles will be used to convey the message?
5. Money – how much will be spent in the effort?
6. Measurement – how will impact be assessed after the campaign?

The marketing communications mix is potentially extensive, e.g., including "nonpersonal" elements such as: advertising, sales promotion events, direct marketing, public relations, packaging, trade shows, as well as personal selling.[16]

A key to developing an effective communications strategy is understanding of the people involved in the purchase decision making, the roles they play, and their current perceptions of the situation. Those involved, the so-called Decision-Making Unit (DMU) for a product, can vary from very few (even just the user himself or herself) to many. Hundreds may be involved in major industrial purchases.

Members of the DMU differ in the role played, their desires, and perhaps their perceptions; consequently, the need is for an integrated communications plan which uses different elements of the communication mix to address different issues pertinent to DMU members. Each element has particular strengths and weaknesses.

(b) Nonpersonal Vehicles

Advertising in media is particularly effective in:

- creating awareness of a new product
- describing features of the product
- suggesting usage situations
- distinguishing the product from competitors

[16] This categorization is given by P.W. Farris and J.A. Quelch in *Advertising and Promotion Management: A Manager's Guide to Theory and Practice* (Chilton, 1983).

- directing buyers to the point-of-purchase
- creating or enhancing a brand image.

Advertising is limited in its ability to actually close the sale and make a transaction happen; sales promotions may be an effective device to complement the favorable attitude development for which advertising is appropriate.[17]

One trend in advertising is the movement to more precisely targeted media vehicles. For example, whereas the three major TV networks were once the only choices for television advertising, highly specialized channels like The Nashville Network (featuring country music) and the Golf Channel are now available. Direct marketing to households is another option. A direct mail piece can be customized to the household receiving it based on some demographic data available on mailing lists or even purchase histories. A catalog can both describe the firm's products and provide ordering information. Like a direct mail piece, the catalog can be customized to the household receiving it.

Sales promotions includes things such as samples, coupons, and contests. These are usually most effective when used as a short-term inducement to generate action.

The three major types of sales promotions are:[18]

- consumer promotions—used by a manufacturer and addressed to the end consumer, e.g., a cents-off coupon sent in the mail or contained in print media or a continuity program such as collecting proofs-of-purchase to redeem for a gift.
- trade promotions—used by the manufacturer and addressed to the trade, e.g., temporary off-invoice price discounts or cooperative advertising allowances.
- retail promotions—used by the trade and addressed to the end consumer; often this is stimulated by a trade promotion. Examples include offering a discount and displaying or advertising the brand.

Public relations refers to non-paid communication efforts, such as press releases, speeches at industry seminars, appearances by firm executives on radio or TV programs. These efforts do entail a cost to the firm, but generally are distinguished from advertising by virtue of the fact that the firm does not pay for space in the media vehicle itself. For example, in some industries, new product reviews in the trade press are very influential with consumers. However, the output of public relations activities is somewhat less controllable than is the case with either advertising or sales promotion. Purchasing a TV spot pretty much guarantees that the firm's desires with respect to message and timing of delivery will be met. That level of control is not generally attainable with public relations since other parties decide whether or not to pick up a press release, write favorable or unfavorable things about the product in a review, and so forth.

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[17] A good reference on advertising is D.A. Aaker, R. Batra, and J.G. Myers, *Advertising Management*, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1992), wherein the need to consider advertising in the overall context of the communications mix is stressed.

[18] R.C. Blattberg and S.A. Neslin, *Sales Promotion: Concepts, Methods, and Strategies* (Englewood Cliffs, N.J.: Prentice-Hall, 1990), uses this categorization. This book includes important information on the types and design of sales promotion events and empirical evidence on their impact.

(c) Personal Selling

A salesperson as the communication vehicle presents the advantage of permitting an interaction to take place between the firm and a potential customer rather than just the broadcast of information. The salesperson can develop an understanding of the particular customer's perceptions and preferences and then tailor the communications message to the particulars of the situation. The importance of personal selling in the communications mix typically increases with the complexity of the product and the need for education of potential customers. For example, pharmaceutical companies maintain large field sales forces because nonpersonal media would not do an adequate job of educating doctors about new drugs.

It is critical to identify precisely the tasks of a salesperson. In some cases, the primary role is to take an order generated primarily by other elements of the marketing mix. In other cases, demand generation is a key task as the salesperson prospects for new accounts and/or performs consultative selling solving customers' problems. A salesperson can also have a role after-the-sale, providing technical support or transmitting customer data to the firm as a form of market research. Understanding the tasks to be done is a prerequisite to specifying skills and desired behaviors of salespeople. Recruiting, selecting, and training programs can be designed to provide the needed talents; and evaluation, compensation, and motivation plans constructed to induce the necessary effort.

(d) Constructing the Communications Mix

The proper allocation of dollars across the various media vehicles varies greatly depending upon the market situation. A fundamental decision is whether to focus on a "push" or "pull" strategy. In a push strategy, focus is on inducing intermediaries, such as a retailer, to sell the product at retail. Advertising's job may be to make the consumer aware of the product, but the closing of the deal is left to the intermediary. Alternatively, a "pull" strategy means the end consumer develops such an insistence on the product that he or she "pulls" it through the channel of distribution, and the retailer's role is merely to make the product conveniently available.

As the number of feasible communication vehicles has increased (e.g., to event sponsorship, telemarketing, one's own Web site, a posting on someone else's Web site, and infomercials), the job of specifying the right communications mix has grown more complex simply due to the number of options and permutations and combinations to be considered. However, the growth in options also creates the possibility of gaining competitive advantage via superior performance in this task.

Pricing

To a large extent, the combination of the 3 P's—product, place (channel), and promotion (communication mix)—determine the target customer's perception of the value of the firm's product in a given competitive context. Conceptually, this perceived value represents the maximum price which the customer is willing to pay. This should be the primary guide to pricing the product. Once the firm has created value for customers, it is entitled to capture some of that value for itself to fund future value-creation efforts. This is the role of effective pricing.[19]

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[19] This view is developed in R.J. Dolan and H. Simon, *Power Pricing* (New York: Free Press, 1996).

(a) Pricing Basis and Objective

In most situations, cost should act as a floor on pricing. In some circumstances, a firm intentionally sells at a loss for a time to establish a position in the market, but it is often difficult to increase prices later due to the customer's use of the introductory price as a reference point.

With perceived value in mind, the first question is what is the marketing objective and how does the pricing objective derive from that? For example, the perceived value of the product typically varies by customer. Thus, the higher the price, the lower the sales rate, and vice-versa. The price that would maximize short-term profit is thus typically higher than the one which would maximize market penetration subject even to making some profit on each item.

Some have described this as a choice between a "skim" and "penetration" pricing strategy. In a skim strategy, the focus is on those customers with high value—skimming-the-cream off the top of the market. The classic example of this is hardcover books at $30 initially for the impatient and dropping to $7 for the identical book in softcover about a year later. In penetration pricing, the firm sets a lower price to generate lots of sales quickly. This "leaves money on the table" with the high-value customers, but is designed to preempt competition and gain a significant number of customers early on. The appeal of a penetration strategy increases to the extent that (1) customers are sensitive to price, (2) economies of scale are important, (3) adequate production capacity is available, and (4) there is a threat of competition.

(b) Price Customization

Since customers typically place different values on the product, the firm should consider whether it is worth trying to capitalize on these value variations by charging different customers different prices. In some cases, legal constraints and logistical practicalities can make this infeasible. However, many firms owe their economic well-being to their ability to customize prices. For example, the yield management systems used by airlines and car rental companies have been a major source of profit, as prices are varied depending on when the buyer is booking, for how long, for what days of week, and so forth. These characteristics are used as indicators of the value the customer places on the product. Price customization can be achieved by

- developing a product line—such as the hardcover/softcover book situation described above.
- controlling the availability of lower prices, e.g., by making them available only in certain locations.
- varying prices based on observable buyer characteristics, e.g., software suppliers charge lower prices to "upgraders" than to new customers; the logic in new customers paying a higher price is they value the product more highly since they do not have the option of sticking with the current version. "Upgraders" identify themselves by turning in some proof of ownership, such as support manuals.
- varying prices based on observable characteristics of the transaction, e.g., quantity discounts could be offered if the situation were that big-volume buyers valued the product less than small-volume buyers.

(c) Price Leadership

Some industries feature a large degree of pricing interdependence in an industry, i.e., competitors react to pricing moves. Thus, any pricing decision has to reflect anticipated competitive reaction.

In some industries, legal and effective price leadership has been displayed as firms avoided price cutting in pursuit of share gains. In other industries, price wars have destroyed the profitability of nearly all the players. The tendency toward excessive price competition is particularly acute when

- firms have high fixed, but low variable costs,
- there is little differentiation among competitors' products, and thus consumers largely buy on price,
- industry growth rate is low,
- there are barriers to capacity adjustment, and economies of scale are important.

Thus, a key decision is how to ensure that the firm's actions do not have a negative impact on industry profitability by setting off a round of price cuts.

Analysis Underlying Marketing Strategy Formulation

As reflected at the top of **Figure A**, the major areas of analysis to be conducted in developing marketing strategy are the "5 C's":

- Customers
- Company
- Competitors
- Collaborators, e.g., channel partners and suppliers
- Context

Customer Analysis

Effective marketing requires in-depth understanding of customers' purchase and usage patterns. As noted above, areas to be considered are

- The Decision Making Unit (DMU)
  - who is involved in the process?
  - what role does each play?

Researchers have identified five major roles in buying situations and it should be understood who assumes each role (more than one individual can play each role and one individual can play more than one role). These roles are

- Initiator(s) – recognize value in solving a particular issue and stimulate search for product.
- Decider(s) – make the choice.
- Influencer(s) – while not making the final decision, have input to it.
- Purchaser(s) – consummate the transaction.
- User(s) – consume the product.

For example, in a decision to purchase a computer for the home, the initiator role may be held by the oldest child who saw value in it for her school assignments; the decider on brand was a relative with computer knowledge; parents and all children influenced the product features and price point; the purchaser was the same as the decider; and the user was all family members.

The second major area is

- Decision-Making Process (DMP)
  - is there search for information?
  - how?
  - what criteria are used to evaluate alternatives?
  - how important are the various attributes, such as price and performance?
  - how did DMU member interact?

Other considerations include:
- where do customers wish to buy?
- how is the product to be used?
- how frequently/intently will it be used?
- how important is the problem which it solves?

These questions need to be addressed at a disaggregate level so market segments can be identified.

Company Analysis

Corporate strengths and weakness need to be understood since the fit of the product to the company is important as well as the fit to the market. Assessing product/company fit requires an understanding of the finances, R&D capability, manufacturing capability, and other assets of the firm.

Competitive Analysis

Marketers need to identify both current and potential competitors. Competitors' strengths and weaknesses must be understood as the firm seeks differentiation possibilities. Similarly, in order to be able to predict and shape competitive reactions, the firm must assess competitors' objectives and strategies.

Collaborator Analysis

To the extent that there are important partners in the marketing system, their positions and goals need to be assessed. Frequently, two key collaborators are the downstream trade (e.g., retailers) and upstream suppliers. With respect to the trade, the firm must understand their cost structure; expectations about margins and allocation of tasks; support and training requirements; and the nature of their relationship with the firm's competitors.

Increasingly, suppliers are being seen as critical collaborators in making marketing strategy work. What is their ability to supply quality product on a reliable basis? How much lead time is required, especially relative to the delivery time commitment to downstream customers?

Context Analysis

Marketing strategy can take very little for granted. The context shapes what is possible and it is always changing. Indeed, spotting important changes in context before a competitor is a reliable path to competitive success. This point is vividly illustrated by the disruption that the Web is producing on 'facts' about distribution and communication that generations of businesspeople took for granted. Clearly, then, marketing strategy analysis must be alert to technological context. What threats, vulnerabilities, opportunities and resources does the technological frontier pose for the firm?

Culture, like technology, can shift and bring surprise unless carefully monitored. As many fortunes are made by anticipating cultural trends as technological trends, as Coca-Cola, McDonalds and Nike attest. Products and services acquire meaning from their place in a culture, and they acquire economic value from that meaning. Value, then, is vulnerable to shifts in the culture (what we call trends and fashions.) The systematic analysis of cultural trends (popularized recently as 'coolhunting' and 'consumer ethnography') is increasingly an integral part of strategy formulation.

Similarly, politics, regulation, law, and social norms are not fixed features of the marketing landscape, but factors to consider and monitor for signs of disruption. Markets such as banking, television and pharmaceuticals operate in particularly unstable settings. It is dangerous to design marketing strategy for such environments without a carefully developed point of view on the regulatory context.

The 5 C's analysis is input to the construction of the marketing strategy. In the end, an economic analysis needs to be done to ensure that everything adds up to a viable business proposition. What are the fixed dollar commitments? What level of unit contribution can be attained, and what is the anticipated associated sales level?

Summary

Devising an effective marketing program requires in-depth analysis to support decision making on a host of interrelated issues. Textbooks have been written to address this general topic[20] and to provide in-depth information on specific topics given in this note. This note's objective was to contribute by bringing together the issues and analyses underlying marketing strategy development to provide a general overview and provide guidance to resources which could be usefully consulted if needed.

[20] For general marketing management issues, good texts are T.K. Kinnear, K.L. Bernhardt, and K.A. Krentler, *Principles of Marketing*, 4th ed. (New York: Harper Collins, 1995) and P. Kotler, *Marketing Management: Analysis, Planning, Implementation and Control*, 9th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1997).