IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. How does marketing affect customer value?
2. How is strategic planning carried out at different levels of the organization?
3. What does a marketing plan include?

CHAPTER 2 ::: DEVELOPING MARKETING STRATEGIES AND PLANS

two

Key ingredients of the marketing management process are insightful, creative marketing strategies and plans that can guide marketing activities. Developing the right marketing strategy over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also find new ways to constantly improve it. Increasingly, marketing must also develop strategies for a range of products and services within the organization. As a highly successful business-to-business marketer, Siemens, for instance, must continually design and implement marketing activities at many levels and for many units of the organization.

Siemens AG is one of the largest global electronics and engineering companies in the world, with 460,000 employees in 190 countries and worldwide sales of $96 billion in fiscal 2005. During 2005, Siemens grew organically through new-product innovation and was the world's fifth-largest corporate spender in research and development. Siemens also grew through strategic acquisition in the areas of medical imaging, clean-coal technology, pollution control, wind power, and water technologies. Senior management were faithful to their vow that problem businesses would be fixed, sold, or closed, divesting the money-losing cellular handset unit to Taiwan's BenQ Corp. and realigning the ailing telecommunications network equipment unit in a joint venture with global handset supplier giant Nokia.[1]

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Siemens AG is a leading energy company focused on a growth strategy.

This chapter begins by examining some of the strategic marketing implications in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan.

Marketing and Customer Value

Marketing is about satisfying consumers' needs and wants. The task of any business is to deliver customer value at a profit. In a hypercompetitive economy with increasingly rational buyers faced with abundant choices, a company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value.

The Value Delivery Process

The traditional view of marketing is that the firm makes something and then sells it. In this view, marketing takes place in the second half of the process. Companies that subscribe to this view have the best chance of succeeding in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets.

This traditional view of the business process, however, will not work in economies where people face abundant choices. There, the "mass market" is actually splintering into numerous micromarkets, each with its own wants, perceptions, preferences, and buying criteria. The smart competitor must design and deliver offerings for well-defined target markets. This realization inspired a new view of business processes that places marketing at the *beginning* of planning. Instead of emphasizing making and selling, companies now see themselves as part of a value delivery process.

The value creation and delivery sequence can be divided into three phases. The first phase, *choosing the value,* represents the "homework" marketing must do before any product exists. The marketing staff must segment the market, select the appropriate market target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing. Once the business unit has chosen the value, the second phase is *providing the value.* Marketing must determine specific product features, prices, and distribution. The task in the third phase is *communicating the value* by utilizing the sales force, sales promotion, advertising, and other communication tools to announce and promote the product. Each of these value phases has cost implications. It is also the case that the value delivery process begins before there is a product and continues while it is being developed and after it becomes available.

NIKE

Critics of Nike often complain that its shoes cost almost nothing to make, yet cost the consumer so much. True, the raw materials and manufacturing costs of a sneaker are relatively cheap, but marketing the product to the consumer is expensive. Materials, labor, shipping, equipment, import duties, and suppliers' costs generally total less than $25 a pair. Compensating the sales team, distributors, administration, and endorsers, as well as paying for advertising and R&D, adds $15 or so to Nike's total. Nike sells its product to retailers to make a profit of $7. The retailer therefore pays roughly $47 to put a pair of Nikes on the shelf. Factoring in the retailer's overhead (typically $30 covering human resources, lease, and equipment), along with a $10 profit, the shoe costs the consumer over $80.

London Business School's Nirmalya Kumar has put forth a "3 Vs" approach to marketing: (1) define the *value segment* or customers (and their needs); (2) define the *value proposition*; and (3) define the *value network* that will deliver the promised service.[2] Dartmouth's Frederick Webster views marketing in terms of: (1) *value-defining processes* such as market research and company self-analysis; (2) *value-developing processes* including new-product development, sourcing strategy, and vendor selection; and (3) *value-delivering processes* such as advertising and managing distribution.[3]

The Value Chain

Michael Porter of Harvard has proposed the **value chain** as a tool for identifying ways to create more customer value (see Figure 2.1).[4] According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. The value chain identifies nine strategically relevant activities—five primary and four support activities—that create value and cost in a specific business.

The *primary activities* are inbound logistics or bringing materials into the business; operations or converting them into final products; outbound logistics or shipping out final products; marketing them, which includes sales; and servicing them. The *support activities*—procurement, technology development, human resource management, and firm infrastructure—are handled in specialized departments. The firm's infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.

The firm's task is to examine its costs and performance in each value-creating activity and to look for ways to improve it. Managers should estimate their competitors' costs and performances as *benchmarks* against which to compare their own costs and performance. And they should go further and study the "best of class" practices of the world's best companies.[5]

CISCO SYSTEMS INC.

Although Cisco Systems continues to grow, it is not growing at the breakneck speed of the 1990s, so its supply base needs have changed. The company has reduced its number of suppliers and aligned itself more closely with the remaining suppliers for each of its product-based teams—from Application Specific Integrated Circuits (ASIC) to microprocessors and broadband chips. Steve Darendinger, vice president of supply chain management for Cisco, says, "With ASIC we have gone from more than 20 suppliers to 3 suppliers," and "the three have a greater level of ASIC leverage . . . " Involving suppliers in new-product development lets Cisco tap into its partners' expertise in improving time to volume, cutting costs, and improving supplier quality.[6]

The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct *core business processes*.[7] These core business processes include:

- ***The market-sensing process.*** All the activities in gathering market intelligence, disseminating it within the organization, and acting on the information
- ***The new-offering realization process.*** All the activities in researching, developing, and launching new high-quality offerings quickly and within budget
- ***The customer acquisition process.*** All the activities in defining target markets and prospecting for new customers
- ***The customer relationship management process.*** All the activities in building deeper understanding, relationships, and offerings to individual customers
- ***The fulfillment management process.*** All the activities in receiving and approving orders, shipping the goods on time, and collecting payment

Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.[8] At Xerox, a Customer Operations Group links

Rite Aid is hoping its use of cross-functional teams will improve its business processes enough to make it number one among retail drug chains.

sales, shipping, installation, service, and billing so these activities flow smoothly into one another. Winning companies are those that excel at managing core business processes through cross-functional teams. AT&T, Polaroid, and Motorola have reorganized their employees into cross-functional teams; cross-functional teams are also found in nonprofit and government organizations as well. Drugstore chain Rite Aid is using cross-functional teams to try to push its store from third to first place in the drugstore hierarchy. The company has created teams to focus on sales and margin growth, operational excellence, market optimization, continued supply chain improvements, and continued cost control.[9]

To be successful, a firm also needs to look for competitive advantages beyond its own operations, into the value chains of suppliers, distributors, and customers. Many companies today have partnered with specific suppliers and distributors to create a superior **value delivery network**, also called a **supply chain**.

Core Competencies

Traditionally, companies owned and controlled most of the resources that entered their businesses—labor power, materials, machines, information, and energy—but this situation is changing. Many companies today outsource less-critical resources if they can obtain better quality or lower cost. India has developed a reputation as a country that can provide ample outsourcing support.

The key, then, is to own and nurture the resources and competencies that make up the *essence* of the business. Nike, for example, does not manufacture its own shoes, because certain Asian manufacturers are more competent in this task; instead Nike nurtures its superiority in shoe design and merchandising, its two core competencies. A **core competency** has three characteristics: (1) It is a source of competitive advantage in that it makes a significant contribution to perceived customer benefits. (2) It has applications in a wide variety of markets. (3) It is difficult for competitors to imitate.[10]

Competitive advantage also accrues to companies that possess distinctive capabilities. Whereas "core competencies" refers to areas of special technical and production expertise, *distinctive capabilities* describes excellence in broader business processes. Consider Netflix, the pioneer online DVD rental service, based in Silicon Valley.[11]

NETFLIX

Back in 1997, while most people were still fumbling with programming their VCRs, Netflix founder Reed Hastings became convinced that DVDs were the home video medium of the future. He raised $120 million, attracted hundreds of thousands of customers for his online movie DVD rental business, and took the company public in 2002, gaining another $90 million. Netflix has distinctive capabilities that promise to keep the company on top even as competitors such as Blockbuster and Wal-Mart try to muscle in on its turf. These distinctive capabilities are no late fees, (mostly) overnight delivery, and a deep catalog of over 65,000 movie titles, linked to systematic proprietary search software that allows customers to easily search for obscure films and discover new ones. Netflix is now making all of Hollywood—not just movie rental businesses—react. With its online communities of people who provide reviews and feedback, Netflix can identify potential fans for films. For instance, the company is credited with single-handedly building audiences for such quirky independent films as *Capturing the Friedmans*, a documentary about sexual abuse in a Long Island family.

Netflix became a success in the DVD rental business by exploiting its distinctive capabilities—state-of-the-art software that supports its product recommendations, merchandising, and inventory control.

Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.[12] In terms of market sensing, he believes that tremendous opportunities and threats often begin as "weak signals" from the "periphery" of a business.[13] He offers a systematic process for developing peripheral vision, and practical tools and strategies for building "vigilant organizations" attuned to changes in the environment, by asking questions in three categories (see Table 2.1).

Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly interlocking "activity systems." Competitors find it hard to imitate companies such as Southwest Airlines, Dell, and IKEA because they are unable to copy their activity systems.

TABLE **2.1**

Becoming a Vigilant Organization

- *Learning from the past*
  - What have been our past blind spots?
  - What instructive analogies do other industries offer?
  - Who in the industry is skilled at picking up weak signals and acting on them?
- *Evaluating the present*
  - What important signals are we rationalizing away?
  - What are our mavericks, outliers, complainers, and defectors telling us?
  - What are our peripheral customers and competitors really thinking?
- *Envisioning the future*
  - What future surprises could really hurt or help us?
  - What emerging technologies could change the game?
  - Is there an unthinkable scenario that might disrupt our business?

Source: George S. Day and Paul J. H. Schoemaker, *Peripheral Vision: Detecting the Weak Signals That Will Make or Break Your Company* (Boston: Harvard Business School Press, 2006).

Business realignment may be necessary to maximize core competencies. It has three steps: (1) (re)defining the business concept or "big idea"; (2) (re)shaping the business scope; and (3) (re)positioning the company's brand identity. Consider what Kodak is doing to realign its business:

KODAK

With the advent of the digital era and consumers' new capacity to store, share, and print photos using their PCs, Kodak faces more competition than ever, both in-store and online. In 2004, after being bumped from the Dow Jones Industrial Average, where it had held a spot for more than 70 years, the company started the painful process of transformation. It started off by expanding its line of digital cameras, printers, and other equipment, and it also set out to increase market share in the lucrative medical imaging business. Making shifts is not without challenges, however. The company announced in the summer of 2006 that it would outsource the making of its digital cameras. Kodak eliminated almost 30,000 jobs between 2004 and 2007 and it spent money acquiring a string of companies for its graphics communications unit. Not only must Kodak convince consumers to buy its digital cameras and home printers, but it also must become known as the most convenient and affordable way to process digital images. So far, the company faces steep competition from Sony, Canon, and Hewlett-Packard.[14]

A Holistic Marketing Orientation and Customer Value

A holistic marketing orientation can also help capture customer value. One view of holistic marketing sees it as "integrating the value exploration, value creation, and value delivery activities with the purpose of building long-term, mutually satisfying relationships and coprosperity among key stakeholders."[15] According to this view, holistic marketers succeed by managing a superior value chain that delivers a high level of product quality, service, and speed. Holistic marketers achieve profitable growth by expanding customer share, building customer loyalty, and capturing customer lifetime value. Figure 2.1, a holistic marketing framework, shows how the interaction between relevant actors and value-based activities helps to create, maintain, and renew customer value.

The holistic marketing framework is designed to address three key management questions:

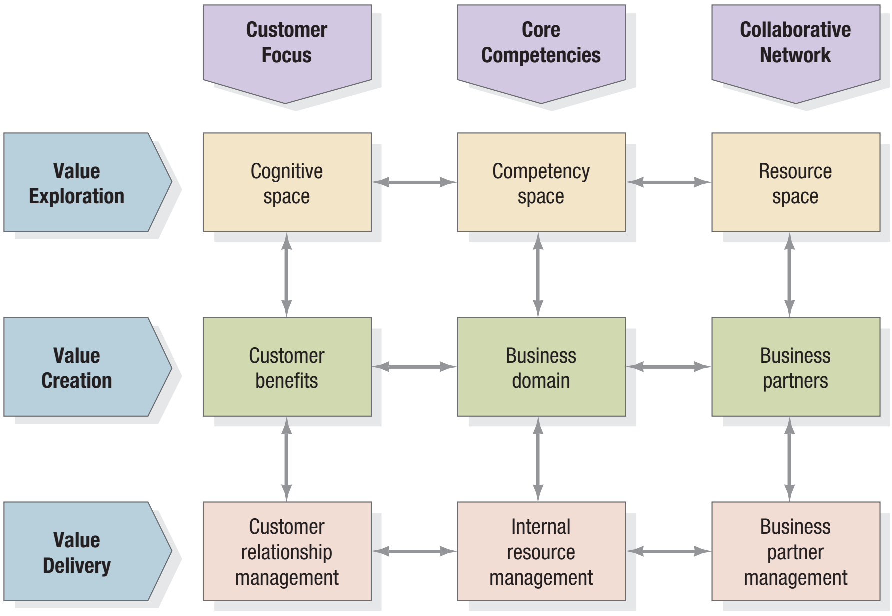
1. ***Value exploration***—How can a company identify new value opportunities?
2. ***Value creation***—How can a company efficiently create more promising new value offerings?
3. ***Value delivery***—How can a company use its capabilities and infrastructure to deliver the new value offerings more efficiently?

Let's look at how marketers can answer them.

FIG. 2.1

A Holistic Marketing Framework

Source: P. Kotler, D. C. Jain, and S. Maesincee, "Formulating a Market Renewal Strategy," in *Marketing Moves* (Part 1), Fig. 1-1 (Boston: Harvard Business School Press, 2002), p. 29. Copyright © 2002 by President and Fellows of Harvard College. All rights reserved.



VALUE EXPLORATION Finding new value opportunities is a matter of understanding the relationships among three spaces: (1) the customer's cognitive space; (2) the company's competence space; and (3) the collaborator's resource space. The customer's *cognitive space* reflects existing and latent needs and includes dimensions such as the need for participation, stability, freedom, and change.[16] We can describe the company's *competency space* in terms of breadth—broad versus focused scope of business; and depth—physical versus knowledge-based capabilities. The collaborator's *resource space* includes horizontal partnerships, with partners chosen for their ability to exploit related market opportunities, and vertical partnerships, with partners who can serve the firm's value creation.

VALUE CREATION Value-creation skills for marketers include identifying new customer benefits from the customer's view; utilizing core competencies from its business domain; and selecting and managing business partners from its collaborative networks. To create new customer benefits, marketers must understand what the customer thinks about, wants, does, and worries about and observe whom customers admire and interact with, and who influences them.

VALUE DELIVERY Delivering value often means making substantial investments in infrastructure and capabilities. The company must become proficient at customer relationship management, internal resource management, and business partnership management. *Customer relationship management* allows the company to discover who its customers are, how they behave, and what they need or want. It also enables the company to respond appropriately, coherently, and quickly to different customer opportunities. To respond effectively, the company requires *internal resource management* to integrate major business processes, such as order processing, general ledger, payroll, and production, within a single family of software modules. Finally, *business partnership management* allows the company to handle complex relationships with its trading partners to source, process, and deliver products.

The Central Role of Strategic Planning

Successful marketing thus requires companies to have capabilities such as understanding customer value, creating customer value, delivering customer value, capturing customer value, and sustaining customer value. Only a select group of companies stand out as master marketers: Procter & Gamble, Southwest Airlines, Nike, Disney, Nordstrom, Barnes & Noble, Starbucks, Wal-Mart, Target, Enterprise Rent-A-Car, Progressive Insurance, McDonald's, Ritz-Carlton, and several Asian (Sony, Toyota, Samsung, Canon) and European (IKEA, Club Med, Bang & Olufsen, Electrolux, Nokia, Lego, Tesco, and Virgin) companies. "Breakthrough Marketing: Intel" describes how that company created customer value and built a brand in a category for which most people thought branding impossible.

These companies focus on the customer and are organized to respond effectively to changing customer needs. They all have well-staffed marketing departments, and all their other departments accept the concept that the customer is king.

To ensure that they select and execute the right activities, marketers must give priority to strategic planning in three key areas: managing a company's businesses as an investment portfolio, assessing each business's strength by considering the market's growth rate and the company's position and fit in that market, and establishing a strategy. For each business, the company must develop a game plan for achieving its long-run objectives.

Most large companies consist of four organizational levels: the corporate level, the division level, the business unit level, and the product level. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the amount of resources to allocate to each division, as well as on which businesses to start or eliminate. Each division establishes a plan covering the allocation of funds to each business unit within the division. Each business unit develops a strategic plan to carry that business unit into a profitable future. Finally, each product level (product line, brand) within a business unit develops a marketing plan for achieving its objectives in its product market.

The **marketing plan** is the central instrument for directing and coordinating the marketing effort. The marketing plan operates at two levels: strategic and tactical. The **strategic marketing plan** lays out the target markets and the value proposition the firm will offer,

BREAKTHROUGH MARKETING — INTEL

Intel makes the microprocessors that are found in 80% of the world's personal computers. In the early days, Intel microprocessors were known simply by their engineering numbers, such as "80386" or "80486." Intel positioned its chips as the most advanced. The trouble was, as Intel soon learned, numbers can't be trademarked. Competitors came out with their own "486" chips, and Intel had no way to distinguish itself from the competition. Worse, Intel's products were hidden from consumers, buried deep inside PCs. With a hidden, untrademarked product, Intel had a hard time convincing consumers to pay more for its high-performance products.

Intel's response was a marketing campaign that created history. The company chose a trademarkable name—Pentium—and launched the "Intel Inside" marketing campaign to build awareness of the brand and get its name outside the PC and into the minds of consumers.

Intel used an innovative cooperative scheme to extend the reach of the campaign: It would help computer makers who used Intel processors to advertise their PCs if the makers also included the Intel logo in their ads. Intel also gave computer manufacturers a co-op reimbursement on Intel processors if they agreed to place an "Intel Inside" sticker on the outside of their PCs and laptops.

Intel continues its integrated ingredient campaigns to this day. For example, when launching its Centrino mobile microprocessor platform, Intel began with TV ads that aired in the United States and 11 other countries. These ads include the animated logo and now familiar five-note brand signature melody. Print, online, and outdoor advertising followed shortly thereafter. Intel created eight-page inserts for major newspapers that urged the wired world to not only "unwire," but also "Untangle. Unburden. Uncompromise. Unstress."

Intel even held a "One Unwired Day" event that took place in major cities such as New York, Chicago, San Francisco, and Seattle. In addition to allowing free trial Wi-Fi access, the company held festivals in each city that included live music, product demonstrations, and prize giveaways.

The "Unwired" campaign was another Intel success in marketing. The $300 million total media effort for the Centrino mobile platform, which also included cooperative advertising with manufacturers, helped generate $2 billion in revenue for Intel during the first nine months of the campaign.

Going forward, Intel launched a new brand identity in 2006, supported by a $2 billion global marketing campaign. The company introduced a new logo with a different font and updated visual look and also created a new slogan: "Leap Ahead." In addition to the new logo and slogan, Intel developed a new microprocessor platform called Viiv (rhymes with "five") aimed at home entertainment enthusiasts. These moves were designed to create the impression of Intel as a "warm and fuzzy consumer company," with products that went beyond the PC. Intel remained one of the most valuable brands in the world, its $32 billion brand valuation earning it fifth place in the 2006 Interbrand/*BusinessWeek* ranking of the Best Global Brands.

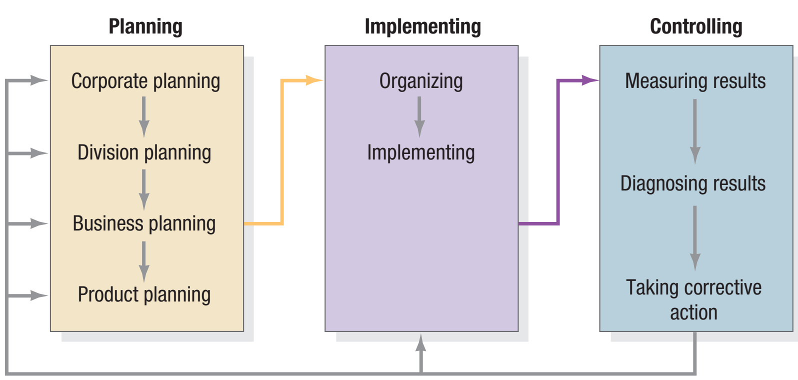
Sources: Don Clark, "Intel to Overhaul Marketing in Bid to Go beyond PCs," *Wall Street Journal*, December 30, 2005; Cliff Edwards, "Intel Everywhere?" *BusinessWeek,* March 8, 2004, pp. 56–62; Scott Van Camp, "ReadMe.1st," *Brandweek,* February 23, 2004, p. 17; and David Kirkpatrick, "At Intel, Speed Isn't Everything," *Fortune,* February 9, 2004, p. 34; "How to Become a Superbrand," *Marketing,* January 8, 2004, p. 15; Roger Slavens, "Pam Pollace, VP-Director, Corporate Marketing Group, Intel Corp," *B to B,* December 8, 2003, p. 19; Kenneth Hein, "Study: New Brand Names Not Making Their Mark," *Brandweek,* December 8, 2003, p. 12; Heather Clancy, "Intel Thinking Outside the Box," *Computer Reseller News,* November 24, 2003, p. 14; Cynthia L. Webb, "A Chip Off the Old Recovery?" Washingtonpost.com, October 15, 2003; "Intel Launches Second Phase of Centrino Ads," *Technology Advertising & Branding Report,* October 6, 2003.

based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service.

Today, teams develop the marketing plan with inputs and sign-offs from every important function. Management then implements these plans at the appropriate levels of the organization, monitors results, and takes necessary corrective action. The complete planning, implementation, and control cycle is shown in Figure 2.2. We next consider planning at each of these four levels of the organization.

FIG. 2.2

The Strategic Planning, Implementation, and Control Processes



Ads like this were part of Intel's strategy for building a brand in a product area where no brand name had ever existed before—microprocessors.

Corporate and Division Strategic Planning

Some corporations give their business units a lot of freedom to set their own sales and profit goals and strategies. Others set goals for their business units but let them develop their own strategies. Still others set the goals and participate in developing individual business unit strategies.[17]

All corporate headquarters undertake four planning activities:

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each SBU
4. Assessing growth opportunities

We'll look at each process.

Defining the Corporate Mission

An organization exists to accomplish something: to make cars, lend money, provide a night's lodging, and so on. Over time the mission may change, to take advantage of new opportunities or respond to new market conditions. Amazon.com changed its mission from being the world's largest online bookstore to aspiring to become the world's largest online store; and eBay changed its mission from running online auctions for collectors to running online auctions of all kinds of goods.

To define its mission, a company should address Peter Drucker's classic questions:[18] What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever have to answer. Successful companies continuously raise them and answer them thoughtfully and thoroughly.[19]

Organizations develop **mission statements** to share with managers, employees, and (in many cases) customers. A clear, thoughtful mission statement provides employees with a shared sense of purpose, direction, and opportunity.

Mission statements are at their best when they reflect a vision, an almost "impossible dream" that provides a direction for the company for the next 10 to 20 years. Sony's former president, Akio Morita, wanted everyone to have access to "personal portable sound," so his company created the Walkman and portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 AM the next day, so he created FedEx. Table 2.2 lists three sample mission statements.

Good mission statements have five major characteristics. First, they focus on a limited number of goals. The statement "We want to produce the highest-quality products, offer the most service, achieve the widest distribution, and sell at the lowest prices" claims too much. Second, mission statements stress the company's major policies and values. They narrow the range of individual discretion so that employees act consistently on important issues. Third, they define the major competitive spheres within which the company will operate.

- ***Industry.*** Some companies will operate in only one industry; some only in a set of related industries; some only in industrial goods, consumer goods, or services; and some in any industry. For example, DuPont prefers to operate in the industrial market, whereas Dow is willing to operate in the industrial and consumer markets.
- ***Products and applications.*** Firms define the range of products and applications they will supply. St. Jude Medical aims to "serve physicians worldwide with high-quality products for cardiovascular care."
- ***Competence.*** The firm identifies the range of technological and other core competencies it will master and leverage. Japan's NEC has built its core competencies in computing, communications, and components to support production of laptop computers, television receivers, and handheld telephones.
- ***Market segment.*** The type of market or customers a company will serve is the market segment. Aston Martin makes only high-performance sports cars. Gerber serves primarily the baby market.
- ***Vertical.*** The vertical sphere is the number of channel levels, from raw material to final product and distribution, in which a company will participate. At one extreme are companies with a large vertical scope; at one time Ford owned its own rubber plantations, sheep farms, glass manufacturing plants, and steel foundries. At the other extreme are "hollow corporations" or "pure marketing companies" consisting of a person with a phone, fax, computer, and desk who contracts out every service, including design, manufacture, marketing, and physical distribution.[20]
- ***Geographical.*** The range of regions, countries, or country groups in which a company will operate defines its geographical sphere. Some companies operate in a specific city or

TABLE 2.2

Sample Mission Statements

Rubbermaid Commercial Products Inc.

"Our Vision is to be the Global Market Share Leader in each of the markets we serve. We will earn this leadership position by providing to our distributor and end-user customers innovative, high-quality, cost-effective, and environmentally responsible products. We will add value to these products by providing legendary customer service through our Uncompromising Commitment to Customer Satisfaction."

Motorola

"The purpose of Motorola is to honorably serve the needs of the community by providing products and services of superior quality at a fair price to our customers; to do this so as to earn an adequate profit which is required for the total enterprise to grow; and by so doing provide the opportunity for our employees and shareholders to achieve their reasonable personal objectives."

eBay

"We help people trade practically anything on earth. We will continue to enhance the online trading experiences of all—collectors, dealers, small businesses, unique item seekers, bargain hunters, opportunity sellers, and browsers."

state. Others are multinationals such as Unilever and Caterpillar, which operate in almost every country in the world.

The fourth characteristic of mission statements is that they take a long-term view. They should be enduring; management should change the mission only when it ceases to be relevant. Finally, a good mission statement is as short, memorable, and meaningful as possible. Marketing consultant Guy Kawasaki even advocates developing short three- to four-word corporate mantras rather than mission statements, like "peace of mind" for Federal Express.[21] Compare the rather vague missions statements on the left with Google's mission statement and philosophy on the right:

To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition.

We build brands and make the world a little happier by bringing our best to you.

Google Mission:

To organize the world's information and make it universally accessible and useful.

Google Philosophy:

Never settle for the best.

1. Focus on the user and all else will follow.
2. It's best to do one thing really, really well.
3. Fast is better than slow.
4. Democracy on the Web works.
5. You don't need to be at your desk to need an answer.
6. You can make money without doing evil.
7. There is always more information out there.
8. The need for information crosses all borders.
9. You can be serious without a suit.
10. Great just isn't good enough.[22]

Establishing Strategic Business Units

Companies often define their businesses in terms of products: They are in the "auto business" or the "clothing business." But Harvard's famed marketing professor Ted Levitt argued that *market definitions* of a business are superior to product definitions. In other words, companies must see their business as a customer-satisfying process, not a goods-producing process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, the automobile, the railroad, the airline, and the truck are products that meet that need.

Viewing businesses in terms of customer needs can suggest additional growth opportunities. IBM redefined itself from a hardware and software manufacturer to a "builder of networks." Table 2.3 gives several examples of companies that have moved from a product to a market definition of their business. It highlights the difference between a target market definition and a strategic market definition.

TABLE **2.3** Product-Oriented versus Market-Oriented Definitions of a Business

Company	Product Definition	Market Definition
Missouri-Pacific Railroad	We run a railroad.	We are a people-and-goods mover.
Xerox	We make copying equipment.	We help improve office productivity.
Standard Oil	We sell gasoline.	We supply energy.
Columbia Pictures	We make movies.	We market entertainment.
Encyclopaedia Britannica	We sell encyclopedias.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.

A *target market definition* tends to focus on selling a product or service to a current market. Pepsi could define its target market as everyone who drinks a cola beverage, and competitors would therefore be other cola companies. A *strategic market definition,* however, focuses also on the potential market. If Pepsi considered everyone who might drink something to quench their thirst, their competition would also include noncola soft drinks, bottled water, fruit juices, tea, and coffee. To better compete, Pepsi might decide to sell additional beverages whose growth rate appears to be promising.

A business can define itself in terms of three dimensions: customer groups, customer needs, and technology.[23] Consider a small company that defines its business as designing incandescent lighting systems for television studios. Its customer group is television studios; the customer need is lighting; and the technology is incandescent lighting. The company might want to expand. It could make lighting for other customer groups, such as homes, factories, and offices; or it could supply other services needed by television studios, such as heating, ventilation, or air conditioning. It could design other lighting technologies for television studios, such as infrared or ultraviolet lighting.

Large companies normally manage quite different businesses, each requiring its own strategy. General Electric has classified its businesses into 49 **strategic business units, SBUs**. An SBU has three characteristics:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2. It has its own set of competitors.
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows that its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomorrow's breadwinners."[24]

Assigning Resources to Each SBU[25]

Once it has defined SBUs, management must decide how to allocate corporate resources to each. The 1970s saw several portfolio-planning models introduced to provide an analytical means for making investment decisions. The GE/McKinsey Matrix classifies each SBU according to the extent of its competitive advantage and the attractiveness of its industry. Management would want to grow, "harvest" or draw cash from, or hold on to the business. Another model, the BCG's Growth-Share Matrix, uses relative market share and annual rate of market growth as criteria to make investment decisions.

Portfolio-planning models like these have fallen out of favor as oversimplified and subjective. More recent methods firms use to make internal investment decisions are based on shareholder value analysis, and whether the market value of a company is greater with an SBU or without it (whether it is sold or spun off). These value calculations assess the potential of a business based on potential growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

Assessing Growth Opportunities

Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.

Figure 2.3 illustrates this strategic-planning gap for a major manufacturer of blank compact disks called Musicale (name disguised). The lowest curve projects the expected sales over the next five years from the current business portfolio. The highest curve describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic-planning gap?

The first option is to identify opportunities to achieve further growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses that are related to current businesses (integrative opportunities). The third option is to identify opportunities to add attractive businesses unrelated to current businesses (diversification opportunities).

INTENSIVE GROWTH Corporate management's first course of action should be a review of opportunities for improving existing businesses. One useful framework for detecting new intensive growth opportunities is called a "product–market expansion grid" (Figure 2.4).[26]

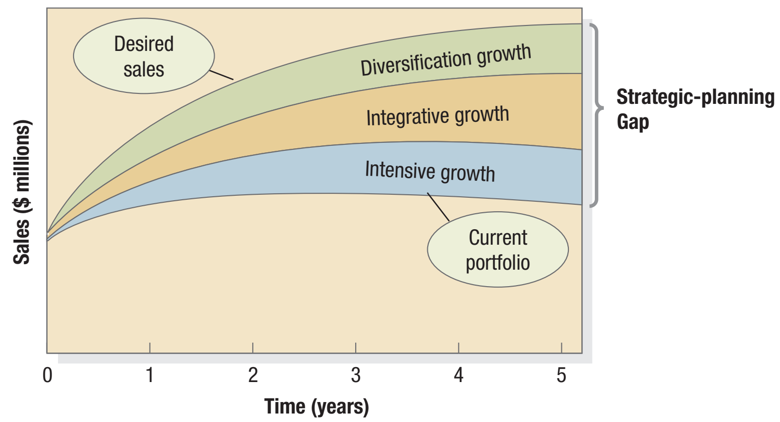


FIG. **2.3**

The Strategic-Planning Gap

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 or develop new markets for its current products, in a *market-development strategy*. Then it considers whether it can develop new products of potential interest to its current markets with a *product-development strategy*. Later the firm will also review opportunities to develop new products for new markets in a *diversification strategy*.

STARBUCKS

When Howard Schultz, Starbucks' CEO until 2000, came to the company in 1982, he recognized an unfilled niche for cafés serving gourmet coffee directly to customers. This became Starbucks' market-penetration strategy and helped the company attain a loyal customer base in Seattle. The market-development strategy marked the next phase in Starbucks' growth: It applied the same successful formula that had worked wonders in Seattle, first to other cities in the Pacific Northwest, then throughout North America, and finally, across the globe. Once the company had established itself as a presence in thousands of cities internationally, Starbucks sought to increase the number of purchases by existing customers with a product-development strategy that led to new in-store merchandise, including compilation CDs, a Starbucks Duetto Visa card that allows customers to receive points toward Starbucks purchases whenever they use it, and high-speed wireless Internet access at thousands of Starbucks "HotSpots" through a deal with T-Mobile. Finally, Starbucks pursued diversification into grocery store aisles with Frappuccino® bottled drinks, Starbucks brand ice cream, and the purchase of tea retailer Tazo® Tea.[27]

So how might Musicale use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more by demonstrating the benefits of using compact disks for data storage in addition to music storage. Musicale could also try to attract competitors' customers if it noticed major weaknesses in competitors' products or marketing programs. Finally, Musicale could try to convince nonusers of compact disks to start using them.

How can Musicale use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If Musicale has been selling compact disks only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels in its present locations. If it has been selling its disks only through stereo equipment dealers, it might add mass-merchandising or online channels. Third, the

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

FIG. **2.4**

Three Intensive Growth Strategies: Ansoff's Product–Market Expansion Grid

Source: Adapted and reprinted by permission, *Harvard Business Review.* From "Strategies for Diversification," by Igor Ansoff, September–October 1957. Copyright © 1957 by the President and Fellows of Harvard College. All rights reserved.

company might consider selling in new locations in its home country or abroad. If Musicale sold only in the United States, it could consider entering the European market.

Management should also consider new-product possibilities. Musicale could develop new features, such as additional data storage capabilities or greater durability. It could offer the CD at two or more quality levels, or it could research an alternative technology such as flash drives.

By examining these intensive growth strategies, managers may discover several ways to grow. Still, that growth may not be enough. In that case, management must also look for integrative growth opportunities.

INTEGRATIVE GROWTH A business can increase sales and profits through backward, forward, or horizontal integration within its industry. For example, drug giant Merck has gone beyond just developing and selling ethical pharmaceuticals requiring a doctor's prescription. It purchased Medco, a mail-order pharmaceutical distributor, formed a joint venture with DuPont to establish more basic research, and began another joint venture with Johnson & Johnson to bring some of its ethical products into the over-the-counter market.

Media companies have long reaped the benefits of integrative growth. Here's how one business writer explains the potential that NBC could reap from its merger with Vivendi Universal Entertainment to become NBC Universal. Although it's a far-fetched example, it gets across the possibilities inherent in this growth strategy:[28]

> [When] the hit movie *Seabiscuit* (produced by Universal Pictures) comes to television, it would air on Bravo (owned by NBC) or USA Network (owned by Universal), followed by the inevitable bid to make the movie into a TV series (by Universal Television Group), with the pilot being picked up by NBC, which passes on the show, but it's then revived in the "Brilliant But Canceled" series on cable channel Trio (owned by Universal) where its cult status leads to a Spanish version shown on Telemundo (owned by NBC) and the creation of a popular amusement-park attraction at Universal Studios.

How might Musicale achieve integrative growth? The company might acquire one or more of its suppliers, such as plastic material producers, to gain more control or generate more profit through backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable, in forward integration. Finally, Musicale might acquire one or more competitors, provided that the government does not bar this horizontal integration. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification.

DIVERSIFICATION GROWTH Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to be successful. For example, from its origins as an animated film producer, Walt Disney Company has moved into licensing characters for merchandised goods, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN acquisitions, and developing theme parks and vacation and resort properties.

CISCO SYSTEMS INC.

Known for years as a mass producer of routers and switches, Cisco is attempting to diversify beyond these nuts and bolts products into the business of changing how consumers communicate and view television. With its recent $6.9 billion acquisition of Scientific-Atlanta Inc., widely recognized for its expertise in video delivery, Cisco hopes to enter consumers' living rooms with items such as home-networking equipment and wirelessly networked DVD players and services such as video on demand. The diversification move is already paying off: Scientific-Atlanta produced 7% of Cisco's $8 billion in revenue in the fourth quarter of 2006.[29]

Several types of diversification are possible for Musicale. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though the new products themselves may appeal to a different group of customers. It might start a laser disk manufacturing operation, because it knows how to manufacture compact discs. Second, the company might use a horizontal strategy to search for new products that could appeal to current customers, even though the new products are technologically unrelated to its current product line. Musicale might produce compact disc cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses that have no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider such new businesses as making application software or personal organizers.

DOWNSIZING AND DIVESTING OLDER BUSINESSES Weak businesses require a disproportionate amount of managerial attention. Companies must carefully prune, harvest, or divest tired old businesses in order to release needed resources to other uses and reduce costs. To focus on its travel and credit card operations, American Express in 2005 spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial).

HEALTHSOUTH CORP.

In 2006, HealthSouth Corp., one of the nation's largest providers of rehabilitative health care, announced it was planning to get rid of its large network of outpatient services. The company, still reeling from a $2.7 billion fraud scandal in 2003, planned to increase its stockholder value by focusing on the areas that account for 58% of the company's net operating revenue and 86% of its operating earnings: post-acute-care inpatient services. "We intend to focus HealthSouth's resources on establishing a 'pure play,' post-acute company that builds on our core competencies," said Jay Grinney, CEO and president. "At the same time, we believe our outpatient, surgery, and diagnostic divisions will be well positioned to succeed under new owners who will place strategic priority on strengthening each individual business."[30]

Organization and Organizational Culture

Strategic planning happens within the context of the organization. A company's **organization** consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.

What exactly is a **corporate culture**? Most businesspeople would be hard-pressed to describe this elusive concept, which some define as "the shared experiences, stories, beliefs, and norms that characterize an organization." Yet, walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers.

A customer-centric culture can affect all aspects of an organization. As one expert says, "To me, being consumer-centric is more a principle—the driving value of a company—than a process. It's in a company's DNA, top to bottom. It means you recognize the diversity across the face of consumers, and that you are open to observations and opinions other than your own; this allows you to be an advocate for the consumer—whether you are a leading innovator or packing boxes in the warehouse. . . . The question is, Do you see consumers as the driving life force of your company for as long as it exists, or do you see them as simply a hungry group of people that needs to be satisfied so your business will grow in the short term?"[31]

Sometimes corporate culture develops organically and is transmitted directly from the CEO's personality and habits to the company employees. Mike Lazaridis, president and co-CEO of Blackberry producer Research in Motion, is a scientist in his own right, winning an Academy Award for technical achievement in film. He hosts a weekly, innovation-centered "Vision Series" at company headquarters to focus on new research and company goals. As he states, "I think we have a culture of innovation here, and [engineers] have absolute access to me. I live a life that tries to promote innovation."[32]

Marketing Innovation

Innovation in marketing is critical. The traditional view is that senior management hammers out the strategy and hands it down. Gary Hamel offers the contrasting view that imaginative ideas on strategy exist in many places within a company.[33] Senior management should identify

Research in Motion, the company that developed the Blackberry wireless device, fosters a culture of innovation that CEO Mike Lazaridis carefully cultivates and values highly.

and encourage fresh ideas from three groups that tend to be underrepresented in strategy making: employees with youthful perspectives; employees who are far removed from company headquarters; and employees who are new to the industry. Each group is capable of challenging company orthodoxy and stimulating new ideas. Jump Associates, an innovative strategy firm, offers five key strategies for managing change in an organization:[34]

1. ***Avoid the innovation title***—Pick a name for the innovation team that won't alienate coworkers.
2. ***Use the buddy system***—Find a like-minded collaborator within the organization.
3. ***Set the metrics in advance***—Establish different sets of funding, testing, and performance criteria for incremental, experimental, and potentially disruptive innovations.
4. ***Aim for quick hits first***—Start with easily implemented ideas that will work to demonstrate that things can get done, before quickly switching to bigger initiatives.
5. ***Get data to back up your gut***—Use testing to get feedback and improve an idea.

"Marketing Insight: Creating Innovative Marketing" describes how some leading companies approach innovation.

Firms develop strategy by identifying and selecting among different views of the future. The Royal Dutch/Shell Group has pioneered **scenario analysis**, which consists of developing plausible representations of a firm's possible future that make different assumptions about forces driving the market and that include different uncertainties. Managers need to think through each scenario with the question: "What will we do if it happens?" They need to adopt one scenario as the most probable and watch for signposts that might confirm or disconfirm it.[35]

Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in Figure 2.5. We examine each step in the sections that follow.

The Business Mission

Each business unit needs to define its specific mission within the broader company mission. Thus, a television-studio-lighting-equipment company might define its mission as, "To tar-

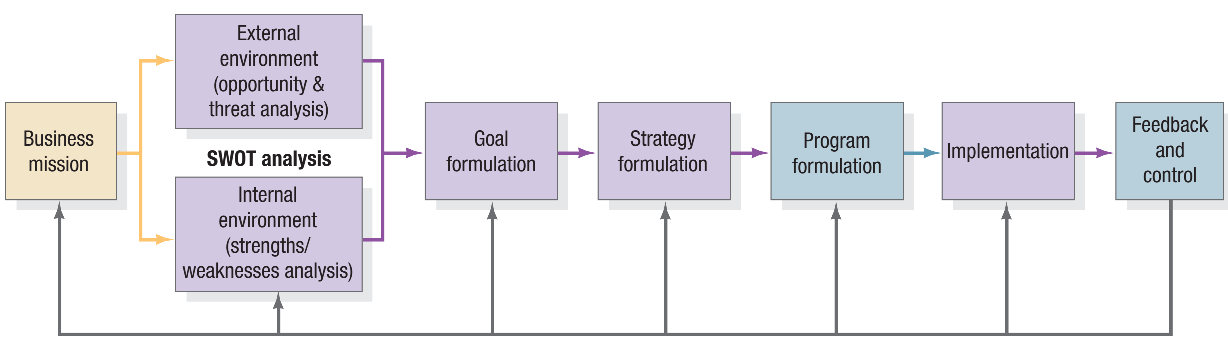


FIG. 2.5 The Business Unit Strategic-Planning Process

MARKETING INSIGHT | CREATING INNOVATIVE MARKETING

When IBM surveyed top CEOs and government leaders about their agenda priorities, their answers about innovation were revealing. Business-model innovation and coming up with unique ways of doing things scored high. IBM's own drive for business-model innovation led to much collaboration, both within IBM itself and externally with companies, governments, and educational institutions. CEO Samuel Palmisano noted how the breakthrough Cell processor, based on the company's Power architecture, would not have happened without collaboration with Sony and Nintendo, as well as competitors Toshiba and Microsoft.

Procter & Gamble similarly has made it a goal for 50% of the new company's products to come from outside P&G's labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house.

Business guru Jim Collins' research emphasizes the importance of systematic, broad-based innovation: "Always looking for the one big breakthrough, the one big idea, is contrary to what we found: To build a truly great company, it's decision upon decision, action upon action, day upon day, month upon month. . . . It's cumulative momentum and no one decision defines a great company." He cites the success of Walt Disney with theme parks and Wal-Mart with retailing as examples of companies who were successful after having executed against a big idea brilliantly over such a long period of time.

Northwestern's Mohanbir Sawhney and his colleagues outline 12 dimensions of business innovation that make up the "innovation radar" (see Table 2.4) and suggest that business innovation is about increasing customer *value*, not just creating new *things*; business innovation comes in many flavors and can take place on any dimension of a business system; and business innovation is systematic and requires careful consideration of all aspects of a business.

Business writer C.K. Prahalad believes much innovation in industries from financial and telecom services to health care and automobiles can come from developments in emerging markets such as India. Forced to do more with less, Indian companies and foreign competitors are finding new ways to maximize minimal resources and offer quality products and services at low prices. Consider Bangalore's Narayana Hrudayalaya hospital, which charges a flat fee of $1,500 for heart bypass surgery that would cost 50 times that much in the United States. The low cost is a result of the hospital's low labor and operating expenses and an assembly-line view of care that has specialists focus just on their own area. The approach works—the hospital's mortality rates are half those of U.S. hospitals. Narayana also operates on hundreds of infants for free and profitably insures 2.5 million poor Indians against serious illness for 11 cents a month.

Low labor costs allow India's Narayana Hrudayalaya hospital to innovate through its pricing strategies.

Finally, to find breakthrough ideas, some companies find ways to immerse a range of employees in solving marketing problems. Samsung's Value Innovation Program (VIP) isolates product development teams of engineers, designers, and planners with a timetable and end date in the company's center just south of Seoul, Korea, while 50 specialists help guide their activities. To help make tough trade-offs, team members draw "value curves" that rank attributes such as a product's sound or picture quality on a scale from 1 to 5. To develop a new car, BMW similarly mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House.

Sources: Steve Hamm, "Innovation: The View From the Top," *BusinessWeek*, April 3, 2006, pp. 52–53; Jena McGregor, "The World's Most Innovative Companies," *BusinessWeek*, April 24, 2006, pp. 63–74; Rich Karlgard, "Digital Rules," *Forbes*, March 13, 2006, p. 31; Jennifer Rooney and Jim Collins, "Being Great Is *Not* Just a Matter of Big Ideas," *Point*, June 2006, p. 20; Moon Ihlwan, "Camp Samsung," *BusinessWeek*, July 3, 2006, pp. 46–47; Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," *MIT Sloan Management Review*, Spring 2006, pp. 75–85; Pete Engardio, "Business Prophet: How C.K. Prahalad Is Changing the Way CEO's Think," *BusinessWeek*, January 23, 2006, pp. 68–73.

get major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice that this mission does not attempt to win business from smaller television studios, win business by being lowest in price, or venture into nonlighting products.

SWOT Analysis

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It's a way of monitoring the external and internal marketing environment.

TABLE 2.4 The 12 Dimensions of Business Innovation

Dimension	Definition	Examples
Offerings (WHAT)	Develop innovative new products or services.	■ Gillette Mach3Turbo razor ■ Apple iPod music player and iTunes music service
Platform	Use common components or building blocks to create derivative offerings.	■ General Motors OnStar telematics platform ■ Disney animated movies
Solutions	Create integrated and customized offerings that solve end-to-end customer problems.	■ UPS logistics services Supply Chain Solutions ■ DuPont Building Innovations for construction
Customers (WHO)	Discover unmet customer needs or identify underserved customer segments.	■ Enterprise Rent-A-Car focus on replacement car renters ■ Green Mountain Energy focus on "green power"
Customer Experience	Redesign customer interactions across all touch points and all moments of contact.	■ Washington Mutual Occasio retail banking concept ■ Cabela's "store as entertainment experience" concept
Value Capture	Redefine how company gets paid or create innovative new revenue streams.	■ Google paid search ■ Blockbuster revenue sharing with movie distributors
Processes (HOW)	Redesign core operating processes to improve efficiency and effectiveness.	■ Toyota Production System for operations ■ General Electric Design for Six Sigma (DFSS)
Organization	Change form, function, or activity scope of the firm.	■ Cisco partner-centric networked virtual organization ■ Procter & Gamble front-back hybrid organization for customer focus
Supply Chain	Think differently about sourcing and fulfillment.	■ Moen ProjectNet for collaborative design with suppliers ■ General Motors Celta use of integrated supply and online sales
Presence (WHERE)	Create new distribution channels or innovative points of presence, including the places where offerings can be bought or used by customers.	■ Starbucks music CD sales in coffee stores ■ Diebold RemoteTeller System for banking
Networking	Create network-centric intelligent and integrated offerings.	■ Otis Remote Elevator Monitoring service ■ Department of Defense Network-Centric Warfare
Brand	Leverage a brand into new domains.	■ Virgin Group "branded venture capital" ■ Yahoo! as a lifestyle brand

Source: Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," *MIT Sloan Management Review*, Spring 2006, p. 78.

EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS A business unit must monitor key *macroenvironment forces* and significant *microenvironment factors* that affect its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

Good marketing is the art of finding, developing, and profiting from these opportunities.[36] A **marketing opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are three main sources of market opportunities.[37] The first is to supply something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. There are several ways to uncover possible product or service improvements: the *problem detection method* asks consumers for their suggestions, the *ideal method* has them imagine an ideal version of the product or service, and the *consumption chain method* asks consumers to chart their steps in acquiring, using, and disposing of a product. This last method often leads to a totally new product or service.

Opportunities can take many forms, and marketers need to be good at spotting them. Consider the following:

■ A company may benefit from converging industry trends and introduce hybrid products or services that are new to the market. For example: At least five major cell phone manufacturers released phones with digital photo capabilities.

- A company may make a buying process more convenient or efficient. Consumers can now 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. Guru.com facilitates finding professional experts in a wide range of fields.
- A company can customize a product or service that was formerly offered only in a standard form. 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 now create and edit digital "iMovies" with the new 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 a 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.

To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to determine their attractiveness and probability of success by asking 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 2.6(a), the best marketing opportunities facing the TV-lighting-equipment company are listed 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 lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and success probability.

An **environmental threat** is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to lower sales or profit. Figure 2.6(b) illustrates the threat matrix facing the TV-lighting-equipment company. The

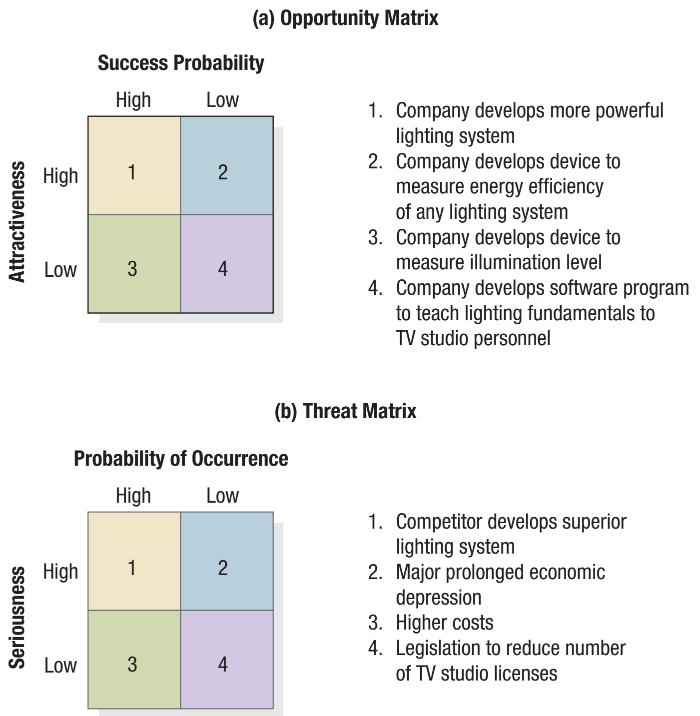


FIG. 2.6

Opportunity and Threat Matrices

threats in the upper-left cell are major, because they can seriously hurt the company and they have a high probability of occurrence. To deal with them, the company needs contingency plans. The threats in the lower-right cell are very minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more serious.

INTERNAL ENVIRONMENT (STRENGTHS AND WEAKNESSES) ANALYSIS It's one thing to find attractive opportunities, and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.

LOAN BRIGHT

At the Web site of Loan Bright, an online mortgage company, potential homebuyers can get a personalized list of lenders and available terms. At first Loan Bright made its money by selling the homebuyer data to high-end mortgage lenders, including Wells Fargo, Bank of America, and Chase Manhattan Mortgages. These firms turned the data into leads for their sales teams. But worrisome internal issues arose. For one thing, Loan Bright had to please every one of its big clients, yet each was becoming tougher to satisfy, eating up time and resources. The company's top managers gathered to analyze the market and Loan Bright's strengths and weaknesses. They decided that instead of serving a few choice clients, they would shift down-market to serve many more individual loan officers, who responded to the company's Google ads and only wanted to buy a few leads. The switch required revamping the way Loan Bright salespeople brought in new business, including using a one-page contract instead of the old 12-page contract and creating a separate customer service department.[38]

Businesses can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Performing Strengths/Weaknesses Analysis."

Clearly, the business doesn't have to correct *all* its weaknesses, nor should it gloat about all its strengths. The big question is whether the firm should limit itself to those opportunities for which it possesses the required strengths, or consider those that might require it to find or develop new strengths. For example, managers at Texas Instruments (TI) were split between those who wanted TI to stick to industrial electronics, where it has clear strength, and those who wanted the company to continue introducing consumer products, where it lacks some required marketing strengths.

Sometimes a business does poorly not because its people lack the required strengths, but because they don't work together as a team. In one major electronics company, engineers look down on the salespeople as "engineers who couldn't make it," and salespeople look down on the service people as "salespeople who couldn't make it." It's critical to assess interdepartmental working relationships as part of the internal environmental audit.

Goal Formulation

Once the company has performed a SWOT analysis, it can proceed to develop specific goals for the planning period. This stage of the process is called **goal formulation**. Goals are objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objectives (MBO). For an MBO system to work, the unit's objectives must meet four criteria:

1. ***They must be arranged hierarchically, from the most to the least important.*** For example, the business unit's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices.
2. ***Objectives should be quantitative whenever possible.*** The objective "to increase the return on investment (ROI)" is better stated as the goal "to increase ROI to 15% within two years."
3. ***Goals should be realistic.*** Goals should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.

MARKETING **MEMO**

CHECKLIST FOR PERFORMING STRENGTHS/WEAKNESSES ANALYSIS

	Performance					Importance		
	Major Strength	**Minor Strength**	**Neutral**	**Minor Weakness**	**Major Weakness**	**High**	**Med**	**Low**
Marketing								
1. Company reputation								
2. Market share								
3. Customer satisfaction								
4. Customer retention								
5. Product quality								
6. Service quality								
7. Pricing effectiveness								
8. Distribution effectiveness								
9. Promotion effectiveness								
10. Sales force effectiveness								
11. Innovation effectiveness								
12. Geographical coverage								
Finance								
13. Cost or availability of capital								
14. Cash flow								
15. Financial stability								
Manufacturing								
16. Facilities								
17. Economies of scale								
18. Capacity								
19. Able, dedicated workforce								
20. Ability to produce on time								
21. Technical manufacturing skill								
Organization								
22. Visionary, capable leadership								
23. Dedicated employees								
24. Entrepreneurial orientation								
25. Flexible or responsive								

4. ***Objectives must be consistent.*** It's not possible to maximize sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus developing new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.[39]

Many believe that adopting the goal of strong market share growth may mean foregoing strong short-term profits. For years, Compaq priced aggressively in order to build its share in the computer market. Compaq later decided to pursue profitability at the expense of growth. Yet management experts Charan and Tichy believe that most businesses can be growth businesses *and* grow profitably.[40] They cite success stories such as GE Medical, Allied Signal, Citibank, and GE Capital, all enjoying profitable growth. Some so-called trade-offs may not be trade-offs at all.

Strategic Formulation

Goals indicate what a business unit wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a *marketing strategy* and a compatible *technology strategy* and *sourcing strategy.*

To understand the importance of staying focused in competitive marketing strategy and knowing exactly where to excel in terms of product and service differentiation, read about Singapore Airlines at www.pearsoned-asia.com/marketingmanagementasia.

PORTER'S GENERIC STRATEGIES Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.[41]

- ***Overall cost leadership.*** Firms pursuing this strategy work hard to achieve the lowest production and distribution costs so they can price lower than their competitors and win a large market share. They need less skill in marketing. The problem with this strategy is that other firms will usually compete with still-lower costs and hurt the firm that rested its whole future on cost.
- ***Differentiation.*** The business concentrates on uniquely achieving superior performance in an important customer benefit area valued by a large part of the market. Thus the firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality.
- ***Focus.*** The business focuses on one or more narrow market segments. The firm gets to know these segments intimately and pursues either cost leadership or differentiation within the target segment.

BELKIN CORPORATION

For most people, a surge protector is a necessary item you buy at a hardware store and hide behind your PC within a jumble of dust bunnies and cable cords. Yet, one company decided to focus not on the utilitarian aspect of the surge protector but on its aesthetic aspect. An example of both focus and differentiation, Belkin Corporation's surge protectors organize consumers' workspaces and protect their equipment. Its Concealed Surge Protector organizes cables and keeps them out of view with a unique closing cover. By differentiating itself from the average surge protector, which costs about $15.00, Belkin can charge $50.00.[42]

The online air travel industry provides a good example of these three strategies: Travelocity is pursuing a differentiation strategy by offering the most comprehensive range of services to the traveler. Lowestfare is pursuing a lowest-cost strategy; and Last Minute is pursuing a niche strategy in focusing on travelers who have the flexibility to travel on very short notice.

According to Porter, firms pursuing the same strategy directed to the same target market constitute a **strategic group**. The firm that carries out that strategy best will make the most profits. International Harvester went out of the farm equipment business because it did not stand out in its industry as lowest in cost, highest in perceived value, or best in serving some market segment.[43]

Porter draws a distinction between operational effectiveness and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Porter defines strategy as "the creation of a unique and valuable position involving a different set of activities." A company can claim that it has a strategy when it "performs different activities from rivals or performs similar activities in different ways."

STRATEGIC ALLIANCES Even giant companies—AT&T, IBM, Philips, and Nokia—often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet "domestic content" requirements. As a result, many firms are rapidly developing global strategic networks, and victory is going to those who build the better global network. The Star Alliance, for example, brings together 18 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, into a huge global partnership that allows travelers to make nearly seamless connections to hundreds of destinations.

Many strategic alliances take the form of marketing alliances. These fall into four major categories.

1. ***Product or service alliances***—One company licenses another to produce its product, or two companies jointly market their complementary products or a new product. The credit card industry is a complicated combination of cards jointly marketed by banks

such as Bank of America, credit card companies such as Visa, and affinity companies such as Alaska Airlines.

2. ***Promotional alliances***—One company agrees to carry a promotion for another company's product or service. McDonald's, for example, teamed up with Disney for 10 years to offer products related to current Disney films as part of its meals for children.
3. ***Logistics alliances***—One company offers logistical services for another company's product. For example, Abbott Laboratories warehouses and delivers 3M's medical and surgical products to hospitals across the United States.
4. ***Pricing collaborations***—One or more companies join in a special pricing collaboration. Hotel and rental car companies often offer mutual price discounts.

Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at less cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them, and many have come to view the ability to form and manage partnerships as core skills called **partner relationship management, PRM**.[44]

Both pharmaceutical and biotech companies are starting to make partnership a core competency. For example, Erbitux, a new drug to aid treatment of colorectal cancer, is the result of just such a partnership. The drug was originally discovered in biotech company ImClone Systems' clinical labs, and marketed via ImClone's partnership with pharmaceutical giant Bristol-Myers Squibb.[45]

Program Formulation and Implementation

Even a great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must plan programs to strengthen its R&D department, gather technological intelligence, develop leading-edge products, train the technical sales force, and develop ads to communicate its technological leadership.

Once they have formulated marketing programs, the marketing people must estimate their costs. Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC) can help determine whether each marketing program is likely to produce sufficient results to justify its cost.[46]

Today's businesses are also increasingly recognizing that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. For example, a company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. In setting these levels, a company must be careful not to violate any stakeholder group's sense of fairness about the treatment they're receiving relative to the others.[47]

A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfaction, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This is the virtuous circle that spells profits and growth. "Marketing Insight: Marketing's Contribution to Shareholder Value" highlights the increasing importance of the proper bottom-line view to marketing expenditures.

According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter "s"—in successful business practice.[48] The first three—strategy, structure, and systems—are considered the "hardware" of success. The next four—style, skills, staff, and shared values—are the "software."

The first "soft" element, *style,* means that company employees share a common way of thinking and behaving. McDonald's employees smile at the customer, and IBM employees are very professional in their customer dealings. The second element, *skills,* means employees have the skills needed to carry out the company's strategy. *Staffing* means the company has hired able people, trained them well, and assigned them to the right jobs. The fourth element, *shared values,* means employees share the same guiding values. When these elements are present, companies are usually more successful at strategy implementation.[49]

Another study of management practices found that superior performance over time depended on flawless execution, a company culture based on aiming high, a structure that is flexible and responsive, and a strategy that is clear and focused.[50]

MARKETING **INSIGHT** | **MARKETING'S CONTRIBUTION TO SHAREHOLDER VALUE**

Companies normally focus on profit maximization rather than on shareholder value maximization. The late Peter Doyle, in his *Value-Based Marketing,* charges that profit maximization leads to short-term planning and underinvestment in marketing, promoting a focus on building sales, market share, and current profits. It also leads to cost cutting and shedding assets to produce quick improvements in earnings and erodes a company's long-term competitiveness by eliminating investment in new market opportunities.

Companies normally measure their profit performance using ROI (return on investment, calculated by dividing profits by investment). This method presents two problems:

1. Profits are arbitrarily measured and subject to manipulation. Cash flow is more important. As someone observed: "Profits are a matter of opinion; cash is a fact."
2. Investment ignores the real value of the firm. More of a company's value resides in its intangible marketing assets—brands, market knowledge, customer relationships, and partner relationships—than in its balance sheet. These assets are the drivers of long-term profits.

Doyle argues that marketing will not mature as a profession until it can demonstrate the impact of marketing on shareholder value, the market value of a company minus its debt. The market value is the share price times the number of shares outstanding. The share price reflects what investors estimate is the present value of the future lifetime earnings of a company. When management is choosing a marketing strategy, Doyle wants it to apply shareholder value analysis (SVA) to see which alternative course of action will maximize shareholder value.

If we accept Doyle's arguments, instead of seeing marketing as a specific function concerned only with increasing sales or market share, senior management will see it as an integral part of the whole management process. It will judge marketing by how much it contributes to shareholder value.

Source: Based on Peter Doyle, *Value-Based Marketing: Marketing Strategies for Corporate Growth and Shareholder Value* (Chichester, England: John Wiley & Sons, 2000).

Feedback and Control

A company's strategic fit with the environment will inevitably erode, because the market environment changes faster than the company's seven Ss. Thus, a company might remain efficient while it loses effectiveness. Peter Drucker pointed out that it is more important to "do the right thing"—to be effective—than "to do things right"—to be efficient. The most successful companies excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Consider what happened to Lotus Development Corporation. Its Lotus 1-2-3 software was once the world's leading software program, and now its market share in desktop software has slipped so low that analysts do not even bother to track it.

Organizations, especially large ones, are subject to inertia. It's difficult to change one part without adjusting everything else. Yet organizations can be changed through strong leadership, preferably in advance of a crisis. The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors.

::: Product Planning: The Nature and Contents of a Marketing Plan

Working within the plans set by the levels above them, product managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. Each product level, whether product line or brand, must develop a marketing plan for achieving its goals. A **marketing plan** is a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.[51] It contains tactical guidelines for the marketing programs and financial allocations over the planning period.[52] It's one of the most important outputs of the marketing process.

Marketing plans are becoming more customer and competitor oriented, better reasoned, and more realistic than in the past. They draw more inputs from all the functions and are team developed. Planning is becoming a continuous process to respond to rapidly changing market conditions.

MARKETING **MEMO** | **MARKETING PLAN CRITERIA**

Here are some questions to ask in evaluating a marketing plan.

1. *Is the plan simple?* Is it easy to understand and act on? Does it communicate its content clearly and practically?
2. *Is the plan specific?* Are its objectives concrete and measurable? Does it include specific actions and activities, each with specific dates of completion, specific persons responsible, and specific budgets?
3. *Is the plan realistic?* Are the sales goals, expense budgets, and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections?
4. *Is the plan complete?* Does it include all the necessary elements? Does it have the right breadth and depth?

Source: Adapted from Tim Berry and Doug Wilson, *On Target: The Book on Marketing Plans* (Eugene, OR: Palo Alto Software, 2000).

Most marketing plans cover one year in 5 to 50 pages. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus. (See "Marketing Memo: Marketing Plan Criteria" for some guideline questions to ask in developing marketing plans.)

What, then, does a marketing plan look like? What does it contain?

- ***Executive summary and table of contents.*** The marketing plan should open with a brief summary for senior management of the main goals and recommendations. A table of contents outlines the rest of the plan and all the supporting rationale and operational detail.
- ***Situation analysis.*** This section presents relevant background data on sales, costs, the market, competitors, and the various forces in the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends? What is the product offering and what critical issues do we face? Firms will use all this information to carry out a SWOT (strengths, weaknesses, opportunities, threats) analysis.
- ***Marketing strategy.*** Here the product manager defines the mission, marketing and financial objectives, and groups and needs that the market offerings are intended to satisfy. The manager then establishes the product line's competitive positioning, which will inform the "game plan" to accomplish the plan's objectives. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources.
- ***Financial projections.*** Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side, the projections show the forecasted sales volume by month and product category. On the expense side, they show the expected costs of marketing, broken down into finer categories. The break-even analysis shows how many units the firm must sell monthly to offset its monthly fixed costs and average per-unit variable costs.
- ***Implementation controls.*** The last section of the marketing plan outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter, so management can review each period's results and take corrective action as needed. Firms must also take a number of different internal and external measures to assess progress and suggest possible modifications. Some organizations include contingency plans outlining the steps management would take in response to specific environmental developments, such as price wars or strikes.

Sample Marketing Plan: Pegasus Sports International*

www.mplans.com/spv/3407/index.cfm?affiliate=mplans

1.0 Executive Summary

Pegasus Sports International is a start-up aftermarket inline skating accessory manufacturer. In addition to the aftermarket products, Pegasus is developing SkateTours, a service that takes clients out, in conjunction with a local skate shop, and provides them with an afternoon of skating using inline skates and some of Pegasus' other accessories such as SkateSails. The aftermarket skate accessory market has been largely ignored. Although there are several major manufacturers of the skates themselves, the accessory market has not been addressed. This provides Pegasus with an extraordinary opportunity for market growth. Skating is a booming sport. Currently, most of the skating is recreational. There are, however, a growing number of skating competitions, including team-oriented competitions such as skate hockey as well as individual competitions such as speed skate racing. Pegasus will work to grow these markets and develop the skate transportation market, a more utilitarian use of skating. Several of Pegasus' currently developed products have patents pending, and local market research indicates that there is great demand for these products. Pegasus will achieve fast, significant market penetration through a solid business model, long-range planning, and a strong management team that is able to execute this exciting opportunity. The three principals on the management team have over 30 years of combined personal and industry experience. This extensive experience provides Pegasus with the empirical information as well as the passion to provide the skating market with much-needed aftermarket products. Pegasus will sell its products initially through its Web site. This "Dell" direct-to-the-consumer approach will allow Pegasus to achieve higher margins and maintain a close relationship with the customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus will have also developed relationships with different skate shops and will begin to sell some of its products through retailers.

2.0 Situation Analysis

Pegasus is entering its first year of operation. Its products have been well received, and marketing will be key to the development of brand and product awareness as well as the growth of the customer base. Pegasus International offers several different aftermarket skating accessories, serving the growing inline skating industry.

2.1 Market Summary

Pegasus possesses good information about the market and knows a great deal about the common attributes of the most prized customer. This information will be leveraged to better understand who is served, what their specific needs are, and how Pegasus can better communicate with them.

Target Markets

Recreational
Fitness
Speed
Hockey
Extreme

2.1.1 Market Demographics

The profile for the typical Pegasus customer consists of the following geographic, demographic, and behavior factors:

Geographics

- Pegasus has no set geographic target area. By leveraging the expansive reach of the Internet and multiple delivery services, Pegasus can serve both domestic and international customers.
- The total targeted population is 31 million users.

*Adapted from a sample plan provided by and copyrighted by Palo Alto Software, Inc. Find more complete sample marketing plans at www.mplans.com.

TABLE 2.1 Target Market Forecast

Target Market Forecast							
Potential Customers	**Growth**	**2007**	**2008**	**2009**	**2010**	**2011**	**CAGR***
Recreational	10%	19,142,500	21,056,750	23,162,425	25,478,668	28,026,535	10.00%
Fitness	15%	6,820,000	7,843,000	9,019,450	10,372,368	11,928,223	15.00%
Speed	10%	387,500	426,250	468,875	515,763	567,339	10.00%
Hockey	6%	2,480,000	2,628,800	2,786,528	2,953,720	3,130,943	6.00%
Extreme	4%	2,170,000	2,256,800	2,347,072	2,440,955	2,538,593	4.00%
Total	10.48%	31,000,000	34,211,600	37,784,350	41,761,474	46,191,633	10.48%

*Compound Annual Growth Rate

Demographics

- There is an almost equal ratio between male and female users.
- Ages 13–46, with 48% clustering around ages 23–34. The recreational users tend to cover the widest age range, including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late twenties and early thirties. The hockey players are generally in their teens through their early twenties. The extreme segment is of similar age to the hockey players.
- Of the users who are over 20, 65% have an undergraduate degree or substantial undergraduate coursework.
- The adult users have a median personal income of $47,000.

Behavior Factors

- Users enjoy fitness activities not as a means for a healthy life, but as an intrinsically enjoyable activity in itself.
- Users spend money on gear, typically sports equipment.
- Users have active lifestyles that include some sort of recreation at least two to three times a week.

2.1.2 Market Needs

Pegasus is providing the skating community with a wide range of accessories for all variations of skating. The company seeks to fulfill the following benefits that are important to its customers:

- ***Quality craftsmanship.*** The customers work hard for their money and do not enjoy spending it on disposable products that work for only a year or two.
- ***Well-thought-out designs.*** The skating market has not been addressed by well-thought-out products that serve skaters' needs. Pegasus' industry experience and personal dedication to the sport will provide it with the needed information to produce insightfully designed products.
- ***Customer service.*** Exemplary service is required to build a sustainable business that has a loyal customer base.

2.1.3 Market Trends

Pegasus will distinguish itself by marketing products not previously available to skaters. The emphasis in the past has been to sell skates and very few replacement parts. The number of skaters is not restricted to any one single country, continent, or age group, so there is a world market. Pegasus has products for virtually every group of skaters. The fastest-growing segment of this sport is the fitness skater. Therefore, the marketing is being directed toward this group. BladeBoots will enable users to enter establishments without having to remove their skates. BladeBoots will be aimed at the recreational skater, the largest segment. SkateAids, on the other hand, are great for everyone.

The sport of skating will also grow through SkateSailing. This sport is primarily for the medium-to-advanced skater, and its growth potential is tremendous. The sails that Pegasus has manufactured have been sold in Europe, following a pattern similar to windsurfing. Windsailing originated in Santa Monica but did not take off until it had already grown big in Europe.

Another trend is group skating. More and more groups are getting together on skating excursions in cities all over the world. For example, San Francisco has night group skating that attracts hundreds of people. The market trends are showing continued growth in all directions of skating.

2.1.4 Market Growth

With the price of skates going down due to competition by so many skate companies, the market has had steady growth throughout the world, although sales had slowed down in some markets. The growth statistics for 2007 were estimated to be over 35 million units. More and more people are discovering—and in many cases rediscovering—the health benefits and fun of skating.

2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Pegasus.

2.2.1 Strengths

- In-depth industry experience and insight
- Creative, yet practical product designers
- The use of a highly efficient, flexible business model utilizing direct customer sales and distribution

2.2.2 Weaknesses

- The reliance on outside capital necessary to grow the business
- A lack of retailers who can work face-to-face with the customer to generate brand and product awareness
- The difficulty of developing brand awareness as a start-up company

2.2.3 Opportunities

- Participation within a growing industry
- Decreased product costs through economy of scale
- The ability to leverage other industry participants' marketing efforts to help grow the general market

2.2.4 Threats

- Future/potential competition from an already established market participant
- A slump in the economy that could have a negative effect on people's spending of discretionary income on fitness/recreational products
- The release of a study that calls into question the safety of skating or the inability to prevent major skating-induced traumas

2.3 Competition

Pegasus Sports International is forming its own market. Although there are a few companies that do make sails and foils that a few skaters are using, Pegasus is the only brand that is truly designed for and by skaters. The few competitors' sails on the market are not designed for skating, but for windsurfing or for skateboards. In the case of foils, storage and carrying are not practical. There are different indirect competitors who are manufacturers of the actual skates. After many years in the market, these companies have yet to become direct competitors by manufacturing accessories for the skates that they make.

2.4 Product Offering

Pegasus Sports International now offers several products:

- The first product that has been developed is BladeBoots, a cover for the wheels and frame of inline skates, which allows skaters to enter places that normally would not allow them in with skates on. BladeBoots come with a small pouch and belt which converts to a well-designed skate carrier.
- The second product is SkateSails. These sails are specifically designed for use while skating. Feedback that Pegasus has received from skaters indicates skatesailing could become a very popular sport. Trademarking this product is currently in progress.
- The third product, SkateAid, will be in production by the end of the year. Other ideas for products are under development, but will not be disclosed until Pegasus can protect them through pending patent applications.

2.5 Keys to Success

The keys to success are designing and producing products that meet market demand. In addition, Pegasus must ensure total customer satisfaction. If these keys to success are achieved, it will become a profitable, sustainable company.

2.6 Critical Issues

As a start-up business, Pegasus is still in the early stages. The critical issues are for Pegasus to:

- Establish itself as the premier skating accessory company.
- Pursue controlled growth that dictates that payroll expenses will never exceed the revenue base. This will help protect against recessions.
- Constantly monitor customer satisfaction, ensuring that the growth strategy will never compromise service and satisfaction levels.

3.0 Marketing Strategy

The key to the marketing strategy is focusing on the speed, health and fitness, and recreational skaters. Pegasus can cover about 80% of the skating market because it produces products geared toward each segment. Pegasus is able to address all of the different segments within the market because, although each segment is distinct in terms of its users and equipment, its products are useful to all of the different segments.

3.1 Mission

Pegasus Sports International's mission is to provide the customer with the finest skating accessories available. "We exist to attract and maintain customers. With a strict adherence to this maxim, success will be ensured. Our services and products will exceed the expectations of the customers."

3.2 Marketing Objectives

- Maintain positive, strong growth each quarter (notwithstanding seasonal sales patterns).
- Achieve a steady increase in market penetration.
- Decrease customer acquisition costs by 1.5% per quarter.

3.3 Financial Objectives

- Increase the profit margin by 1% per quarter through efficiency and economy-of-scale gains.
- Maintain a significant research and development budget (as a percentage relative to sales) to spur future product developments.
- Achieve a double- to triple-digit growth rate for the first three years.

3.4 Target Markets

With a world skating market of over 31 million that is steadily growing (statistics released by the Sporting Goods Manufacturers Association), the niche has been created. Pegasus' aim is to expand this market by promoting SkateSailing, a new sport that is popular in both Santa Monica and Venice Beach in California. The Sporting Goods Manufacturers Association survey indicates that skating now has more participation than football, softball, skiing, and snowboarding combined. The breakdown of participation in skating is as follows: 1+% speed (growing), 8% hockey (declining), 7% extreme/aggressive (declining), 22% fitness (nearly 7 million—the fastest growing), and 61% recreational (first-timers). Pegasus' products are targeting the fitness and recreational groups, because they are the fastest growing. These groups are gearing themselves toward health and fitness, and combined, they can easily grow to 85% (or 26 million) of the market in the next five years.

3.5 Positioning

Pegasus will position itself as the premier aftermarket skating accessory company. This positioning will be achieved by leveraging Pegasus' competitive edge: industry experience and passion. Pegasus is a skating company formed by skaters for skaters. Its management is able to use its vast experience and personal passion for the sport to develop innovative, useful accessories for a broad range of skaters.

3.6 Strategies

The single objective is to position Pegasus as the premier skating accessory manufacturer, serving the domestic market as well as the international market. The marketing strategy will seek to first create customer awareness concerning the offered products and services and then develop the customer base. The message that Pegasus will seek to communicate is that it offers the best-designed, most useful skating accessories. This message will be communicated through a variety of methods. The first will be the Pegasus Web site, which will provide a rich source of product information and offer consumers the opportunity to purchase. A lot of time and money will be invested in the site to provide the customer with the perception of total professionalism and utility for Pegasus' products and services.

The second marketing method will be advertisements placed in numerous industry magazines. The skating industry is supported by several different glossy magazines designed to promote the industry as a whole. In addition, a number of smaller periodicals serve the smaller market segments within the skating industry. The last method of communication is the use of printed sales literature. The two previously mentioned marketing methods will create demand for the sales literature, which will be sent out to customers. The cost of the sales literature will be fairly minimal, because it will use the already-compiled information from the Web site.

3.7 Marketing Mix

Pegasus' marketing mix is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- ***Pricing.*** This will be based on a per-product retail price.
- ***Distribution.*** Initially, Pegasus will use a direct-to-consumer distribution model. Over time, it will use retailers as well.
- ***Advertising and promotion.*** Several different methods will be used for the advertising effort.
- ***Customer service.*** Pegasus will strive to achieve benchmarked levels of customer care.

3.8 Marketing Research

Pegasus is blessed with the good fortune of being located in the center of the skating world: Venice, California. It will be able to leverage this opportune location by working with many of the different skaters that live in the area. Pegasus was able to test all of its products not only with its principals, who are accomplished skaters, but also with the many other dedicated and "newbie" users located in Venice. The extensive product testing by a wide variety of users provided Pegasus with valuable product feedback and has led to several design improvements.

4.0 Financials

This section will offer the financial overview of Pegasus related to marketing activities. Pegasus will address break-even analysis, sales forecasts, expense forecast, and indicate how these activities link to the marketing strategy.

4.1 Break-Even Analysis

The break-even analysis indicates that $7,760 will be required in monthly sales revenue to reach the break-even point.

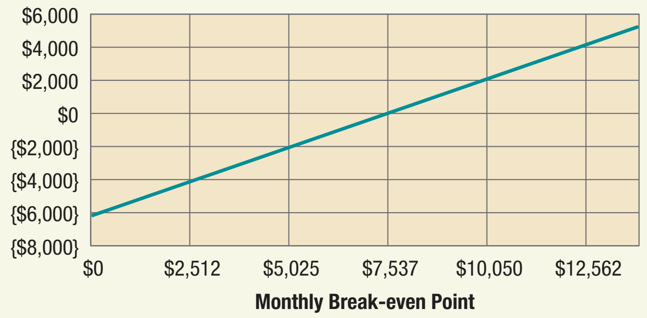


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TABLE 4.1 Break-Even Analysis

Break-even Analysis:	
Monthly Units Break-even	62
Monthly Sales Break-even	$ 7,760
Assumptions:	
Average Per-Unit Revenue	$125.62
Average Per-Unit Variable Cost	$ 22.61
Estimated Monthly Fixed Cost	$ 6,363

4.2 Sales Forecast

Pegasus feels that the sales forecast figures are conservative. It will steadily increase sales as the advertising budget allows. Although the target market forecast (Table 2.1) listed all of the potential customers divided into separate groups, the sales forecast groups customers into two categories: recreational and competitive. Reducing the number of categories allows the reader to quickly discern information, making the chart more functional.

Monthly Sales Forecast

TABLE 4.2 Sales Forecast

	Sales Forecast		
Sales	**2007**	**2008**	**2009**
Recreational	$455,740	$598,877	$687,765
Competitive	$ 72,918	$ 95,820	$110,042
Total Sales	$528,658	$694,697	$797,807
Direct Cost of Sales	**2007**	**2008**	**2009**
Recreational	$ 82,033	$107,798	$123,798
Competitive	$ 13,125	$ 17,248	$ 19,808
Subtotal Cost of Sales	$ 95,158	$125,046	$143,606

4.3 Expense Forecast

The expense forecast will be used as a tool to keep the department on target and provide indicators when corrections/modifications are needed for the proper implementation of the marketing plan.

Milestones

TABLE 5.1 Milestones

			Plan		
Milestones	**Start Date**	**End Date**	**Budget**	**Manager**	**Department**
Marketing plan completion	1/1/07	2/1/07	$ 0	Stan	Marketing
Web site completion	1/1/07	3/15/07	$20,400	outside firm	Marketing
Advertising campaign #1	1/1/07	6/30/07	$ 3,500	Stan	Marketing
Advertising campaign #2	3/1/07	12/30/07	$ 4,550	Stan	Marketing
Development of the retail channel	1/1/07	11/30/07	$ 0	Stan	Marketing
Totals			$28,450		

Monthly Expense Budget

TABLE 4.3 Marketing Expense Budget

Marketing Expense Budget	2007	2008	2009
Web site	$ 25,000	$ 8,000	$ 10,000
Advertisements	$ 8,050	$ 15,000	$ 20,000
Printed Material	$ 1,725	$ 2,000	$ 3,000
Total Sales and Marketing Expenses	$ 34,775	$ 25,000	$ 33,000
Percent of Sales	6.58%	3.60%	4.14%
Contribution Margin	$398,725	$544,652	$621,202
Contribution Margin/Sales	75.42%	78.40%	77.86%

5.0 Controls

The purpose of Pegasus' marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual
- Expenses: monthly and annual
- Customer satisfaction
- New-product development

5.1 Implementation

The following milestones identify the key marketing programs. It is important to accomplish each one on time and on budget.

5.2 Marketing Organization

Stan Blade will be responsible for the marketing activities.

5.3 Contingency Planning

Difficulties and Risks

- Problems generating visibility, a function of being an Internet-based start-up organization
- An entry into the market by an already-established market competitor

Worst-Case Risks

- Determining that the business cannot support itself on an ongoing basis
- Having to liquidate equipment or intellectual capital to cover liabilities

SUMMARY :::

1. The value delivery process involves choosing (or identifying), providing (or delivering), and communicating superior value. The value chain is a tool for identifying key activities that create value and costs in a specific business.
2. Strong companies develop superior capabilities in managing core business processes such as new-product realization, inventory management, and customer acquisition and retention. Managing these core processes effectively means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete—marketing networks do.
3. According to one view, holistic marketing maximizes value exploration by understanding the relationships between the customer's cognitive space, the company's competence space, and the collaborator's resource space; maximizes value creation by identifying new customer benefits from the customer's cognitive space, utilizing core competencies from its business domain, and selecting and managing business partners from its collaborative networks; and maximizes value delivery by becoming proficient at customer relationship management, internal resource management, and business partnership management.
4. Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product.
5. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy entails four activities: defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each SBU based on its market attractiveness and business strength, and planning new businesses and downsizing older businesses.
6. Strategic planning for individual businesses entails the following activities: defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programs, implementing the programs, and gathering feedback and exercising control.
7. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

APPLICATIONS :::

Marketing Debate What Good Is a Mission Statement?

Virtually all firms have mission statements to help guide and inspire employees as well as signal what is important to the firm to those outside the firm. Mission statements are often the product of much deliberation and discussion. At the same time, some critics claim that mission statements sometimes lack "teeth" and specificity. Moreover, critics also maintain that, in many cases, mission statements do not vary much from firm to firm and make the same empty promises.

Take a position: Mission statements are critical to a successful marketing organization *versus* Mission statements rarely provide useful marketing value.

Marketing Discussion

Consider Porter's value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?