HP, led by President and CEO Meg Whitman, is revising its corporate strategy to reflect significant changes in the marketing environment.

Source: ChinaFotoPress via Getty Images

In This Chapter, We Will Address the Following **Questions**

1. How does marketing affect customer value? (p. 57)
2. How is strategic planning carried out at the corporate and divisional levels? (p. 60)
3. How is strategic planning carried out at the business unit level? (p. 70)
4. What does a marketing plan include? (p. 77)

2 Developing Marketing Strategies and Plans

Developing the right marketing strategies over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategies is crucial—but challenging—as HP has been finding out.[1]

A true technology pioneer, Hewlett-Packard (HP) has encountered much difficulty in recent years, culminating in a massive quarterly charge of more than $9.5 billion in 2012, its biggest ever. Of that total, $8 billion was a write-down in the value of its IT services unit as the result of a disastrous acquisition of EDS. Revenue for the unit dropped when customers stopped signing large, long-term outsourcing contracts that were at the core of the unit's business model. A feud with Oracle, among other factors, hurt HP's sales of large servers to business customers. In a maturing market with few good new products, PC sales slowed so much that HP announced it was exiting the business. Printer and ink sales dropped as consumers began to print less. New CEO Meg Whitman vowed to increase the company's emphasis on design, reorganizing the PC group to come up with a cleaner, minimalist sensibility. Admitting that the company did not yet have a strategy for mobile phones, Whitman acknowledged there was much work to be done.

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

The task of any business is to deliver customer value at a profit. A company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value to increasingly well-informed buyers.

THE VALUE DELIVERY PROCESS

The traditional—but dated—view of marketing is that the firm makes something and then sells it, with marketing taking place during the selling process. Companies that take this view succeed only in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets.

In economies with many different types of people, each with individual 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.

We can divide the value creation and delivery sequence into three phases.[2] First, *choosing the value* is the "homework" marketers must do before any product exists. They must segment the market, select the appropriate target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing. The second phase is *providing the value.* Marketing must identify specific product features, prices, and distribution. The task in the third phase is *communicating the value* by utilizing the Internet, advertising, sales force, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch. Each phase has cost implications.

THE VALUE CHAIN

Harvard's Michael Porter has proposed the **value chain** as a tool for identifying ways to create more customer value.[3] According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. Nine strategically relevant activities—five primary and four support activities—create value and cost in a specific business.

The *primary activities* are (1) inbound logistics, or bringing materials into the business; (2) operations, or converting materials into final products; (3) outbound logistics, or shipping out final products; (4) marketing, which includes sales; and (5) service. Specialized departments handle the *support activities*—(1) procurement, (2) technology development, (3) human resource management, and (4) firm infrastructure. (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, *benchmarking* against competitors, and look for ways to improve. Managers can identify the "best of class" practices of the world's best companies by consulting customers, suppliers, distributors, financial analysts, trade associations, and the media to see who seems to be doing the best job. Even the best companies can benchmark, against other industries if necessary, to improve their performance. GE has benchmarked against P&G as well as developing its own best practices.[4]

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*.[5] These processes include:

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

Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.[6] Ford established a cross-functional team to help reduce water usage per vehicle by 30 percent.[7] AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams; cross-functional teams operate in nonprofit and government organizations as well.[8]

A firm also needs to look for competitive advantages beyond its own operations in 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

Companies today outsource less-critical resources if they can obtain better quality or lower cost. The key is to own and nurture the resources and competencies that make up the *essence* of the business. Many textile, chemical, and computer/electronic product firms use offshore manufacturers and focus on product design and development and marketing, their core competencies. A **core competency** has three characteristics: (1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits; (2) It has applications in a wide variety of markets; and (3) It is difficult for competitors to imitate.

Competitive advantage also accompanies *distinctive capabilities* or excellence in broader business processes. Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.[9] In terms of market sensing, Day believes tremendous opportunities and threats often begin as "weak signals" from the "periphery" of a business.[10] He suggests systematically developing peripheral vision by asking three questions related to learning from the past, evaluating the present, and envisioning the future.

Businesses may need to realign themselves to maximize core competencies. Realignment has three steps: (1) (re)defining the business concept or "big idea"; (2) (re)shaping the business scope, sometimes geographically; and (3) (re)positioning the company's brand identity. Peabody Energy implemented a new global organizational structure—creating geographic business units in the Americas, Australia, and Asia—to reflect its growing global footprint.[11] Changes in business fortunes often necessitate realignment and restructuring, as Panasonic and other Japanese technology and electronic companies found.[12]

Source: Alberto Cristofari/A3/contrasto/Redux

Panasonic has encountered some marketplace challenges in recent years, forcing it to make changes in what businesses it is in and how they are run.

PANASONIC As Panasonic approaches its 100th anniversary in 2018, it faces unprecedented difficulties, notably a massive loss of roughly $19 billion over 2011 and 2012. For years, its "Ideas for Life" positioning had fueled innovation, generating successful products like its rugged Toughbook notebook computers. Its television sets and other home electronics ran into trouble, however, when the economy stalled just as consumers began to treat flat-screen LCD televisions as a commodity. Further, a strong yen and high manufacturing costs in Japan made it difficult for Panasonic to compete on price. Anti-Japanese sentiment from a territorial dispute proved a stumbling block in China. Finally, the acquisition of Sanyo in 2009, designed to help the company sell more green-energy products, was disappointing. A major restructuring by new president Kazuhiro Tsuga in fall 2012 scaled back manufacturing in Japan, abandoned the mobile phone market overseas, and cut back investment in solar panels and rechargeable batteries. Tsuga emphasized that Panasonic will streamline business units and emphasize profit, not just revenue growth.

THE CENTRAL ROLE OF STRATEGIC PLANNING

Only a select group of companies have historically stood out as master marketers (see Table 2.1). These companies focus on the customer and are organized to respond effectively to changing needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king. They also often have strong marketing leadership in the form of a successful CMO (see "Marketing Memo: What Does It Take to Be a Successful CMO?").

To ensure they execute the right activities, marketers must prioritize strategic planning in three key areas: (1) managing the businesses as an investment portfolio, (2) assessing the market's growth rate and the company's position in that market, and (3) establishing a strategy. The company must develop a game plan for achieving each business's long-run objectives.

Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product. 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) develops a marketing plan for achieving its objectives.

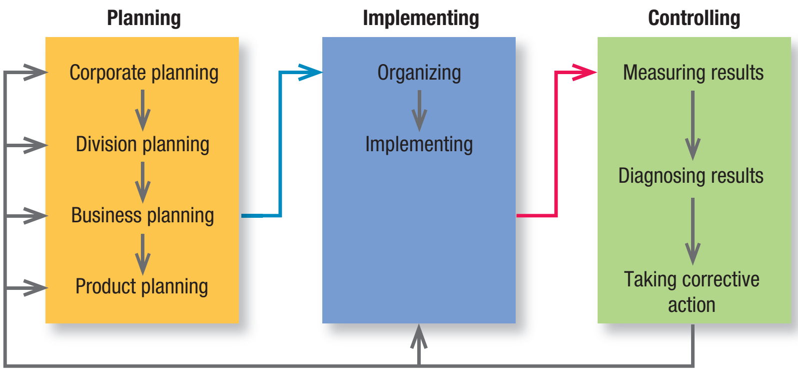
The **marketing plan** is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The **strategic marketing plan** lays out the target markets and the firm's value proposition, based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service. The complete planning, implementation, and control cycle of strategic planning is shown in Figure 2.1. Next, we consider planning at each of the four levels of the organization.

TABLE 2.1 Some Examples of Master Marketers

Amazon.com	Enterprise Rent-A-Car	Red Bull
Apple	Google	Ritz-Carlton
Bang & Olufsen	Harley-Davidson	Samsung
Best Buy	Honda	Southwest Airlines
BMW	IKEA	Starbucks
Caterpillar	LEGO	Target
Club Med	McDonald's	Tesco
Costco	Nike	Toyota
Disney	Nordstrom	Virgin
eBay	Procter & Gamble	Walmart
Electrolux	Progressive Insurance	Whole Foods

| **Fig. 2.1** |

The Strategic Planning, Implementation, and Control Processes



Corporate and Division Strategic Planning

Whether they let their business units set their own goals and strategies or collaborate in doing so, all corporate headquarters undertake four planning activities:

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

We'll briefly look at each process.

marketing memo

What Does it Take to Be a Successful CMO?

The challenge chief marketing officers (CMOs) face is that success factors are many and varied. CMOs must have strong quantitative *and* qualitative skills; they must have an independent, entrepreneurial attitude but work closely with other departments; and they must capture the "voice" of consumers yet have a keen bottom-line understanding of how marketing creates value. Two-thirds of top CMOs think return-on-marketing-investment (ROMI) will be the primary measure of their effectiveness in 2015.

One survey asking 200 senior-level marketing executives which innate and learned qualities were most important yielded these answers:

Innate Qualities	Learned Qualities
• Risk taker	• Global experience
• Willingness to make decisions	• Multichannel expertise
• Problem-solving ability	• Cross-industry experience
• Change agent	• Digital focus
• Results-oriented	• Operational knowledge

Marketing experts George Day and Robert Malcolm believe three driving forces will change the role of the CMO in the coming years: (1) predictable marketplace trends, (2) the changing role of the C-suite, and (3) uncertainty about the economy and organizational design. They identify five priorities for any successful CMO:

1. Act as the visionary for the future of the company.
2. Build adaptive marketing capabilities.
3. Win the war for marketing talent.
4. Tighten the alignment with sales.
5. Take accountability for returns on marketing spending.

Perhaps the most important role for any CMO is to infuse a customer perspective in business decisions affecting any customer *touch point* (where a customer directly or indirectly interacts with the company). Increasingly, these customer insights must have a global focus. As one top executive search firm leader said, "Tomorrow's CMO will have to have global and international experience. You can do it without living abroad . . . but you have to get exposure to those markets. It opens your eyes to new ways of doing business, increases cultural sensitivity and increases flexibility."

Sources: Jennifer Rooney, "CMO Tenure Hits 43-Month Mark," *Forbes*, June 14, 2012; Steven Cook, "It's Time to Raise the CMO Bar," www.cmo.com, January 24, 2012; "From Stretched to Strengthened: Insights from the Global Chief Marketing Officer Study," *IBM CMO C-Suite Studies*, October 2011; Natalie Zmuda, "Global Experience Rises as Prerequisite to Getting Ahead," *Advertising Age*, June 10, 2012; George S. Day and Robert Malcolm, "The CMO and the Future of Marketing," *Marketing Management*, Spring 2012, pp. 34–43; Marc De Swann Arons and Frank Van Den Driest, *The Global Brand CEO: Building the Ultimate Marketing Machine* (New York: Airstream, 2011); Marylee Sachs, *The Changing MO of the CMO: How the Convergence of Brand and Reputation Is Affecting Marketers* (Surry, England: Gower, 2011); Marylee Sachs, *What the New Breed of CMOs Know That You Don't* (Surry, England: Gower, 2013).

DEFINING THE CORPORATE MISSION

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

To define its mission, a company should address Peter Drucker's classic questions:[13] 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 face. Successful companies continuously ask and answer them.

BUSINESS DEFINITION Companies often define themselves in terms of products: They are in the "auto business" or the "clothing business." *Market definitions* of a business, however, describe the business as a customer-satisfying process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need. Consider how Steelcase takes a market definition approach to its business.[14]

Steelcase has found much success by redefining its business as more broadly than office furniture.

Source: ©Steelcase 2014

STEELCASE The world's best-selling maker of office furniture, Steelcase describes itself as "the global leader in furnishing the work experience in office environments." Defining its business broadly, former CEO James Hackett believes, "enabled a lot of the great insights that we had found out about work to be transferred beyond the office (and into furnishing home offices, schools and health care facilities)." Steelcase uses a 23-person research team to gain those insights and conducts interviews and surveys, films office activities, and uses sensors to measure how workers use rooms and furnishings. Firms are ordering fewer cubicles and filing cabinets, for instance, and more benches, tables, and café seating to free employees to brainstorm and collaborate. Hackett defines the trend as the move from an "I/Fixed" to a "We/Mobile" mentality. Increased performance is the company's key goal. If it feels it will make workers happier and more productive, Steelcase can convince a firm to modernize and upgrade its office furniture.

Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 2.2 lists companies that have moved from a product to a market definition of their business.

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 carbonated soft drinks, and competitors would therefore be other carbonated soft drink companies. A *strategic market definition,* however, also focuses on the potential market. If Pepsi considered everyone who might drink something to quench his or her thirst, its competition would include noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee.

TABLE 2.2 Product-Oriented versus Market-Oriented Definitions of a Business

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

CRAFTING A MSSION STATEMENT A clear, thoughtful **mission statement**, developed collaboratively with and shared with managers, employees, and often customers, provides a shared sense of purpose, direction, and opportunity. At its best it reflects a vision, an almost "impossible dream," that provides direction 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.

Good mission statements have five major characteristics.

1. ***They focus on a limited number of goals.*** Compare a vague mission statement such as "To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition" to Google's ambitious but more focused mission statement, "To organize the world's information and make it universally accessible and useful."
2. ***They stress the company's major policies and values.*** Narrowing the range of individual discretion lets employees act consistently on important issues.
3. ***They define the major competitive spheres within which the company will operate.*** Table 2.3 summarizes some key competitive dimensions for mission statements.
4. ***They take a long-term view.*** Management should change the mission only when it ceases to be relevant.
5. ***They are as short, memorable, and meaningful as possible.*** Marketing consultant Guy Kawasaki advocates developing three- to four-word corporate mantras—like "Enriching Women's Lives" for Mary Kay—rather than mission statements.[15]

TABLE 2.3 Defining Competitive Territory and Boundaries in Mission Statements

• **Industry.** *Some companies 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.* • Caterpillar focuses on the industrial market; John Deere operates in the industrial and consumer markets.
• **Products and applications.** *Firms define the range of products and applications they will supply.* • St. Jude Medical's mission is "develop medical technology and services that put more control into the hands of those who treat cardiac, neurological and chronic pain patients, worldwide. We do this because we are dedicated to advancing the practice of medicine by reducing risk wherever possible and contributing to successful outcomes for every patient."
• **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. American Apparel dyes, designs, sews, markets, and distributes its line of clothing apparel out of a single building in downtown Los Angeles.[16] • At the other extreme are "hollow corporations," which outsource the production of nearly all goods and services to suppliers. Metro newspaper is published in 56 editions in 22 countries on four continents and is read by more than 17 million people every day. It employs few reporters and owns no printing presses; instead it purchases its articles from other news sources and outsources all its printing and much of its distribution to third parties.[17]
• **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 state. Others are multinationals like Deutsche Post DHL and Royal Dutch/Shell, which each operate in more than 100 countries.

Source: © Horizons WWP/Alamy

Metro outsources much of its production and operations for the different newspapers which it publishes in markets around the world.

ESTABLISHING STRATEGIC BUSINESS UNITS

Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric 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 its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomorrow's winners." Liz Claiborne has put more emphasis on some of its younger businesses such as Juicy Couture, Lucky Brand Jeans, Mexx, and Kate Spade while selling businesses without the same buzz (Ellen Tracy, Sigrid Olsen, and Laundry).

ASSIGNING RESOURCES TO EACH SBU[18]

Once it has defined SBUs, management must decide how to allocate corporate resources to each. The GE/McKinsey Matrix classified each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management could decide to grow, "harvest" or draw cash from, or hold on to the business. BCG's Growth-Share Matrix used relative market share and annual rate of market growth as criteria for investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars.

Portfolio-planning models like these have largely fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis and on whether the market value of a company is greater with an SBU or without it. These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

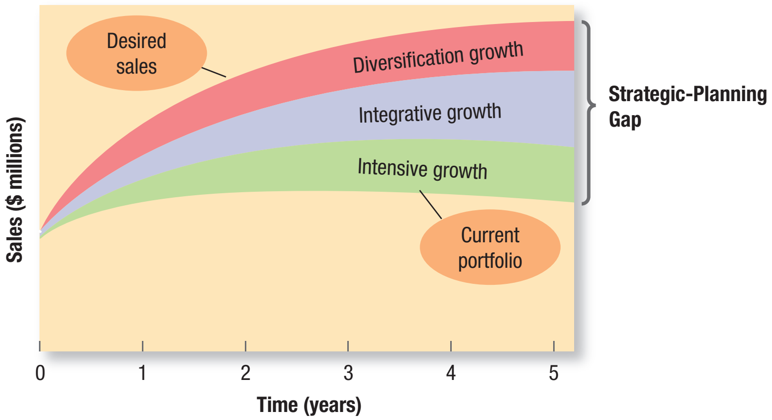
ASSESSING GROWTH OPPORTUNITIES

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 2.2 illustrates this strategic-planning gap for a hypothetical manufacturer of blank DVD discs called Cineview. The lowest curve projects expected sales from the current business portfolio over the next

| Fig. 2.2 |

The Strategic-Planning Gap



five years. The highest 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 for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to current businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities).

INTENSIVE GROWTH Corporate management should first review opportunities for improving existing businesses. One useful framework is a "product-market expansion grid," which considers the strategic growth opportunities for a firm in terms of current and new products and markets.

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 for 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*. Consider how ESPN has pursued a variety of growth opportunities (see Figure 2.3).[19]

Source: © Patti McConville/Alamy

Liz Claiborne has put more emphasis on its Juicy Couture stores than its other slower-growing lines of business.

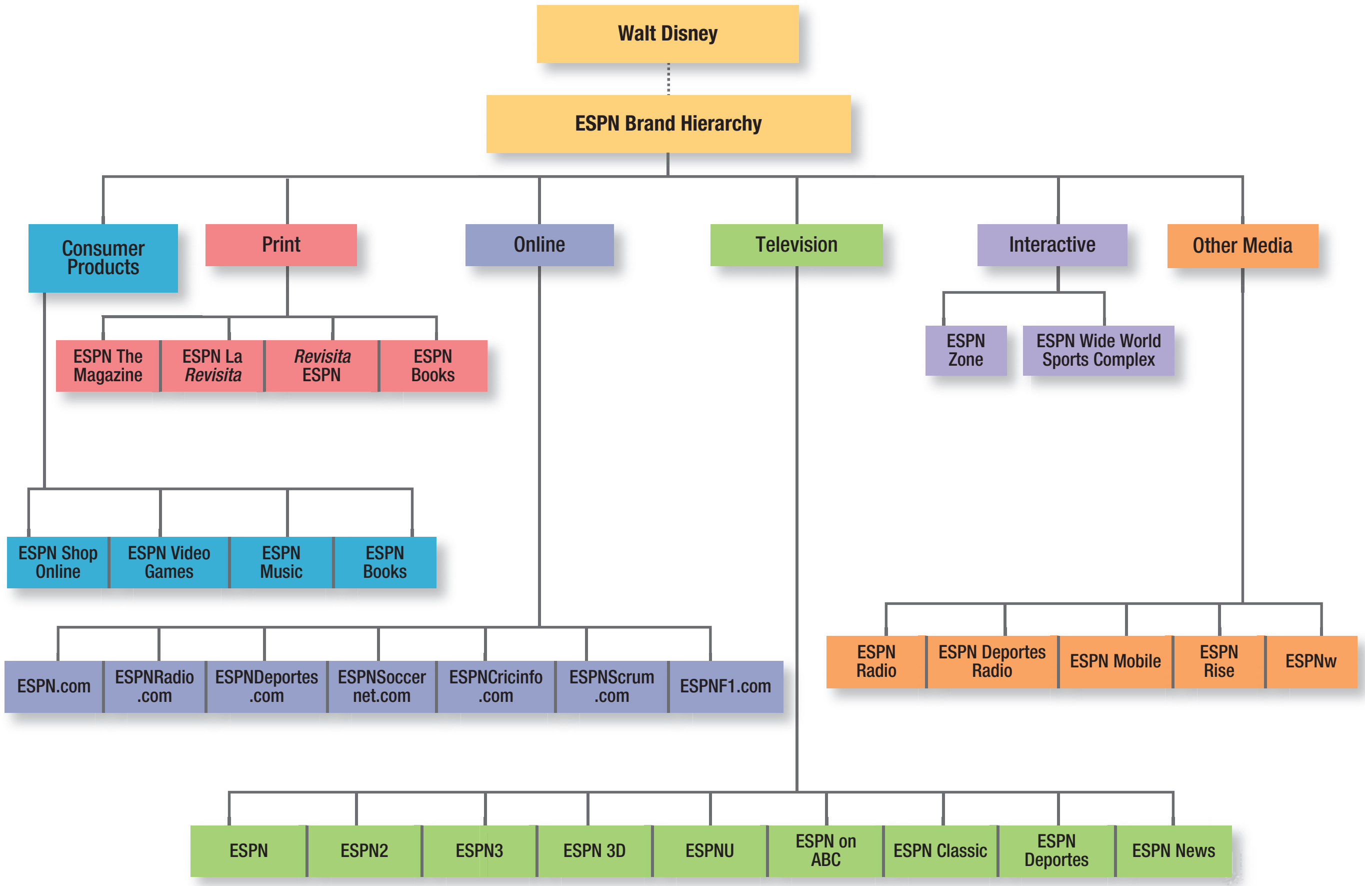
ESPN Through its singular focus on sports programming and news, ESPN grew from a small regional broadcaster into the biggest name in sports. In the early 1990s, the company crafted a well-thought-out plan: Wherever sports fans watched, read, and discussed sports, ESPN would be there. It pursued this strategy by expanding its brand and now encompasses 10 cable channels, a Web site, a magazine, a few restaurants (ESPN Zone), more than 600 local radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service. ESPN International partly or wholly owns 47 television networks outside the United States and a variety of additional businesses that reach sports fans in more than 200 countries and territories across all seven continents. Now owned by The Walt Disney Company, ESPN contributes $9.4 billion a year in revenue, or roughly three-fourths of Disney's total cable network revenues. But perhaps the greatest tribute to the power of its brand came from one male focus group respondent who said, "If ESPN was a woman, I'd marry her."

So how might Cineview 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 DVD discs for data storage in addition to video storage. It could try to attract competitors' customers if it noticed major weaknesses in their products or marketing programs. Finally, Cineview could try to convince nonusers to start using blank DVD discs.

How can Cineview use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If it has been selling DVD discs only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels by adding mass merchandising or online channels. Third, the company might sell in new locations in its home country or abroad.

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

These intensive growth strategies offer several ways to grow. Still, that growth may not be enough, and management must also look for integrative growth opportunities.



| Fig. 2.3 |

ESPN Growth Opportunities

INTEGRATIVE GROWTH A business can increase sales and profits through backward, forward, or horizontal integration within its industry. Merck formed joint ventures as far back as 1989 with Johnson & Johnson to sell over-the-counter pharmaceuticals and 1991 with DuPont to expand basic research. In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck acquired Schering-Plough in 2009.[20]

Horizontal mergers and alliances don't always work out. The merger between Sears and Kmart didn't solve either retailer's problems.[21] Nextel Communications Inc. merged with Sprint in 2005 in what Bloomberg's financial analysts called one the worst mergers of the past 10 years, in part due to their incompatible networks.[22] Consider the challenges faced by United and Continental in their merger.[23]

UNITED AND CONTINENTAL Airline mergers are notoriously tricky, laden with regulations and a host of potentially conflicting considerations about safety, cost, style, reliability, convenience, speed, and comfort. United's merger with Continental made sense strategically and financially, but logistical problems seemed endless because the two airlines ran their businesses in very different ways, from boarding procedures to the way they brought planes into the gate. Even coffee was a thorny issue; United served Starbucks while Continental used a company called Fresh Brew. After extensive research, a suitable compromise was identified—a lighter fresh blend called Journeys—but customers were unimpressed until the company discovered the two airlines had different brew baskets and United's was actually leaking water and diluting the coffee. New pillow packs were commissioned to solve the problem.

Source: ESPN, Inc.

ESPN's flagship *SportsCenter* program is an anchor of its television network and related sports businesses.

Media companies, on the other hand, have long reaped the benefits of integrative growth. Consider how NBC Universal leveraged one of its properties:[24]

> Following the 2006 *Curious George* movie release via Universal Pictures, *Curious George* the TV show was released on PBS Kids as a joint production by Universal Studios Family Productions, Imagine Entertainment and WGBH Boston. Universal Studios Hollywood currently has an *Adventures of Curious George* ride where kids can "soak up the thrills of a five hundred gallon water dump and unleash thousands of flying foam balls. . . ."

How might Cineview 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, Cineview might acquire one or more competitors, provided 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.

Source: Associated Press

United and Continental found it harder to merge their airlines than just blending their logos on their planes.

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 succeed. From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences.

Several types of diversification are possible for Cineview. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though appealing to a different group of customers. It might start a compact disc manufacturing operation because it knows how to manufacture DVD discs or a flash drive manufacturing operation because it knows digital storage. Second, it might use a horizontal strategy and produce plastic DVD cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses with no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider making application software or personal organizers.

DOWNSIZING AND DIVESTING OLDER BUSINESSES Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs. To focus on its travel and credit card operations, American Express spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial). American International Group (AIG) agreed to sell two of its subunits—American General Indemnity Co. and American General Property Insurance Co.—to White Mountains Insurance Group as part of a long-term growth strategy to discard redundant assets and focus on its core operations.[25]

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 (though 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**? Some define it as "the shared experiences, stories, beliefs, and norms that characterize an organization." 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. Enterprise Rent-A-Car features its own employees in its latest "The Enterprise Way" ad campaign. Through its "Making It Right" training program,

Enterprise Rent-A-Car is known for its strong consumer-centric corporate culture.

Source: Getty Images

Enterprise empowers all employees to make their own decisions. One ad in the campaign, themed "Fix Any Problem," reinforces how any local Enterprise outlet has the authority to take actions to maximize customer satisfaction.[26]

MARKETING INNOVATION

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

British-based Reckitt Benckiser has been an innovator in the staid household cleaning products industry by generating 35 percent of sales from products under three years old.[27] Its multinational staff is encouraged to dig deep into consumer habits and is well rewarded for excellent performance. Slovenia-based Krka—makers of prescription pharmaceuticals, non-prescription products and animal health products—aims to generate more than 40 percent of its total sales from new products.[28] "Marketing Insight: Creating Innovative Marketing" describes how some leading companies approach innovation.

Firms develop strategy by choosing their view of the future. The Royal Dutch/Shell Group has pioneered **scenario analysis**, which develops plausible representations of a firm's possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, "What will we do if it happens?," adopt one scenario as the most probable, and watch for signposts that might confirm or disconfirm it.[29] Consider the strategic challenges faced by the movie industry.[30]

marketing insight

Creating Innovative Marketing

When IBM surveyed top CEOs and government leaders about their priorities, 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 and externally with companies, governments, and educational institutions. Then-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 (P&G) has made it a goal for 50 percent of new products to come from outside its labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house. Mark Benioff, CEO and co-founder of Salesforce.com, believes the key to innovation is the ability to adapt. While the company spent years relying on disruptive ideas to come from within, it acquired two firms for $1 billion because it "couldn't afford to wait" and has purchased 24 firms in total. As Benioff notes, "Innovation is a continuum. You have to think about how the world is evolving and transforming. Are you part of the continuum?"

Business guru Jim Collins's 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." Collins cites Walt Disney in theme parks and Walmart in retailing as examples of companies that were successful by executing a big idea brilliantly over a long period of time.

To find breakthrough ideas, some companies 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 mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House.

Companies like Facebook and Google kickstart the creative problem-solving process by using the phrase, "How might we?" Tim Brown, CEO of IDEO, says IDEO asks "how might we" with each design challenge. "The 'How' part assumes there are solutions out there—it provides creative confidence," Brown said. "The 'Might' part says we can put ideas out there that might work or might not—either way, it's OK. And the 'We' part says we're going to do it together and build on each other's ideas."

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; Victoria Barret, "Why Salesforce.com Ranks #1 on Forbes Most Innovative List," *Forbes*, September 2012; Warren Berger, "The Secret Phrase Top Innovators Use," *HBR Blog Network*, September 17, 2012.

Source: Handout/MCT/Newscom

Film studios are finding new ways to expand their movie franchises, as with Warner Bros. and *Batman*.

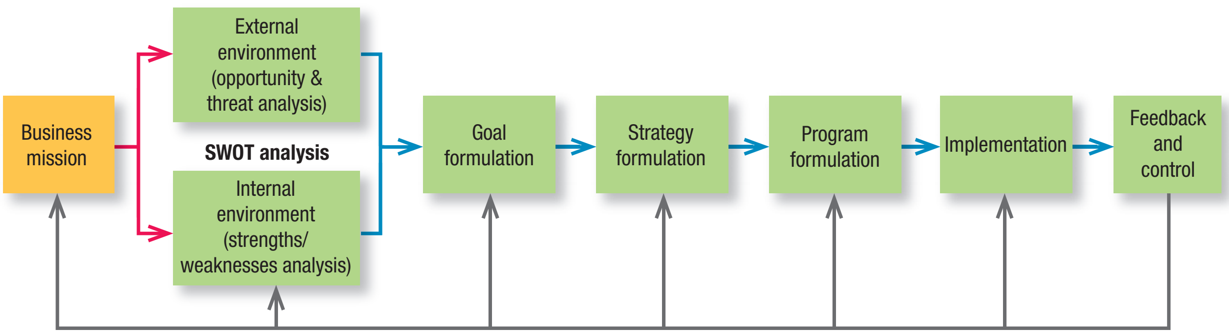
MOVIE INDUSTRY Netflix and the Internet started a decline in DVD sales that began in 2007 and has not stopped. The emergence of Redbox kiosks renting movies for $1 a day added yet another threat to the movie business and DVD sales. Film studios clearly need to prepare for the day when films are primarily sold not through physical distribution but through satellite and cable companies' video-on-demand services. Although studios make 70 percent on a typical $4.99 cable viewing versus 30 percent on the sale of a DVD, sales of DVDs still generate 70 percent of a film's profits. To increase electronic distribution without destroying their DVD business, studios are experimenting with new approaches. Some, such as Warner Bros., are releasing a DVD at the same time as online and cable versions of a movie. Disney cross-promotes its parent-friendly films at its theme parks, on its TV channels, and in its stores. Warner has entered the video game business (such as with *Dark Knight Batman*) in hopes of generating additional revenue on its movie characters. Warner Interactive typically spends $30 million to $40 million to make its games and generated close to $1 billion in sales in 2011. Film studios are considering all possible scenarios as they rethink their business model in a world where the DVD is no longer king.

Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in Figure 2.4. We examine each step in the sections that follow.

| Fig. 2.4 |

The Business Unit Strategic-Planning Process



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 target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice this mission does not mention winning business from smaller television studios, offering the lowest price, or venturing into non-lighting 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.

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. It 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.[31] 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.[32] The first is to offer 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. How? 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 them to chart their steps in acquiring, using, and disposing of a product. This last method can often lead to a totally new product or service, which is the third main source of market opportunities.

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

- ***A company may benefit from converging industry trends and introduce hybrid products or services new to the market.*** Cell phone manufacturers have released phones with digital photo and video capabilities, Global Positioning Systems (GPS), and so on.
- ***A company may make a buying process more convenient or efficient.*** Mobil introduced Speed Pass, one of the first widely deployed RFID (radio-frequency identification) payment systems, to allow consumers to quickly and easily pay for gas at the pump.
- ***A company can meet the need for more information and advice.*** Angie's List connects individuals with local home improvement and other services that have been reviewed by others.
- ***A company can customize a product or service.*** Timberland allows customers to choose colors for different parts of their boots, add initials or numbers, and select different stitching and embroidery.
- ***A company can introduce a new capability.*** Consumers can create and edit digital "iMovies" with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world.
- ***A company may be able to deliver a product or service faster.*** FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Postal Service.
- ***A company may be able to offer a product at a much lower price.*** Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less.

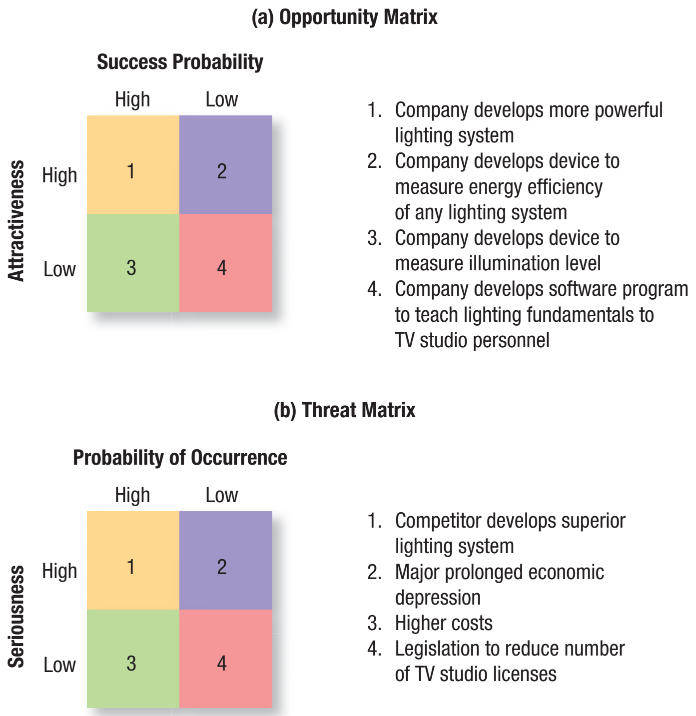
To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to ask questions like:

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

In the opportunity matrix in Figure 2.5(a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.

| Fig. 2.5 |

Opportunity and Threat Matrices



An **environmental threat** is a challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. Figure 2.5(b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are 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 likely or 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. Consider Loan Bright.[33]

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 Home Mortgage, Bank of America Mortgage, and Chase Home Mortgage. 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 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.

A SWOT-like analysis was instrumental in the development of the corporate strategy that drove Dell to years of success.

- Dell's *strength* was selling more effectively and efficiently directly to consumers than IBM and Compaq, its hardware competitors at the time.
- Dell's *weakness*, however, was that its brand was not as strong and it lacked a well-entrenched channel infrastructure and solid dealer relationships.

- Dell's *opportunity* was that the consumer market was becoming more sophisticated and customers increasingly knew exactly what they wanted.
- Dell's *threat* was that it would fail to generate a big enough customer base in the face of strong competitors and demanding channel partners.

With consumers desiring purchasing convenience and flexibility, however, the Internet offered a powerful direct marketing and selling option. Dell's business strategy combined direct sales, Internet marketing, mass customization, and just-in-time manufacturing to capitalize on the market opportunity it was offered.

Businesses can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Evaluating 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 it 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.

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Checklist for Evaluating 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	____	____	____	____	____	____	____	____

GOAL FORMULATION

Once the company has performed a SWOT analysis, it can proceed to **goal formulation**, developing specific goals for the planning period. 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 most to least important.*** 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 percent 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.
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 development of new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.[34]

Many believe adopting the goal of strong market share growth may mean foregoing strong short-term profits. Volkswagen has 15 times the annual revenue of Porsche—but Porsche's profit margins are seven times bigger than Volkswagen's. Other successful companies such as Google, Microsoft, and Samsung have maximized profitability *and* growth.

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*.

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.[35]

- ***Overall cost leadership.*** Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share. They need less skill in marketing. The problem 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 achieving superior performance in an important customer benefit area valued by a large part of the market. 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, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.

The online air travel industry has provided a good example of these three strategies: Travelocity has pursued a differentiation strategy by offering the most comprehensive range of services to the traveler; Lowestfare has pursued a lowest-cost strategy for the leisure travel market; and Last Minute has pursued a niche strategy by focusing on travelers who have the flexibility to travel on very short notice. Some companies use a hybrid approach.

According to Porter, competing firms directing the same strategy to the same target market constitute a **strategic group**.[36] The firm that carries out the strategy best will make the most profits. Circuit City went out of business because it did not stand out in the consumer electronics industry as lowest in cost, highest in perceived value, or best in serving some market segment.

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. Strategy, on the other hand, is "the creation of a unique and valuable position involving a different set of activities." A company can claim 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, Philips, and Starbucks—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. Many firms have developed global strategic networks, and victory is going to those who build the better one. The Star Alliance brings together 27 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, in a huge global partnership that allows travelers in 193 countries to make nearly seamless connections to hundreds of destinations.[37]

Many strategic partnerships 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. In 2011, VIBE urban music and lifestyle magazine announced a promotional alliance with Hoop It Up, the world's largest participatory 3-on-3 basketball tournament program, with competitions in 35 cities. The multi-platform partnership included VIBE digital, VIBE Cityguide App, editorial coverage and promotion in VIBE, and a highly integrated social media campaign with a strong VIBE branded presence at all Hoop It Up live events nationwide.[38]
3. ***Logistics alliances***—One company offers logistical services for another company's product. Warner Music Group and Sub Pop Records created the Alternative Distribution Alliance (ADA) in 1993 as a joint venture to distribute and manufacture records owned by independent labels. ADA is the leading "indie" distribution company in the United States for both physical and digital product.
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 lower 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)**.

After years of growth through acquisition and buying interests in two dozen companies, the world's biggest wireless telecom operator, Vodafone, has looked outside for partners to help it leverage its existing assets.[39]

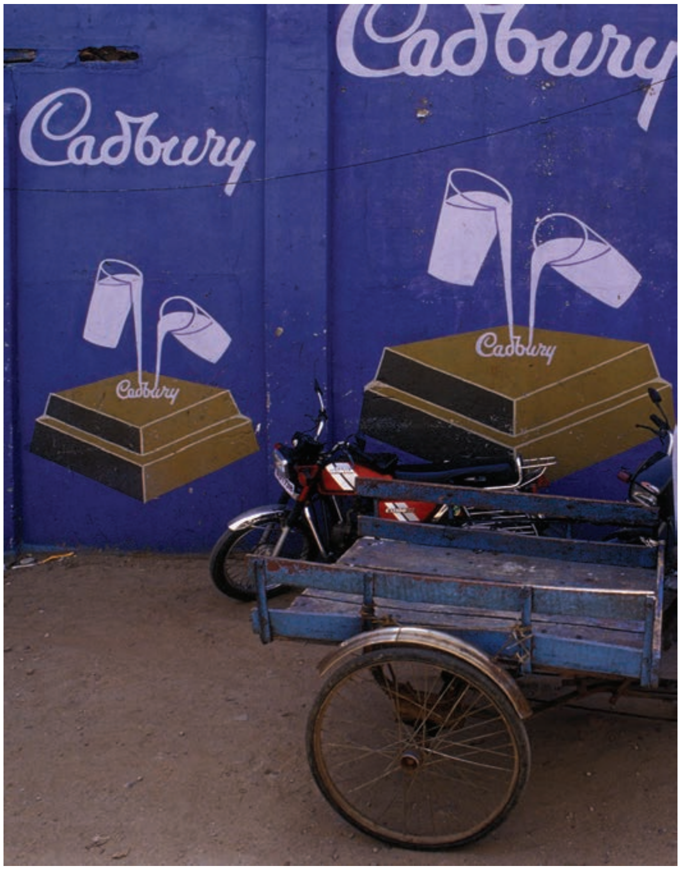
VODAFONE To spur more innovation and growth, London-based Vodafone has embraced open source software and open platforms that allow it to tap into the creativity and skills of others. With its Web portal called Betavine, amateur or professional software developers can create and test their latest mobile applications on any network, not just Vodafone's. While these developers retain intellectual property rights, Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. Some of the new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 404 million customers in 30 countries, the £46 billion company hasn't had trouble finding help from interested corporate partners either. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone's networks.

Rather than just form a partnership, a firm may choose to just acquire another firm. Kraft acquired Cadbury in 2010, in part due to Cadbury's deep roots in emerging markets like India where Kraft did not have a strong presence. The acquisition also permitted Kraft to do a restructuring and divide its businesses into two companies: one focused on grocery products, the other on snack foods.[40]

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 strengthen its R&D department, gather technological intelligence, develop leading-edge products, train its technical sales force, and communicate its technological leadership.

Once they have formulated marketing programs, marketers must estimate their costs. Is participating in a particular trade show worth it? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC)—described in greater detail in Chapter 5— can help determine whether each marketing program is likely to produce sufficient results to justify its cost.[41]



Source: © Andrew Hasson/Alamy

Kraft acquired Cadbury in part because of its knowledge of and presence in emerging markets.

Today's businesses recognize that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. A company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. It must not violate any stakeholder group's sense of fairness about the treatment it is receiving relative to the others.[42]

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 virtuous circle spells profits and growth.

According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter *s*—in successful business practice.[43] 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 company employees share a common way of thinking and behaving. The second, *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.[44]

marketing insight

Businesses Charting a New Direction

Continued prosperity or even survival may depend on how quickly and effectively a firm is able to chart a new direction. Consider these examples.

- With consumers increasingly using smart phones for directions and maps, Garmin, the biggest maker of GPS devices, found sales declining rapidly. Its solution was to concentrate on partnering with automakers to embed GPS systems in dashboard "command centers." Its selling points are that most smart phones are not optimized for use when driving and are thus dangerous to use behind the wheel. Hedging its bets, Garmin also has its own app available for smart phones.
- When Dow Chemical found its commodity chemical strategy was no longer profitable, new CEO Andrew Livirie decided to shift the company's focus to unique, innovative high-margin products like solar shingles. Dow's intent was to capitalize on four main trends: clean energy, health and nutrition, consumerism in the emerging world, and infrastructure. R&D investments in those four areas totaled $9 billion over a five-year period.
- The runaway success of Amazon's Kindle, Apple's iPad, and other tablet products have turned the book world upside down. Bookstores, libraries, and publishers are all recognizing that the sale and delivery of a book are now just a download away. Libraries are lending e-readers in addition to "stocking" e-books for lending. When the due date arrives, the book just disappears!
- The textbook market is being transformed by new entries such as Flat World Knowledge offering customizable, discount texts. Free e-textbooks at some schools allow users to scroll page by page, highlight and annotate, and share comments with classmates and instructors. Some students buy a new or used paper version of the e-textbook anyway. As one notes, "When I'm using the e-textbook, there's the temptation to check e-mail, check my grades, or check Facebook."

Sources: Erik Rhey, "A GPS Maker Shifts Gears," *Fortune*, March 19, 2012; Geoff Colvin, "Dow's New Direction," *Fortune*, March 19, 2012; Ben Bradford, "Libraries Grapple with the Downside of E-books," www.npr.org, May 29, 2012; Sharon Tregaskis, "Buy the Book," *Cornell Alumni Magazine*, November–December 2012; "Great Digital Expectations," *The Economist*, September 10, 2011.

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 yet lose 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, however, excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. 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. "Marketing Insight: Businesses Charting a New Direction" describes how some different companies and industries are adjusting to the new marketing realities that have changed their fortunes.

The Nature and Contents of a Marketing Plan

Working within the plans set by the levels above them, marketing managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. 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.[45] It contains tactical guidelines for the marketing programs and financial allocations over the planning period.[46]

A marketing plan is one of the most important outputs of the marketing process. It provides direction and focus for a brand, product, or company. It informs and motivates key constituents inside and outside an organization about its marketing goals and how these can be achieved. Nonprofit organizations use marketing plans to guide their fund-raising and outreach efforts, and government agencies use them to build public awareness of nutrition and stimulate tourism.

More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

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 questions to ask in developing marketing plans.)

marketing memo

Marketing Plan Criteria

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

1. *Is the plan simple and succinct?* Is it easy to understand and act on? Does it communicate its content clearly and practically? Is it not unnecessarily long?
2. *Is the plan complete?* Does it include all the necessary elements? Does it have the right breadth and depth? Achieving the right balance between completeness and lots of detail and simplicity and clear focus is often the key to a well-constructed marketing plan.
3. *Is the plan specific?* Are its objectives concrete and measurable? Does it provide a clear course of action? Does it include specific activities, each with specific dates of completion, specific persons responsible, and specific budgets?
4. *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?

Sources: Adapted from Tim Berry and Doug Wilson, *On Target: The Book on Marketing Plans*, 2nd ed. (Eugene, OR: Palo Alto Software, 2000); Alexander Chernev, *The Marketing Plan Handbook* (Chicago, IL: Cerebellum Press, 2011); authors' experiences.

Most marketing plans cover one year in anywhere from 5 to 50 pages. Smaller businesses may create shorter or less formal marketing plans; corporations generally require highly structured documents. Every part of the plan must be described in considerable detail. Some companies post their marketing plan on an internal Web site so everyone can consult it and collaborate on changes. A marketing plan usually contains the following sections.

- ***Executive summary and table of contents.***
- ***Situation analysis.*** This section presents relevant background data on sales, costs, the market, competitors, and the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis.
- ***Marketing strategy.*** Here the marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources.
- ***Marketing tactics.*** Here the marketing manager outlines the marketing activities that will be undertaken to execute the marketing strategy.
  - The product or service offering section describes the key attributes and benefits that will appeal to target customers.
  - The pricing section specifies the general price range and how it might vary across different types of customers or channels, including any incentive or discount plans.
  - The channel section outlines the different forms of distribution, such as direct or indirect.
  - The communications section usually offers high-level guidance about the general message and media strategy. Firms will often develop a separate communication plan to provide the detail necessary for agencies and other media partners to effectively design the communication program.
- ***Financial projections.*** Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs.

  A more complex method of estimating profit is **risk analysis**. Here we obtain three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities.
- ***Implementation controls.*** The last section 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.

THE ROLE OF RESEARCH

Marketers need up-to-date information about the environment, the competition, and the selected market segments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and identify areas for improvement.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how the findings will be applied.

THE ROLE OF RELATIONSHIPS

Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects both internal and external relationships. First, it influences how marketing staff work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large.

FROM MARKETING PLAN TO MARKETING ACTION

Marketers start planning well in advance of the implementation date to allow time for marketing research, analysis, management review, and coordination between departments. As each action program begins, they monitor ongoing results, investigate any deviation from plans, and take corrective steps as needed. Some prepare contingency plans; marketers must be ready to update and adapt marketing plans at any time.

The marketing plan typically outlines budgets, schedules, and marketing metrics for monitoring and evaluating results. With budgets, marketers can compare planned and actual expenditures for a given period. Schedules show when tasks were supposed to be completed and when they actually were. Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward toward its objectives, as we'll discuss in Chapter 4.

Summary

1. The value delivery process includes 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. In today's marketing environment, 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. 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 they yield target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product.
4. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy means defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each, and assessing growth opportunities.
5. Marketers should define a business or business unit as a customer-satisfying process. Taking this view can reveal additional growth opportunities.
6. Strategic planning for individual businesses includes 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.

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Applications

Marketing Debate

What Good Is a Mission Statement?

Mission statements are often the product of much deliberation and discussion. At the same time, critics claim they sometimes lack "teeth" and specificity or 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

Marketing Planning

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?

Marketing Excellence

>> Electrolux

AB Electrolux, popularly known as Electrolux, is a global leader in home and professional appliances, including refrigerators, cookers, dishwashers, washing machines, vacuum cleaners, air conditioners, and small domestic appliances. It sells more than 50 million products in 150 countries. Headquartered in Stockholm, Sweden, Electrolux was founded in 1919, as a result of a merger between AB Lux, and Svenska Electron AB. In 2013, Electrolux had revenues of approximately $14.5 billion and employed 61,000 people worldwide.

The Electrolux group consists of six business divisions, including four major appliances divisions, a small appliances division, and a professional products division. The core markets for Electrolux are Western Europe, North America, and Australia, New Zealand and Japan accounting for 65 percent of group sales. These markets are characterized by low population growth and high replacement product sales. The growth markets for Electrolux are Africa, Middle East and Eastern Europe, Latin America, and Southeast Asia and China contributing 35 percent to its sales. Given the rising living standards in the growth markets, Electrolux aims to increase its share of sales in these markets to 50 percent by introducing innovative product offerings in the next two years.

In 2013, Electrolux was among the top five global players in the household appliances industry, along with Whirlpool, the Haier Group, Bosch-Siemens, and LG Electronics. These companies contributed to nearly 50 percent of the global appliances sales. The major drivers of this industry are increased per capita income, changing lifestyles, consumer spending, housing activities, and urbanization. Economic growth in emerging markets is expected to boost the industry. The main competitive advantages of Electrolux are global presence, consumer insight, design, professional legacy, Scandinavian heritage, wide product range, people and culture, and sustainability leadership.

The vision of the Electrolux Group is to become the best appliance company in the world as measured by its customers, employees, and shareholders. It bases its strategy on four pillars: innovative products, operational excellence, profitable growth, and dedicated employees. Its brand portfolio is strategically planned to serve luxury, premium, and mass markets. Alongside the Electrolux brand, the group has seven other strategic brands, namely Grand Cuisine, AEG, Zanussi, Eureka, Frigidaire, Molteni, and Westinghouse.

The "innovation triangle" at Electrolux encourages close cooperation between its marketing, R&D, and design functions to ensure faster reach to the market based on solid consumer insights. This enables Electrolux to use "same product architecture, differentiated design" to develop global modularized platforms. These platforms facilitate planning across divisions by making it easier to spread a successful launch from one market to another with adaptations to local preferences, and deliver greater customer value.

By maintaining strategic emphasis on increasing operational efficiency, Electrolux has restructured its production across divisions globally. Electrolux has shifted nearly 65 percent of its manufacturing from mainly Western Europe and North America to low-cost regions.

Pursuing its strategy of profitable growth, Electrolux continuously innovates to enhance its current products and ranges to penetrate existing markets. In 2013, it launched many innovative products in North America and Japan. Expanding to growth markets, Electrolux tapped the potential of the Chinese market by launching a full range of kitchen and laundry appliances of more than 60 products designed exclusively for China.

An important aspect of Electrolux's strategy is to grow through mergers and acquisitions, and build brand portfolio through horizontal integration. In the last 40 years, the group has had a series of acquisitions around the world that strengthened its global position through effective targeting and brand positioning in domestic and regional markets. Examples of such acquisitions include Zanussi in Europe; AEG in Germany; Frigidaire, Kelvinator, and White Westinghouse in North America; Refripar in Brazil; and the Olympic Group in Middle East and North Africa.

In September 2014, Electrolux unveiled its agreement to acquire the appliance business of General Electric, GE Appliances, for a cash consideration of $3.3 billion. GE Appliances is one of the leading manufacturers of kitchen and laundry products in North America, and makes more than 90 percent of its sales in this region and runs its own distribution and logistics network. The acquisition also included a 48.4 percent shareholding in the Mexican appliance company Mabe that develops and manufactures a portion of the GE Appliances product range as part of a joint venture with GE. According to Keith McLaughlin, President and CEO of Electrolux, the acquisition was expected to give the company more financial horsepower on its balance sheet to do even more business around the world.

With a growing portfolio of smartly positioned brands, global reach, innovations based on consumer insight, operational excellence and manufacturing efficiency, and increased financial power, Electrolux is all set to establish greater dominance in the global home appliances industry.

Questions

1. Evaluate Electrolux's strategy in light of its vision and the global trends in the household appliance industry.
2. What benefits will Electrolux receive from the acquisition of GE Appliances? How does it fit in with the strategic direction of the group? What other strategic options can Electrolux pursue for future growth to achieve greater global dominance?

Sources: *Electrolux Group Annual Report 2013*, www.electrolux.com; "History," "Strategy," and "Markets," www.electrolux.com; Katarina Gustafsson, *"Electrolux CEO Hints at More Deals After GE Appliances Purchase," Bloomberg*, September 8, 2014.

Marketing Excellence

>> Emirates

Emirates is an airline company with a mission to provide high-quality commercial air transportation services. The company's global strategy aims at efficient competition, exceeding far beyond the limits of the Arabian Gulf and Middle Eastern markets. In 1985, the Dubai government, cognisant of the country's limited oil resources, launched the flag carrier as an alternative means to economic growth in the United Arab Emirates (UAE).

In the very beginning, the airline served 60 destinations in 42 countries across Europe, Middle East, Africa, Asia, and Australia. To keep up with the aggressive competition, Emirates emphasized product, equipment, and excellent service, and promoted a quality image. To do so, a multinational crew was recruited and a state-of-the-art fleet was purchased.

Within two decades, Emirates expanded its destinations and had remarkable financial returns. In 2014, it served 142 destinations in 80 countries from its hub in Dubai. It carried 44.5 million passengers, 5.1 million more than in 2012–13, and 2.3 million tons of airfreight, up by 8 percent, which contributed to the 26th consecutive year of profitable operations. The company has witnessed a steady growth over time since its inception – it carried 26 million passengers and served 101 destinations in 2010; these figures were 14.5 million and 83 in 2005. Emirates operates four of the 10 longest, non-stop commercial flights in the world from Dubai to Los Angeles, San Francisco, Dallas, and Houston. It employs over 52,000 people from 162 different countries. Emirates has also been the world's most valuable airline brand for the third consecutive year, with a value of $5.5 billion. It was awarded the prestigious Airline of the Year Award numerous times by Air Transport World, in addition to more than 400 other distinguished industry sector awards.

The company has a fleet aged 72 months (as of 2013), young in comparison to that of the industry, which is 140 months old. Good terms with Airbus and Boeing favored huge acquisitions of long-haul airplanes. These massive purchases have made Emirates the largest Airbus (A380) and Boeing (777) aircraft operator in the world, reflecting the global aspirations of the company.

Emirates is looked upon as an innovative organization in terms of technology due to its acquisition of the groundbreaking storage infrastructure in the Middle East. Additionally, the company is a major shareholder in luxury five-star hotels. Its performance is attributed to its customer-oriented approach revolving around the provision of a quality product: exclusive grade-A manufactured Boeing and Airbus aircrafts, premium flight services, and traveling at a competitive price. To cost-effectively carry out cargo and ground handling, catering services, information technology, and other travel amenities, Dnata supports Emirates' global ambitions. It is considered one of the largest and most competitive air service providers worldwide.

In terms of corporate positioning, Emirates is not looked upon as an Arab airline operating internationally but rather as a global company based out of the Middle East. This global positioning of the company has spawned aversion from competitors that considered Emirates as a serious threat in the market. These competitors are struggling to compete with Emirates, particularly due to its significant cost advantage. Some of these competitors unequivocally accused Emirates of benefiting from obscured UAE subsidies and exemptions on airport and aviation service charges. They also alleged that Emirates takes advantage of the UAE's sovereign borrowing status to secure loans below market rates.

Despite its many strengths, the airline company is not without faults. In its disregard for growing regional competition, Emirates overlooks very obvious flaws in its market strategy. For instance, Etihad Airways, an arm of the Abu Dhabi government, is offering products that appeal to travelers seeking premium services at competitive prices. Gulf Air, which is partly owned by the Abu Dhabi government, has also taken advantage of the open skies policy to gain free access to the Dubai airport. Emirates has also been massively acquiring aircrafts and inflating the size of its fleets. While this represents vast investments, the implications are far-reaching. To be able to have long-term advantages, the company should become a shareholder in the Airbus or Boeing companies. The airline endures cost pressure as fuel costs represent leading expenditures accounting for 30.7 percent (2013) of the overall operating costs. The company's human resources are already lean and it is cost effective on other cost components. For how long can Emirates hold on to its cost-cutting strategy without paying attention to competitors?

Questions

1. How has Emirates been able to build a strong brand in the competitive airline industry worldwide?
2. What are some of the apparent weaknesses with the company's strategic direction? How can the airline address them?
3. With the decline of fuel prices globally, airline companies continue to reap the benefits. What impact will this have on Emirates' business strategy in the future?

Sources: *Emirates Group Annual Report 2013–2014*; John F. O'Connell,"An Examination of the World's Most Profitable Airline in 2009/10: the Emirates business model," John F O'Connell and George Williams, eds., Air Transport in the 21st Century: Key Strategic Developments (UK: Ashgate, 2012), p. 421; Justin Bachman, "Emirates Flies Into America, and U.S. Airlines Grow Anxious," *BusinessWeek*, October 2, 2014; Kenneth Rapoza, "Why UAE And Qatar Have The 'World's Best' Airlines," *Forbes*, April 1, 2014; Scott McCartney, "Emirates, Etihad and Qatar Make Their Move on the U.S.," *Wall Street Journal*, November 6, 2014; Andrew Parker and Simeon Kerr, "Emirates: In a sweet spot," *Financial Times*, December 8, 2013; "Emirates increases competition with Etihad and Qatar as it adds Chicago to its US network," Centre for Aviation (CAPA), March 5, 2014; Jad Mouawad, "Emirates' Ambitions Worry European Rivals," *New York Times*, February 12, 2011, p. BU1; Also see Timothy Clark's, President and CEO of Emirates, speech to the International Aviation Club, September 13, 2012.

Sample Marketing Plan Pegasus Sports International

1.0 Executive Summary

Pegasus Sports International is a start-up aftermarket inline skating accessory manufacturer. Inline skates have four or five wheels arranged in a single line and are often called Rollerblades by the general public after one of the early pioneers in the category. 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's 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.

Pegasus has outlined a go-to-market marketing program that combines highly relevant products and services with an evolving direct-to-consumer distribution strategy to tap into customer passions and loyalty.

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.

Demographics

- There is an almost equal ratio between male and female users.
- Ages 13–46, with 48 percent clustering around ages 23–34. The recreational users tend to cover the widest age range,

TABLE 2.4 Target Market Forecast

Target Market Forecast							
Potential Customers	**Growth**	**2015**	**2016**	**2017**	**2018**	**2019**	**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

including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late 20s and early 30s. The hockey players are generally in their teens through their early 20s. The extreme segment is of similar age to the hockey players.

- Of the users who are over 20, 65 percent 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 intrinsically enjoyable activities in themselves.
- 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's 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 (Table 2.4). 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 have slowed down in some markets. The growth statistics for 2015 were estimated to be about 31 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 economies 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 continued 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 that 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 percent 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 percent per quarter.

3.3 Financial Objectives

- Increase the profit margin by 1 percent 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 projected world skating market of 31 million that is steadily growing (statistics released by the Sporting Goods Manufacturers Association), the niche has been created. Pegasus's 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 breakdown of participation in skating is as follows: 1+ percent speed (growing), 8 percent hockey (declining), 7 percent extreme/aggressive (declining), 22 percent fitness (nearly 7 million—the fastest growing), and 61 percent recreational (first-timers). Pegasus's 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 percent (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's 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.

4.0 Marketing Tactics

The single objective of the marketing program is to position Pegasus as the premier skating accessory manufacturer, serving the domestic market as well as the international market. The marketing program will seek to first create customer awareness concerning the offered products and services and then develop the customer base. Specifically, Pegasus's marketing program is composed of the following approaches to product, pricing, distribution, and communications.

4.1 Product

Several of Pegasus's 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 more than 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.

4.2 Pricing

This will be based on a per-product retail price. Because of the advantages of selling directly, higher margins can be achieved with premium pricing that will still appeal to customer segments.

4.3 Distribution

Pegasus will sell its products initially through its Web site. In addition to allowing for higher margins, this direct-to-the-consumer approach will allow Pegasus to maintain a close relationship with customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus also will have developed relationships with different skate shops and will begin to sell some of its products through retailers.

4.4 Communications

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's 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.

4.5 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 who 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.

TABLE 2.5 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

5.0 Financials

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

5.1 Break-Even Analysis

The break-even analysis (Table 2.5) indicates that $7,760 will be required in monthly sales revenue to reach the break-even point.

5.2 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 2.4) listed all of the potential customers divided into separate groups, the sales forecast (Table 2.6) 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.

TABLE 2.6 Monthly Sales Forecast

Sales	**2015**	**2016**	**2017**
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	**2015**	**2016**	**2017**
Recreational	$ 82,033	$107,798	$123,798
Competitive	$ 13,125	$ 17,248	$ 19,808
Subtotal Cost of Sales	$ 95,158	$125,046	$143,606

5.3 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.

TABLE 2.7 Milestones

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

TABLE 2.8 Marketing Expense Budget

	2015	**2016**	**2017**
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%

6.0 Controls

The purpose of Pegasus's 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

6.1 Implementation

The milestones identify the key marketing programs (Table 2.7). It is important to accomplish each one on time and on budget (Table 2.8).

6.2 Marketing Organization

Stan Blade will be responsible for the marketing activities.

6.3 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

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