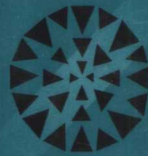


ANNOTATED INSTRUCTOR'S EDITION

S E V E N T H E D I T I O N

STRATEGIC MARKETING PROBLEMS

CASES AND COMMENTS

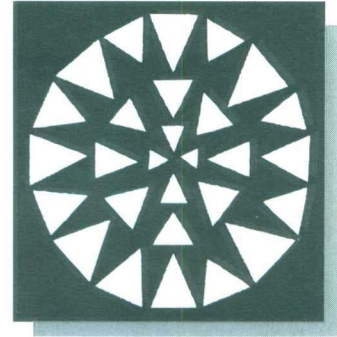


ROGER A. KERIN

ROBERT A. PETERSON

ANNOTATED INSTRUCTOR'S EDITION

STRATEGIC MARKETING PROBLEMS



Cases and Comments

SEVENTH EDITION

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Preface to the Annotated Instructor's Edition



The case method of teaching requires a heavy investment of instructor energy, and precourse planning and preclass preparation often consume countless hours. The choice of case materials and their sequencing and the selection of examination or student group presentation cases represent two major course planning activities. Preparing individual cases for class discussion or student presentation, including acquiring intimate knowledge of case facts and issues and appropriate qualitative, quantitative, and financial analyses, requires almost daily attention while a case course is being taught. Comprehensive case teaching notes assist case teachers in course and case preparation, and each edition of *Strategic Marketing Problems: Cases and Comments* has provided this supplement to instructors. Nevertheless, as cases in marketing continue to become richer in issues and numerical work assumes greater importance in resolving marketing problems, instructors have requested that a bridge be built between the text and the *Instructor's Manual*. This bridge is the *Annotated Instructor's Edition* for the seventh edition of *Strategic Marketing Problems: Cases and Comments*.

The *Annotated Instructor's Edition* (AIE) was prepared with the dedicated case teacher in mind and is particularly relevant for this edition for three reasons:

1. Sixty percent of the cases in this edition are new, updated, or revised. The AIE was designed to ease the task of preparing and teaching these new, updated, or revised cases.
2. Ninety percent of the cases require quantitative or financial analysis of some kind. The AIE alerts instructors to relevant figures in the text and links this information to text and exhibits in the *Instructor's Manual*.
3. Text material and cases have been even further integrated. The AIE makes it possible for instructors to direct students to specific concepts and tools in the text to the case being discussed.

The next few pages describe the various types of annotations and offers suggestions for course planning and case preparation. In addition, some thoughts on student case grading are offered. Finally, a brief description of the ancillary package for *Strategic Marketing Problems: Cases and Comments*, 7th edition, is provided.

The Annotations

The annotations, printed in the text margins in 38 cases¹, appear only in the *Annotated*

¹There are no annotations for seven cases from the Harvard Business School, the University of Western Ontario, and INSTEAD. These cases are Nestlé Italy; American Airlines, Inc.: Proposal for a Three-Class Transcon Service; Logitech; Zantac (A); Procter & Gamble, Inc.: Downy Enviro-Pak; Warner-Lambert Ireland; Niconil; and Swatch.

Instructor's Edition; they do not appear in the student version of the text. The annotations fall into five different categories as described below.

1. **Case Introductions.** This annotation provides a brief statement of the primary or secondary issue raised in the case, or an opening question to start a class discussion.
2. **Computational Work.** This annotation will alert the instructor to important figures such as market or cost data. In certain instances, a relevant computation will appear.
3. **Teaching Notes.** This annotation informs the instructor that the *Instructor's Manual* contains an examination of or an elaboration on the topic being described in the case. Often a specific exhibit in the case teaching note will be highlighted.
4. **Teaching Suggestions.** This annotation points out possible questions for students relating to a passage in a case or a particular portion of the text to emphasize.
5. **Supplemental Data.** This annotation provides information on the industry, company, or case issue not appearing in the case itself that the instructor might refer to during a class discussion.

Course Planning

The choice of cases assigned to students will depend on the course taught (graduate or undergraduate), course objectives, and instructor preference. However, feedback from previous users of the text and case authors' experience suggest that certain cases may be better suited for student group presentations. Also, certain cases seem to be preferred choices for examination cases, and some cases teach better in graduate courses than undergraduate courses.

Student Group Presentation Cases. Twenty cases appear to be the most favorite group presentation cases based on instructor and student feedback. These are:

| | |
|---|--|
| Jones•Blair Company | Zoëcon Corporation: Insect Growth Regulators |
| Curtis Automotive Hoist | Burroughs Wellcome Company: Retrovir |
| Nestlé Italy | Augustine Medical, Inc.: The Bair Hugger™ |
| MacTec Control AB | Patient Warming System |
| Frito-Lay, Inc.: Sun Chips™ Multigrain Snacks | Warner-Lambert Ireland: Niconil |
| Manor Memorial Hospital | Marshall Museum of Art |
| Swisher Mower and Machine Company | Tyler Pet Foods, Inc. |
| Procter and Gamble, Inc.: Scope | Chun King Corporation (undergraduate only) |
| Cadbury Beverages, Inc.: CRUSH® Brand | The Circle K Corporation |
| Godiva Europe | Colgate-Palmolive Canada: Arctic Power |
| Club Med España | Detergent |

Student Examination Cases. Twelve cases appear to be the most favorite take-home examination cases, since they typically deal with multiple issues, address two or more elements of the marketing mix, and require a reasonable level of numerical and financial analysis. They are:

| | |
|---|---|
| Jones•Blair Company | Augustine Medical, Inc.: The Bair Hugger™ |
| Curtis Automotive Hoist | Patient Warming System |
| Nestlé Italy | Warner-Lambert Ireland: Niconil |
| Frito-Lay, Inc.: Sun Chips™ Multigrain Snacks | Marshall Museum of Art |
| Procter and Gamble, Inc.: Scope | The Circle K Corporation |
| Cadbury Beverages, Inc.: CRUSH® Brand | Colgate-Palmolive Canada: Arctic Power |
| Zoëcon Corporation: Insect Growth Regulators | Detergent |

Course Level: Undergraduate versus Graduate. The vast majority of cases in the book are suitable for both undergraduate or graduate courses. However, certain cases, because of the subtleties present in the case setting or length, seem to better fit graduate courses. They are:

Price Waterhouse
American Airlines, Inc.: Proposal for a Three-
Class Transcon Service
Zantac (A)

U.S. SemiCon Corporation: Facsimile
Technology Program
Hanover-Bates Chemical Corporation
Volvo Trucks Europe

Only the Chun King Corporation case is consistently viewed by instructors as being solely an undergraduate case.

Case Grading

Grading written student cases, prepared either by a group or an individual, is also a time-consuming task. Moreover, for many instructors, students complain that letter or numerical grades on case write-ups are subjective.

Grading in a case course should be viewed as a form of constructive feedback. Feedback can appear as comments or questions in the margins of written cases or summary remarks either on the title page of the case or on the back page. Furthermore, students prefer rapid feedback.

Whatever approach is used, experience suggests that an instructor should *not* grade a written case solely on the basis of a correct answer. Rather, attention and recognition should be given to how well an individual or student team develops the analysis, including interpretation of case information, thoroughness in evaluating alternatives, and the formal justification for an implementable course of action. Some instructors have found that "grading schedules" serve as a useful guide for evaluating written cases. These grading schedules include general topical areas that a comprehensive student analysis would address and a rating scheme for each topical area. An example of a grading schedule for the Frito-Lay, Inc.: Sun Chips™ Multigrain Snacks case, which appears in the book, is shown in Exhibit 1. Such a schedule can be attached to a written case and returned to the student. Several authors have prepared grading schedules for a number of the examination cases listed above. Instructors interested in receiving a copy of a grading schedule for a particular case should contact Roger A. Kerin. His fax number is (214) 768-4099.

Ancillary Package for the Seventh Edition

Adopters of the seventh edition of *Strategic Marketing Problems: Cases and Comments* have available an *Instructor's Manual* containing teaching notes for the 45 cases in the book, a *Student Manual* and *Student Disk* containing Lotus 1-2-3 and Microsoft Excel worksheets for 17 cases, and an accompanying *Instructor's Manual* and diskette with completed analyses. Each is described below.

Instructor's Manual. The IM that accompanies the text is among the most comprehensive available. The teaching notes for each case contains six sections: (1) Case Synopsis, (2) Teaching Objectives, (3) Teaching Suggestions, (4) Case Analysis, (5) Epilogue, and (6) Summary Points. The case synopsis gives a concise overview of the case and the principal issues raised or problems to be addressed. Teaching

EXHIBIT 1**Grading Schedule Frito-Lay, Inc.: SunChips™ Multigrain Snacks**

| TOPIC/ISSUE | RATING | | | | |
|--|-----------|------|--------------|------|----------------|
| | Excellent | Good | Satisfactory | Poor | Not Considered |
| 1. Overall assessment of snack chip category, including unique challenges and implications for Frito-Lay multigrain snacks | 7 | 5 | 3 | 1 | 0 |
| 2. Assessment of prior experience on multigrain snacks and research prior to launch of SunChips™ | 7 | 5 | 3 | 1 | 0 |
| 3. Evaluation of SunChips™ test market results (favorable/unfavorable observations and implications) | | | | | |
| • Observations on brand awareness, trial, repeat, purchase amounts, etc. vis-a-vis O'Grady's Potato Chips | 7 | 5 | 3 | 1 | 0 |
| • SunChips™ Volume Projection (Trial/Repeat analysis) | 8 | 6 | 4 | 2 | 0 |
| • Cannibalism Analysis (incremental revenue/cost) | 8 | 6 | 4 | 2 | 0 |
| • Volume Sustainability | 8 | 6 | 4 | 2 | 0 |
| 4. Assessment of Strategic Action (pros/cons), including manufacturing issues | | | | | |
| • Further testing (extension, new market areas) | 6 | 4 | 2 | 1 | 0 |
| • National Introduction | 6 | 4 | 2 | 1 | 0 |
| 5. Recommendation on modification of test market strategy, including likely sales-cost-profit impact | 10 | 8 | 6 | 3 | 0 |
| 6. Overall Presentation (style, clarity, organization, etc.) | 8 | 6 | 4 | 2 | 0 |
| | 75 | 55 | 35 | 16 | 0 |

TOTAL SCORE: _____

COMMENTS: (see also written comments on case itself)

objectives focus on the principal purpose of the case. Teaching suggestions provide guidance on how to teach the case including points to emphasize, questions to ask students, and potential issues an instructor might face in a case discussion. The case analysis itself contains a thorough review of relevant case information and an assessment of various options available to the case principals, including the profit impact of each option. The epilogue describes what decisions were made and when possible, the rationale for and outcome of the decision. Lastly, summary points are provided that highlight the principal case issues.

Worksheets for Lotus 1-2-3 and Microsoft Excel. A *Student Manual* and *Disk* that contains templates that can be used with either Lotus 1-2-3 (DOS or Windows version) or Microsoft Excel and an accompanying *Instructor's Manual* and diskette containing completed analyses for 17 cases is also available. The cases with worksheets are:

| | |
|--|--|
| Frito-Lay's® Dips | U.S. SemiCon Corporation: Facsimile Technology Program |
| South Delaware Coors, Inc. | Procter and Gamble, Inc.: Downy Enviro-Pak |
| MS-Tique Corporation | Marshall Museum of Art |
| Manor Memorial Hospital | Hanover-Bates Chemical |
| Swisher Mower and Machine Company | Tyler Pet Food, Inc. |
| Morgantown Furniture, Inc. (B) | Chun King Corporation |
| Cadbury Beverages, Inc.: CRUSH® Brand | The Circle K Corporation |
| Club Med España | Colgate-Palmolive Canada: Arctic Power Detergent |
| Augustine Medical, Inc.: The Bair Hugger™ Patient Warming System | |

In addition to case worksheets, the manuals and disks contain Lotus 1-2-3 and Microsoft Excel worksheets for general case analysis tools, including break-even analysis for one, two, and three products, unit and dollar sales forecasts, simple and multiple regression analysis, margin calculations, and cannibalism assessment.

Preface



Decision making in marketing is first and foremost a skill. Like most skills, it possesses tools and terminology. Like all skills, it is best learned through practice. This book is dedicated to the development of decision-making skills in marketing. Textual material introduces concepts and tools useful in structuring and solving marketing problems. Case studies describing actual marketing problems provide an opportunity for those concepts and tools to be employed in practice. In every case study, the decision maker must develop a strategy consistent with the underlying factors existing in the situation presented and must consider the implications of that strategy for the organization and its environment.

The seventh edition of *Strategic Marketing Problems: Cases and Comments* seeks a balance between marketing management content and process. The book consists of eleven chapters and forty-five cases.

Chapter 1, "Foundations of Strategic Marketing Management," provides an overview of the strategic marketing management process. The principal emphasis is on defining an organization's business and purpose, identifying opportunities, formulating strategies, budgeting, controlling the marketing effort, and developing contingency plans.

Chapter 2, "Financial Aspects of Marketing Management," reviews basic concepts of managerial accounting and managerial finance that are useful in marketing management. Primary emphasis is placed on such concepts as cost structure, relevant versus sunk costs, margins, contribution analysis, liquidity, operating leverage, and preparing *pro forma* income statements.

Chapter 3, "Marketing Decision Making and Case Analysis," introduces a systematic process for decision making and provides an overview of various aspects of case analysis. A sample case and written student analysis are presented in the appendix at the end of the book. The student analysis illustrates the nature and scope of a written case presentation, including the qualitative and quantitative analyses essential to a good presentation.

Chapter 4, "Opportunity Analysis and Market Targeting," focuses on the identification and evaluation of marketing opportunities. Market segmentation, market targeting, and market potential and profitability issues are considered in some depth.

Chapter 5, "Marketing Research," deals with the effective management of marketing information. Decisions involved in assessing the value of marketing information and managing the information acquisition process are highlighted.

Chapter 6, "Product and Service Strategy and Management" focuses on the management of the organization's offering. New-offering development, life cycle

management, product or service positioning, branding, and product-service decisions are emphasized.

Chapter 7, "Marketing Communications Strategy and Management," raises issues in the design, execution, and evaluation of the communications mix. Decisions concerned with communications objectives, strategy, budgeting, programming, and effectiveness, as well as sales management are addressed.

Chapter 8, "Marketing Channel Strategy and Management," introduces a variety of considerations affecting channel selection and modification as well as trade relations. Specific decision areas covered include direct versus indirect distribution, dual distribution, cost-benefit analysis of channel choice and management and marketing channel conflict and coordination.

Chapter 9, "Pricing Strategy and Management," highlights concepts and applications in price determination and modification. Emphasis is placed on evaluating demand, cost, and competitive influences when selecting or modifying pricing strategies for products and services.

Chapter 10, "Marketing Strategy Reformulation: The Control Process," focuses on the appraisal of marketing actions for the purpose of developing reformulation and recovery strategies. Considerations and techniques applicable to strategic and operations control are introduced.

Chapter 11, "Comprehensive Marketing Programs," raises issues in developing integrated marketing strategies. Attention is directed to marketing strategy decisions for new and existing products and services.

The case selection in this book reflects a broad overview of contemporary marketing problems and applications. Seventy percent of the cases are dated in the 1990s. Of the forty-five cases included, thirty deal with consumer products and services, and fifteen have a business-to-business marketing orientation. Fourteen cases introduce marketing issues in the international arena. Marketing of services is addressed in seven cases, and four cases raise issues related to ethics and social responsibility in marketing. Sixty percent of the cases are new, revised, or updated for this edition, and many have spreadsheet applications embedded in the case analysis. All text and case material has been classroom-tested.

Computer-assisted programs and a student manual are available for use with seventeen of the cases in the book. The manual contains all the materials necessary to use spreadsheets. It includes a sample case demonstration, instructions for use with specific cases, and input and output forms. If this material is not available from your instructor or bookstore, please write to the publisher.

The efforts of many people are reflected here. First, we thank those institutions and individuals who have kindly granted us permission to include their cases in this edition. The cases contribute significantly to the overall quality of the book, and each individual is prominently acknowledged in the Contents and at the bottom of the page on which the case begins. We specifically wish to thank the Harvard Business School, The University of Western Ontario, INSEAD, and IMD for granting permission to reproduce cases authored by their faculty. Second, we wish to thank our numerous collaborators, whose efforts made the difference between good cases and excellent cases. Third, we thank the adopters of the previous six editions of the book for their many comments and recommendations for improvements. Their insights and attention to detail are, we hope, reflected here. Finally, we wish to thank the numerous reviewers of this and previous editions for their conscientious reviews of our material. Naturally, we bear full responsibility for any errors of omission and commission in the final product.

R. A. K
R. A. P

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Foundations of Strategic Marketing Management



The primary purpose of marketing is to create long-term and mutually beneficial exchange relationships between an organization and the publics (individuals and organizations) with which it interacts. Though this fundamental purpose of marketing is timeless, the manner in which organizations undertake it continues to evolve. No longer do marketing managers function solely to direct day-to-day operations; they must make strategic decisions as well. This elevation of marketing perspectives and practitioners to a strategic position in organizations has resulted in expanded responsibilities for marketing managers. Increasingly, they find themselves involved in charting the direction of the organization and contributing to decisions that will create and sustain a competitive advantage and affect long-term organizational performance. The transition of the marketing manager from being only an implementer to being a maker of organization strategy as well has prompted the emergence of strategic marketing management as a course of study and practice.

Strategic marketing management consists of six complex and interrelated analytical processes:¹

1. Defining the organization's business
2. Specifying the purpose of the organization
3. Identifying organizational opportunities
4. Formulating product-market strategies
5. Budgeting financial, production, and human resources
6. Developing reformulation and recovery strategies

The remainder of this chapter discusses each of these processes and their relationships to one another.

DEFINING THE ORGANIZATION'S BUSINESS

Business definition is the first step in the application of strategic marketing management. An organization should define its business in terms of the type of customers it wishes to serve, the particular needs of these customers, and the means or technology by which the organization will serve these needs.² The definition of an organization's business, in turn, specifies the market niche(s) that the organization seeks to occupy and how it will compete. Ultimately, the business definition affects the growth prospects for the organization itself by establishing guidelines for pursuing and evaluating organizational opportunities in the context of identified environmental opportunities, threats, and organizational capabilities.

The following three examples illustrate the concept of business definition in practice. First consider the hand-held calculator industry, in which Hewlett-Packard and Texas Instruments seemingly competed with each other in the early 1980s. Although both firms excelled in marketing and technical expertise, each carved out a different market niche based on different business definitions. Hewlett-Packard's products were designed primarily for the technical user (customer type) who required highly sophisticated scientific and business calculations (customer needs). Hewlett-Packard's heavy development expenditures on basic research (means) made the products possible. On the other hand, Texas Instruments' products were designed for the household consumer (customer type) who required less sophisticated calculator capabilities (customer needs). Texas Instruments' efficient production capabilities (means) made its products possible.

A second example could be found in the overnight-courier industry, in the differences between Federal Express and Purolator in the late 1980s.³ Although both firms competed for the same customer group—businesses that wanted next-morning delivery of letters and packages—each used very different means for satisfying different customer needs. Federal Express satisfied a customer's desire to ship items over distances of more than 350 miles (customer needs) and relied on a fleet of airplanes (means) for this purpose. By comparison, Purolator satisfied a customer's desire to ship items less than 350 miles (customer needs) and relied on a fleet of trucks (means). The differences in business definition were reflected in the companies' respective competitive positions. Purolator captured over 75 percent of the next-morning, short-haul (under 350 miles) courier volume, whereas Federal Express captured about 10 percent. Federal Express, however, captured over 53 percent of the next-morning, long-haul (over 350 miles) courier volume, whereas Purolator captured only about 7 percent.

Environmental and market forces sometimes require an organization to alter an aspect of its business definition. However, major changes in two or three dimensions are often difficult for organizations and frequently produce unfavorable results. Sears, Roebuck and Company is a case in point.⁴ The retailing giant found itself in a retailing environment where discounters and specialty outlets were attracting its traditional middle-class customers. The company tinkered with its marketing strategy throughout the 1980s and early 1990s. It promoted itself variously as an upscale, fashion-oriented department store for more affluent customers and as a discounter with budget shops featuring store or private-label brands and discounted prices. Sears then attempted to portray itself as a store with "everyday low pricing" and as a collection of "power formats" focusing on popular brands of merchandise. Recently,

Sears's top management acknowledged that, "We need to much more clearly identify our target customers and needs." which meant that Sears would focus its marketing strategy on "the middle 60 percent of the population that recognizes value." Having defined the company's customer group and need(s) to be satisfied, the Sears merchandising formula (means) had to be modified, thus demonstrating the tight linkage among all three aspects of business definition.

SPECIFYING THE PURPOSE OF THE ORGANIZATION

The purpose of an organization is derived from its business definition. Purpose specifies the aspirations of the organization and what it wishes to achieve, with full recognition given to environmental opportunities, threats, and organizational capabilities.

From a strategic marketing management perspective, aspirations are objectives and desired achievements are goals. Objectives and goals represent statements of expectations or intentions, and they often incorporate the organization's business definition. For example, consider the marketing objectives outlined in the Hendison Electronics Corporation case in Chapter 8 of this text. Hendison Electronics aspires

... to serve the discriminating purchasers of home entertainment products who approach their purchase in a deliberate manner with heavy consideration of long-term benefits. We will emphasize home entertainment products with superior performance, style, reliability, and value that require representative display, professional selling, trained service, and brand acceptance—retailed through reputable electronic specialists to those consumers whom the company can most effectively service.

Hendison Electronics intends to achieve, in every market served, a market position of at least \$6.50 sales per capita in the current year.

In practice, business definition provides direction in setting goals and objectives. Capabilities of the organization and environmental opportunities and threats determine the likelihood of attainment. Goals and objectives divide into three major categories: production, finance, and marketing. Production expectations relate to the use of manufacturing and service capacity and to product and service quality. Financial goals and objectives relate to return on investment, return on sales, profit, cash flow, and shareholder wealth. Marketing goals and objectives relate to market share, marketing productivity, sales volume, profit, and customer satisfaction and value. When production, finance, and marketing goals and objectives are combined, they represent a composite picture of organizational purpose. Accordingly, they must complement one another.

Finally, goal and objective setting should be problem-centered and future-oriented. Because goals and objectives represent statements of where the organization should be, they implicitly arise from an understanding of the current situation. Therefore, managers need an appraisal of operations, or a *situation analysis*, to determine reasons for the gap between what was or is expected and what has happened or will happen. If performance has met expectations, the question arises as to future directions. If performance has not met expectations, managers must diagnose the reasons for this difference and enact a program for remedying the situation. Chapter 3 provides an expanded discussion on performing a situation analysis.

IDENTIFYING ORGANIZATIONAL OPPORTUNITIES

Organizational opportunities and strategic direction result from matching environmental opportunities with organizational capabilities, acceptable levels of risks, and resource commitments. Three questions capture the essence of the decision-making process at this stage:

- What might we do?
- What do we do best?
- What must we do?

Each of these questions highlights major concepts in strategic marketing management. The *what might we do* question introduces the concept of environmental opportunity. Unmet needs, unsatisfied buyer groups, and new means for delivering value to prospective buyers—each represents a type of *environmental opportunity*.

The *what do we do best* question introduces the concept of organizational capability, or distinctive competency. *Distinctive competency* describes an organization's principal strengths or qualities, its skills in areas such as technological innovation, marketing prescience and prowess, manufacturing or service delivery, and managerial talent.⁵ In order for any of an organization's qualities to be considered truly distinctive and a source of competitive advantage, two criteria must be satisfied. First, the quality must be imperfectly imitable by competitors. That is, competitors cannot replicate a quality (such as the delivery competency of Domino's Pizza) easily or without a sizable investment. Second, the quality should make a significant contribution to the benefits perceived by customers and, by doing so, provide superior value to them. For example, technological innovation that is wanted and provides value to customers is a distinctive competency. Consider the Safety Razor Division of the Gillette Company. Its distinctive competency lies in three areas: (1) shaving technology and development, (2) high-volume manufacturing of precision metal and plastic products, and (3) marketing of mass-distributed package goods.⁶ This distinctive competency was responsible for the Sensor razor blade, which revolutionized the shaving industry in the early 1990s.

Finally, the *what must we do* question introduces the concept of success requirements in an industry or market. *Success requirements* are basic tasks that must be performed in a market or industry to compete successfully. These requirements are subtle in nature and often overlooked. For example, distribution and inventory control are critical in the cosmetics industry. Firms competing in the personal computer industry recognize that the requirements for success include low-cost production capabilities, access to retail distribution channels, and strengths in software development.⁷

The linkage among environmental opportunity, distinctive competency, and success requirements will determine whether an organizational opportunity exists. A clearly defined statement of success requirements serves as a device for matching environmental opportunity with an organization's distinctive competency. If *what must be done* is inconsistent with *what can be done* to pursue an environmental opportunity, an organizational opportunity will fail to materialize. Too often organizations ignore this linkage and embark on ventures that are doomed from the start. Exxon Corporation learned this lesson painfully after investing \$500 million in the