STRATEGIC MARKETING PROBLEMS

CASES AND COMMENTS

Third Edition

ROGER A. KERIN and
ROBERT A. PETERSON

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ROGER A. KERIN Southern Methodist University

ROBERT A. PETERSON The University of Texas

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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. Through textual material, concepts and tools useful in structuring and solving marketing problems are introduced. Case studies describing actual marketing problems provide an opportunity for these 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 on the organization and its environment.

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

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

Chapter 2, "Financial Aspects of Marketing Management," provides an overview of concepts from managerial accounting and managerial finance useful in marketing management. Primary emphasis is placed on such concepts as cost structure, relevant versus sunk costs, margins, contribution analysis, and liquidity.

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.

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

Chapter 5, "Marketing Research," considers issues regarding the effective management of marketing information. Specifically, decisions involved in assessing the value of marketing information and managing the information-acquisition process are highlighted.

Chapter 6, "Product and Service Strategy," focuses on the management of the organization's offering. New offering development, life-cycle management, product or service positioning, and branding are described.

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

Chapter 8, "Marketing Channel Strategy," introduces a variety of considerations in marketing channel selection and modification, and trade relations. Specific decision areas include direct versus indirect distribution, dual distribution, and cost-benefit analyses of channel choice and evaluation.

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

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

Chapter 11, "Linking Corporate and Marketing Strategy," is designed to alert the student to the expanding role of marketing concepts in the design and execution of corporate strategy. Special attention is placed on applying marketing concepts to the investment and resource allocation decisions made by corporate strategists.

The case selections in this book represents a broad overview of contemporary marketing problems and applications. Of the forty-one cases included, twenty-six cases deal with consumer products and services, and fifteen cases have an industrial product or service orientation. Six cases introduce marketing issues in the international arena. All text and case material have been classroom tested.

The efforts of many people are reflected here. First, we must thank those individuals who have kindly granted us permission to include their cases. These cases have made a major contribution to the overall quality of the book. Second, we wish to thank adopters of the first and second editions of the book for their many comments and recommendations for improvements. Their insights and attention to detail are hopefully reflected here. In addition we wish

to thank the numerous reviewers of this and previous editions for their conscientious reviews of our material. Finally, the diligence of our typist, Mrs. Sue Lindquist, is sincerely appreciated. Notwithstanding the contributions of these many people, the authors bear full responsibility for all errors of ommission and commission.

Contents

CHAPTER 1

Foundations of Strategic Marketing Management

The primary purpose of marketing is to create profitable exchange relationships between an organization and the public (individuals, organizations, and institutions) with which it interacts. Even though this fundamental purpose of marketing is timeless, the manner in which organizations undertake it is undergoing a metamorphosis in the 1980s. No longer do marketing managers function solely to direct day-to-day operations. Rather, marketing managers 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, marketing managers find themselves involved in charting the direction of the organization and contributing to decisions that 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 character of 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 relationship to each other.

DEFINING THE CHARACTER OF THE ORGANIZATION'S BUSINESS

Defining the character of the organization's *business* is the first step in the application of strategic marketing management. An organization should define its business in terms of the type of customer 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, business definition affects the growth prospects for the organization itself by establishing guidelines for evaluating organizational opportunities in the context of identified environmental opportunities, threats, and organizational capabilities.

Two examples illustrate the concept of business definition in practice. Consider the hand-held calculator industry in which both Hewlett-Packard and Texas Instruments seemingly competed with each other in the early 1970s. Although both firms excelled in marketing and technical expertise, each carved out a different market niche based on different business definitions.[3] For example, 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. Alternatively, Texas Instruments's products were designed for the household consumer (customer type) who required less sophisticated calculator capabilities (customer needs). Texas Instruments's efficient production capabilities (means) made their products possible.

Because of environmental and market changes, defining the organization's business is an ever-evolving process. However, major changes in business definition often lead to less than favorable results. An example of an organization that redefined the nature of its business, and subsequently returned to the original business definition, is Sears Roebuck and Co.[4] According to an industry observer:

> The retailing giant, which operates 866 full-line stores, is caught up in a fast-changing retailing environment where discounters and specialty stores are winning over more and more of its traditional middle-class customers—which leaves Sears scrambling to find its market niche. After tinkering with its staple goods merchandising formula throughout the 1970s—first promoting itself as an upscale, fashion-oriented department store for more affluent customers and, when that failed, experimenting with budget shops and embarking on a disastrous price-slashing binge—Sears believes it has little alternative but to try to be Sears again.

To "become" Sears again, the company developed a five-year plan to refocus efforts on attracting middle-class, home-owning families (customer type). The plan called for emphasis on "middle-of-the-road staple goods that are geared to function rather than to fashion" (customer needs) and renewed attention to product service and value (means for satisfying these needs).

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.[5] 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 case in 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 intends to achieve, in every market served, a market position of at least $1.50 sales per capita in the current year.

In practice, business definition provides direction in goal and objective setting. Capabilities of the organizational and environmental opportunities and threats set 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. Financial goals and objectives relate to return on investment, return on sales, profit, cash flow, and payback periods. Marketing goals and objectives relate to market share, marketing productivity, and sales volume aims. When production, finance, and marketing goals and objectives are combined, they represent a composite picture of organizational purpose. Accordingly, they must complement each other.

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 *situation analysis,* to determine the gap between what was or is expected and what has or will happen. If performance has met expectations, then 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 of 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 in such areas as technological expertise, market position, financial resources, and so forth. For example, the distinctive competency of the Gillette Safety Razor Division in the 1970s existed in three areas: (1) shaving technology and development, (2) high-volume manufacturing of precision metal and plastic products, and (3) the marketing of mass-distributed packaged goods.[6] 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 in the 1980s include low-cost production capabilities, access to retail distribution channels, and strengths in software development.[7]

The linkage between environmental opportunity, distinctive competency, and success requirements will determine whether an organizational opportunity exists. A clearly defined statement of success requirements—What might we do? What must we do? What do we do best?—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, then an organizational opportunity will fail to materialize. Too often, organizations fail to recognize this linkage and embark on ventures that are doomed from the start. Alternatively, many organizations clearly establish the linkages necessary for success previous to any action. A Hanes Corporation executive illustrates this point by specifying his organization's new venture criteria:

> . . . products that can be sold through food and drugstore outlets, are purchased by women, sell for less than $3, can be easily and distinctly packaged, and comprise at least a $500 million retail market not already dominated by one or two major producers.[8]

When one considers Hanes's impact with its L'eggs line of women's hosiery, it is apparent that whatever Hanes decides it might do in the future will be consistent with what Hanes can do best, as illustrated by past achievements in markets whose success requirements are similar. Thus, it should not have been a surprise to see this company introduce a line of cosmetics—L'erin. An expanded discussion of these points and others is found in Chapter 4.

In actuality, organizational opportunities emerge from existing markets or from newly identified markets. Opportunities also arise for existing, improved, or new products and services. Matching products and markets to form product-market strategies is the subject of the next set of decision processes.

FORMULATING PRODUCT-MARKET STRATEGIES

Product-market strategies consist of plans for matching existing or potential offerings of the organization with the needs of markets, informing markets that the offering exists, having the offering available at the right time and place to facilitate exchange, and assigning a price to the offering. In practice, a product-market strategy involves the selection of specific markets and profitably reaching them through a program called a *marketing mix*.

Using the format of matching offerings and markets, a classification of product-market strategies appears in Exhibit 1–1. A few brief comments on each strategy illustrate their operational implications and requirements.

Market-Penetration Strategy

A market-penetration strategy dictates that the organization seeks to gain greater dominance in a market in which it already has an offering. This strategy involves attempts to either increase present buyers' usage or consumption rate of the offering, attract buyers of competing offerings, or stimulate product trial among potential customers. The mix of marketing activities might include lower prices for the offerings, expanded distribution to provide wider coverage of an existing market, and heavier promotional efforts extolling the "unique" aspects of an organization's offering over competing offerings.

EXHIBIT 1–1 Product-market strategies

Offerings	Markets: *Existing*	Markets: *New*
Existing	Market penetration	Market development
New	New offering development	Diversification

This classification is adapted from H. Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill Company, 1964), Chapter 6. An extended version of this classification is presented in G. Day, "A Strategic Perspective on Product Planning," *Journal of Contemporary Business* (Spring 1975): 1–34.

Several organizations have attempted to gain dominance by promoting more frequent and varied usage of their offering. For example, the Florida Orange Growers Association advocates drinking orange juice throughout the day rather than for breakfast only. Airlines stimulate usage through a variety of reduced-fare programs and various family-travel packages, designed to reach the primary traveler's spouse and children.

Marketing managers should consider a number of factors before adopting a penetration strategy. First, they must examine market growth. A penetration strategy is usually more effective in a growth market. Attempts to increase market share when volume is stable often result in aggressive retaliatory actions by competitors. Second, they must consider competitive reaction. Recently, Proctor and Gamble implemented such a strategy for its Folger's coffee in selected East Coast cities only to run head-on into an equally aggressive reaction from General Foods's Maxwell House Division. According to one observer of the competitive situation:

> When Folger's mailed millions of coupons offering consumers 45 cents off on a one-pound can of coffee, General Foods countered with newspaper coupons of its own. When Folger's gave retailers 15 percent discounts from the present list price of $2.93 per pound, General Foods met them head-on. [General Foods] let Folger's lead off with a TV blitz that introduced tidy Ms. Olson to all those East Coast housewives thought to be distraught because their husbands say they make terrible coffee. Then [General Foods] saturated the airwaves with sagacious rejoinders from Cora, who tells the customers at her coffee counter: "When you find a good thing, stick with it."[9]

Third, they must consider both the capacity of the market to increase usage or consumption rates and the availability of new buyers. Both are particularly relevant when viewed from the perspective of the *costs of conversion* involved in gaining buyers from competitors, stimulating usage, and attracting new users.

Market-Development Strategy

A market-development strategy dictates that an organization introduce its existing offering to markets other than those it is currently serving. Examples include introducing existing products to different geographical areas (including international expansion) or different buying publics. For example, Saga Corporation, a California-based restaurant and food-services company that operates Black Angus Steak Houses and Straw Hat Pizza outlets, among other restaurant chains, plans to expand its geographical coverage and open Black Angus Steak Houses in the Midwest. O. M. Scott and Sons Company employed this strategy when it moved from the home lawn-improvement market to large users of lawn-care products, such as golf courses and home construction contractors.

The mix of marketing activities used will often vary to reach different markets with differing buying patterns and requirements. Reaching new markets often requires modified versions of the basic offering, different distribution outlets, or a change in sales effort and advertising.

L'eggs Products, Incorporated, mentioned earlier as a division of Hanes Corporation, had long been a marketer of women's stockings sold through department stores and specialty shops. However, it recognized a change in hosiery-purchasing behavior that favored supermarket and drug outlets, with no one brand being foremost in these outlets. Through innovative packaging and sales promotion (the L'eggs display unit), expansion of distribution to cover supermarkets and drugstores, cents-off coupons on stockings and pantyhose, and a $10 million advertising allocation that was almost twice the advertising expenditure for the total hosiery industry, L'eggs became the largest selling nationally branded hosiery.

As with the penetration strategy, market development involves a careful consideration of competitive strengths and weaknesses and retaliation potential. Moreover, because the firm seeks new buyers, it must understand their number, motivation, and buying patterns to develop marketing activities successfully. Finally, the firm must consider its strengths, in terms of adaptability to new markets, to evaluate the potential success of the venture.

Product-Development Strategy

A product-development strategy dictates that the organization should create new offerings for existing markets. The approach taken is one of creating totally new offerings—*product innovation*—or enhancing the value of existing offerings—*product augmentation*. Boeing's development of the 747 passenger airplane