McGraw-Hill Primis Online

Marketing

Course:
Marketing Strategy
884–48600

Instructor:
Dr. Donald W. Eckrich

Ithaca College
School of Business – Marketing Concentration

McGraw-Hill/Irwin
A Division of The McGraw-Hill Companies

McGraw–Hill Primis

ISBN: 0–390–26269–2

Text:

Preface to Marketing Management, Eighth Edition
Peter–Donnelly

Taking Sides: Marketing
Macchiette–Roy

Harvard Business School Marketing Articles

This book was printed on recycled paper.

Marketing

http://www.mhhe.com/primis/online/

This McGraw-Hill Primis text may include materials submitted to McGraw-Hill for publication by the instructor of this course. The instructor is solely responsible for the editorial content of such materials.

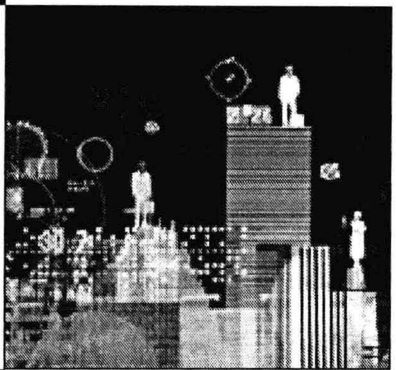
111 MARK ISBN: 0-390-26269-2

Marketing

Contents

Chapter One

Strategic Planning and the Marketing Management Process



The purpose of this introductory chapter is to present the marketing management process and outline what marketing managers must *manage* if they are to be effective. In doing so, it will also present a framework around which the remaining chapters are organized. Our first task is to review the organizational philosophy known as the marketing concept, since it underlies much of the thinking presented in this book. The remainder of this chapter will focus on the process of strategic planning and its relationship to the process of marketing planning.

The Marketing Concept

Simply stated, the marketing concept means that *an organization should seek to make a profit by serving the needs of customer groups.* The concept is very straightforward and has a great deal of commonsense validity. Perhaps this is why it is often misunderstood, forgotten, or overlooked.

The purpose of the marketing concept is to rivet the attention of marketing managers on serving broad classes of customer needs (customer orientation), rather than on the firm's current products (production orientation) or on devising methods to attract customers to current products (selling orientation). Thus, effective marketing starts with the recognition of customer needs and then works backward to devise products and services to satisfy these needs. In this way, marketing managers can satisfy customers more efficiently in the present and anticipate changes in customer needs more accurately in the future. This means that organizations should focus on building long-term customer relationships in which the initial sale is viewed as a beginning step in the process, not as an end goal. As a result, the customer will be more satisfied and the firm will be more profitable.

The principal task of the marketing function operating under the marketing concept is not to manipulate customers to do what suits the interests of the firm, but rather to find effective and efficient means of making the business do what suits the interests of customers. This is not to say that all firms practice marketing in this way. Clearly, many firms still emphasize only production and sales. However, effective marketing, as defined in this text, requires that consumer needs come first in organizational decision making.

One qualification to this statement deals with the question of a conflict between consumer wants and societal needs and wants. For example, if society deems clean air and water as necessary for survival, this need may well take precedence over a consumer's want for goods and services that pollute the environment.

What Is Marketing?

One of the most persistent conceptual problems in marketing is its definition.[1] The American Marketing Association has recently defined marketing as "the process of planning and executing conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals."[2] This definition takes into account all parties involved in the marketing effort: members of the producing organization, resellers of goods and services, and customers or clients. While the broadness of the definition allows the inclusion of nonbusiness exchange processes, the primary emphasis in this text is on marketing in the business environment. However, this emphasis is not meant to imply that marketing concepts, principles, and techniques cannot be fruitfully employed in other areas of exchange. In fact, some discussions of nonbusiness marketing take place later in the text.

What Is Strategic Planning?

Before a production manager, marketing manager, and personnel manager can develop plans for their individual departments, some larger plan or blueprint for the *entire* organization should exist. Otherwise, on what would the individual departmental plans be based?

In other words, there is a larger context for planning activities. Let us assume that we are dealing with a large business organization that has several business divisions and several product lines within each division (e.g., General Electric, Philip Morris). Before any marketing planning can be done by individual divisions or departments, a plan has to be developed for the entire organization.[3] This means that senior managers must look toward the future and evaluate their ability to shape their organization's destiny in the years and decades to come. The output of this process is objectives and strategies designed to give the organization a chance to compete effectively in the future. The objectives and strategies established at the top level provide the context for planning in each of the divisions and departments by divisional and departmental managers. It is worth noting that, depending on the environmental challenges faced by the organization, different planning approaches may be called for.

Strategic Planning and Marketing Management

Some of the most successful business organizations are here today because many years ago they offered the right product at the right time to a rapidly growing market. The same can also be said for nonprofit and governmental

Marketing Highlight 1–1

Basic Elements of the Marketing Concept

1. Companywide managerial awareness and appreciation of the consumer's role as it is related to the firm's existence, growth, and stability. As Drucker has noted, business enterprise is an organ of society; thus, its basic purpose lies outside the business itself. And the valid definition of business purpose is the creation of customers.
2. Active, companywide managerial awareness of, and concern with, interdepartmental implications of decisions and actions of an individual department. That is, the firm is viewed as a network of forces focused on meeting defined customer needs, and comprising a system within which actions taken in one department or area frequently result in significant repercussions in other areas of the firm. Also, it is recognized that such actions may affect the company's equilibrium with its external environment, for example, its customers, its competitors.
3. Active, companywide managerial concern with innovation of products and services designed to solve selected consumer problems.
4. General managerial concern with the effect of new products and service introduction on the firm's profit position, both present and future, and recognition of the potential rewards that may accrue from new product planning, including profits and profit stability.
5. General managerial appreciation of the role of marketing intelligence and other fact-finding and reporting units within and adjacent to the firm in translating the general statements presented above into detailed statements of profitable market potentials, targets, and action. Implicit in this statement is not only an expansion of the traditional function and scope of formal marketing research, but also assimilation of other sources of marketing data, such as the firm's distribution system and its advertising agency counsel, into a potential marketing intelligence service.
6. Companywide managerial effort, based on participation and interaction of company officers, in establishing corporate and departmental objectives that are understood by and acceptable to these officers and that are consistent with enhancement of the firm's profit position.

Source: For an up-to-date discussion of the marketing concept, see Frederick E. Webster, Jr., "Defining the New Marketing Concept," *Marketing Management* 2, no. 4 (1994), pp. 22–31. For a classic discussion, see Robert L. King, "The Marketing Concept: Fact or Intelligent Platitude," *The Marketing Concept in Action*, Proceedings of the 47th National Conference (Chicago: American Marketing Association, 1964), p. 657.

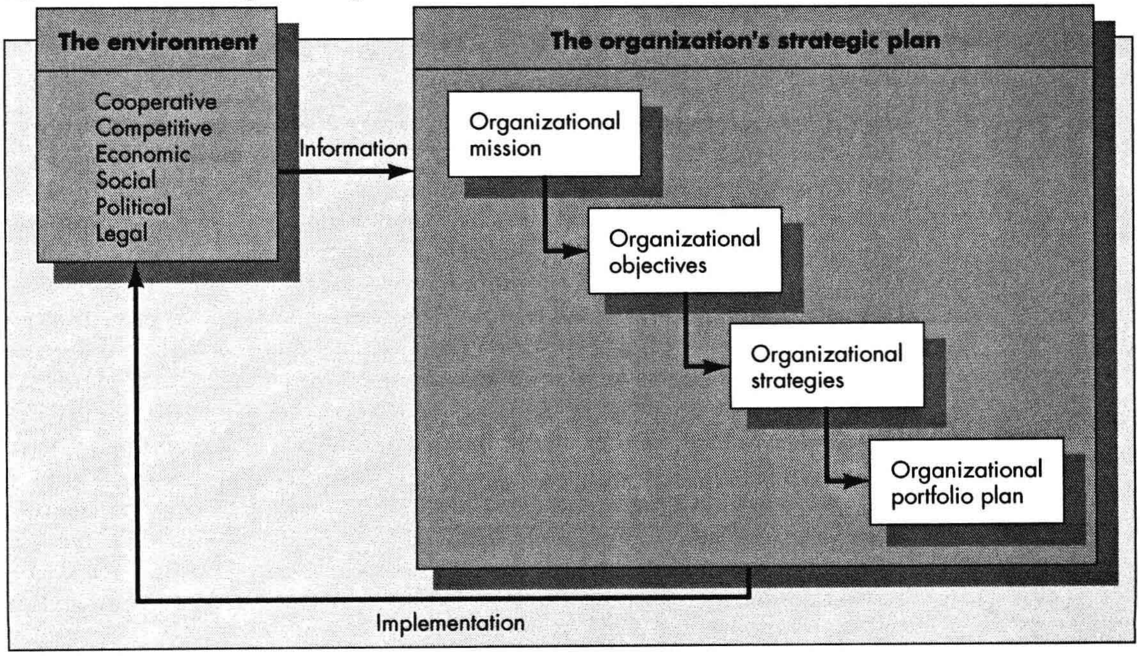
organizations. Many of the critical decisions of the past were made without the benefit of strategic thinking or planning. Whether these decisions were based on wisdom or were just luck is not important; they worked for these organizations. However, a worse fate befell countless other organizations. Over three-quarters of the 100 largest U.S. corporations of 70 years ago have fallen from the list. These corporations at one time dominated their markets, controlled vast resources, and had the best-trained workers. In the end, they all made the same critical mistake. Their managements failed to recognize that business strategies need to reflect changing environments and emphasis must be placed on developing business systems that allow for continuous improvement. Instead, they attempted to carry on business as usual.

Present-day managers are increasingly recognizing that wisdom and innovation alone are no longer sufficient to guide the destinies of organizations, both large and small. These same managers also realize that the true mission of the organization is to provide value for three key constituencies: customers, employees, and investors. Without this type outlook, no one, including shareholders, will profit in the long run.

Strategic planning includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization. The form of the process itself has come under criticism in some quarters for being too structured; however, strategic planning, if performed successfully, plays a key role in achieving an equilibrium between the short and the long term by balancing acceptable financial performance with preparation for inevitable changes in markets, technology, and competition, as well as in economic and political arenas. Managing principally for current cash flows, market share gains, and earnings trends can mortgage the firm's future. An intense focus on the near term can produce an aversion to risk that dooms a business to stagnation. Conversely, an overemphasis on the long run is just as inappropriate. Companies that overextend themselves betting on the future may penalize short-term profitability and other operating results to such an extent that the company is vulnerable to takeover and other threatening actions.

The strategic planning process is depicted in Figure 1–1. In the strategic planning process the organization gathers information about the changing elements of its environment. Managers from all functional areas in the organization assist in this information-gathering process. This information is useful in aiding the organization to adapt better to these changes through the process of strategic planning. The strategic plan(s)[4] and supporting

Figure 1–1 The Strategic Planning Process



Marketing Highlight 1–2

Mission Statements

Organization	Mission
Goodyear	Our mission is constant improvement in products and services to meet our customers' needs. This is the only means to business success for Goodyear and prosperity for its investors and employees.
Intel Corporation	Do a great job for our customers, employees, and stockholders by being the preeminent building block supplier to the computing industry.
Levi Strauss & Co.	The mission of Levi Strauss & Co. is to sustain responsible commercial success as a global marketing company of branded casual apparel. We must balance goals of superior profitability and return on investment, leadership market positions, and superior products and service. We will conduct our business ethically and demonstrate leadership in satisfying our responsibilities to our communities and to society. Our work environment will be safe and productive and characterized by fair treatment, teamwork, open communications, personal accountability, and opportunities for growth and development.
Merck & Co., Inc.	The mission of Merck & Co., Inc., is to provide society with superior products and services—innovations and solutions that satisfy customer needs and improve their quality of life—to provide employees with meaningful work and advancement opportunities and investors with a superior rate of return.
Marriott	Grow a worldwide lodging business using total quality management (TQM) principles to continuously improve preference and profitability. Our commitment is that *every guest leaves satisfied.*

SOURCE: Patricia Jones and Larry Kahaner, *Say It and Live It: The 50 Corporate Mission Statements That Hit the Mark* (New York: Doubleday, 1995).

plan are then implemented in the environment. The end results of this implementation are fed back as new information so that continuous adaptation and improvement can take place.

The Strategic Planning Process

The output of the strategic planning process is the development of a strategic plan. Figure 1–1 indicates four components of a strategic plan: mission, objectives, strategies, and portfolio plan. Let us carefully examine each one.

Organizational mission

The organization's environment provides the resources that sustain the organization, whether it is a business, a college or university, or a government agency. In exchange for these resources, the organization must supply the environment with quality goods and services at an acceptable price. In other words, every organization exists to accomplish something in the larger environment and that purpose, vision, or mission usually is clear at the organization's inception.

As time passes, however, the organization expands, and the environment and managerial personnel change. As a result, one or more things are likely to occur. First, the organization's original purpose may become irrelevant as the organization expands into new products, new markets, and even new industries. For example, Levi Strauss began as a manufacturer of work clothes. Second, the original mission may remain relevant, but managers begin to lose interest in it. Finally, changes in the environment may make the original mission inappropriate. The result of any or all three of these conditions is a "drifting" organization, without a clear mission, vision, or purpose to guide critical decisions. When this occurs, management must search for a purpose or emphatically restate and reinforce the original purpose.

The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. In essence, the mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal. While some argue that vision and mission statements differ in their purpose, the perspective we will take is that both reflect the organization's attempt to guide behavior, create a culture, and inspire commitment.[5] However, it is more important that the mission statement comes from the heart and is practical, easy to identify with, and easy to remember so that it will provide direction and significance to all members of the organization regardless of their organizational level.

The basic questions that must be answered when an organization decides to examine and restate its mission are What is our business?, Who is the customer?, What do customers value?, and What will our business be?[6] The answers are, in a sense, the assumptions on which the organization is being run and from which future decisions will evolve. While such questions may seem simplistic, they are such difficult and critical ones that the major responsibility for answering them must lie with top management, not planning gurus. In fact, the mission statement remains the most widely used management tool in business today. In developing a statement of mission, management must take into account three key elements: the organization's history, its distinctive competencies, and its environment.[7]

1. *The organization's history.* Every organization—large or small, profit or nonprofit—has a history of objectives, accomplishments, mistakes, and policies. In formulating a mission, the critical characteristics and events of the past must be considered.
2. *The organization's distinctive competencies.* While there are many things an organization may be able to do, it should seek to do what it can do best. Distinctive competencies are things that an organization does well: so well in fact that they give it an advantage over similar organizations. For Honeywell, it's their ability to design, manufacture, and distribute a superior line of thermostats.[8] Similarly, Procter & Gamble's distinctive competence is its

knowledge of the market for low-priced, repetitively purchased consumer products. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.

3. *The organization's environment.* The organization's environment dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed. For example, managers in any industry that is affected by technology breakthroughs should continually be asking, How will the changes in technology affect my customers' behavior and the means by which we need to conduct our business?

However, it is extremely difficult to write a useful and effective mission statement. It is not uncommon for an organization to spend one or two years developing a useful mission statement. When completed, an effective mission statement will be *focused on markets rather than products, achievable, motivating, and specific.*[9]

internal

Focused on markets rather than products. The customers or clients of an organization are critical in determining its mission. Traditionally, many organizations defined their business in terms of what they made ("our business is glass") and in many cases they named the organization for the product or service (e.g., National Cash Register, Harbor View Savings and Loan Association). Many of these organizations have found that, when products and technologies become obsolete, their mission is no longer relevant and the name of the organization may no longer describe what it does. Thus, a more enduring way of defining the mission is needed. In recent years, therefore, a key feature of mission statements has been an *external* rather than *internal* focus. In other words, the mission statement should focus on the broad class of needs that the organization is seeking to satisfy (external focus), not on the physical product or service that the organization is offering at present (internal focus). These market-driven firms stand out in their ability to continuously anticipate market opportunities and respond before their competitors. This has been clearly stated by Peter Drucker:

> A business is not defined by the company's name, statutes, or articles of incorporation. It is defined by the want the customer satisfies when he buys a product or service. To satisfy the customer is the mission and purpose of every business. The question "What is our business?" can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market.[10]

While Drucker was referring to business organizations, the same necessity exists for both nonprofit and governmental organizations. That necessity is to state the mission in terms of serving a particular group of clients or customers and meeting a particular class of need.

Achievable. While the mission statement should stretch the organization toward more effective performance, it should, at the same time, be realistic and achievable. In other words, it should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies.

Motivational. One of the side (but very important) benefits of a well-defined mission is the guidance it provides employees and managers working in geographically dispersed units and on independent tasks. It provides a shared sense of purpose outside the various activities taking place within the organization. Therefore, such end results as sales, patients cared for, and reduction in violent crimes can then be viewed as the result of careful pursuit and accomplishment of the mission and not as the mission itself.

Specific. As we mentioned earlier, public relations should not be the primary purpose of a statement of mission. It must be specific to provide direction and guidelines to management when they are choosing between alternative courses of action. In other words, "to produce the highest-quality products at the lowest possible cost" sounds very good, but it does not provide direction for management.

Organizational objectives

Organizational objectives are the end points of an organization's mission and are what it seeks through the ongoing, long-run operations of the organization. The organizational mission is distilled into a finer set of specific and achievable organizational objectives. These objectives must be *specific, measurable, action commitments* by which the mission of the organization is to be achieved.

As with the statement of mission, organizational objectives are more than good intentions. In fact, if formulated properly, they can accomplish the following:

1. They can be converted into specific action.
2. They will provide direction. That is, they can serve as a starting point for more specific and detailed objectives at lower levels in the organization. Each manager will then know how his or her objectives relate to those at higher levels.
3. They can establish long-run priorities for the organization.
4. They can facilitate management control because they serve as standards against which overall organizational performance can be evaluated.

Organizational objectives are necessary in all areas that may influence the performance and long-run survival of the organization. As shown in Figure 1–2, objectives can be established in and across many areas of the organization. The list provided in Figure 1–2 is by no means exhaustive. For example, some organizations are specifying the primary objective as the attainment of a specific level of quality, either in the marketing of a product or the providing of a service. These organizations believe that objectives should reflect an organization's commitment to the customer rather than its own finances. Obviously, during the strategic planning process conflicts are likely to occur between various functional departments in the organization. The important point is that management must translate the organizational mission into specific objectives that support the realization of the mission. The objectives may flow directly from the mission or be considered

Figure 1–2
Sample Organizational Objectives (manufacturing firm)

Area of Performance	Possible Objective
1. Market standing	To make our brands number one in their field in terms of market share.
2. Innovations	To be a leader in introducing new products by spending no less than 7 percent of sales for research and development.
3. Productivity	To manufacture all products efficiently as measured by the productivity of the workforce.
4. Physical and financial resources	To protect and maintain all resources—equipment, buildings, inventory, and funds.
5. Profitability	To achieve an annual rate of return on investment of at least 15 percent.
6. Manager performance and responsibility	To identify critical areas of management depth and succession.
7. Worker performance and attitude	To maintain levels of employee satisfaction consistent with our own and similar industries.
8. Social responsibility	To respond appropriately whenever possible to societal expectations and environmental needs.

subordinate necessities for carrying out the mission. As discussed earlier, the objectives are specific, measurable, action commitments on the part of the organization.

Organizational strategies

Hopefully, when an organization has formulated its mission and developed its objectives, it knows where it wants to go. The next managerial task is to develop a "grand design" to get there. This grand design constitutes the organizational strategies. Strategy involves the choice of major directions the organization will take in pursuing its objectives. Toward this end, it is critical that strategies are consistent with goals and objectives and that top management ensures strategies are implemented effectively. As many as 60 percent of strategic plans have failed because the strategies in them were not well defined and, thus, were unable to be implemented effectively.[11] What follows is a discussion of various strategies organizations can pursue.

Organizational strategies based on products/markets

One means to develop organizational strategies is to focus on products offered and markets served. Using this focus, organizations can achieve their objectives in two ways. They can better manage what they are presently doing or find new things to do. In choosing either or both of these paths, the organization then must decide whether to concentrate on present customers or to

Marketing Highlight 1–3

Potential Sources of Cross-Functional Conflict for Marketers

Functions	What They May Want to Deliver	What Marketers May Want Them to Deliver
Research and development	Basic research projects	Products that deliver customer value
	Product features	Customer benefits
	Few projects	Many new products
Production/ operations	Long production runs	Short production runs
	Standardized products	Customized products
	No model changes	Frequent model changes
	Long lead times	Short lead times
	Standard orders	Customer orders
	No new products	Many new products
Finance	Rigid budgets	Flexible budgets
	Budgets based on return on investment	Budgets based on need to increase sales
	Low sales commissions	High sales commissions
Accounting	Standardized billing	Custom billing
	Strict payment terms	Flexible payment terms
	Strict credit standards	Flexible credit standards
Human resources	Trainable employees	Skilled employees
	Low salaries	High salaries

SOURCE: G. A. Churchill, Jr., and J. Paul Peter, *Marketing: Creating Value for Customers* (Burr Ridge, IL: Irwin-McGraw-Hill, 1998), p. 15.

seek new ones, or both. Figure 1–3 presents the available strategic choices. This figure is known as a product-market matrix and indicates the strategic alternatives available to an organization for achieving its objectives. It indicates that an organization can grow in a variety of ways by concentrating on present or new products and on present or new customers.[12]

Figure 1–3
Organizational Growth Strategies

Products / Markets	Present Products	New Products
Present customers	Market penetration	Product development
New customers	Market development	Diversification

Market penetration strategies. These organizational strategies focus on improving the position of the organization's present products with its present customers. For example:

- A snack products company concentrates on getting its present customers to purchase more of its products.
- A charity seeks ways to increase donations from present supporters.
- A bank concentrates on getting present credit card customers to use their cards more frequently.

A market penetration strategy might involve devising a marketing plan to encourage customers to purchase more of a product. Tactics used to carry out the strategy could include price reductions, advertising that stresses the many benefits of the product, packaging the product in different-sized packages, or making the product available at more locations. For example, Procter & Gamble decided to implement an everyday low-pricing strategy, slashing prices on over 40 percent of its product offerings, in order to stimulate consumer demand. Likewise, a production plan might be developed to produce more efficiently what is being produced at present. Implementation of such a plan could include increased production runs, the substitution of preassembled components for individual product parts, or the automation of a process that previously was performed manually. In other words, market penetration strategies concentrate on improving the efficiency of various functional areas in the organization.

Market development strategies. Following this strategy, an organization would seek to find new customers for its present products. For example:

- A manufacturer of industrial products may decide to develop products for entrance into consumer markets.
- A governmental social service agency may seek individuals and families who have never utilized the agency's services.
- A manufacturer of automobiles decides to sell automobiles in Eastern Europe because of the recent transition to a free market system.
- An athletic clothing and footwear company decides to develop a line of fitness clothing for children.

Market development strategies involve much more than simply getting the product to a new market. Before considering marketing techniques such as packaging and promotion, companies often find they must establish a foothold in the market, sometimes spending millions of dollars simply to educate consumers as to why they should consider purchase of the product.

Product development strategies. In choosing either of the remaining two strategies, the organization in effect seeks new things to do. With this particular strategy, the new products developed would be directed to present customers. For example: