SEVENTH EDITION

STRATEGIC MARKETING PROBLEMS

CASES AND COMMENTS

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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. 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 mix 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.

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Contents

CHAPTER 1

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 office-products market over a ten-year period. After the company abandoned this venture, a former Exxon executive summed up what had been learned: "Don't get involved where you don't have the skills. It's hard enough to make money at what you're good at."[8] By clearly establishing the linkages necessary for success before taking any action, an organization can minimize the risk. A Hanes Corporation executive illustrates this point in specifying his organization's new-venture criteria:

> . . . products that can be sold through food and drugstore outlets, are purchased by women, . . . can be easily and distinctly packaged, and comprise at least a $500 million retail market not already dominated by one or two major producers.[9]

When one considers Hanes's past successes, it is apparent that whatever Hanes decides to 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. An expanded discussion of these points 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 selecting specific markets and profitably reaching them through a program called a *marketing mix.*

Exhibit 1.1 classifies product-market strategies according to the match between offerings and markets. The operational implications and requirements of each strategy are briefly described in the following subsections.[10]

EXHIBIT 1.1

Product-Market Strategies (Matrix)

		Markets	
		Existing	*New*
Offerings	*Existing*	Market penetration Start here	Market development
	New	New offering development	Diversification

Source: This classification is adapted from H. Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill, 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.

Market-Penetration Strategy

A market-penetration strategy dictates that an organization seek to gain greater dominance in a market in which it already has an offering. This strategy involves attempts to 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" advantages of an organization's offering over competing offerings. Anheuser-Busch uses all of these activities in attempting to achieve its announced goal of capturing 50 percent of the U.S. beer market in the 1990s.[11]

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. Procter and Gamble implemented a penetration strategy for its Folger's coffee in selected East Coast cities, only to run head-on into an equally aggressive reaction from General Foods' 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 list price. . . , General Foods met them head-on. [General Foods] let Folger's lead off with a TV blitz. . . . Then [General Foods] saturated the airwaves.[12]

The result of this struggle was no change in market share for either firm. Third, marketing managers must consider 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 offerings 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, Adolph Coors and Company engaged in a market-development strategy when it entered states east of the Mississippi River. 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 must often be varied to reach different markets with differing buying patterns and requirements. Reaching new markets often requires modification of the basic offering, different distribution outlets, or a change in sales effort and advertising.

Apple Computer is a case in point. Apple originally focused on the home and education markets. In the mid-1980s, however, the company set as its target the business and technical markets. In the late 1980s, 50 new products were introduced and software developers were recruited to create basic programs for graphics, spreadsheet applications, and desktop publishing. A heavier emphasis was placed on advertising, a company sales force was put into place, and the dealer network was modified. As a result, Apple tripled its share of the business and technical market.[13]

Like 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 in order to develop marketing activities successfully. Finally, the firm must consider its strengths, in terms of adaptability to new markets, in order to evaluate the potential success of the venture.

Market development in the international arena has grown in importance and usually takes one of four forms: (1) exporting, (2) licensing, (3) joint venture, or (4) direct investment.[14] Each option has advantages and disadvantages. *Exporting* involves marketing the same offering in another country either directly (through sales offices) or through intermediaries in a foreign country. Since this approach typically requires minimal capital investment and is easy to initiate, it is a popular option for developing foreign markets. Procter and Gamble, for instance, exports its deodorants, soaps, fragrances, shampoos, and other health and beauty products to the newly emerging democracies in Eastern Europe and the former Soviet Union. *Licensing* is a contractual arrangement whereby one firm (licensee) is given the rights to patents, trademarks, know-how, and other intangible assets by their owner (licensor) in return for a royalty (usually 5 percent of gross sales) or a fee. For example, Cadbury Schweppes PLC, a London-based multinational firm has licensed Hershey Foods to sell its candies in the United States for a fee of $300 million. Licensing provides a low-risk, quick, and capital-free entry into a foreign market. However, the licensor usually has no control over production and marketing by the licensee. A *joint venture*, often called a strategic alliance, involves investment by both a foreign firm and a local company to create a new entity in the host country. The two companies share ownership, control, and profits of the entity. Joint ventures are popular because one company may not have the necessary financial, technical, or managerial resources to enter a market alone. This approach also often ensures against trade barriers being imposed on the foreign firm by the government of the host company. Japanese companies frequently engage in joint ventures with American and European firms to gain access to foreign markets. A problem frequently arising from joint ventures is that the partners do not always agree on how the new entity should be run. *Direct investment* in a manufacturing and/or assembly facility in a foreign market is the most risky option and requires the greatest commitment. However, it brings the firm closer to its customers and may be the most profitable approach toward developing foreign markets. For these reasons, direct investment must be evaluated closely in terms of benefits and costs. Direct investment often follows one of the three other approaches to foreign-market entry. For example, PepsiCo first exported Pepsi-Cola to the then Soviet Union in 1972. By 1994, PepsiCo operated over 30 bottling plants there.

Product-Development Strategy

A product-development strategy dictates that the organization create new offerings for existing markets. The approach taken may be to develop totally new offerings *(product innovation)*, to enhance the value to customers of existing offerings *(product augmentation)*, or to broaden the existing line of offerings by adding different sizes, forms, flavors, and so forth *(product line extension)*. Rollerblades are an example of product innovation, as is the introduction of the "Cash Management Account" by Merrill Lynch in the financial services industry. Product augmentation can be achieved in numerous ways. One is to bundle complimentary items or services with an existing offering. For example, programming services, application aids, and training programs for buyers enhance the value of personal computers. Another way is to improve the functional performance of the offering. Producers of facsimile machines have done this by improving print quality. Many types of product line extensions are possible. Personal-care companies market deodorants in powder, spray, and liquid forms; Quaker Oats produces several flavors of Gatorade; and Frito-Lay offers its Lay's potato chips in a number of sizes.

Companies successful at developing and commercializing new offerings lead their industries in sales growth and profitability. The likelihood of success is increased if the development effort results in offerings that satisfy a clearly understood buyer need. In the toy industry, for instance, these needs translate into products with three qualities: (1) lasting play value, (2) the ability to be shared with other children, and (3) the ability to stimulate a child's imagination.[15] Successful commercialization occurs when the offering can be communicated and delivered to a well-defined buyer group at a price it is willing and able to pay.

Important considerations in planning a product-development strategy concern the market size and volume necessary for the effort to be profitable, the magnitude and timing of competitive response, the impact of the new product on existing offerings, and the capacity (in terms of human and financial investment and technology) of the organization to deliver the offering to the market(s). The failure of DuPont's attempt to introduce Corfam (a synthetic leather) has been attributed to the magnitude of competitive response generated by Leather Industries of America (a trade association) and to the fact that the company could not develop competitive prices for the product because of an inability to lower production costs.

The potential for *cannibalism* must be considered with a product-development strategy.[16] Cannibalism occurs when sales of a new product or service come at the expense of sales of existing products already marketed by the firm. For example, it is estimated that two-thirds of Gillette's Sensor razor volume came from the company's other razors and shaving systems. Cannibalism of this degree is likely to occur in many product-development programs. The issue faced by the manager is whether it detracts from the overall profitability of the organization's total mix of offerings.

Diversification

Diversification involves the development or acquisition of offerings new to the organization and the introduction of those offerings to publics not previously served by the organization. Many firms have adopted this strategy in recent years to take advantage of growth opportunities. Yet diversification is often a high-risk strategy because both the offering and the public or market served are new to the organization.

Consider the following examples of diversification.[17] General Foods announced a $39 million write-off after its entry into the business of fast-food chains failed. Rohr Industries, a subcontractor in the aerospace industry, reported a $59.9 million write-off on a mass-transit diversification. Singer's effort to develop a business-machines venture over a ten-year period was abandoned while still unprofitable. Gerber Products Company, which holds 70 percent of the U.S. baby-food market, has been mostly unsuccessful in diversifying into child-care centers, toys, furniture, and adult food and beverages. Coca-Cola's many attempts at diversification—acquiring wine companies, a movie studio, and a pasta manufacturer, and producing television game shows—have also proven to be largely unsuccessful. These examples highlight the importance of understanding the link between market success requirements and an organization's distinctive competency. In each of these cases, a bridge was not made between these two concepts and thus an opportunity was not realized.

Still, diversifications can be successful. Successful diversifications typically result from an organization's attempt to apply its distinctive competency in reaching new markets with new offerings. By relying on its marketing expertise and extensive distribution system, Borden has had success with offerings ranging from milk to glue, and Procter and Gamble with offerings ranging from cake mixes to disposable diapers.

Strategy Selection

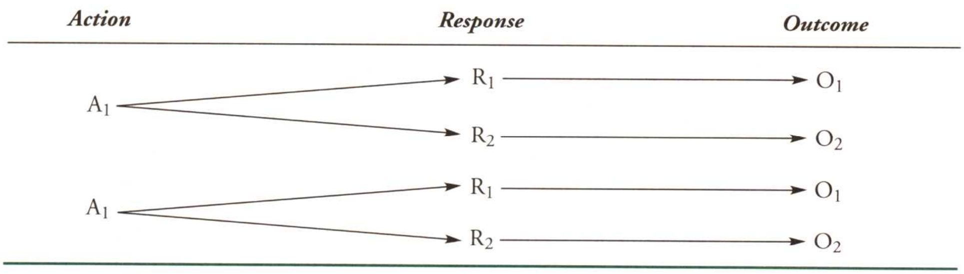
A recurrent issue in strategic marketing management is determining the consistency of product-market strategies with the organization's mission and capacity, market capacity and behavior, environmental forces, and competitive activities. Proper analysis of these factors depends on the availability and evaluation of relevant information. Information on markets should include data on size, buying behavior, and requirements. Information on environmental forces such as social, legal, political, and economic changes is necessary to determine the future viability of the organization's offerings and the markets served. In recent years, for example, organizations have had to alter or adapt their product-market strategies because of political actions (deregulation), social changes (increase in the number of employed women), economic fluctuations (income shifts and the decline in disposable personal income), attitudes (value consciousness) and population shifts (city to suburb and northern to southern United States)—to name just a few of the environmental changes. Competitive activities must be monitored to ascertain their existing or possible strategies and performance in satisfying buyer needs. Considerations in the acquisition and management of information are discussed in Chapter 5.

In practice, the strategy selection decision is based on an analysis of the costs and benefits of alternative strategies and their probabilities of success. For example, a manager may compare the costs and benefits involved in further penetrating an existing market to those associated with introducing the existing product to a new market. It is important to make a careful analysis of competitive structure; market growth, decline, or shifts; and *opportunity costs* (potential benefits *not* obtained). The product or service itself may dictate a strategy change. If the product has been purchased by all of the buyers it is going to attract in an existing market, opportunities for growth beyond replacement purchases are reduced. This situation would indicate a need to search out new buyers (markets) or to develop new products or services for present markets.

The probabilities of success of the various strategies must then be considered. A. T. Kearney, a management consulting firm, has provided rough probability esti-

EXHIBIT 1.2

Decision-Tree Format



mates of success for each of the four basic strategies.[18] The probability of a successful diversification is 1 in 20. The probability of successfully introducing an existing product into a new market (market-development strategy) is 1 in 4. There is a 50-50 chance of success for a new product being introduced into an existing market (product-development strategy). Finally, minor modification of an offering directed toward its existing market (market-penetration strategy) has the highest probability of success.

A useful technique for gauging potential outcomes of alternative marketing strategies is to array possible actions, the responses to these actions, and the outcomes in the form of a *decision tree*, so named because of the branching out of responses from action taken. This implies that for any action taken, certain responses can be anticipated, each with its own specific outcomes. Exhibit 1.2 shows a decision tree.

As an example, consider a situation in which a marketing manager must decide between a market-penetration strategy and a market-development strategy. Suppose the manager recognizes that competitors may react aggressively or passively to either strategy. This situation can be displayed vividly using the decision-tree scheme, as shown in Exhibit 1.3. This representation allows the manager to consider actions, responses, and outcomes simultaneously. The decision tree shows that the highest profits will result *if* a market-development strategy is enacted *and* competitors react passively. The manager must resolve the question of competitive reaction because an aggressive response will plunge the profit to $1 million, which is less than either outcome under the market-penetration strategy. The manager must rely on informed judgment to assess subjectively the likelihood of competitive response. Chapter 3 presents a more detailed description of decision analysis.

The Marketing Mix

Matching offerings and markets requires recognition of the other marketing activities available to the marketing manager. Combined with the offering, these activities form the marketing mix.

A marketing mix typically encompasses activities controllable by the organization. These include the kind of product, service, or idea offered (product strategy), how it will be communicated to buyers (promotion strategy), the method for dis-