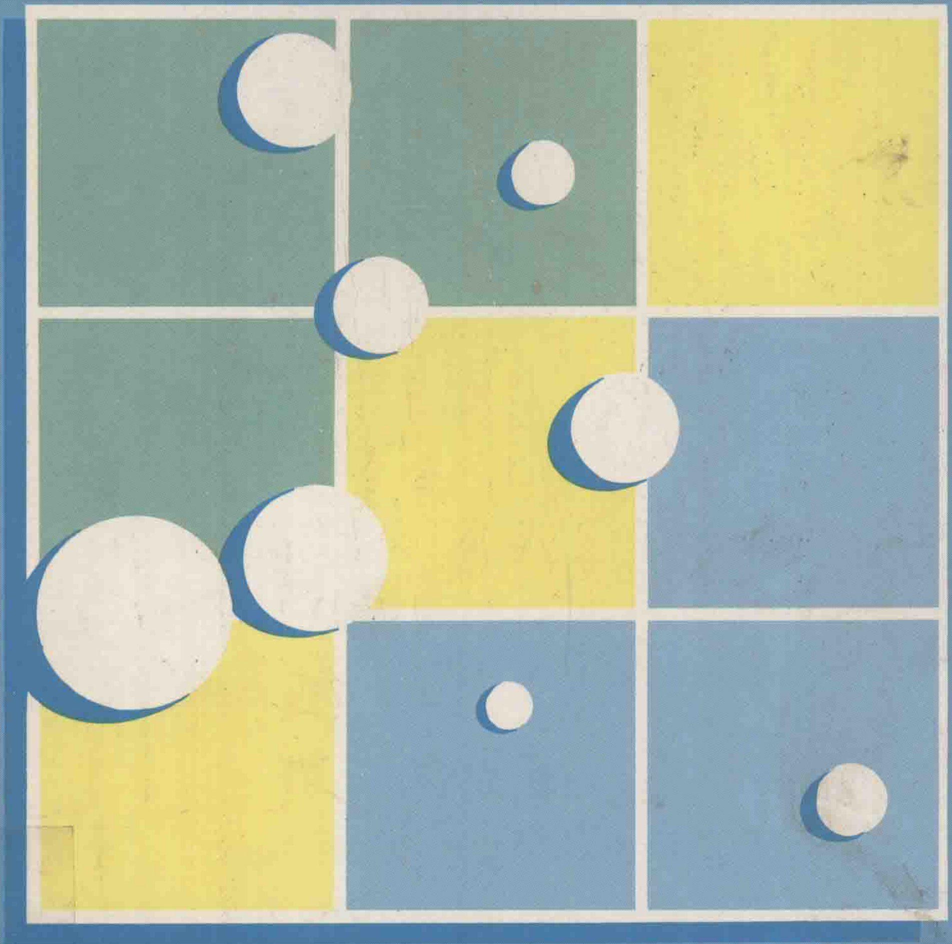
MARKETING DECISION MAKING

analytic framework and cases



O'Dell • Ruppel • Trent • Kehoe • Third Edition

Third Edition

MARKETING DECISION MAKING

analytic framework and cases

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PREFACE

Marketing Decision Making: Analytic Framework and Cases, 3d ed., is designed for courses in which decision making in marketing is to be scrutinized and sound procedures mastered. The book is in response to the oft-leveled criticism made by marketing practitioners that the classroom teaching of marketing is unrealistic and overly theoretical, leaving students inadequately prepared for the business world, where decisions *must* be made each day.

Marketing Decision Making: Analytic Framework and Cases is therefore intended for marketing courses beyond the "first principles" course. Because of its stress on identifying the information needs of marketing managers in making decisions, this text is intended for marketing management courses but also can be used in managerially oriented marketing research courses. The text is also appropriate for use in capstone courses because of its coverage of strategic considerations and the linkages between the marketing decision process with those of the finance function. A sufficient number of cases is provided for a semester-length course.

Some comments on the cases employed in this book are definitely in order. The cases were compiled and selected because they, in particular, provide valuable instructional opportunities to show the application of the decision framework and to reveal the several roles of information. Marketing research findings are presented in many of the cases because of the primacy of this type of information in marketing decisions. (An appendix dealing with basic marketing research design and data-collection concepts is provided to aid the reader in understanding the marketing research content of particular cases.)

The focus in each case is on one or more aspects of the decision-making/problem-solving process. Less emphasis is given to detailed descriptive material concerning the company and industry involved in a particular case. The cases are intended for treatment as *decision episodes* rather than as full, comprehensive cases in the classic Harvard Business School sense. It is highly desirable, therefore, indeed crucial in the view of the authors, that instructors refer to the companion *Teaching Notes* in organizing the class discussion of these cases. A failure to maintain the decision-process focus may result in a drifting of the class discussion to vague generalities and incomplete arguments. The questions provided at the end of each case are designed to keep the discussion concentrated on the decision process and framework.

This text represents a substantial revision and expansion of *Marketing Decision Making: Analytic Framework and Cases*, 2d ed., and has as its foundation the ideas and philosophy of William F. O'Dell. These were expressed in his book, *The Marketing Decision*, published in 1968 by the American Management Association. These ideas and procedures for marketing decision-problem analysis have been tested in the real world, in the classroom, and in management development seminars. Joining the authors of the first and second editions (O'Dell, Ruppel, and Trent) in the preparation of this third edition is Professor William J. Kehoe. He brings both business and academic marketing experience to the revision effort, and the original co-authors are pleased to have his participation.

For the reader, *Marketing Decision Making* provides these features:

1. A readily grasped, commonsense, five-step framework for analyzing business cases and real-world marketing decision-problems.
2. A pragmatic development of each step and its application.
3. A fully developed, five-part marketing management case that illustrates how to apply the basic analytical framework.
4. Numerous cases, all drawn from actual marketing episodes, for honing decision-problem analysis skills.
5. Repetitive use, throughout the book, of a simple flowchart of the analytical framework to aid the memory in keeping discussion and analysis "on track."
6. Guidance on preparing business reports, especially the distillation and presentation of data.
7. Procedural suggestions for written and oral presentations of study findings to management groups.
8. An overview of the principal facets of experimental research design and data collection.
9. A condensed presentation of the salient aspects of financial analysis, as relevant to marketing decision making.

Overall, the reader should come away with the conclusion that decision making in marketing (and in other endeavors) can improve simply by the decision makers having an explicit framework to use in the process. The necessity to be explicit allows creative insight to be focused, underlying disagreements to be made visible, true information needs to be identified, and decisions made with the confidence that comes from an orderly and considered approach to the decision process.

The authors are grateful to their colleagues for their comments concerning development of this book. The authors are also grateful to those authors and publishers who granted permissions to use their cases; credit lines appear on the first page of each such case.

William G. Shenkir, Dean of the McIntire School, like his predecessor, Frank S. Kaulback, Jr., has been consistently encouraging of our efforts. We are also most appreciative of the typing support we received at the University, particularly that from Mrs. Cam Garrard and Ms. Dot Tarleton.

William F. O'Dell
Andrew C. Ruppel
Robert H. Trent
William J. Kehoe

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INTRODUCTION: THE MARKETING DECISION SITUATION AND THIS BOOK

THE NATURE OF MARKETING DECISIONS

Marketing decisions are often more complex than those required of managers in other functional business areas. There are essentially four major reasons for the high degree of complexity.

1. **There are a large number of variables involved.** For example, when a company plans to introduce a new product, the number of variables affecting its success (or failure) are many. Competitive reaction, changing economic conditions, reaction of dealers to the product, consumers' willingness to change to the new product, and material cost increases requiring a boost in the selling price are all variables that influence the product's profitability.
2. **Many of these variables are external and thus uncontrollable.** In the example above, certainly the decision makers cannot control how competition will attempt to counter the new product's introduction. National or international economic conditions will increase or decrease the product's sales. If the retail trade, for some reason, fails to endorse the product, this of course will have a profound effect on the new item's profits. And finally, a national strike or other factors could increase material and labor costs, resulting in higher selling prices—something that could not be controlled by the decision makers.
3. **The variables lack stability.** In the preceding illustrations, the variables change through time, sometimes rapidly. An unexpected government tax on a given product class can have a devastating effect on sales. Or, a declining trend in consumer spending can discourage a product's sales.
4. **The market response is nonlinear.** Doubling an advertising appropriation rarely doubles sales, as usually only a modest increase results. While the underlying forces that make for nonlinear responses to marketing variables are several, the end result for the marketer is one of diminishing returns to marketing efforts.

In addition to having high complexity, marketing decisions frequently involve high levels of financial risk. Marketing costs typically account for a significant percentage of the final cost of most goods and services. In some instances, one marketing decision alone can require funding that exceeds the total after-tax profits of the company. One meat packer was considering increasing its advertising appropriation by nine million dollars; its after-tax profits during the entire prior fiscal period were less than that figure.

Another reason marketing decisions have great financial risk is that they initiate many decisions in other functional areas. For example, in a large firm the finance group cannot complete budgets and the manufacturing staff cannot complete production schedules until the marketing department provides sales estimates. Moreover, while all business functions are responsible for holding down costs, only the marketing function has the dual role of holding down costs *and* generating revenue.

Additionally, marketing decision results are more exposed to public scrutiny than are other functional area decision outcomes. Not only do consumers assess marketing decisions, but so do competitors, governmental agencies, financial analysts, stockholders, and other interested publics. This scrutiny is increasing as greater concern with the societal role of marketing is expressed.

Because of this complexity and cruciality, marketing decision makers generally strive to acquire and utilize available data to the fullest extent possible. In particular, they make heavy use of external data and information—primarily that concerning consumer response. But marketing decision makers often find that it is not always possible to obtain the desired data; cost, time, and measurability constraints are usually present. Selecting appropriate substitute data and knowing when to apply judgment are therefore important considerations.

Because of the complex nature of marketing decisions, problem solving and decision making in actual practice tend to be more an art than a science. Understandably, then, there is considerable interest in improving decision making and problem solving in marketing. This book is one expression of that interest.

WHO MAKES MARKETING DECISIONS?

Every organization that provides goods or services to others, for profit or not, makes marketing decisions in providing those goods and services. They may not be good decisions, but they are marketing decisions nonetheless. The organization may not be aware that it is making marketing decisions, i.e., the organization is not aware of the marketing concept. Nonprofit enterprises typically fall into this category. On the other hand, today few profit-oriented enterprises fail to recognize the significance of marketing to their success and that marketing decisions are important decisions.

The echelon or hierarchy concept is one way to broadly classify marketing decision makers in the typical business enterprise—a packaged consumer goods producer, for example. From the bottom up, the general labels for managerial levels are: supervisory management, middle management, and top management. The progression upward reflects a shift in focus from day-to-day operational considerations toward greater concern with long-run strategic issues. The marketing counterparts of these three managerial levels may be labelled roughly as: marketing instrument managers, marketing executives, and marketing committees.

Marketing Instrument Managers

Job titles commonly used in this category include: brand manager, product manager, advertising manager, and sales manager. These individuals on the front line deal with the day-to-day pressures of carrying out fundamental marketing tasks. Their job is to supervise the application of basic marketing efforts or factors, e.g., advertising, price.

Some writers refer to these controllable factors as marketing instruments; they must be "tuned" and "played" properly to get good results. The time horizon of these managers is, perforce, short and their focus is generally on marketing communication—developing and executing advertising campaigns, administering promotional efforts including trade and consumer price deals, and guiding the selling efforts. In some instances product or brand managers have a wider jurisdiction that includes new product development and obtaining intraorganizational coordination for marketing programs.

In almost every instance, however, marketing instrument managers must operate within the context of guidance provided by higher levels in the organization—guidance that is typically articulated in the form of a marketing plan based upon the overall business plan of the organization. The structure of such a business planning system is shown below.

Marketing Executives

Typical job titles used in some industrial companies at this level are: marketing manager, vice-president of marketing, or general sales manager. Central concern in these roles is directed toward product and market development; e.g., what products to add or to drop, what pricing policy to adopt, and what channels to use in reaching target markets.

Such questions demand that the decision maker adopt a longer time horizon. They are strategic questions; they involve the enterprise in significant commitments of financial and organizational resources and often involve contractual relationships extending over a long period of time.

Obtaining the answer to these questions compels the firm to formulate a marketing plan. The basis for the marketing plan is the corporate plan and its oversight is provided typically by some sort of executive committee. Chief executive officers, corporate presidents, and other top management executives also participate in major marketing decisions, often making key strategy choices. In some instances they may fulfill their marketing role through a committee mechanism.

Marketing Committees

Membership in marketing committees consists not only of an organization's several marketing executives and managers (who may be linked to product groups, key market segments, geographic regions, or some other meaningful subdivision) but also of marketing staff support managers, e.g., the manager of market research. Occasionally nonmarketing executives may be members, with the vice-presidents for production, research and development, and finance as the most likely participants. Top management officials are typically members of corporate-level marketing committees. Strategic marketing questions dominate the agenda of these committees. The integration of marketing plans with overall corporate plans is a central concern.

Other Marketing Decision Makers

In many large consumer goods corporations in which marketing plays a vital role, the firm's top executives assume the decision-making responsibilities of lower level marketing managers. For example, the chief executive officers of several large national beer producers actively participate in advertising decisions. In a proprietary drug firm, the board chairperson, among other activities, works closely with the company's advertising agency. Such involvements typically stem from the executive's personal marketing interests.

The small enterprise lacks the human resources that major corporations can assign to the marketing task. The small business proprietor is often the product manager, the advertising manager, the distribution manager, the sales manager, and the director of planning all rolled into one. The small entrepreneur must make strategic and tactical decisions alike.

Once major, long-run decisions are agreed upon (for example, selecting a store location), the framework for the daily operating decisions is established. Poor choices on major questions, such as an inadequate store site, can seldom be compensated for by advertising and other tactical marketing factors alone. Again, all the more reason to be concerned with improving marketing decision making.

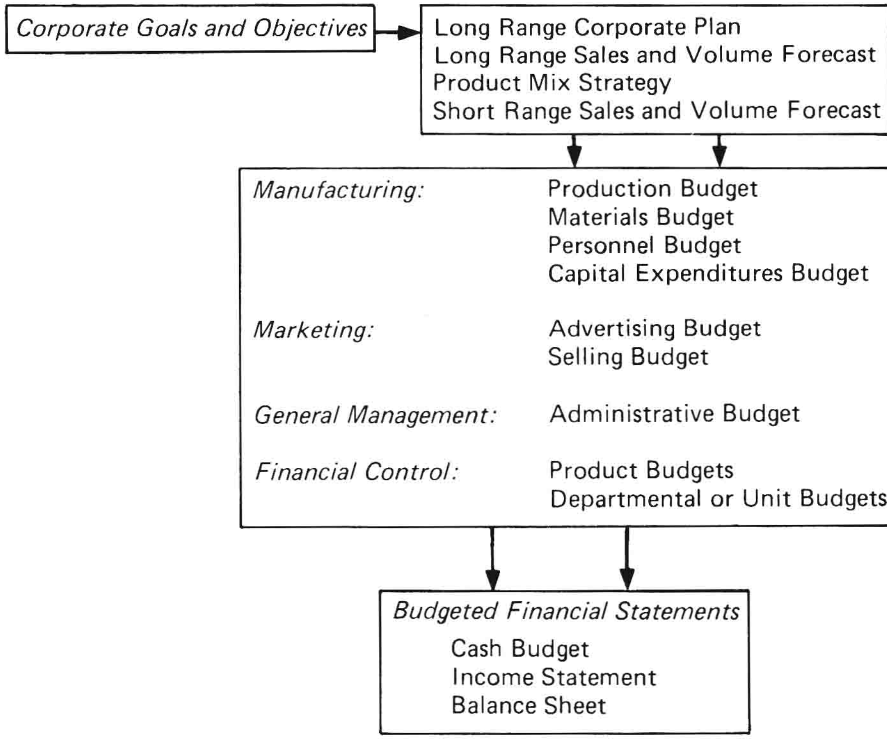
MARKETING DECISIONS AND THE PLANNING/BUDGETING PROCESS

Among the traditional five managerial functions (planning, organizing, staffing, directing, and controlling), the primary managerial function is *planning*, i.e., deciding in advance what will be done in both the short and long run. Planning must include the following processes: (1) establishing the objectives of the firm, (2) formulating strategies, (3) determining operating policies, and (4) creating procedures. It should be emphasized that these steps or phases of planning are not done in isolation: rather, each is dependent on the other. Planning is the key to the marketing manager's success. Marketing plans may take many forms, but a good plan must be related to the firm's existing strengths and weaknesses.

Planning in a firm is most frequently evidenced by a set of forecasts and budgets or a budgeting system based upon the overall goals and objectives of a firm (Figure 1).

One of the principal benefits of a well-designed planning and budgeting system is that it requires the manager to establish a set of performance standards, or targets. During the operating period, actual results are compared with planned and

FIGURE 1 Relationship of Goals, Plans, and Budgets



budgeted targets. Thus, there is a continuous monitoring process of reviewing and evaluating performance with reference to the previously established standards. Of course, the establishment of standards is sometimes a very difficult process. They must not be perceived as either arbitrary or unrealistic. However, the planning and budgeting process should improve internal coordination.

Decisions at every stage—for each product and at the research, engineering, production, marketing, personnel and financial levels—all have impact on the firm's profits. The planning and budgeting system should provide an integrated picture of the firm's operations as a whole. For example, a marketing decision to change the pricing structure for a particular product should be traced through the entire budgeting system to show its effect on the firm's overall profitability.

THE MARKETING PLAN

The concepts and philosophies underlying a given marketing plan are typically shaped in the marketing or executive committee process. The details of a plan, however, are generally developed by a product or market manager and approved by higher ranked marketing executives. These details usually include analysis and evaluation of the following:

1. The market situation.
2. Corporate capabilities.
3. Problems and opportunities.
4. Approaches for meeting problems and capitalizing on opportunities.
5. Pro forma statement display of financial consequences.

One version of a marketing plan outline is presented in Figure 2. An illustration of what details might appear initially in a marketing plan is shown in Figure 3 opposite. The section headings and details of a marketing plan will vary, of course, from company to company.

FIGURE 2 Typical Questions Addressed by a Marketing Plan

- **WHERE ARE WE NOW?**

  What is the situation regarding:
  1. Our marketing performance?
  2. Our financial health?
  3. Our production capability?
  4. Industry performance?
  5. The competitive climate?
  6. Customer characteristics and needs?
  7. Environmental factors and developments?

- **WHERE DO WE WANT TO BE?**

  What are our objectives regarding:
  1. Sales levels?
  2. Market penetration?
  3. Profitability?
  4. Corporate stature?

- **HOW SHALL WE GET THERE?**

  What are our options regarding:
  1. Product development?
  2. Pricing?
  3. Promotion?
  4. Distribution?

MARKETING DECISION AREAS

In designating categories of marketing decisions one must recognize the areas in which decisions can be made. What are the controllable factors? What are the uncontrollable factors or environmental forces? The decision clusters associated with the major factors or instruments open to manipulation by marketers are:

1. Product/brand development and deletion decisions.
2. Pricing decisions.
3. Physical distribution and "pipeline" or channel decisions.
4. Promotion/communication program decisions.

FIGURE 3 How a Hypothetical Sliding Glass Door Manufacturer Might Begin Addressing Marketing Plan Questions (Keyed to Figure 2)

- **WHERE ARE WE NOW?**
  1. Annual sales at $12 million; growing at 11% per year; yielding 15% return on sales; market share at 20% in quality portion of market, 0.6% in economy portion.
  2. $60,000 in cash on hand; $900,000 bank loan.
  3. No excess capacity. Aluminum extrusions in ample supply, but prices are rising. Manufacturing and design skills regarded as superior by the trade.
  4. Current industry sales at $60 million; 50% growth expected over next three years.
  5. Many firms, especially at local level. Price competition intense, especially in areas with several local producers. Easy entry.
  6. Contractors constitute the principal customer category. Brand names not generally important; bid price by supplier is primary consideration. Economy portion of market is approximately 70%. Tract housing contractors especially sensitive to price and desire no after-installation service requirements.
  7. Greater federal government involvement in safety standards (safety glass in sliding doors may become mandatory). Energy conservation concerns (argument for double panes).
- **WHERE DO WE WANT TO BE?**
  1. 20% increase in sales over next 3 years.
  2. Increase share in economy market to 5% over next 3 years. Maintain share in quality portion of market.
  3. Boost ROI to 20% on net worth.
  4. Maintain reputation for quality and design superiority.
- **HOW SHALL WE GET THERE?**
  1. Exploit aerospace plastics and sealant technologies in developing a low-maintenance, safe, energy-saving sliding door/window wall panel.
  2. Price in upper range of economy market.
  3. Enable contractors/developers to integrate door's features into their advertising efforts—stress savings to homeowner.
  4. Concentrate on major building supply dealers in areas of significant tract home construction.

Source: Adapted from Figure 1-4 in D. J. Dalrymple and L. J. Parsons, *Marketing Management: Text and Cases* (New York: John Wiley & Sons, Inc., 1976), p. 11.

It is important, of course, that these various decisions be made in concert and consonance with one another. Stated marketing plans attempt to assure this coordination.

There is the temptation on the part of many (a temptation worth resisting) to classify marketing research as a prime marketing decision area. It will be argued at several points in this book that, while marketing research does indeed raise a host of decision issues and is a key decision area itself, it should not be classified as a *marketing* decision area. Rather, marketing research reflects the need for relevant data and information to complete and carry out marketing decisions. In looking at decision making in a generic way, research is an important, separate activity running parallel to the main decision effort and whose intensity is proportional to the main decision's need for data and information. Further discussion of the role of marketing research is included in Chapter 2.

TYPES OF MARKETING DECISIONS

In looking at real-world decisions, marketing or otherwise, one is aware that some decisions are expected or anticipated whereas others are forced as a result of unexpected or unplanned circumstances.

Unanticipated vs. Anticipated Decisions

Unanticipated decisions often give the decision maker little time to contemplate fully the proper course of action. An example of an unanticipated, forced decision situation was created by a Food and Drug Administration ruling that saccharine contains a potential cancer-inducing agent and should be removed from the market. Other examples of such situations include unexpected competitor price reductions, distribution foul-ups in major markets, or a work stoppage in a key supplier's plant. Managers attempting to cope with such situations often speak of "putting out brush fires." In the worst of situations there is a continual parade of crisis decisions and such conditions create much of the pressure associated with the managerial role.

Anticipated decisions, on the other hand, stem directly from the planning process and from the conversion of plans into operational programs. The pressure content of these decisions is considerably lower than those associated with "putting out fires." These two broad decision categories imply different conditions under which data and information may be acquired and brought to bear on the main questions. In one instance there may be little or no time available for gathering information (the fire must be put out); in the other—the planning/programming effort—there may be considerable time available.

"Bright-Idea" Decisions

There is yet another category of marketing decisions—those that emanate from someone's *bright idea* (not meant here in the derogatory sense of "Whose bright idea was that?"). Marketers typically take great pride in being creative, in having innovative, profit-making ideas. Translating those ideas, especially when they involve efforts outside the organization's regular stream of affairs, can raise decisions that demand considerable additional data before resolution is complete. The bright idea often occurs during the decision process when the factors involved are viewed from a totally different perspective by one of the decision makers. Sometimes this phenomenon is the result of experience or it may be simply a better insight into the particular situation at hand. Sometimes the marketing out-come of a bright idea will be a new product, other times it will be a modification of the existing program.

Bright-idea decisions are akin to brush-fire decisions in that both are unanticipated, at least in their particulars. The former have a pleasant opportunity, sense-of-excitement character to them while the latter tend to be irritating and problematical, and induce furrowed brows and considerable concern. Brush-fire decisions can seldom be deferred; bright-idea decisions often may be delayed—though in certain instances if the firm does not decide quickly enough, a bright idea can become an "if only we had . . ." lament.

To recap, the source of a marketing decision episode can be:

1. Based on plans and the planning process (anticipated decisions).
2. Brush-fire fighting efforts (unanticipated decisions).
3. Bright-idea capitalization attempts.

Each category has its own general time pace and its own demands for data and information. The decision-making procedures advocated in this book apply to all three categories.

MARKETING DECISION MAKING: THE BASIC FLOWCHART APPROACH

There are a number of ways to look at decisions—marketing decisions or other types. The authors have chosen a five-step process framework that is familiar to many and readily grasped and retained by those to whom it is not. The five steps are portrayed in the accompanying flowchart (Figure 4), which shall be referred to as the *basic flowchart*. The next five chapters in this book will treat each of the steps of the flowchart in detail. At the beginning of each chapter is a duplicate of the basic flowchart that highlights in bold outline the particular step under discussion in that chapter. As a summary of each chapter, the basic flowchart, augmented with key points, is repeated at the end of the chapter. This repetitive use is intended not only to aid the reader but also to emphasize the belief that explicit, conscious recognition and systematic application of the five-step process pays enormous dividends toward improved decisions.

Each chapter contains concepts, techniques, and procedures for completing a single step in the basic flowchart. To illustrate the application of each chapter's contents, a marketing case (Grandin Laboratories) is analyzed. Details of the case are presented in stages and the analysis of each stage is provided separately. The reader may wish, at this point, to review the table of contents and to skim through the book to become acquainted with its format.

THE FRAMEWORK FOR MARKETING DECISIONS

Throughout this book the basic flowchart serves as the frame of reference. It is essential that one fully understand this model. Grasping the fundamental ideas of the framework enables one to proceed in a more logical fashion. The role of creativity is recognized. The function of data is comprehended. The significance of analysis is seen. But perhaps of even greater value is the contribution the flow-

FIGURE 4 Basic Flowchart of Decision-Making Process

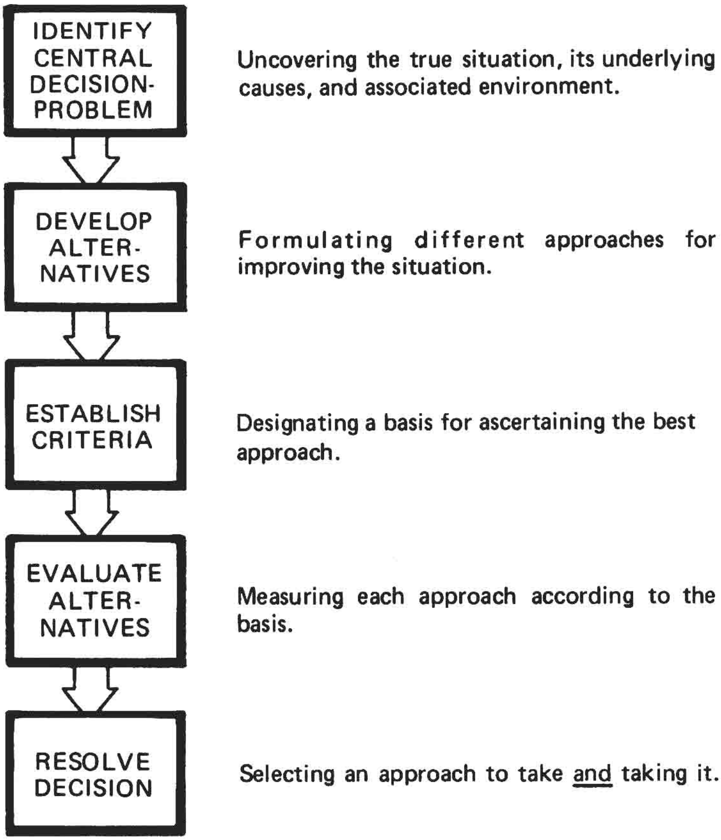


chart makes to participation in group efforts. Understanding this model enables one to become involved in a meaningful way when the discussion moves from one phase of the decision process to another. Of benefit to the person fully grasping the decision model is the aid it gives in focusing group discussion—to see where the group is in the process versus where the group should be. Keeping the discussion on a logical and coherent plane is one of the chief gains of applying the model to group decision efforts.

Whether confronting a classroom case or a real-world decision situation, one should, at the very outset, ask the questions:

1. Where do the decision makers *appear* to be with regard to the decision process as schematically portrayed in the basic flowchart?
2. Where *should* the decision makers be?

For example, an episode may open with a meeting of decision makers and staff members. Their interest may be focused on choosing one of three new advertising themes to correct lagging sales. Ostensibly they are at Step 5: Resolving the Deci-