

Analysis for

Strategic Marketing



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PREFACE

Marketing touches every person in one way or another. Marketing and innovation are perhaps the only two significant engines for the growth of any economy. Successful growth of a company, an organization, or an industry (and an economy) depends heavily on insightful, systematic, and scientific application of marketing principles and methods. But the word *marketing* to a layperson is likely to elicit thoughts of commercials with special effects, catchy slogans, and celebrity endorsers touting new and improved products and services. This visible output of the marketing process is a creative and artistic activity and implies a sole purpose of persuading the customer to buy things. Fortunately, marketing professionals know better. Behind those enticing commercials are often hours of quantitative analysis that attempt to uncover what customers want, how alike people or organizations are who want the same things, how to design a new product or improve an existing one, and how successful a new or improved product is likely to be. These analyses are necessary to make a commercial successful. What the layperson sees as art is often the result of hours of scientific work.

The distinction between art and science in marketing is reflected in the evolution of marketing practice. In the first half of the twentieth century, the task of marketing began with the product as given. The main job was to think of “artistic,” creative, and often clever ways to persuade customers to buy a product or service. With technological and industrial progress, new industries have evolved, leading to ever-changing ways to satisfy customer needs and wants. The structure of competition among firms has also changed due to the emergence of new competitors and the eventual exit of some old ones. Existing boundaries between industries and product markets have blurred. Firms have to seek new ways to satisfy the needs and wants of customers better than their dynamic competitors. Accordingly, focus has shifted to the importance of gaining deeper understanding of both customer and competitor behavior in discovering new product opportunities to satisfy unmet customer needs. Both the academic community and consulting firms, often in cooperation, have developed sets of analytical and scientific methods directed toward assisting firms in tackling the newer challenges.

Marketing executives make decisions for their products and services at both tactical and strategic levels. The tactical decisions are often the day-to-day tasks for managing an existing business with more attention paid to current problems. These include designing price promotions, formulating advertising slogans, and identifying and targeting market segments. These managerial tasks fall under the rubric of brand or product management and planning. Strategic decisions consider issues such as how the market and industry will change in the future, what competitive advantages are sustainable, which newer product markets to enter, and how the firm can compete in those markets. Strategic marketing is more concerned with the long-term viability of a business and even the corporation as a whole.

Needless to say, effective planning is required to implement decisions at both the tactical and strategic levels. In order to survive, the modern corporation must continually search for new product opportunities. Once a firm enters a new market with either a new or an existing/modified product, the markets must be managed effectively. Both levels of planning also require relevant and intelligently performed analyses to be successful. To be useful, analyses must provide information that impacts corporate decisions. This book was written in response to a perceived void in the literature related to effective analyses for the strategic marketing function.

Two areas of marketing are related to the specific topics covered in *Analysis for Strategic Marketing*: they are strategic marketing and marketing research. Books on strategic marketing tend to describe frameworks and paradigms that emphasize the questions management ought to consider when formulating a strategic decision. However, such books generally do not provide sufficient detail about the specific research approaches needed to answer these questions. In contrast, most marketing research books are oriented toward techniques of data collection and analysis. They concentrate on the formulation of research designs and the technology of conducting research projects.

Features

No book exists until now that takes the questions relevant to strategic market planning and describes precisely how to conduct the research and analyses needed to answer them. This book starts with issues faced and decisions to be made by a strategic marketer and describes various methods of analyses that can be used to assist management in this endeavor. *Analysis for Strategic Marketing*

1. Provides a deeper understanding of the issues that encompass marketing strategy (investigating product-market opportunities, discovering unmet consumer needs, analyzing competitors, determining competitive advantage, predicting environmental changes so as to be proactive in the marketplace, forecasting results of strategies, and allocating resources)
2. Describes with applications a set of well-tested methods that address each of the issues and
3. Shows how to implement or guide the implementation of research with these methods.

It is an exciting time to be writing this book. Several developments have occurred or are on the horizon that will facilitate the kinds of analyses described in this book. Generally speaking, the seeds for a marketing information revolution are sown in a fertile environment amply supplied by technology, communication, and brain power. Using supermarket scanners to collect data on customer behavior is now commonplace; new interactive computer-aided interview methodologies have emerged; and who knows what new opportunities the information superhighway and digital television-cum-computers will bring for collection of data that can help one address strategic questions related to customers and competitors? Further, decision-

support systems are being designed to implement the results of various analyses in a more or less routine manner.

One of the attractive aspects of the material in this book is that it is quite robust in its treatment of all these changes. The tools and techniques described here will be as applicable in the future as they are today. The thing to look forward to is that the future will bring richer data collected by better methods for applying the strategic marketing methods discussed in this book.

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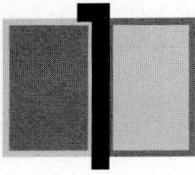
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The Role of Analysis in Strategy Formulation

INTRODUCTION

Formulating marketing strategy is a difficult task. Managers rarely have all the information that they would like to have at their disposal to make the required decisions. Furthermore, the information that they do have may be difficult to interpret, especially if it relates to future business environments. Consider the following illustrations.

The Victoria Moore Company designs and manufactures women's dress and casual clothing, shoes, jeans, accessories, men's wear, and children's wear.* The vast majority of their business is in women's clothing, the area in which the company began. As the company desires to continue to grow, it needs to investigate whether new products or new markets will best fuel that growth. If new products are the answer, the company then needs to determine what new products will best serve its purposes. Victoria herself wondered whether activewear was a future growth opportunity. In order to determine the appropriate course of action, she needed to answer these questions:

1. How could she identify her target activewear customers? What potential do they represent?
2. Who would her competitors most likely be—other designers of casual wear or sports apparel manufacturers?
3. What benefits do potential customers look for in leisure sports apparel—Fit, fashion, comfort?
4. Is the Victoria Moore brand name an advantage in this category? And if so, what is its value?

In the early 1990s Citibank attempted to differentiate its classic Visa and MasterCard by placing a photograph of the customer on them.† The credit card market had become extremely competitive and competitors like Citibank had to find reasons for potential customers to choose their card. The intent behind the photo was to appeal to security-conscious consumers who might fear that fraudulent charges could be made with a lost card. The bank felt that the new card would reinforce its

*Victoria Moore is a fictitious name for a real company. The company has provided data used later in the book and has asked that its name be withheld.

†Photocards were available in the early 1980s from some regional banks (such as Baybank in Boston). These cards were abandoned because of excessive production costs. By the early 1990s technology had advanced to a point where cost was no longer an issue.

Bankcard Division's positioning statement, "No other credit card gives you the security and confidence of Citibank MasterCard and Visa because no one is as responsive to your needs." Before the photocard was introduced on a wide scale, Citibank was interested in customers' reactions to various aspects of obtaining and using its cards. In particular, the bank wanted insight into the relative importance of the photo in customers' decision to acquire and use the card.

In the early 1990s, the athletic footwear industry entered its mature stage. Growth in sales flattened as the number of people participating in exercise peaked and the domestic economy began to falter. After a decade of double-digit retail growth, 1993 saw essentially no growth at all. Sales to women actually declined. Seeing clouds on the horizon, Reebok, the number two company in this industry (behind Nike), recognized the need to identify growing market segments in the industry. This involved two subtasks: segmenting the market and forecasting each segment's growth.

During the 1970s, Xerox customers had become disappointed with Xerox quality and service. The company's early competitive advantage was gone. Consequently, the company lost its leadership in the copier industry it created with the introduction of its model 914 in 1959. In 1983 Xerox began to regain lost share by initiating a "Leadership through Quality" program that emphasized product quality, customer satisfaction, and new products. To monitor the success of the program, Xerox felt it had to develop a set of tools to continuously measure customer satisfaction. In its view, customer satisfaction was a leading indicator of financial performance.¹

In the first half of the 1990s, many electronics companies were investigating high-definition television (HDTV), a new technology that produced higher picture resolution in addition to superior digital stereo sound. Zenith, the only American-owned television producer, was particularly interested in this development. To best decide whether and how to proceed, it had to forecast demand for the new technology and study consumer preferences for the new format.²

Coffee is the largest product category in the General Foods portfolio. Unfortunately for the company, health concerns have led to a decline in national coffee consumption. This trend has not affected all aspects of the coffee business equally, however. In particular, decaffeinated gourmet brands, such as the General Foods International Coffees, have been less affected than regular and mass-market ones. General Foods—and the Maxwell House division in particular—must decide how to allocate its resources among its brands so as to maximize its performance.³

These situations differ in a wide variety of ways. They involve distinct strategic decisions. Some (Zenith's) involve market entry; others (Citibank's) involve product differentiation, and others (General Foods') involve resource allocation. The role the company plays in its industry differs. Some of the situations involve market leaders (Citibank); others involve market challengers (Reebok). The situations also represent industries in different stages of growth. Some involve mature industries (General Foods'); others involve embryonic industries (Zenith's). The situations also differ with respect to issues as fundamental as whether the company of interest is a participant in the industry in question. Some involve companies contemplating entry into a new industry (Victoria Moore); others involve companies already there (Xerox). Despite these many differences, they have one thing in common: They all require the collection and/or analysis of information (data) in order to make the

appropriate decision. That is what this book is about—the analysis of information necessary to make strategic marketing decisions.

In this chapter, we begin by outlining what a strategic marketing decision is. We continue by classifying strategic situations and demonstrating that specific needs for analysis vary systematically across these situations. Then we show what role analysis plays in the process of strategic decision making. The chapter concludes by discussing the link between these issues and the remainder of the book.

BOUNDARIES OF STRATEGIC MARKETING

If you ask most managers what a strategy is, you will invariably elicit a response akin to “the way you go about accomplishing your objectives.” This is rather vague, and for good reason. The word *strategy* is ubiquitous in common language. It is used not only in conjunction with business in general and marketing in particular; it is associated with politics, military action, and sports as well. For example, consider the longtime rivalry between tennis players Martina Navratilova and Chris Evert. Each match they played would follow the same pattern. Martina would try to attack the net and hit a winning shot; she tried to shorten the points as much as possible. In contrast, Chris would try to hit the ball deep and keep Martina away from the net until Martina made a mistake; she tried to lengthen the points as much as possible. Each player tried to establish the pattern of points in which she had the best chance of winning. Martina wanted short points because she was such a dynamic, attacking player and could hit winning shots with the greatest of skill; if the game were determined by who could hit the first winning shot, her skill at attacking would be the determining factor and she would most likely win. Chris wanted long points because she was steady and if the points were determined by who made the first mistake, her steadiness made it unlikely that this would be her. In this context, strategy reduces to pattern of points (short, long) and method of winning points (attacking, being steady).

In marketing, the pattern of points corresponds to the selection of markets companies will compete in, the products they design, and the companies they acquire. Method of winning points becomes the way companies get sales from customers—what marketing skills they employ. These ideas are reflected in the strategic gameboard designed by Roberto Buaron, the well-known McKinsey consultant. As shown in Fig. 1.1, strategic choice can be boiled down to two questions, where to compete and how to compete.⁴

The question of where to compete can manifest itself in a variety of forms. It can involve deciding whether to enter a new industry, as is the case with Victoria Moore. It can focus on the pursuit of certain segments within a given industry, which is Reebok’s task. Finally, given that a firm may compete in several industries and/or segments, it must decide the relative emphasis and resources it will place on each. Such is the dilemma confronting the Maxwell House division of General Foods.

Although determining how to compete seems to encompass an almost infinite number of alternatives, Michael Porter argues that there are really only two general classes of options.⁵ One is to be the low-cost producer. If a firm is the low-cost