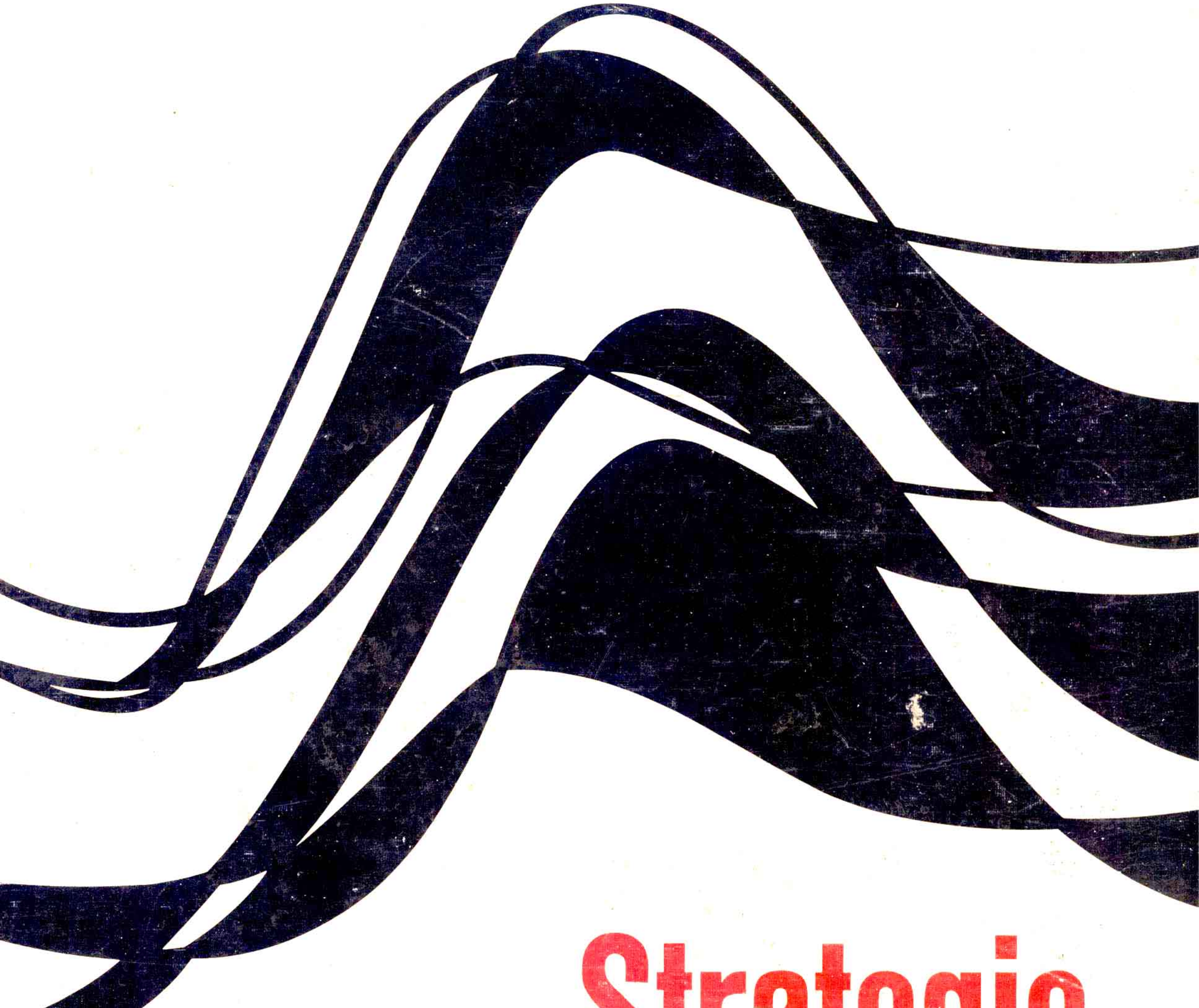
DAVID T. KOLLAT ▪ ROGER D. BLACKWELL ▪ JAMES F. ROBESON



Strategic Marketing

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EDITORS' FOREWORD

The Advisory Editors of the Holt, Rinehart and Winston Marketing Series are pleased to publish this modern text on marketing by Kollat, Blackwell, and Robeson. *Strategic Marketing* is outstanding in several ways as a basis for educating present and future marketing and business executives. Its dominant theme is that marketing management is part of corporate management, not an isolated thing in itself. As such, marketing policy and practice must be constantly related back to the purposes and objectives of the firm. Within this framework, *Strategic Marketing* presents a comprehensive, well-organized, and up-to-date treatment of modern marketing. The chapters flow logically according to the major steps in the management process. Every topic of major importance to the marketing manager is presented with good conceptual and descriptive treatment. The text introduces the latest concepts in marketing analysis, planning, and control without becoming too mathematical or obscure. The Editors feel that this combination of virtues makes this book a distinguished contribution to the marketing literature.

Paul E. Green
Philip Kotler

PREFACE

The expanding role and accelerating importance of marketing is one of the most significant developments in the business sector of the American economy since the Second World War. In an environment characterized by unparalleled technological advancements, intensifying competition, increasingly fragmented and discriminating customer markets, and massive and disruptive changes in distribution markets, business enterprises have relied more heavily on marketing than at any other time in the history of the Republic.

During the last quarter century a few firms have risen to the top of American industry, many have died, and most have achieved average results. These varying performance profiles are determined in large part by differing degrees of marketing competence. High-yield companies are usually proficient in marketing; the others typically have less expertise. Most enterprises now recognize the fantastic rewards of marketing competence and the devastative, often terminal effects of marketing incompetence. Corporate success is often synonymous with marketing success.

Marketing has become not only critical but also complex. Unlike production, accounting, finance, or engineering, marketing problems usually resist neat quantitative solutions. Designing products and services to satisfy customer needs is a hazardous process that often victimizes even the largest and most sophisticated companies. Marketing decisions must inherently be made with incomplete information, and the sales, cost, and investment consequences of these decisions are difficult to predict. The difficulty of making these important decisions makes marketing a critical determinant of corporate success.

This volume is dedicated to those who desire to understand marketing or who aspire to be marketing executives. It attempts to deal meaningfully with the marketing challenges that corporate and marketing executives face. Hopefully it reflects several themes and convictions.

First, this text is managerially oriented. It attempts to present an analytical orientation to the major marketing problems facing senior corporate and marketing executives. Description has been minimized in favor of this orientation.

Second, marketing has been subordinated to the overall interests of the firm. Like other functional areas of the business, marketing contributes to the development of corporate objectives and strategies. But the role of an enterprise is to achieve certain goals and objectives, and it can accomplish them most effectively and efficiently if it follows certain strategies that allow it to capitalize on its strengths and minimize its vulnerabilities. Thus marketing must contribute to the achievement of corporate objectives in ways that are consistent with corporate strategies and with the strengths and limitations of other functional areas of the business.

Third, we have attempted to present a practical framework that links corporate objectives and strategies to master marketing objectives and strategies, and then to objectives and programs for individual marketing activities. The linking mechanism is a general management-by-objectives system. Flow diagrams have been used to depict these relationships.

Fourth, the text has a strong empirical emphasis. We have reviewed books and articles appearing in major business publications since 1950, seeking to present a richly documented discussion that reflects the current state of marketing expertise. Literature reviews and theoretical concepts are rarely presented unless they have immediate or potential applications to the development of corporate and marketing strategies and programs. We have made liberal use of case examples to illustrate concepts and procedures, and heavy emphasis has been placed on research techniques and information systems.

Finally, this volume has a futuristic orientation. Since we are concerned more with the future than with the past, historical data and concepts are presented only where they shed light on the future. In an era of unprecedented change and discontinuity, the experiences of the past are often questionable guidelines for the future. Though the methods of futurology are imperfect and hazardous, we have nevertheless tried to present informed judgments about the future rather than ignoring it.

The twenty-two chapters that comprise the text are divided into six major parts. Part I is concerned with the development of corporate and marketing strategies. Chapter 1 discusses systems comprising the corporate environment and a management-by-objectives approach to managing a firm. A framework is then presented for developing a strategic plan—consisting of a corporate mission, objectives, and strategy. Chapter 2 first discusses the nature of marketing and the marketing concept and then presents a procedure for developing master marketing objectives and strategies that are consistent with, and that contribute to the achievement of, corporate objectives.

The seven chapters comprising Part II are concerned with identifying and assessing market opportunities. Chapters 3 and 4 present a managerial orientation to marketing research sources and techniques. Chapters 4 through 8 analyze the present and future structural and behavioral characteristics of consumer, industrial, institutional, and international markets. Procedures and techniques for selecting target market segments are presented in Chapter 9.

Part III consists of eight chapters dealing with marketing programs—discussing product programs (Chapters 10 and 11), pricing (Chapter 12), channels of distribution (Chapter 13), physical distribution (Chapter 14), advertising (Chapter 15), sales force (Chapter 16), and marketing personnel (Chapter 17) problems. Each of these programs is related to the master marketing objectives and strategy through the management-by-objectives system, depicted graphically via flow charts.

Techniques for pretesting the effectiveness of marketing programs are discussed in Part IV. Chapter 18 analyzes test-marketing procedures, and simulation techniques are discussed in Chapter 19.

Once implemented, marketing programs must be controlled and evaluated. In Part V, Chapter 20 describes the nature and content of marketing information systems that are necessary to utilize the control and evaluation procedures presented in Chapter 21.

The nature and role of marketing are likely to change in order to adapt to the problems and opportunities of the 1970s. Chapter 22 attempts to identify the moral and ethical responsibilities of business enterprises and corporate and marketing executives during this transitional decade.

Like most other books, this one reflects the ideas and experiences of many individuals. First and foremost are those authors who have generated perceptive ideas about corporate and marketing strategy and planning. Second, we are indebted to our colleagues at The Ohio State University: Robert Bartels, Theodore N. Beckman, W. Arthur Cullman, William R. Davidson, James H. Davis, Alton F. Doody, James F. Engel, John R. Grabner, Jr., Bernard J. LaLonde, Louis W. Stern, and Wayne Talaryzk. We are particularly grateful to the late Robert B. Miner for his understanding and assistance.

Many of the ideas and points of view have evolved from the authors' consulting experiences. We are particularly indebted to Management Horizons, Inc., especially Mr. Byron Carter, Dr. Bert C. McCammon, and Dr. Cyrus C. Wilson.

Several individuals reviewed various chapters. We particularly appreciate the suggestions made by Professors Bernard J. LaLonde, James F. Engel, John R. Grabner, Jr., and Lawrence Ritzman of The Ohio State University, and Mr. Charles Kimm of Battelle Memorial Institute.

We are also indebted to those individuals who reviewed the manuscript in the latter stages of its development: Professors Paul Green of Wharton, Philip Kotler of Northwestern, and Harper Boyd of Stanford.

We would also like to express our gratitude to Professor Beverly Anderson, now at Kansas University; Samuel Craig; and Dennis Garber for their assistance in collecting and synthesizing materials. Mrs. James Andrews did an outstanding job of typing the manuscript.

Finally, we are most grateful to our wives and families for accepting the deprivations and frustrations of living with writers. This book is dedicated to them.

Columbus, Ohio
January 1972

D.T.K.
R.D.B.
J.F.R.

CONTENTS

PART I CORPORATE AND MARKETING PLANNING

Marketing's *raison d'être* is its contribution to the achievement of overall company objectives and strategies. These are initially developed and articulated in a corporate strategic plan, which then becomes the basis for the marketing plan. These planning procedures constitute the subject matter of Part I.

Chapter 1 is concerned primarily with the development of a strategic plan that will allow a firm to achieve above-average rates of growth and profitability by engineering a market position so advantageous that competitors can retaliate only over an extended time period at a prohibitive cost. Each stage in this planning process is examined in considerable detail.

Chapter 2 begins by discussing the nature of marketing and the contemporary marketing concept; then it presents a system for developing a marketing plan that makes the required contributions to the achievement of the strategic plan

Chapter 1 Corporate Strategy

Marketing is perhaps the most dynamic, complicated, and challenging function of business. Indeed, more and more businessmen are recognizing that marketing success is a pivotal determinant of corporate success.[1]

While marketing is usually critically important, it is seldom the sole determinant of a company's success or failure. Like production, engineering, finance, and other functions of a business, it is judged ultimately by its contribution to the overall objectives and strategy of the firm. To be sure, marketing considerations together with those of other functional areas play an important role in framing corporate objectives and strategies. But once the latter are formulated, the role of marketing is to contribute to their achievement.

This chapter first discusses the firm and the environment in which it must operate; then it presents a management system that will be used throughout this text. The remainder of the chapter develops an operational framework for formulating a strategic plan. Marketing strategy is integrated into this framework in the next chapter.

THE TOTAL CORPORATE ENVIRONMENT

Historically there has been a tendency to think of the activities and boundaries of a company in terms of what the company owns. This perspective is too myopic to be of much value in strategic planning. Rather, we must take a much broader view of an enterprise by considering the total environment in which it operates.

[1] See, for example, Lee Adler, "Systems Approach to Marketing," *Harvard Business Review*, Vol. 45 (May-June 1967), pp. 105–118.

The Total Corporate System

Figure 1-1 is a schematic representation of the firm and major subsystems comprising its environment. The totality of these interacting subsystems comprises what has been termed the total corporate system.

These subsystems can affect a firm in two major ways. First, they may play a *constraining role* in limiting the success of an enterprise. They may also play an *opportunistic role* in presenting opportunities for improving its success. Many companies and much written literature emphasize the constraining role. While this perspective must be given careful consideration, companies enjoying above-average rates of growth and profitability *capitalize* on the opportunities presented by environmental forces.[2] With this opportunistic perspective in mind, let us examine the major subsystems comprising the total corporate environment.

Environmental Systems

Four major interacting systems comprise a firm's environment: (1) economic and technological systems; (2) political, legal, and regulatory systems; (3) cultural and life-style systems; and (4) other social systems. Each of these systems constrains the firm and also offers it opportunities.

Economic and Technological Systems. The size or level of the economy affects the opportunities available to an enterprise. The size of the economy affects the total market size for consumer and industrial goods and services. Higher levels of economic activity also create new business opportunities, as illustrated by the growth of firms offering various types of luxury goods and services.

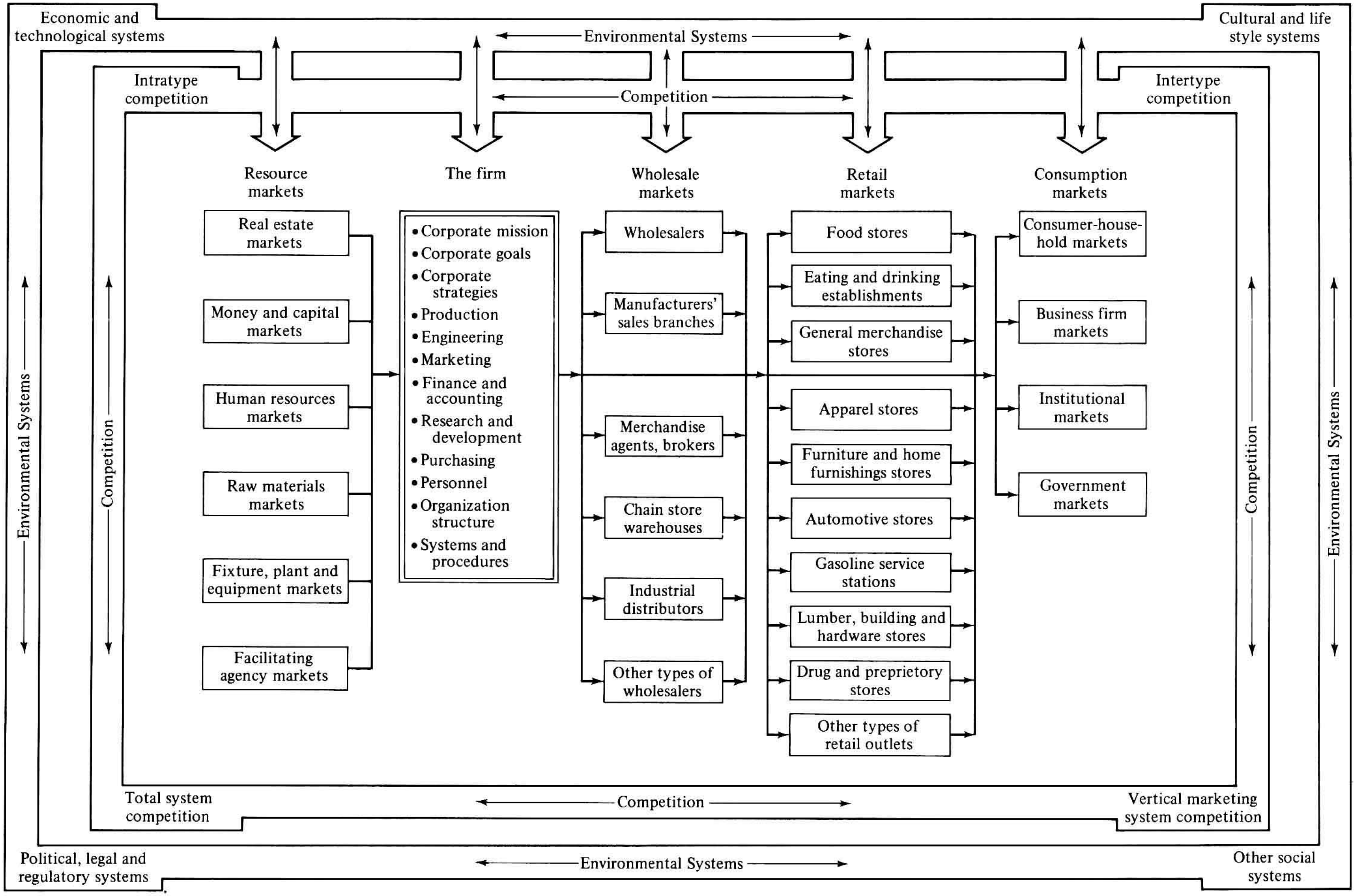
Technological systems also affect a firm's destiny. When market opportunities exist but the necessary technology is absent, technology presents a limit. Conversely, technological innovations often create new business opportunities—as the development of synthetic fibers did in many fields, including apparel and carpeting.

Political, Legal, and Regulatory Systems. These systems restrain as well as create opportunities for perceptive companies. For example, the decision to rely heavily on monetary policy to combat the inflation of the late 1960s restrained the housing industry but created opportunities for apartments. Tax laws limit the profitability of many companies but they also create opportunities for individuals and firms having expertise in tax matters. Similarly, while many firms were restricted by Medicare (or viewed it as restrictive), others—such as nursing homes—organized to take advantage of the opportunities it created.

Cultural and Life-Style Systems. Cultural and life-style systems also limit and create opportunities for firms. For example, the weight consciousness of

[2] For corporate examples see Alfred D. Chandler, Jr., *Strategy and Structure* (Cambridge: The M.I.T. Press, 1962).

Figure 1-1 The total corporate system.



many American consumers presents sizable business opportunities for companies offering products and services that assist in weight control, while it limits the opportunities of those offering products and services that result in weight gain. The trend toward suburban living adversely affected manufacturers and retailers relying on retail outlets in the central cities but has created fantastic opportunities for a variety of businesses, such as shopping-center developers, branch stores for retail outlets, and companies supplying goods and services involved in home and lawn maintenance.

As these few examples illustrate, a firm operates in an environment consisting of many interacting systems. The success of a business depends, in part, on how well it adjusts to the constraints and opportunities presented by these and other environmental systems.

Competitive Systems

In adapting to the restraints and opportunities of the various environmental systems and markets, a firm faces several potential types of competition (see Figure 1-1). The most obvious is ***intratype competition***—conflict between firms of the same type. Thus, for example, Coca-Cola competes with Pepsi-Cola. This is the form of competition described in economic theory and stressed in economic studies.

Intertype competition occurs between different types of firms. Coca-Cola, for example, competes with such companies as Procter & Gamble, Kraft, and Kellogg for access to resource, retail, and consumption markets.

Another form of rivalry is ***vertical marketing system competition***. This occurs between the firm and/or different levels of distribution; between manufacturers and wholesalers, wholesalers and retailers, manufacturers and retailers. Thus, for example, General Motors and its dealer network competes with Ford and its dealers. The vertical marketing system of Kentucky Fried Chicken competes with those of McDonald's and Burger Chef.

Total system competition, the most advanced form of rivalry, occurs between systems linking resource markets, the firm, and distribution markets. Sears Roebuck, for example, is an advanced total system linking resource markets, manufacturing facilities, and, of course, the largest distribution capability in the world.

Resource Markets

The ability of an enterprise to compete for resources is an important determinant of its success, because it represents its capacity to respond to threats and opportunities. Consequently, it is important for a business to manage its relationships with resource markets with as much sophistication as it manages its internal relationships.

The most common approach is an informal agreement. For example, a company deposits money in the bank, and the bank in turn provides a variety of