Decisions in Marketing

Cases and Text/Second Edition

Ring • Newton • Borden • Farris

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Cases and Text

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Preface

This second edition of *Decisions in Marketing: Cases and Text* represents a significant updating of our original edition. Both the book and the cases it contains are, first, all field-based—the situations are real. Second, the cases are decision-oriented—each case is built from the perspective of a manager who is faced with a decision. Third, the cases are relatively complex and require careful preparation.

This book is about marketing decision makers. Its orientation is toward those individuals responsible for making marketing decisions, be they marketing managers, brand managers, product managers, sales managers, account executives, or others. As a result, *Decisions in Marketing: Cases and Text* is addressed to managerially oriented students and teachers.

The book evolved as we developed and refined the introductory MBA marketing management course (popularly, "first-year marketing") and came to rely increasingly on our own instructional materials, particularly cases. Each of us has embraced case pedagogy, and collectively we have over 80 years of experience in case teaching and writing. Cases are widely used in marketing management courses at the executive, MBA, and the advanced undergraduate levels. All case writers and most case teachers have their "own brand" of cases and their own ways of teaching them.

Our brand of case was intended for a minimum of 1½ hours of classroom discussion. This kind of discussion occurs when student preparation is at a high level. We would expect that a minimum of 2½ to 3 hours of individual preparation is necessary for the average student to be ready to discuss each of the cases in the class. A half hour or so of small group study time spent discussing the case before class is very useful and tends to facilitate classroom discussion.

Within the context of this amount of class time and this level of preparation, we have tested and refined each of the cases in the MBA classroom at Virginia, Toronto, and William and Mary. Many of the cases have also been taught in executive development programs. The *Instructor's Manual* offers our teaching suggestions and some observations based on our own classroom experiences.

Decisions in Marketing: Cases and Text provides the materials for a complete course in marketing management. Of course, the case material and text may also be supplemented with separate cases, such as those available from HBS Case Services, and with readings selected from the growing literature in the marketing field. Users of the first edition will note that the basic organization and positioning of this second edition remains the same. However, two major changes should be apparent. First, this edition contains 20 new cases. Second, each of the introductory text chapters has been updated and rewritten.

ORGANIZATION

The major content areas of this book have been deliberately sequenced to follow our brand of how marketing management should be taught to MBAs. We begin in Chapter 1 with "Consumer and Demand Analysis." The text and cases in this chapter introduce the student to marketing management and the scope of marketing decision making. These cases give students the opportunity to discover the marketing process; to test their theories about buyer behavior; to practice the "art" of market segmentation; to gain facility with break-even analysis; and to make general marketing mix decisions.

The case situations in Chapter 2, "Marketing Research," are similar to those in Chapter 1. But in the Chapter 2 cases, the student will discover the difficulty associated with making good marketing decisions in the absence of information needed to identify action alternatives and to clarify and support the choices. Here, the role of marketing research and the marketing research process are added to the concepts learned in Chapter 1.

Our third chapter is "Channels of Distribution." The first two chapters focused the students' attention on the customer—and appropriately so for it is just that external orientation that distinguishes the marketing function from all others. In this chapter, we deal with channels as the first element of the marketing mix because business school students are least familiar with this mix element and its associated management issues. The cases in Chapter 3 give students an opportunity to become familiar with channel management decisions, including the problems of channel design, control, performance, and cost, as well as their potential to cause channel conflict.

We deal with "Product Policy" in Chapter 4. Product decisions are important because they tend to determine all the other marketing decisions, such as which channels to use, what price to charge, and how many sales representatives to hire. Here, the cases offer students several opportunities to test their thinking about product policy, segmentation and positioning, the product life cycle concept, and the product portfolio concept.

Cases in Chapter 5, "Advertising," and in Chapter 6, "Selling and Salesforce," challenge the student to make some decisions about the role of communications in the marketing mix. Students' beliefs about the roles of advertising versus personal selling can be tested here. In addition, the advertising cases raise questions of media choice, positioning, budgeting, and the measurement of advertising effectiveness. In Chapter 6, students also confront sales management decisions. These cases raise questions on salesforce organization and deployment, on selection and training, and on performance appraisal, compensation, and control.

The seventh chapter is "Pricing." We cover this topic last because pricing is the one element of the marketing mix that recovers the costs of all the other mix elements. Students' decisions in this chapter will revolve around questions of cost and demand, competitive action and reaction, fit of price to product position, and consumer perception.

In Chapter 8, "Marketing Strategy," the cases give students an opportunity to make decisions that encompass all the elements of the marketing mix dealt with in the previous seven chapters. These full mix cases challenge students to combine all the elements of the marketing mix into a marketing program and to determine how that program will need to be adjusted over time to remain relevant. These cases, with dynamic and longer-run considerations, require creative thinking and the ability to make judgments on complex issues with uncertain data.

ACKNOWLEDGMENTS

This book represents the contributions of many people. We owe a special debt of gratitude to the many business executives who gave so generously of their time and experiences to the development of the cases. None of these cases would have been written without the cooperation of these businesspeople and their companies and organizations. We sincerely thank them.

The cases in *Decisions in Marketing* have been developed and written by us or by colleagues, research associates, and students working under our supervision. Acknowledgment is made within these covers to those who have made substantial contributions to the development of individual cases. However we wish to specifically thank Dr. E. Ralph Biggadike, our co-author on the original edition, and now a senior executive with Becton Dickinson and Company, for his many contributions to this book. In addition, specific acknowledgments must be made of the contributions of Gary Shaw and Charles Edwards, Research Associates. Gary, now Visiting Assistant Professor of Business Administration at The College of

William and Mary, wrote or made substantial contributions to six of the cases in this book. Charles H. W. Edwards, MBA 1979, also served as casewriter and wrote or made substantial contributions to three of the cases. Special thanks are also due to Professors Douglas J. Tigert, Babson College, and Donald J. Messmer, The College of William and Mary, for their contributions. Our appreciation is also extended to Ms. Kim Wiseman, School of Business Administration, The College of William and Mary, for all her efforts on manuscript preparation and proofreading.

Both the School of Business Administration at The College of William and Mary and the Darden Graduate School of Business Administration at the University of Virginia have furnished great support, financial and otherwise, and encouragement for our case writing efforts and for this book. We are grateful to both institutions and to Deans John Jamison and John Rosenblum, respectively.

Finally, our families must receive a vote of thanks for their patience, understanding, and support of this effort. To these unsung heroes, our book is dedicated.

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Contents

Chapter 1

Consumer and Demand Analysis

INTRODUCTION

What Is It?

What is marketing? The definitions abound! Through time, marketing has been defined in a variety of ways:

> It has been described by one person or another as a business activity; as a group of related business activities; as a trade phenomenon; as a frame of mind; as a coordinative, integrative function in policymaking; as a sense of business purpose; as an economic process; as a structure of institutions; as the process of exchanging or transferring ownership of products; as a process of concentration, equalization, and dispersion; as the creation of time, place, and possession utilities; as a process of demand and supply adjustment; and as many other things.[1]

All of these definitions provide a useful perspective on marketing and yet the essence of marketing is more basic.

Marketing's essential, unique contribution to business is an attitude of mind and a way of thinking. "Marketing is so basic that it cannot be considered a separate function. . . . It is the whole business seen from the point of view of its final result, that is, from the customer's point of view."[2]

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[1]Marketing staff of Ohio State University, "A Statement of Marketing Philosophy," *Journal of Marketing*, January 1965, p. 43.

[2]Peter Drucker, *People and Performance: The Best of Peter Drucker on Management* (New York: Harper's College Press, 1977), p. 91.

Marketing is about people and trying to understand them, their problems, needs, indeed, their standard of living. "Marketing makes a vital contribution to the advancement and satisfaction of human needs and wants. It is the means by which organizations identify unfulfilled human needs, convert them into business opportunities, and create satisfaction for others and profit for themselves."[3]

Who Does It?

The practice of marketing is the focus of this book. At the most basic level, the practitioner is someone within the firm called the *marketing manager,* the *product manager,* or the *brand manager* (obviously, within smaller firms, the general manager, or even the owner, and the marketing manager might be one and the same individual).

Marketing managers' activities (should be) are directed at solving customers' problems through the exchange process. Their jobs are externally focused, interesting, exciting, and fascinating. The marketing manager's job is at once a disciplined process and an accomplished art.

Within the 40 cases contained in this book, the kinds of things that marketing managers do are described. In general, the marketer's activities have been "set" in some sort of decision-making situation. These situations are called *cases* and can be thought of as verbal or written photographs of a particular marketing situation. One third of the cases deal with industrial customers (marketing to a company or institution); two thirds deal with individual customers (households or individuals buying for their own consumption). Two thirds of the cases involve the marketing of products, while one third are about services.

The kinds of situations described herein illustrate the opportunities managers have to practice marketing through analytical, yet creative decision making. The first five cases deal with consumer and demand analysis. In turn, we look at managers who must decide how to market a new and somewhat exotic telecommunications system (Western Union); a new stereophonic sound system (Tanstaafl); a suntanning salon (Sans Soleil); lawn, garden, and nursery services (Snow's Garden Center and Nursery); and chicken hot dogs (Perdue Farms, Inc.). In each of these situations, the marketing managers must attempt to understand customers' behaviors and make estimates of what demand might be for their products or services,[4] or both, under a variety of conditions.

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[3]Philip Kotler and Ronald E. Turner, *Marketing Management,* Canadian 4th ed. (Scarborough, Ont.: Prentice-Hall Canada, 1981), p. 4.

[4]For convenience, we will use *product* in the pages that follow, rather than the accurate but cumbersome form of *product or services*. Product, to us, includes services.

Your success in analyzing these cases and coming to a decision about what you would do if you were the decision maker at the time will depend in part upon your insightfulness, your visceral feel for the situation, and your awareness of life in general. But beyond your own creativity and analytical skills are some tools and techniques which can be of help to you if applied in a systematic manner.

There is a process involved in sophisticated marketing analysis, and skillful managers augment their innate creativity and insightfulness with the tools of the marketing process. In turn, we focus on the customer, the external or macroenvironment, and the resources of the firm.

The marketing manager relates the resources of the firm to the customer and the external environment through the *marketing mix*. The marketing mix is the set of variables that are controllable by the firm and its managers, and that the firm uses to influence its target market. These controllable marketing variables have been popularly referred to in mnemonic form as the *4 Ps:* Product, Price, Place (channels of distribution), and Promotion (all forms of marketing communication including advertising and personal selling).[5] Sometimes it is useful to think of a fifth *P*—people.

What we as ultimate consumers see as differences among similar products in their features or, where they can be purchased, their prices, or how they are advertised are the results of different marketing mix decisions. For example, you may have wondered why Schwinn bicycles are sold through Schwinn's own dealers, but if you want a Huffy you can purchase one at K mart. Among other things, these two firms have chosen to employ different channels of distribution to reach the customer.

Perhaps you have wondered why the Coca-Cola company chose to name its first entry into the low-calorie soft drink market, Tab (not directly linking the beverage to the Coca-Cola name), while Pepsi chose to call its first entry Diet Pepsi (building on the established Pepsi name), and later to introduce Pepsi Lite as well. Again, what we see and choose between and among as consumers is the result of different marketing mix decisions by marketing managers at the two companies. (Later, Coca-Cola also introduced a Diet Coke brand.)

Why do the makers of Crest toothpaste focus our attention on decay prevention, while the makers of Ultra-Brite instead tell us about the breath-freshening and teeth-whitening qualities of their toothpaste? Different marketing-mix decisions again. Perhaps the makers of these two products had in mind different groups of customers—or segments of the market—when they developed not only their advertising messages, but in the original formulations of the products themselves.

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[5]Jerome McCarthy, *Basic Marketing: A Managerial Approach,* 6th ed. (Homewood, Ill.: Richard D. Irwin, 1978), p. 39.

Decisions in Marketing has been organized around the customer and the marketing-mix decision variables. In the first five cases, your decisions will be largely dependent upon Consumer and Demand Analysis, while, in Chapter 2, the role of Marketing Research in consumer analysis and marketing decision making is the primary case focus. The following chapters of the book (3–7) focus in turn on elements of each of the marketing-mix decision variables (in the order: Channels of Distribution (3); Product Policy (4); Advertising (5); Selling (6); and Pricing (7); until finally we deal with overall Marketing Strategy in Chapter 8.

THE MARKETING PROCESS

Contemporary marketing stresses that customers are the focal point of a business. A customer or buyer is any individual or organization that might potentially purchase a given product. A market includes all those individuals or organizations who might potentially buy a product. The marketing manager is engaged in conceiving, designing, and delivering to customers, or groups of customers, products which help to solve their problems or otherwise contribute to satisfying their needs and wants—while at the same time attempting to maximize the goals and resource allocations of the company. It might be argued that this activity should deliver a fair profit to the firm as well.

Central to the marketing manager's responsibility is a good understanding of the various customers or groups of customers which constitute the market. Understanding customers is a complex task, but it is an essential element in the marketing process. A good understanding of how customers behave toward a product allows the marketing manager to estimate the size of the market, who constitutes the market, what, when, and where they buy, and what needs and preferences exist within the market.

Marketing is largely concerned with the environment external to the firm, and the marketing manager must take pains to see that environment in terms which customers think are important. Without a knowledge of, or at least some assumptions about, how customers think about products, solve their problems, and make purchasing decisions, marketing managers will be tempted to make their decisions based either on their own experiences or on factors related more to production and manufacturing efficiencies. Frequently, neither the marketing manager's "calibrated intestine" nor product-related efficiencies are appropriate or adequate for given market situations.

It is certainly the right of the firm to manufacture and distribute for sale whatever products (or services) it may choose—with or without a good understanding of the market(s) it expects to serve. However, to do so without at least some facts and assumptions about consumers' behavior may be to ignore certain consumer problem-solving or informationprocessing activities which may not be readily observable but yet crucial to the product buying decision.

Among the first steps marketing managers must take is to define the basic consumer needs they intend to serve.

Having defined the basic need category toward which the firm wants to orient its marketing efforts, the next step for the marketing manager is to examine the market for products which satisfy that need. At the broadest level, the total market available to all firms which offer products or services that compete to satisfy a particular need can be described in terms of *primary demand*. Primary demand refers to total industry demand and usually is thought of as total industry sales at prevailing levels of price, advertising, distribution, and so forth.

Often, however, the total market is not entirely available to a given firm. The term *selective demand* is generally used to characterize the market available or potentially available to the individual company. For the marketing manager, the choice is frequently between attempting to expand the total market—primary demand—versus building the company's share at the expense of competitors—selective demand. It may be useful to think of the total market, or primary demand, as a pie, and selective demand as various pieces of the pie held by competitors. In this analogy, the choice is between trying to go after the whole pie—and presumably to encourage the whole pie to grow larger—and attempting to capture only a piece or a few pieces of the pie.

Market segmentation is a means by which the marketing manager subdivides the total market (the whole pie) into distinct subsets of customers according to their needs and the way they buy and use a given product. The objective of the marketing manager is to choose a segment of the market which he believes his product can satisfy more efficiently and effectively than others and which appears attractive, given his company's objectives, and then to serve the segment through marketing activity. A careful definition of the market that one intends to serve would lead logically to a quantitative estimate of the size (in dollars and units) of the market. In other words, the marketing manager calculates an estimate of demand (both current and future) for the (potential or existing) product. According to our analogy, the manager seeks to determine the size of the pie or the size of its various pieces.

Given the size of the pie, the marketing manager can quickly make a preliminary estimate of the share of the pie (share of market) that will be needed to break even in this marketplace. In general, the break-even volume (in units) is simply the fixed costs associated with the product divided by the unit contribution. Break-even analysis is most useful when it is converted to a percentage market share, because then the manager will be able to determine the product's chances for success. Break-even analysis should be employed both when a new product is planned and when a change in the existing marketing program is considered. The manager can then ask himself the crucial question, "How reasonable is it