

# Marketing Strategy and Plans

DAVID J. LUCK / O. C. FERRELL

# strategy and plans

## MARKETING MANAGEMENT

**DAVID J. LUCK**

*University of Delaware*

**O. C. FERRELL**

*Illinois State University*

PRENTICE-HALL, INC., Englewood Cliffs, New Jersey 07632

*Library of Congress Cataloging in Publication Data*

LUCK, DAVID JOHNSON.  
Marketing strategy and plans.

Bibliography: p.

Includes index.

1. Marketing management—United States. 2. Marketing management—United States—Case studies.

I. Ferrell, O. C., joint author. II. Title.

HF5415.L3.L75 658.8 78-10459

ISBN 0-13-558254-7

Editorial/production supervision by Ann Marie McCarthy  
Interior design by Ann Marie McCarthy and Judy Winthrop  
Cover design by Judy Winthrop  
Manufacturing buyer: John Hall

**MARKETING STRATEGY AND PLANS**  
**Systematic Marketing Management**

**David J. Luck and O. C. Ferrell**

© 1979 by Prentice-Hall, Inc., Englewood Cliffs, N.J. 07632

*All rights reserved. No part of this book  
may be reproduced in any form or  
by any means without permission in writing  
from the publisher.*

Printed in the United States of America

10 9 8 7 6 5 4 3

PRENTICE-HALL INTERNATIONAL, INC., *London*  
PRENTICE-HALL OF AUSTRALIA PTY. LIMITED, *Sydney*  
PRENTICE-HALL OF CANADA, LTD., *Toronto*  
PRENTICE-HALL OF INDIA PRIVATE LIMITED, *New Delhi*  
PRENTICE-HALL OF JAPAN, INC., *Tokyo*  
PRENTICE-HALL OF SOUTHEAST ASIA PTE. LTD., *Singapore*  
WHITEHALL BOOKS LIMITED, *Wellington, New Zealand*

# **PREFACE**

**E**very marketing student should experience a course that integrates the many marketing variables within a series of strategic decisions. Most universities now offer such a course, for which this book is intended. The course is typically labeled as marketing management, marketing problems, or a capstone course at the undergraduate level. At the graduate level, it may be called marketing management, marketing strategy, or marketing policies. Some seminar courses also focus on a synthesis of marketing variables and decisions.

Marketing's strategic decisions are probably the most difficult in any enterprise, except those of determining the organization's total direction. We believe that a book that effectively teaches this subject has the following characteristics:

1. It should be wholly devoted to marketing decisions, a subject so complicated that a single volume can barely suffice.
2. It should avoid the redundancy of repeating or reviewing at length what students presumably learned in earlier courses.
3. It should deal with the realities and with the practical issues faced by marketing executives.
4. Clarity and reality should be heightened—and interest stimulated—with actual examples of each concept.

5. It should concentrate on decision methods found practicable and widely applicable by today's modern managements. Esoteric methods and those impracticable for the near future, although properly espoused by management scientists, should be merely introduced.

*Integration* of marketing's many variables into the strategic process is one of this book's six major objectives—and its central one. The five others have just been described. Our discontent with existing books on marketing management, relative to these objectives, led to our writing this one.

Our scope is limited to what we designate as “strategic” decisions, which are those regarding objectives, policies, strategies, plans, and controls. We concentrate on strategies, since they are the core of successful marketing, rather than dealing with tactical or operating decisions, which are subordinate and more situation-specific.

This book is not an advanced *basic* marketing text and does not seek to provide all the concepts and descriptions that should be familiar background for the strategic decision maker. You will not find chapters here on subjects that the student is presumed to have taken, including consumer behavior and marketing research, although both these subjects are brought into the discussion. Rather than multiple chapters on the chief marketing functions, we provide one chapter on aspects significant in major marketing decisions, for each of the four functional areas. In short, we explain how to integrate and to use the concepts that the student has learned from other marketing courses and from experience.

The chief unifying construct is a model that interrelates the entire series of strategic decisions and stipulates the nature and timing of the chief decision inputs. The total model is developed, together with underlying theory, in the first chapter. Then it is segmented into sectors, for four phases of determining strategy and plans, in the second chapter. Application of the model is exemplified there in terms of deciding overall strategy.

Much space is concerned with preparing the reader to employ the model by developing understanding of the possible inputs. First, internal variables of the overall enterprise are discussed, and then external variables. We move then to the marketing-mix variables. Thus prepared, the reader then moves into determination of strategic marketing mixes, which are oriented to various product-line and individual-product situations. Next, the stage of determining specific plans is treated, and then the cycle is completed with marketing controls. Thus, the entire book is followed readily as it travels around the cycle of our central decision model. We believe that all marketing decisions can be related to this classroom-tested model.

Merely reading the text would not create skill or insight, but this is intended in the cases that follow each section. They too are based on actuality. A different approach often adopted by teachers, especially

when this is taught in a capstone sequence, is to have individuals or groups carry out projects, usually selecting some product or firm. This book was designed to accompany such projects. It may also be supplemented with massive cases or a greater variety from other sources or with readings.

Credit for assistance is owed to many others. We particularly mention those to whom this book is dedicated, as no mere gesture but a very grateful expression. Our text has profited greatly from the insightful comments of outside reviewers, in particular: Lloyd M. DeBoer, George Mason University; Richard M. Durand, University of Alabama; Samuel M. Gillespie, Texas A & M University; Clyde E. Harris, Jr., University of Georgia; R. Neil Maddox, University of Missouri, St. Louis; and Warren B. Nation, Florida State University. Among our colleagues who have contributed substantially, we especially want to credit Arthur Prell, Southern Illinois University; Steven Skinner and Jim L. Grimm, Illinois State University; and Terry Childers, State Farm Insurance Company.

Various persons assisted in providing or revising our cases, including some who must remain anonymous as their firms required that. Others who can be identified are: Richard Bomblatus, Eric Conine, Professor Robert T. Davis, Walter Bloomquist, George Reinhart, Ron Siegel, Chester Stewart, R. C. Wolff, Barbara Bennett, and Craig Vetter. We are indebted to many associated with Prentice-Hall for their dedicated work in our behalf—above all to Judith Rothman, John Connolly, and Ann Marie McCarthy. And for reams and reams of typing we thank Jeanette Rasmussen and Vicki Kirk.

The innovator is a risk taker, and so our errors may be many. We are very conscious of that danger and therefore invite criticisms and suggestions from every reader.

**D. J. Luck**  
**O. C. Ferrell**

# CONTENTS

## PREFACE

xiii

## PART ONE

---

### basics

1

# 1

## ESSENTIAL CONCEPTS

3

- Purpose and Viewpoint* 4
- Strategy: Defined and Illustrated* 4
- Strategy in the Planning Process* 8
- Format of the book* 15
- Summary* 16

vii

# 2

## **OVERALL STRATEGIC PLANNING**

18

<i>Strategic Planning in a Simple Organization</i>	19
<i>Strategic Planning in Complex Organizations</i>	19
<i>The Strategic-Planning Process</i>	22
<i>Further Notes on Strategic Factors</i>	30
<i>The Allocation-Decision Process</i>	34
<i>Marketing and Other Functional Strategies</i>	35
<i>Summary</i>	39
Case 1 Mrs. Merkt's Shoo-Fly Pies	41
Case 2 Vetter Fairing Company	43
Case 3 Société Bic	47

## **PART TWO**

### **strategic environmental considerations**

51

# 3

## **INTERNAL ENVIRONMENT**

53

<i>Decision Structure</i>	55
<i>Organization</i>	57
<i>Resources and Capabilities</i>	70
<i>The Human Element</i>	73
<i>Managerial Tools</i>	77
<i>Summary</i>	83

# 4

## **MARKET POSITION AND ANALYSIS**

84

<i>Types of Markets</i>	85
<i>Alternatives for Selecting Market Targets</i>	88
<i>Ways of Segmenting Markets</i>	92
<i>Strategic Decisions in Analyzing and Finding Market Targets</i>	98
<i>Summary</i>	102

# 5

## **MARKET POTENTIAL AND FORECAST**

103

<i>Basic Definitions and Processes</i>	104
<i>Data Sources</i>	105
<i>Methods Used in Market Measurement and Forecasting</i>	113
<i>Market Measurement and Strategic Marketing Decisions</i>	124
<i>Summary</i>	128



# 6

## COMPETITIVE, TECHNOLOGICAL, SOCIAL, AND GOVERNMENTAL FORCES

129

<i>Competition</i>	130	<i>Technology</i>	134	<i>The Economy</i>	138
<i>Social Forces</i>	141	<i>Government</i>	144	<i>Summary</i>	148
Case 4	Tee Pak, Incorporated		151		
Case 5	Abbott Laboratories		152		
Case 6	Gillette Company		155		

## PART THREE

## strategic use of marketing variables

161

# 7

## PRODUCT

163

<i>Concepts and Significance of Product</i>	163		
<i>Product as a Strategic Variable</i>	166	<i>Analysis of the Product's Position</i>	170
<i>Future Assessment</i>	173	<i>Search for Product Strategies</i>	174
<i>Coordination with Other Variables</i>	177	<i>Summary</i>	177

# 8

## PROMOTION

179

<i>Concepts and Significance</i>	180	<i>Promotion Decision Sequence</i>	186
<i>Summary</i>	196		

# 9

## PRICE

198

<i>Concepts and Significance</i>	199	<i>Systematic Price Decisions</i>	201
<i>Establishing Price Objectives</i>	202	<i>Determinants of Price</i>	206
<i>Price in the Strategic-Planning Process</i>	213		
<i>Setting and Evaluating the Price in Practice</i>	215	<i>Summary</i>	216

# 10

## **DISTRIBUTION**

219

*Concepts and Significance* 220  
*Strategic Distribution Decisions* 224  
*Evaluating Distribution Performance* 236  
*Summary* 238

---

Case 7 Xerox Corporation 239  
Case 8 Ralston Purina Company 241  
Case 9 Warner-Lambert Company 244  
Case 10 Valley National Bank 248  
Case 11 Levi's for Feet 253

## **PART FOUR**

---

## **strategic management of the firm's products**

259

# 11

## **PRODUCT MIX**

261

*Orientation* 262  
*Product Life Cycle: Controversy and Benefits* 263  
*Examining the Product-Mix Position* 266  
*Cash-Flow Analysis* 275  
*Strategy Formulation* 279  
*Summary* 288

# 12

## **NEW - PRODUCT DEVELOPMENT**

289

*Overview of New-Product Strategy* 289  
*New-Product Strategy Development* 291  
*Product-Evolution Decisions: An Overview* 297  
*Initiation of Product Evolution* 302  
*Development* 312  
*Testing and Final Planning* 313  
*Summary* 321

# 13

## YOUNG PRODUCTS

322

- Our Approach* 323
- Introduction Strategies* 324
- Growth Stage* 330
- Summary* 346

# 14

## MATURE PRODUCTS

347

- Maturity Stage* 347
- Decline Stage* 359
- Summary* 365

---

- Case 12** General Mills 367
- Case 13** RCA Corporation, Mobile Communications Systems Division 370
- Case 14** Pearce Energy Technology 377

## PART FIVE

---

### plans and controls

381

# 15

## THE MARKETING PLAN

383

- The Marketing Plan's Nature* 383
- A Flow Model of Plan Decisions* 385
- An Illustrative Case of Plan Decisions* 388
- Market-Potential Projections* 390
- Evaluating Market Response* 391
- Predicting Outcome of the Proposed Plan* 395
- Decisions for Long-Term Plans* 397
- Utilizing Marketing Science* 398
- Procedures and Organization for the Marketing Plan* 407
- Summary* 413

xi

# 16

414

## **MARKETING CONTROLS**

<i>Basic Concepts and Relationships</i>	414
<i>Developing Standards and Selecting Variables</i>	419
<i>Examples of Frameworks for Marketing Control</i>	422
<i>Evaluating and Revising Plans and the Control Process</i>	427
<i>Summary</i>	430
<hr/>	
Case 15 Titan Controls Corporation	437
Case 16 Murray, Stein & Company	439
Case 17 Otsego Mills	442

<b>POSTSCRIPT TO THE STUDENT</b>	<b>452</b>
----------------------------------	------------

<b>BIBLIOGRAPHY</b>	<b>455</b>
---------------------	------------

<b>NAME INDEX</b>	<b>463</b>
-------------------	------------

<b>SUBJECT INDEX</b>	<b>467</b>
----------------------	------------

**basics**

**PART ONE**

If you are to really understand and profit from this book, you must have an adequate foundation. That is the purpose of Part I. We shall summarize its content and purposes here, so that you can understand where we are leading you—and why. Each of the five parts of the book will be preceded with such a summary, and each of the others will include a graphic “map” of the overall scheme of strategic decisions, with the location in it of that part highlighted. That “map” or model is the final accomplishment of our Chapter 1.

Taking first things first, though, we start Chapter 1 by explaining this book’s purpose and the relation of its contents to your previous learning about marketing (very little of which is repeated in our pages). Basic terms are stated and illustrated: objectives, policies, strategies, plans, tactics, and controls. Some of these terms may be ill-defined in your present understanding, or our usage may differ from what you have learned, and so we stress definitions. The well-known term *marketing mix* and the newer and less-known term *the offering* are then discussed and related to our subject. All that is intended to prepare you for the decision flow model that forms the design of the book and one of its key ideas.

Chapter 2 takes us from the general to the more specific regarding strategic planning. Its use in both simple and complex organizations is discussed and exemplified, in terms of overall or corporate management. The strategic-planning process is laid out in decision flows and information inputs, then divided into three phases (with the additional phase of setting plans deferred to Chapter 15). Finally, a number of factors in deciding strategies and financial allocations complete the chapter.

**Learning objectives:**

1. To acquire a working vocabulary, clearly defined, of words that will figure importantly as the book develops
2. To acquire a knowledge of the sequence of decision stages, together with a rationale for that arrangement, that you will be able to use in making or critiquing marketing management decisions
3. In particular, to acquire sufficient insights regarding our basic strategic-decision-cycle model so that you will comprehend why this book has its particular format and the value of that to your learning process—and your future practice decision making
4. To understand the place, needs, and benefits of corporate or overall strategic planning
5. To be able, when given various performance and environmental data, to make, at least roughly, the several strategic determinations that are required in our model of strategy formulation

# 1 ESSENTIAL CONCEPTS

**A** multitude of decisions have to be made in the management of any sort of enterprise. A handful of these are the critical ones affecting its destiny. These are the *strategic* decisions. Our book is primarily concerned with these, from the marketing viewpoint, although we also deal with the making of *plans* and effecting of *controls*.

Such significant decisions, as you would surmise, are ultimately made by those at the apex of an organization structure. You are undoubtedly far from being in such a position and may doubt whether you will ever reach it; so why should you study such decision processes? We face this question in some detail in our Postscript, at the end of the book. At this point, we merely offer these comments: (1) Various people in middle management have serious roles in generating strategic decisions; (2) every responsible person in the organization is affected by them; and (3) strategic planning stands as the capstone of marketing education, the activity in which its specialized areas and knowledge are drawn into a central focus and made useful for application. These, we think, are sufficient reasons.

In devoting our book wholly to these advanced subjects, we have wasted no space on descriptions of marketing and its functions. We assume you have acquired this knowledge in earlier courses. For the reader who wants some refreshment in marketing basics or who has had

no preparation in them, we cite in the bibliography at the end of the book several good textbooks that discuss them competently for you. Our first chapter presents what are literally *essential* concepts.

## **PURPOSE AND VIEWPOINT**

The purpose of this book is *to present and to examine managerial principles for selecting marketing strategies and for determining plans.*

Let us orient this within the total scope of management, which is commonly considered to have four phases: (1) analysis, (2) planning, (3) implementation, and (4) control.<sup>1</sup> Our concern is primarily with the phase of planning, and secondarily with analysis and control. We omit implementation, the carrying out of strategy and plans.

Our viewpoint is an *administrative one, that of a manager who is vested with authority and responsibility to determine strategies or to monitor or control their implementation.* Our reference is mainly to business decisions, since most marketing students anticipate entering some sort of business, and since this form of decision making is best developed in the commercial world. Such decisions, however, are by no means confined to profit-making enterprises.

We will simplify the real world in order to be concise. One assumption we will make is that one single person is making these decisions, which of course is the situation in small firms or agencies. In large and complex organizations, a number of people participate—perhaps a committee or project team, or managers at various levels who initiate ideas or have approval authority. A recent study by Buell of creative advertising decisions found six levels of management making them: corporate executives, division general managers, division chief marketing executives, advertising staff, and product managers.<sup>2</sup> And strategic decisions tend to be even more diffused. It is often difficult to identify where a proposed decision starts, who contributes to it or modifies it later, and even who finally crystallizes it.

## **STRATEGY: DEFINED AND ILLUSTRATED**

Our overall interest is in the *planning* process. Planning has been described as making tomorrow's decisions today, or currently deciding where one intends to be at a future time and how to arrive there. We

---

<sup>1</sup> This is, for instance, the classification used by Philip Kotler in *Marketing Management*, 3rd ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1976), p. 7.

<sup>2</sup> Victor P. Buell, "The Changing Role of the Product Manager," *Journal of Marketing*, July 1975, p. 7.



are going to deal mainly with *strategic planning* and less with *plans*.

Strategic planning, the determination of strategies, should take place in three stages:

1. *Objectives*: the ends or results that are sought
2. *Policies*: the rules that guide the selection of strategies, as well as the subsequent actions that implement them, to keep them consistent with reaching the objectives
3. *Strategies*: the fundamental means or schemes of reaching the objectives

Our discussion will concentrate on the third stage, identifying and selecting strategies, but a prerequisite is the sound and explicit determination of objectives and policies. Policies tend to be underestimated in importance, for when they are concretely stated and disseminated in written form, they speed decision making at all levels.

There should be a tight link between objectives and strategies because (1) any particular objective is feasible only when a strategy can be devised that will attain it; and (2) the marketing planner knows what sort of strategy to seek only after being acquainted with the objective(s). There are searching questions relating to both these determinations that need careful logic. Key questions are illustrated in the list below, with examples from the viewpoint of one small firm.

1. What kind of an organization do those controlling it (owners and/or managers) want it to become? *Example*: The owner, who actively manages, wants to keep his firm under his tight personal control; so a major policy is to avoid being dominated by any customers, bankers, etc.
2. What is the organization's internal base for strategic action—its strengths and its weaknesses? *Example*: Strengths: very flexible equipment and ability to respond quickly to environmental change. Weaknesses: too much dependence on manufacturers' agents for sales and market information; lack of a strong marketing executive.
3. What are market opportunities and needs? *Example*: Increasing miniaturization of machinery and instruments presents great opportunity for a firm in this industry making smaller motors.
4. What are the industry and competitive situations—now and in prospect? *Example*: The total industry is experiencing an average growth rate for U.S. business. Standard products are getting more concentrated in a few manufacturers; small firms are surviving only if they bring out real innovations or diversify into related lines.
5. What other environmental variables will probably be of serious importance? What would be their effects? *Example*: Nationalistic trade barriers are increasing, which will help a firm selling in its own country