STRATEGIC MARKETING PROBLEMS

CASES AND COMMENTS

FIFTH · EDITION

Roger A. Kerin · Robert A. Peterson

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PREFACE

Decision making in marketing is first and foremost a skill. Like all skills, it is best learned through practice.

This book is dedicated to the development of decision-making skills in marketing. The concepts, tools, and terminology needed to structure and solve marketing problems are introduced through textual material. Forty-five case studies describing actual marketing problems provide an opportunity for the reader to employ these concepts and tools in practice. In every case study, the decision maker must develop a strategy consistent with the given set of underlying factors and must consider the implications of that strategy for the organization in question and its environment.

This fifth edition of *Strategic Marketing Problems: Cases and Comments* seeks to strike a balance between the content and the process of marketing management.

Chapter 1, Foundations of Strategic Marketing Management, provides an overview of the strategic marketing management process. The principal emphasis is on defining an organization's business and purpose, identifying opportunities, formulating strategies, budgeting, controlling the marketing effort, and developing contingency plans.

Chapter 2, Financial Aspects of Marketing Management, summarizes concepts from managerial accounting and managerial finance that are useful in marketing management. Concepts considered include cost structure, relevant versus sunk costs, margins, contribution analysis, liquidity, and operating leverage.

Chapter 3, Marketing Decision Making and Case Analysis, introduces a systematic process for decision making and provides an overview of various aspects of case analysis.

Chapter 4, Opportunity Analysis and Market Targeting, focuses on the identification and evaluation of marketing opportunities. Issues considered in this section are market segmentation, market targeting, and market potential and profitability.

Chapter 5, Marketing Research, deals with the effective management of marketing information. Decisions involved in assessing the value of marketing information and managing the information acquisition process are highlighted.

Chapter 6, Product and Service Strategy and Management, focuses on the management of the organization's offerings. New-offering development, life-cycle management, product or service positioning, and product-service mix decisions are emphasized.

Chapter 7, Marketing Communications Strategy and Management, raises issues in the design, execution, and evaluation of the communications mix. Decisions addressed concern communication objectives, strategy, budgeting, programming, and effectiveness, in addition to sales management.

Chapter 8, Marketing Channel Strategy and Management, introduces a variety of considerations in marketing channel selection and modification and in trade relations. Specific topics include direct versus indirect distribution, dual distribution, cost-benefit analyses of channel choice and management, and marketing channel conflict and coordination.

Chapter 9, Pricing Strategy and Management, highlights concepts in price determination and modification. The emphasis is on the importance of considering demand, cost, and competitive influences when selecting or modifying pricing strategies for products and services.

Chapter 10, Marketing Strategy Reformulation: The Control Process, focuses on the appraisal of marketing action for the purpose of developing reformulation and recovery strategies. Considerations and techniques applicable to strategic and operations control are introduced.

Chapter 11, Comprehensive Marketing Programs, raises issues in developing integrated marketing strategies for new and existing products and services.

An example case and a written student analysis are presented in the appendix at the end of the book. The student analysis illustrates the nature and scope of a written case presentation, including the qualitative and quantitative analyses essential to a good case presentation.

The cases in this book represent a broad range of contemporary marketing problems and applications. Of the forty-five cases included, thirty deal with consumer products and services; fifteen have an industrial product or service orientation, and seven introduce marketing issues in the international arena. Two-thirds of the cases are new, revised, or updated for this edition, and many have spreadsheet applications embedded in the case analysis. All text and case material has been tested in the classroom.

Computer-assisted programs and a student manual are available for use with fifteen of the cases. The manual contains all of the materials necessary to use spreadsheets. It also includes a sample case demonstration, instructions for use with specific cases, and input and output forms. If this material is not available from your instructor or bookstore, please write to the publisher.

The efforts of many people are reflected in this book. First, we thank

those individuals who kindly granted us permission to include their cases in this edition. Their names appear both in the table of contents and at the bottom on the first page of their respective cases. Their cases have made a significant contribution to the overall quality of the book. Second, we wish to thank our numerous collaborators, whose efforts made the difference in many instances between a good case and an excellent case. Third, we thank those who used and commented on the four earlier editions of the book for their many recommendations. Their insights and attention to detail are, we hope, reflected here. Finally, we wish to thank the numerous reviewers of this and previous editions for their conscientious analyses of our material. In particular we would like to thank the reviewers of this edition—Frederick V. Langrehr, University of Nebraska at Omaha; Peter H. Bloch, University of Massachusetts at Amherst; and Joe Kent Kirby, Eastern Michigan University. Notwithstanding the contributions of these many people, the authors bear full responsibility for all errors of omission and commission in the final product.

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FOUNDATIONS OF STRATEGIC MARKETING MANAGEMENT

The primary purpose of marketing is to create profitable exchange relationships between an organization and the public (individuals, organizations, and institutions) with which it interacts. Though this fundamental purpose of marketing is timeless, the manner in which organizations undertake it changed in the 1980s. No longer do marketing managers function solely to direct day-to-day operations; they must make strategic decisions as well. This elevation of marketing perspectives and practitioners to a strategic position in organizations has resulted in expanded responsibilities for marketing managers. Increasingly, they find themselves involved in charting the direction of the organization and contributing to decisions that affect long-term organizational performance. The transition of the marketing manager from being only an implementer to being a maker of organization strategy as well has prompted the emergence of strategic marketing management as a course of study and practice.

Strategic marketing management consists of six complex and interrelated analytical processes:[1]

1. Defining the character of the organization's business
2. Specifying the purpose of the organization
3. Identifying organizational opportunities
4. Formulating product-market strategies
5. Budgeting financial, production, and human resources
6. Developing reformulation and recovery strategies

The remainder of this chapter discusses each of these processes and their relationships to one another.

DEFINING THE CHARACTER OF THE ORGANIZATION'S BUSINESS

Defining the character of the organization's business is the first step in the application of strategic marketing management. An organization should define its business in terms of the type of customers it wishes to serve, the particular needs of these customers, and the means or technology by which the organization will serve these needs.[2] The definition of an organization's business, in turn, specifies the market niche(s) that the organization seeks to occupy and how it will compete. Ultimately, the business definition affects the growth prospects for the organization itself by establishing guidelines for evaluating organizational opportunities in the context of identified environmental opportunities, threats, and organizational capabilities.

The following three examples illustrate the concept of business definition in practice. First consider the hand-held calculator industry, in which Hewlett-Packard and Texas Instruments seemingly competed with each other in the 1970s. Although both firms excelled in marketing and technical expertise, each carved out a different market niche based on different business definitions. Hewlett-Packard's products were designed primarily for the technical user (customer type) who required highly sophisticated scientific and business calculations (customer needs). Hewlett-Packard's heavy development expenditures on basic research (means) made the products possible. On the other hand, Texas Instruments' products were designed for the household consumer (customer type) who required less sophisticated calculator capabilities (customer needs). Texas Instruments' efficient production capabilities (means) made its products possible.

A second example can be found in the overnight-courier industry, in the differences between Federal Express and Purolator.[3] Although both firms compete for the same customer group—businesses that want next-morning delivery of letters and packages—each uses very different means for satisfying different customer needs. Federal Express satisfies a customer's desire to ship items over distances of more than 350 miles (customer needs) and relies on a fleet of airplanes (means) for this purpose. By comparison, Purolator satisfies a customer's desire to ship items less than 350 miles (customer needs) and relies on a fleet of trucks (means). The differences in business definition are reflected in the companies' respective competitive positions. Purolator captures over 75 percent of the next-morning, short-haul (under 350 miles) courier volume, whereas Federal Express captures about 10 percent. Federal Express, however, captures over 53 percent of the next-morning, long-haul (over 350 miles) courier volume, whereas Purolator captures only about 7 percent.

Because of environmental and market changes, defining the organization's business is an ever-evolving process. Major changes in business definition often lead to less than favorable results, however. An example of an organization that redefined the nature of its business, and subsequently returned to the original business definition, is Sears, Roebuck and Co.[4] According to an industry observer:

> The retailing giant, which operates 866 full-line stores, is caught up in a fast-changing retailing environment where discounters and specialty stores are winning over more and more of its traditional middle-class customers—which leaves Sears scrambling to find its market niche. After tinkering with its staple goods merchandising formula throughout the 1970s—first promoting itself as an upscale, fashion-oriented department store for more affluent customers and, when that failed, experimenting with budget shops and embarking on a disastrous price-slashing binge—Sears believes it has little alternative but to try to be Sears again.

To "become" Sears again, the company developed a five-year plan to refocus efforts on attracting middle-class, home-owning families (customer type). The plan called for emphasis on "middle-of-the-road staple goods that are geared to function rather than to fashion" (customer needs) and renewed attention to product service and value (means for satisfying these needs).

SPECIFYING THE PURPOSE OF THE ORGANIZATION

The purpose of an organization is derived from its business definition. Purpose specifies the aspirations of the organization and what it wishes to achieve, with full recognition given to environmental opportunities, threats, and organizational capabilities.

From a strategic marketing management perspective, aspirations are objectives and desired achievements are goals. Objectives and goals represent statements of expectations or intentions, and they often incorporate the organization's business definition. For example, consider the marketing objectives outlined in the PoleStar Electronics Corporation case in Chapter 8 of this text. PoleStar Electronics aspires

> . . . to serve the discriminating purchasers of home entertainment products who approach their purchase in a deliberate manner with heavy consideration of long-term benefits. We will emphasize home entertainment products with superior performance, style, reliability, and value that require representative display, professional selling, trained service, and brand acceptance—retailed through reputable electronic specialists to those consumers whom the company can most effectively service.

PoleStar Electronics intends to achieve, in every market served, a market position of at least $1.50 sales per capita in the current year.

In practice, business definition provides direction in setting goals and objectives. Capabilities of the organization and environmental opportunities and threats determine the likelihood of attainment. Goals and objectives divide into three major categories: production, finance, and marketing. Production expectations relate to the use of manufacturing and service capacity. Financial goals and objectives relate to return on investment, return on sales, profit, cash flow, and payback periods. Marketing goals and objectives relate to market share, marketing productivity, and sales volume aims. When production, finance, and marketing goals and objectives are combined, they represent a composite picture of organizational purpose. Accordingly, they must complement one another.

Finally, goal and objective setting should be problem centered and future oriented. Because goals and objectives represent statements of where the organization should be, they implicitly arise from an understanding of the current situation. Therefore, managers need an appraisal of operations, or *situation analysis,* to determine the gap between what was or is expected and what has happened or will happen. If performance has met expectations, the question arises as to future directions. If performance has not met expectations, managers must diagnose the reasons for this difference and enact a program for remedying the situation. Chapter 3 provides an expanded discussion on performing a situation analysis.

IDENTIFYING ORGANIZATIONAL OPPORTUNITIES

Organizational opportunities and strategic direction result from matching environmental opportunities with organizational capabilities, acceptable levels of risks, and resource commitments. Three questions capture the essence of the decision-making process at this stage:

- What might we do?
- What do we do best?
- What must we do?

Each of these questions highlights major concepts in strategic marketing management. The *what might we do* question introduces the concept of environmental opportunity. Unmet needs, unsatisfied buyer groups, and new means for delivering value to prospective buyers—each represents a type of *environmental opportunity.* The *what do we do best* question introduces the concept of organizational capability, or distinctive competency. *Distinctive competency* describes an organization's principal strengths in such areas as technological expertise, market position, and financial resources. For example, the distinctive competency of the Gillette Safety Razor Division is in three areas: (1) shaving technology and development, (2) high-volume manufacturing of precision metal and plastic products, and (3) marketing of mass-distributed packaged goods.[5] Finally, the *what must we do* question introduces the concept of success requirements in an industry or market. *Success requirements* are basic tasks that must be performed in a market or industry to compete successfully. These requirements are subtle in nature and often overlooked. For example, distribution and inventory control are critical in the cosmetics industry. Firms competing in the personal computer industry recognize that the requirements for success in the 1980s included low-cost production capabilities, access to retail distribution channels, and strengths in software development.[6]

The linkage between environmental opportunity, distinctive competency, and success requirements will determine whether an organizational opportunity exists. A clearly defined statement of success requirements—What might we do? What must we do? What do we do best?—serves as a device for matching environmental opportunity with an organization's distinctive competency. If *what must be done* is inconsistent with *what can be done* to pursue an environmental opportunity, an organizational opportunity will fail to materialize. Too often organizations fail to recognize this linkage and embark on ventures that are doomed from the start. Exxon Corporation learned this lesson painfully after investing $500 million in the office-products market over a ten-year period. After the company abandoned this venture in 1985, a former Exxon executive summed up what had been learned: "Don't get involved where you don't have the skills. It's hard enough to make money at what you're good at."[7] By clearly establishing the linkages necessary for success before taking any action, an organization can minimize the risk. A Hanes Corporation executive illustrates this point by specifying his organization's new-venture criteria:

> . . . products that can be sold through food and drugstore outlets, are purchased by women, sell for less than $3, can be easily and distinctly packaged, and comprise at least a $500 million retail market not already dominated by one or two major producers.[8]

When one considers Hanes's impact with its L'eggs line of women's hosiery, it is apparent that whatever Hanes decides to do in the future will be consistent with what Hanes can do best, as illustrated by past achievements in markets whose success requirements are similar. An expanded discussion of these points is found in Chapter 4.

In actuality, organizational opportunities emerge from existing markets or from newly identified markets. Opportunities also arise for existing, improved, or new products and services. Matching products and markets to form product-market strategies is the subject of the next set of decision processes.

FORMULATING PRODUCT-MARKET STRATEGIES

Product-market strategies consist of plans for matching existing or potential offerings of the organization with the needs of markets, informing markets that the offering exists, having the offering available at the right time and place to facilitate exchange, and assigning a price to the offering. In practice, a product-market strategy involves selecting specific markets and profitably reaching them through a program called a *marketing mix*.

Exhibit 1.1 classifies product-market strategies according to the match between offerings and markets. The operational implications and requirements of each strategy are briefly described in the following subsections.

Market-Penetration Strategy

A market-penetration strategy dictates that an organization seek to gain greater dominance in a market in which it already has an offering. This strategy involves attempts to increase present buyers' usage or consumption rate of the offering, attract buyers of competing offerings, or stimulate product trial among potential customers. The mix of marketing activities might include lower prices for the offerings, expanded distribution to provide wider coverage of an existing market, and heavier promotional efforts extolling the "unique" advantages of an organization's offering over competing offerings.

Several organizations have attempted to gain dominance by promoting more frequent and varied usage of their offering. For example, the Florida Orange Growers Association advocates drinking orange juice throughout the day rather than for breakfast only. Airlines stimulate usage through a variety

Exhibit 1.1
Product-Market Strategies

	Markets	
Offerings	*Existing*	*New*
Existing	Market penetration	Market development
New	New offering development	Diversification

Source: This classification is adapted from H. Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill Company, 1964), Chapter 6. An extended version of this classification is presented in G. Day, "A Strategic Perspective on Product Planning," *Journal of Contemporary Business* (Spring 1975): 1–34.

of reduced-fare programs and various family-travel packages, designed to reach the primary traveler's spouse and children.

Marketing managers should consider a number of factors before adopting a penetration strategy. First, they must examine market growth. A penetration strategy is usually more effective in a growth market. Attempts to increase market share when volume is stable often result in aggressive retaliatory actions by competitors. Second, they must consider competitive reaction. Procter and Gamble implemented a penetration strategy for its Folger's coffee in selected East Coast cities, only to run head-on into an equally aggressive reaction from General Foods' Maxwell House Division. According to one observer of the competitive situation:

> When Folger's mailed millions of coupons offering consumers 45 cents off on a one-pound can of coffee, General Foods countered with newspaper coupons of its own. When Folger's gave retailers 15 percent discounts from the present list price of $2.93 per pound, General Foods met them head-on. [General Foods] let Folger's lead off with a TV blitz that introduced tidy Mrs. Olson to all those East Coast housewives thought to be distraught because their husbands say they make terrible coffee. Then [General Foods] saturated the airwaves with sagacious rejoinders from Cora, who tells the customers at her coffee counter: "When you find a good thing, stick with it."[9]

Third, ~~marketing managers must~~ consider the capacity of the market to increase usage or consumption rates *and* the availability of new buyers. Both are particularly relevant when viewed from the perspective of the *costs of conversion* involved in gaining buyers from competitors, stimulating usage, and attracting new users.

Market-Development Strategy

A market-development strategy dictates that an organization introduce its existing offering to markets other than those it is currently serving. Examples include introducing existing products to different geographical areas (including international expansion) or different buying publics. For example, Adolph Coors and Company engaged in a market-development strategy when it entered states east of the Mississippi River in the 1980s.[10] O. M. Scott and Sons Company employed this strategy when it moved from the home lawn-improvement market to large users of lawn-care products, such as golf courses and home construction contractors.

The mix of marketing activities used often must be varied to reach different markets with differing buying patterns and requirements. Reaching new markets often requires modification of the basic offering, different distribution outlets, or a change in sales effort and advertising.

Apple Computer is a case in point. Apple originally focused on the