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ANALYSIS FOR MARKETING PLANNING

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ANALYSIS FOR MARKETING PLANNING

To Kris, Bart, and Kelly and To Toby, Jessica, and Andrew

PREFACE

RATIONALE

This book evolved from a course given at the Columbia Business School called Marketing Planning and Strategy. In the mid-1970s, the marketing faculty at Columbia realized that traditional marketing management courses in business school curricula were fine for preparing MBA students for senior-level marketing positions, but did not equip them with the tools necessary for first jobs with such titles as "assistant brand manager" or "assistant account executive." This is because the basic content of marketing management courses is oriented toward the development of marketing strategy which is often the responsibility of the bosses of the newly minted MBAs. It was felt that students needed a more "hands-on" course which would prepare them for the data collection and analysis tasks that often fall to junior-level managers.

The hands-on, practical course that is now required for marketing majors at Columbia and that is being increasingly offered as an elective at other leading business schools is based on the operating, usually annual, marketing plan. The exercise of actually developing a marketing plan is highly integrative as it brings together concepts learned from marketing research, marketing strategy, finance, production, and corporate policy courses.

This book does not attempt to cover all aspects of the marketing plan. However, we focus on what we feel are the activities most relevant to junior-level managers, that is, the analysis of information pertaining to a product's environment, customers, and competitors. In addition, Chapter 1 contains a complete overview of an operating marketing plan. As such, the book can be used as a stand-alone text in conjunction with case studies, or it can be used as a companion text to books on strategic marketing management, which tend to focus more on what to do after the type of analysis treated in this book has been completed.

OUTLINE OF THE BOOK

The book has six major chapters:

1. Overview of Marketing Planning. In this chapter, we present

- the rationale for planning, pitfalls that should be avoided, and an outline of a complete marketing plan.
- Defining Competition. One of the most challenging decisions faced by marketing managers is that of defining the competition since the set of competitors can usually be constructed as narrowly or as broadly as desired. This chapter discusses methods for defining competition on different levels of generality.
- 3. Analyzing Industry Attractiveness. Fundamental criteria for evaluating a product's position in the market are aggregate factors such as market growth rate, industry factors such as barriers to entry, and environmental factors such as regulation.
- 4. Competitor Analysis. Monitoring competitors' strategies and anticipating their future moves is a key to the development of successful marketing strategy. This chapter covers how to analyze competition in terms of competitors' objectives, strategies, and capabilities, and predicting future actions.
- 5. Customer Analysis. At the core of modern thinking about marketing is a customer orientation. In this chapter, we discuss the key information required to monitor customer behavior.
- 6. Market Potential and Forecasting. In this chapter, we describe methods for estimating the potential size of a market and predicting future levels of sales and/or market share.

The book provides discussion of specific analytical methods and data sources which can be useful for each of the analyses discussed in the chapters as well as some useful formats for summarizing the information.

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CHAPTER 1

MARKETING PLANNING

OVERVIEW

Definition and Objectives of Plans

Marketing planning has become a major activity in most firms. A recent survey (Hulbert, Lehmann, & Hoenig, 1987) found that over 90 percent of marketing executives were engaged in formal planning. The executives, on average, spend 45 days a year involved in planning, and they rely most heavily on information from the sales force, management information systems, and internal marketing research. The developmental plans, which are generally annual in nature and focus on product/product line or market, are thus an important function for marketers, one that is seen as beneficial for improving both coordination and performance.

The marketing plan can be divided into two general parts: the situation analysis which analyzes the market, and the objectives, strategy, and programs which direct the firm's actions. While most books and the popular press concentrate on the latter, it can be concluded that incorrect or inadequate analysis will often lead to poor decisions regarding actions. Therefore, this book is devoted to the mundane but critical task of providing the analysis on which to base an action plan—in short, the marketing homework.

More specifically, the purpose of this book is to provide its readers with guidelines for preparing the central parts of the background analysis necessary to develop a marketing plan, customer, competitor, and industry analysis, plus planning assumptions and forecasting. Since we do not aim to discuss every element involved in marketing planning, the topics covered will be discussed using a strong practitioner orientation, in other words, a "how-to" perspective.

What is a marketing plan? A working definition might be:

A marketing plan is a written document containing the guidelines for the business center's marketing programs and allocations over the planning period.

Several parts of the above definition have been emphasized and merit further explanation.

First, note that the plan is a written document, not something stored in a manager's head. This characteristic of marketing plans produces multiple benefits. Also it encourages and requires disciplined thinking. It ensures that prior experiences in terms of strategies that succeeded or failed are not lost. It provides a vehicle for communications between functional areas of the firm, such as manufacturing, finance, and sales, which is so vital to the successful implementation of a plan. The marketing plan also facilitates the pinpointing of responsibility for achieving results by a specified date. Finally, a written plan provides for continuity when there is management turnover and for quickly indoctrinating new employees to the situation facing the business.

A second aspect of the marketing plan definition to note is that it is usually written at the business center level. This is purposely vague since the precise level at which plans are written varies from organization to organization. For example, in a typical brand management-organized company, a marketing plan is written for each brand since it is a profit center. Alternatively, some companies write plans for groups of brands or services, particularly when direct fixed costs are difficult to allocate by individual product. Thus, while marketing planning activities commonly exist, it is difficult to provide a general statement of the organizational level at which they operate.

For example, General Foods develops a separate marketing plan for each brand of cereal marketed by the Post Division, such as Raisin Bran and Grape Nuts. Alternatively, McDonald's has one overall marketing plan for its fast-food operations, with perhaps some regional differences, because it does not make sense to develop isolated plans for Chicken McNuggets and the McDLT sandwich.

A final item to note from the definition of a marketing plan is that the planning period or horizon varies from product to product. Retailing traditionally has short planning cycles to match the seasonality and vagaries of fashion trends. Automobiles, however, have longer planning cycles since lead times to product development and/or modifications are longer. Other factors contributing to variation in the length of planning horizons are rates of technological change, intensity of competition, and

frequency of shifts in the tastes of relevant groups of customers. The typical horizon, however, is annual. This is supported by data reported in Table 1-1.

In summary, the marketing plan is an operational document. While it contains strategies for the business center, it is more short-term oriented than what might be called a strategic plan. Strategic plans are usually of longer duration (three to five years), more general in describing business center strategies, and of a more aggregate, higher-level nature. Marketing plans are specific statements of how to achieve short-term results.

In fact, the objectives of a marketing plan can be stated concisely as to:

- 1. Define the current business situation (and how we got there).
- 2. Define problems and opportunities facing the business.
- 3. Establish objectives.
- 4. Define the strategies and programs necessary to achieve the objectives.
- 5. Pinpoint responsibility for business center objectives.
- 6. Establish timetables for achieving objectives.
- 7. Encourage careful and disciplined thinking.
- 8. Establish a customer/competitor orientation.

This last marketing plan objective is particularly relevant for this book. Most managers are aware of the marketing concept popularized in

TABLE 1-1
Time Horizons for Marketing Plans

Time Period	Industrial	Consumer	Service
	Products	Products	Firms
Less than one year	1%	6%	— %
One year	18	23	14
One year, plus brief reference to later years	44	40	58
One year, plus a separate longer-	18	16	
range plan	19	15	
More than one year	100%	100%	

Source: David S. Hopkins, *The Marketing Plan* (New York: The Conference Board, 1981), p. 10. © 1981 The Conference Board.

the 1960s which dictates that markets must maintain a customer orientation in all their strategies. Less commonly acknowledged is the fact that a competitor orientation, especially in today's business environment, is as important. The vast majority of products and services do not enjoy monopolies; competitors often determine a brand's profits as much as any action taken by the marketing manager. By emphasizing the importance of having both a customer and competitor orientation, we believe we are focusing this book on the two most important components of the strategy development process.

Frequent Mistakes in the Planning Process

Unfortunately, not all organizations attempting to develop marketing plans have been pleased with the process. The Strategic Planning Institute has identified the most common mistakes in strategy planning which seem relevant to marketing planning as well.

The Speed of the Process

This is the problem of either being so slow that the process seems to go on continuously or so fast that there is an extreme burst of activity to rush out of a plan. In the former case, managers become "burned out" by constantly filling out forms which can distract them from operational tasks. In the latter case, such a quickie can easily lead to critical oversights that affect the strategies developed.

The Amount of Data Collected

It is important to collect sufficient data to properly estimate customer needs and competitive trends. However, as in many other situations, the economic law of diminishing returns quickly sets in on the data collection process. It is usually the case that a small percentage of all the data available produces a large percentage of the insights obtainable. We hope this book will be useful in describing the data considered most essential.

Who Does the Planning

In the late 1960s, strategic planning models developed by the Boston Consulting Group, McKinsey, General Electric, and others led to the formation of formal strategic planning groups in many major corporations. Essentially, the planning process was delegated to the professional planners, while implementation of the plans was left to the line managers. Naturally, line managers felt resentment against such a process as they thought that the planners had no "feel" for the markets for which they were planning; that is, it was managing totally by the numbers rather than including any market intuition gleaned from experience. As a result, hostility grew between the staff planners and line managers to the point where recommended strategies were either poorly implemented or ignored. At the present time, due to both poor results from staff-directed planning efforts and the recession of 1982–83 which led to large cuts in corporate staffs, line managers are much more involved with planning, both strategic and marketing (Business Week, 1984). The conclusion seems to be that line managers should indeed develop marketing plans but with staff assistance.

The Structure

Clearly, any formal planning effort involves some structure. The advantage of structure is that it forces discipline on the planners; that is, certain data must be collected. Interestingly, many firms believe that the most important result of planning is not the plan itself but merely the necessity of structuring thought about the strategic issues facing the business. However, an apparent danger is that the structure can take precedence over the content so that planning becomes mere form-filling or number crunching with little thought to the purposes of the effort. Thus, while the process should not be too bureaucratic, there must be enough structure to force completion. A good solution to the dilemma is to consider the plan format as a guide but with a rigid timetable. Flexibility in format helps to prevent the plan from being mindless paper shuffling.

Length of Plan

The length of a marketing plan must be balanced between being too long so that it is ignored by both line and senior managers and being too brief so that it ignores key details. Many organizations have formal guidelines for the optimal lengths of documents (e.g., Procter & Gamble's dreaded one-page limit on memos) so that what is long for one firm is optimal for another. A modal length, however, is about 20 to 50 pages.

How Often Planning Is Done

The decision concerning the length of the planning cycle was discussed earlier. A common mistake made in planning is to plan either more frequently or less frequently than necessary. In the former case, the frequent reevaluation of strategies can lead to erratic firm behavior. Also,

the planning process is more burdensome than it needs to be. For instance, where plans are not revised frequently, the business may not adapt quickly enough to changes in the environment and thus suffer a deterioration in its competitive position. Actually, environmental conditions such as tax returns and reporting requirements tend to favor an annual plan.

Number of Alternative Strategies Considered

The problems encountered of this type are either too few alternatives discussed, thus raising the likelihood of failure, or too many, which increases the time and cost of the planning effort. Multiple alternatives should be considered, but this does not necessarily imply that everyone needs to be heard. It is important to have diversity in the strategic options (e.g., both growth and hold strategies) since discarded strategies often prove to be useful as contingency plans.

Who Sees the Plan?

For the successful implementation of a marketing plan, a broad consensus including other functional areas is required. For example, a high-quality strategy is difficult to implement if manufacturing is not simultaneously exerting high-quality control. On the other hand, growth objectives may be achievable only through the relaxation of credit policies. A common mistake is to view the plan as a proprietary possession of marketing management.

Not Using the Plan as a Sales Document

A major but often overlooked purpose of a plan and its presentation is to generate funds from either internal sources (i.e., to gain budget approval) or external sources (i.e., to gain a partner for a joint venture). To state it differently, the plan and its proponents compete with other plans and their proponents for scarce resources. Therefore, the more appealing the plan and the better the track record of its proponents, the better the chance of budget approval.

THE PLANNING PROCESS

Approaches to Planning

Two general approaches to planning have developed. "Top-down" planning refers to a process where the marketing plans are formulated either

by senior or middle management with the aid of staff, and the plans are implemented by lower-echelon personnel such as sales representatives. An alternative to such top-down approaches are "bottom-up" methods where the lower ranks are actively involved with the planning process in terms of forecasts and the collection of competitor and customer information. Such information is subject to higher-level review, but in such a planning system, the lower management personnel play a key role in the process.

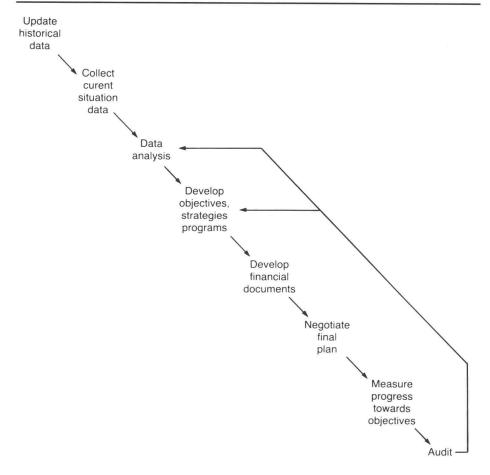
Both systems have some commendable characteristics. The rationale often used for top-down planning is that the higher the level the person occupies in the organization, the better the perspective that person has of the context of the problems facing the business. Field salespeople, for example, tend to consider the competitive battleground as their sales territory and not necessarily the national or even international market. Bottom-up planning systems are often characterized by better implementation than top-down approaches since the people primarily charged with executing the plan are involved with developing it.

Steps in the Planning Process

In most organizations, the necessity to collect information and the structure of the marketing plan impose a need to have a programmed sequence of events occur in the planning process. These events generally follow the order of Steps 1–8 below and as shown in Figure 1–1.

- Step 1. Updating Facts about the Past. Data collected for marketing planning purposes are often either provisional or estimated. For example, in planning for 1989, actual market size data for 1988 may not be available because of delays in the aggregate data collection process. However, forecasts for 1988 developed in 1987 are often available. Alternatively, preliminary estimates of the gross national product for 1988 may exist but not the final figures.
- Step 2. Collecting Background Data. The data collection effort focuses on information available on the current situation. This is, appropriately, termed the situation analysis that will be described later.
- Step 3. Analyzing Historical and Background Data. Existing data are analyzed in order to forecast competitors' actions, customers' behavior, economic conditions, and so forth. Such an analysis need not be quantitative; in fact, much of the analysis, as will be seen in later chap-

FIGURE 1–1
Marketing Planning Sequence



ters, is qualitative with the emphasis being on drawing implications from nonnumerical data. This analysis leads to the delineation of key opportunities and threats to the business.

Step 4. Developing Objectives, Strategies, Action Programs. The implications drawn from the background data (see Step 3) are used to formulate brand objectives, strategies, and marketing mix decisions. This is, in fact, the critical activity of the planning process because it outlines