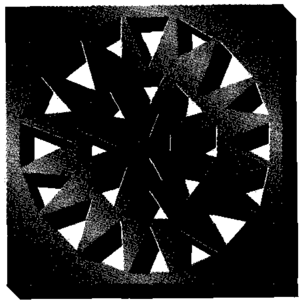
EIGHTH EDITION

STRATEGIC MARKETING PROBLEMS

CASES AND COMMENTS

ROGER A. KERIN

ROBERT A. PETERSON



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Roger A. Kerin
Southern Methodist University

Robert A. Peterson
University of Texas

PRENTICE HALL, Upper Saddle River, New Jersey 07458

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Preface

Decision making in marketing is first and foremost a skill. Like most skills, it requires tools and terminology. Like all skills, it is best learned through practice. This book is dedicated to the development of decision-making skills in marketing. Textual material introduces concepts and tools useful in structuring and solving marketing problems. Case studies describing actual marketing problems provide an opportunity for those concepts and tools to be employed in practice. In every case study, the decision maker must develop a strategy consistent with the underlying factors existing in the situation presented and must consider the implications of that strategy for the organization and its environment.

The eighth edition of ***Strategic Marketing Problems*: *Cases and Comments*** seeks a balance between marketing management content and process. The book consists of eleven chapters and forty-three cases.

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, mission, and goals, identifying and framing organizational opportunities, formulating product-market strategies, budgeting, and controlling the marketing effort. The appendix to Chapter 1 contains a marketing plan for an actual company, Paradise Kitchens®, Inc. The plan is annotated to focus attention on substantive elements of the plan as well as style and layout elements.

Chapter 2, "Financial Aspects of Marketing Management," reviews basic concepts from managerial accounting and managerial finance that are useful in marketing management. Primary emphasis is placed on such concepts as cost structure, relevant versus sunk costs, margins, contribution analysis, liquidity, operating leverage, and preparing *pro forma* income statements.

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. A sample case and 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 presentation.

Chapter 4, "Opportunity Analysis and Market Targeting," focuses on the identification and evaluation of marketing opportunities. Market segmentation, market targeting, and market potential and profitability issues are considered in some depth.

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 offering. New-offering development, life cycle management, product or service positioning, branding decisions, and brand growth strategies are emphasized.

Chapter 7, "Integrated Marketing Communication Strategy and Management," raises issues in the design, execution, and evaluation of an integrated communication mix. Decisions concerned with communications objectives, strategy, budgeting, programming, and effectiveness, as well as sales management, are addressed.

Chapter 8, "Marketing Channel Strategy and Management," introduces a variety of considerations affecting channel selection and modification as well as trade relations. Specific decision areas covered include direct versus indirect distribution, dual distribution, cost-benefit analysis of channel choice and management, and marketing channel conflict and coordination.

Chapter 9, "Pricing Strategy and Management," highlights concepts and applications in price determination and modification. Emphasis is placed on evaluating demand, cost, and competitive influences when selecting or modifying pricing strategies for products and services and product-line pricing.

Chapter 10, "Marketing Strategy Reformulation: The Control Process," focuses on the appraisal of marketing actions 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. Attention is directed to marketing program decisions for new and existing products and services, including issues related to marketing program implementation and organization.

The case selection in this book reflects a broad overview of contemporary marketing problems and applications. Ninety percent of the cases are dated in the 1990s; 42 percent are dated since 1995. Of the forty-three cases included, thirty deal with consumer products and services, and thirteen have a business-to-business marketing orientation. Sixteen cases introduce marketing issues in the international arena. Marketing of services is addressed in seven cases. Sixty-five percent 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 classroom tested.

Computer-assisted programs and a student manual are available for use with seventeen of the cases in the book. The manual contains all the materials necessary to use spreadsheets. It 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 here. First, we thank those institutions and individuals who have kindly granted us permission to include their cases in this edition. The cases contribute significantly to the overall quality of the book, and each individual is prominently acknowledged in the Contents and at the bottom of the page on which the case begins. We specifically wish to thank the Harvard Business School, The University of Western Ontario, and the University of Virginia for granting permission to reproduce cases authored by their faculty. Second, we wish to thank our numerous collaborators, whose efforts made the difference between good cases and excellent cases. Third, we thank the adopters of the previous seven editions of the book for their many comments and recommendations for improvements. 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 reviews of our material. Naturally, we bear full responsibility for any errors of omission and commission in the final product.

Roger A. Kerin

Robert A. Peterson

Contents

CHAPTER 1

Foundations of Strategic Marketing Management

The primary purpose of marketing is to create long-term and mutually beneficial exchange relationships between an organization and the publics (individuals and organizations) with which it interacts. Though this fundamental purpose of marketing is timeless, the manner in which organizations undertake it continues to evolve. 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 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 will create and sustain a competitive advantage and affect long-term organizational performance. According to a senior strategic-planning manager at General Electric:

> [T]he marketing manager is the most significant functional contributor to the strategic-planning process, with leadership roles in defining the business mission; analysis of the environmental, competitive, and business situations; developing objectives, goals, and strategies; and defining product, market distribution, and quality plans to implement the business's strategies. This involvement extends to the development of programs and operational plans that are fully linked with the strategic plan.[1]

The transition of the marketing manager from being only an implementer to being a maker of organization strategy has prompted the emergence of strategic marketing management as a course of study and practice. *Strategic marketing management* consists of five complex and interrelated analytical processes.

1. Defining the organization's business, mission, and goals.
2. Identifying and framing organizational opportunities.
3. Formulating product-market strategies.
4. Budgeting marketing, financial, and production resources.
5. Developing reformulation and recovery strategies.

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

■ DEFINING THE ORGANIZATION'S BUSINESS, MISSION, AND GOALS

The practice of strategic marketing management begins with a clearly stated business definition, mission, and set of goals or objectives. A business definition outlines the scope of a particular organization's operations. Its mission is a written statement of organizational purpose. Goals or objectives specify what an organization intends to achieve. Each plays an important role in describing the character of an organization and what it seeks to accomplish.

Business Definition

Determining what business an organization is in is neither obvious nor easy. In many instances, a single organization may operate several businesses, as is the case with large *Fortune* 500 companies. Defining each of these businesses is a necessary first step in strategic marketing management.

Contemporary strategic marketing perspectives indicate that an organization should define a business by the type of customers it wishes to serve, the particular needs of those customer groups it wishes to satisfy, and the means or technology by which the organization will satisfy these customer needs.[2] By defining a business from a customer or market perspective, an organization is appropriately viewed as a customer-satisfying endeavor, not a product-producing or service-delivery enterprise. Products and services are transient, as is often the technology or means used to produce or deliver them. Basic customer needs and customer groups are more enduring. For example, the means for delivering prerecorded music has undergone significant change over the past 25 years. During this period, the dominant prerecorded music technologies and products evolved from plastic records, to 8-track tapes, to cassettes, and most recently, to compact discs. By comparison, the principal consumer buying segment(s) and needs satisfied have varied little.

Much of the corporate restructuring and refocusing in recent years has resulted from senior company executives asking the question "What business are we in?" The experience of the Domestic Merchandising Group at Sears, Roebuck and Company is a case in point.[3] The company found itself in a competitive environment where discounters and specialty outlets were attracting its traditional middle-class customers. Sears' response was to tinker with its merchandising strategy throughout the 1980s and early 1990s. It promoted itself variously as an upscale, fashion-oriented department store for more affluent customers and as a discounter with budget shops featuring store or private-label brands and discounted prices. Sears then attempted to portray itself as a retailer with "everyday low pricing" and as a collection of "power formats" focusing on popular brands of merchandise. None of these actions improved Sears' performance. Finally, Sears' top management acknowledged that, "We need to much more clearly identify our target customers and needs." Sears decided to focus on "the middle 60 percent of the population that recognizes value." Having refined the company's target customer group and need(s) to be satisfied, the Sears merchandising formula (means) became more focused and effective, thus demonstrating the tight linkage among all three aspects of business definition. The result was that Sears' sales and profits substantially improved in the mid-1990s.

Business Mission

An organization's business mission complements its business definition. As a written statement, a mission underscores the scope of an organization's operations apparent in its business definition and reflects management's vision of what the organization seeks to do. While there is no overall definition for all mission statements, most statements describe an organization's purpose with reference to its customers, products or services, markets, philosophy, and technology.[4] Some mission statements are generally stated such as that for Saturn Corporation, a division of General Motors. Saturn's mission is to:

> Market vehicles developed and manufactured in the United States that are world leaders in quality, cost, and customer satisfaction through the integration of people, technology, and business systems and to transfer knowledge, technology, and experience throughout General Motors.

Others are more specifically written like that for Solartronics Corporation. Solartronics Corporation 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.

Mission statements also apply to not-for-profit organizations. For instance, the mission of the American Red Cross is

> to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid, prepare for, and cope with emergencies.

A carefully crafted mission statement that succinctly conveys organizational purpose can provide numerous benefits to an organization including focus to its marketing effort. It can (1) crystallize management's vision of the organization's long-term direction and character, (2) provide guidance in identifying, pursuing, and evaluating market and product opportunities, and (3) inspire and challenge employees to do those things that are valued by the organization and its customers. It also provides direction for setting business goals or objectives.

Business Goals

Goals or objectives convert the organization's mission into tangible actions and results that are to be achieved, often within a specific time frame. For example, the 3M Company emphasizes research and development and innovation in its business mission. This view is made tangible in one of the company's goals: 30 percent of 3M's annual revenues must come from company products that are less than four years old.[5]

Goals or objectives divide into three major categories: production, financial, and marketing. Production goals or objectives apply to the use of manufacturing and service capacity and to product and service quality. Financial goals or objectives focus on return on investment, return on sales, profit, cash flow, and shareholder wealth. Marketing goals or objectives emphasize market share, marketing productivity, sales volume, profit, customer satisfaction, and value. When production, financial, and marketing goals or objectives are combined, they represent a composite picture of organizational purpose within a specific time frame; accordingly, they must complement one another.

Goal or objective setting should be problem-centered and future-oriented. Because goals or objectives represent statements of what the organization wishes to achieve in a specific time frame, they implicitly arise from an understanding of the current situation. Therefore, managers need an appraisal of operations or a *situation analysis*, to determine reasons for 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 AND FRAMING ORGANIZATIONAL GROWTH OPPORTUNITIES

Once the character and direction of the organization have been outlined in its business definition, mission, and goals or objectives, the practice of strategic marketing management enters an entrepreneurial phase. Using business definition, mission, and goals as a guide, the search for and evaluation of organizational growth opportunities can begin.

Converting Environmental Opportunities Into Organizational Opportunities

Three questions help marketing managers decide whether certain environmental opportunities represent viable organizational growth opportunities. They are:

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

Each of these questions assists in identifying and framing organizational growth opportunities. They also highlight major concepts in strategic marketing management.

The *what might we do* question introduces the concept of *environmental opportunity*. Unmet or changing consumer needs, unsatisfied buyer groups, and new means or technology for delivering value to prospective buyers represent sources of environmental opportunities for organizations. In this regard, environmental opportunities are boundless. However, the mere presence of an environmental opportunity does not mean that an organizational growth opportunity exists. Two additional questions must be asked.

The *what do we do best* question introduces the concept of organizational capability, or distinctive competency. *Distinctive competency* describes an organization's unique strengths or qualities, including skills, technologies, or resources that distinguish it from other organizations.[6] In order for any of an organization's strengths or qualities to be considered truly distinctive and a source of competitive advantage, two criteria must be satisfied. First, the strength must be imperfectly imitable by competitors. That is, competitors cannot replicate a skill (such as the delivery competency of Domino's Pizza) easily or without a sizable investment of time and money. Second, the strength should make a significant contribution to the benefits perceived by customers and, by doing so, provide superior value to them. For example, the ability to engage in technological innovation that is wanted and provides value to customers is a distinctive competency. Consider the Safety Razor Division of the Gillette Company. Its distinctive competencies lie in three areas: (1) shaving technology and development, (2) high-volume manufacturing of precision metal and plastic products, and (3) marketing of mass-distributed consumer package goods.[7] These competencies were responsible for the Sensor razor, a technological innovation, which sustained Gillette's dominance of the men's and later the women's wet-shaving market in the 1990s.

Finally, the *what must we do* question introduces the concept of success requirements in an industry or market. *Success requirements* are basic tasks that an organization must perform 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 success factors in the cosmetics industry. Firms competing in the personal computer industry recognize that the requirements for success include low-cost production capabilities, access to distribution channels, and continuous innovation in software development.

The linkage among environmental opportunity, distinctive competency, and success requirements will determine whether an organizational opportunity exists. A clearly defined statement of success requirements serves as a device for matching an environmental opportunity with an organization's distinctive competencies. If *what must be done* is inconsistent with *what can be done* to capitalize on an environmental opportunity, an organizational growth opportunity will fail to materialize. Too often organizations ignore this linkage and pursue seemingly lucrative environmental opportunities 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 only to see the venture fail. After the company abandoned this venture, 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."[8] By clearly establishing the linkages necessary for success before taking any action, an organization can minimize its risk of failure. An executive for L'eggs hosiery illustrates this point when specifying his new-venture criteria:

> [P]roducts that can be sold through food and drugstore outlets, are purchased by women, . . . can be easily and distinctly packaged, and comprise at least a $500 million retail market not already dominated by one or two major producers.[9]

When one considers L'eggs' past successes, it is apparent that whatever environmental opportunities are pursued will be consistent with what L'eggs does best, as illustrated by past achievements in markets whose success requirements are similar. An expanded discussion of these points is found in Chapter 4.

SWOT Analysis

SWOT analysis is a formal framework for identifying and framing organizational growth opportunities. SWOT is an acronym for an organization's *S*trengths and *W*eaknesses and external *O*pportunities and *T*hreats. It is an easy-to-use framework for focusing attention on the fact that an organizational growth opportunity results from a good fit between an organization's internal capabilities (apparent in its strengths and weaknesses) and its external environment reflected in the presence of environmental opportunities and threats. Many organizations also perform a SWOT analysis as part of their goal or objective-setting process.

Exhibit 1.1 displays a SWOT analysis framework depicting representative entries for internal strengths and weaknesses and external opportunities and threats. A strength is something that an organization is good at doing or some characteristic that gives the organization an important capability. Something an organization lacks or does poorly relative to other organizations is a weakness. Opportunities represent external developments or conditions in the environment that have favorable implications for the organization. Threats, on the other hand, pose dangers to the welfare of the organization.

A properly conducted SWOT analysis goes beyond the simple preparation of lists. Attention needs to be placed on evaluating strengths, weaknesses, opportunities, and threats and drawing conclusions about how each might affect the organization. The following questions might be asked once strengths, weaknesses, opportunities, and threats have been identified:

1. Which internal strengths represent distinctive competencies? Do these strengths compare favorably with what are believed to be market or industry success requirements? Looking at Exhibit 1.1 on page 6, for example, does "proven innovation skill" strength represent a distinctive competency and a market success requirement?
2. Which internal weaknesses disqualify the organization from pursuing certain opportunities? Look again at Exhibit 1.1, and note that the organization acknowledges that it has a "weak distribution network and a subpar salesforce." How might this organizational weakness affect the opportunity described as

EXHIBIT 1.1

Sample SWOT Analysis Framework and Representative Examples

Selected Internal Factors	*Representative*		*Selected External Factors*	*Representative*	
	Strengths	*Weaknesses*		*Opportunities*	*Threats*
Management	Experienced management talent	Lack of management depth	Economic	Upturn in the business cycle; evidence of growing personal disposable income	Adverse shifts in foreign exchange rates
Marketing	Well thought of by buyers; effective advertising program	Weak distribution network; subpar salesforce	Competition	Complacency among domestic competitors	Entry of lower-cost foreign competitors
Manufacturing	Available manufacturing capacity	Higher overall production costs relative to key competitors	Consumer trends	Unfulfilled customer needs on high and low end of product category suggesting a product line expansion possibility	Growing preference for private-label products
R & D	Proven innovation skills	Poor track record in bringing innovations to the marketplace	Technology	Patent protection of complementary technology ending	Newer substitute technologies imminent
Finance	Little debt relative to industry average	Weak cash flow position	Legal/ regulatory	Falling trade barriers in attractive foreign markets	Increased U.S. regulation of product-testing procedures and labeling
Offerings	Unique, high-quality products	Too narrow a product line	Industry/ market structure	New distribution channels evolving that reach a broader customer population	Low-entry barriers for new competitors

"new distribution channels evolving that reach a broader customer population"?

3. Does a pattern emerge from the listing of strengths, weaknesses, opportunities, and threats? Inspection of Exhibit 1.1 reveals that low-entry barriers into the market/industry may contribute to the entry of lower-cost foreign competitors. This does not bode well for domestic competitors labeled as "complacent" and the organization's acknowledged high production costs.

FORMULATING PRODUCT-MARKET STRATEGIES

In practice, organizational opportunities frequently emerge from an organization's 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.

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

Exhibit 1.2 classifies product-market strategies according to the match between offerings and markets.[10] The operational implications and requirements of each strategy are briefly described in the following subsections.[11]

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 rates 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. Coca-Cola uses all of these activities in attempting to achieve its announced goal of increasing its market share from 42 percent to 50 percent of the U.S. soft drink market by the year 2000.[12]

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 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. Sec-

EXHIBIT 1.2

Product-Market Strategies

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

ond, 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 list price . . . , General Foods met them head-on. [General Foods] let Folger's lead off with a TV blitz. . . . Then [General Foods] saturated the airwaves.[13]

The result of this struggle was no change in market share for either firm. 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 conversion costs involved in capturing buyers from competitors, stimulating usage, and attracting new users.

Market-Development Strategy

A *market-development strategy* dictates that an organization introduce its existing offerings 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, Harley-Davidson engaged in a market-development strategy when it entered Japan, Germany, and France. 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 must often 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.

Like the market penetration strategy, market development involves a careful consideration of competitor strengths and weaknesses and competitor retaliation potential. Moreover, because the firm seeks new buyers, it must understand their number, motivation, and buying patterns in order to develop marketing activities successfully. Finally, the firm must consider its strengths, in terms of adaptability to new markets, in order to evaluate the potential success of the venture.

Market development in the international arena has grown in importance and usually takes one of four forms: (1) exporting, (2) licensing, (3) joint venture, or (4) direct investment.[14] Each option has advantages and disadvantages. Exporting involves marketing the same offering in another country either directly (through sales offices) or through intermediaries in a foreign country. Since this approach typically requires minimal capital investment and is easy to initiate, it is a popular option for developing foreign markets. Procter and Gamble, for instance, exports its deodorants, soaps, fragrances, shampoos, and other health and beauty products to the newly emerging democracies in Eastern Europe and the former Soviet Union. Licensing is a contractual arrangement whereby one firm (licensee) is given the rights to patents, trademarks, know-how, and other intangible assets by their owner (licensor) in return for a royalty (usually 5 percent of gross sales) or a fee. For example, Cadbury Schweppes PLC, a London-based multinational firm, has licensed Hershey Foods to sell its candies in the United States for a fee of $300 million. Licensing provides a low-risk, quick, and capital-free entry into a foreign market. However, the licensor usually has no control over production and marketing by the licensee. A joint venture, often called a strategic alliance, involves investment by both a foreign firm and a local company to create a new entity in the host country. The two companies share ownership, control, and profits of the entity. Joint ventures are popular because one company may not have the necessary financial, technical, or managerial resources to enter a market alone. This approach also often ensures against trade barriers being imposed on the foreign firm by the government of the host company. Japanese companies frequently engage in joint ventures with American and European firms to gain access to foreign markets. A problem frequently arising from joint ventures is that the partners do not always agree on how the new entity should be run. Direct investment in a manufacturing and/or assembly facility in a foreign market is the most risky option and requires the greatest commitment. However, it brings the firm closer to its customers and may be the most profitable approach toward developing foreign markets. For these reasons, direct investment must be evaluated closely in terms of benefits and costs. Direct investment often follows one of the three other approaches to foreign-market entry. For example, PepsiCo first exported Pepsi-Cola to the then Soviet Union in 1972. By early 1997, PepsiCo operated over 30 bottling plants there.

Product-Development Strategy

A *product-development strategy* dictates that the organization create new offerings for existing markets. The approach taken may be to develop totally new offerings (product innovation) to enhance the value to customers of existing offerings (product augmentation), or to broaden the existing line of offerings by adding different sizes, forms, flavors, and so forth (product line extension). Rollerblades are an example of product innovation, as is the introduction of the "Cash Management Account" by Merrill Lynch in the financial services industry. Product augmentation can be achieved in numerous ways. One is to bundle complementary items or services with an existing offering. For example, programming services, application aids, and training programs for buyers enhance the value of personal computers. Another way is to improve the functional performance of the offering. Producers of facsimile machines have done this by improving print quality. Many types of product-line extensions are possible. Personal-care companies market deodorants in powder, spray, and liquid forms; Quaker Oats produces nine flavors of Gatorade; and Frito-Lay offers its Lay's potato chips in a number of package sizes.

Companies successful at developing and commercializing new offerings lead their industries in sales growth and profitability. The likelihood of success is increased if the development effort results in offerings that satisfy a clearly understood buyer need. In the toy industry, for instance, these needs translate into products with three qualities: (1) lasting play value, (2) the ability to be shared with other children, and (3) the ability to stimulate a child's imagination.[15] Successful commercialization occurs when the offering can be communicated and delivered to a well-defined buyer group at a price it is willing and able to pay.

Important considerations in planning a product-development strategy concern the market size and volume necessary for the effort to be profitable, the magnitude and timing of competitive response, the impact of the new product on existing offerings, and the capacity (in terms of human and financial investment and technology) of the organization to deliver the offering to the market(s). More importantly, successful new offerings must have a significant "point of difference" reflected in superior product or service characteristics that deliver unique and wanted benefits to consumers. Two examples from the cereal industry illustrate this view. In 1995, General Mills introduced Fringos, a sweetened cereal flake about the size of a corn chip. Consumers were supposed to snack on them, but they didn't.[16] The point of difference was not significant enough to get consumers to switch from competing snacks such as popcorn, potato chips, or tortilla chips. On the other hand, Nabisco's fat-free Snackwell Cereal Bars became the number one brand in the $700-million snack-bar category in 1996 by delivering a unique and wanted benefit.[17]

The potential for cannibalism must be considered with a product-development strategy.[18] *Cannibalism* occurs when sales of a new product or service come at the ex-