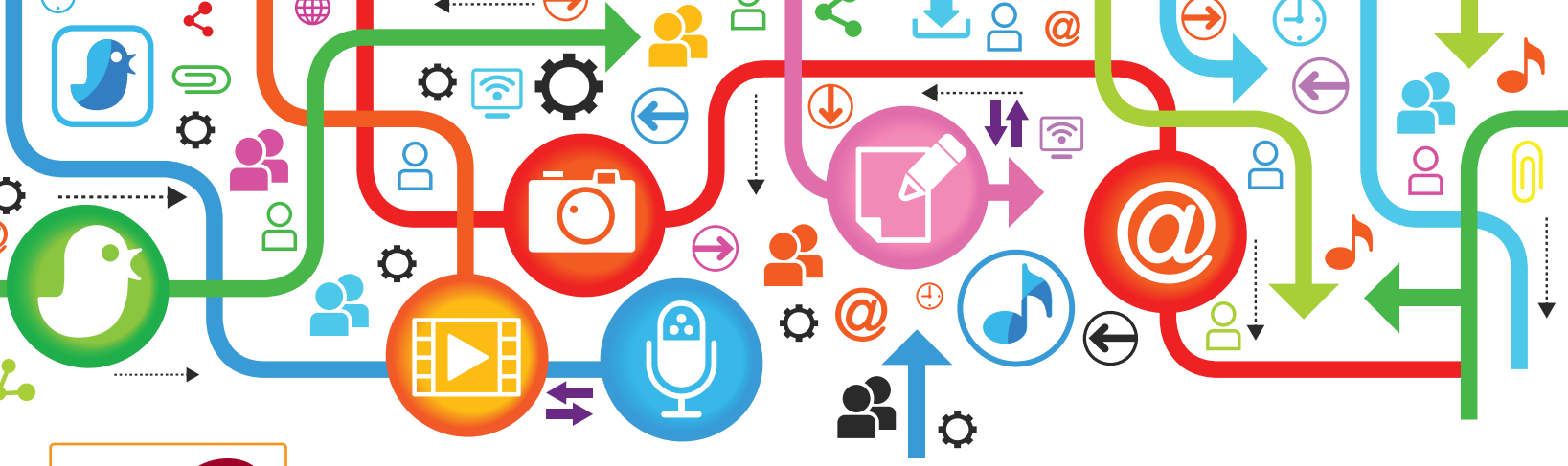


CHAPTER 2

COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

In Chapter 1, we explored the marketing process by which marketing organisations create value for customers in order to capture value from them in return. In this leg of the journey, we dig deeper into steps two and three of the marketing process – designing customer-driven marketing strategies and constructing marketing programs. First, we look at the organisation's overall strategic planning, which guides marketing strategy and planning. Next, we discuss how, guided by the strategic plan, marketers partner closely with others inside and outside the firm to create value for customers. We then examine marketing strategy and planning – how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs. Finally, we look at the important step of measuring and managing return on marketing investment.

For a visual representation of the chapter, please see the diagram on the following page.

Learning Objectives

Learning Objective 1 **Explain company-wide strategic planning and its four steps.**
Company-wide strategic planning: Defining marketing's role *pp. 38–42*

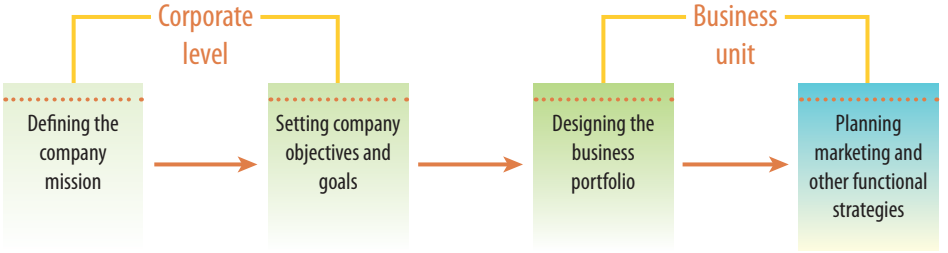
Learning Objective 2 **Discuss how to design business portfolios and develop growth strategies.**
Designing the business portfolio *pp. 42–46*

Learning Objective 3 **Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.**
Planning marketing: Partnering to build customer relationships *pp. 46–48*

Learning Objective 4 **Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.**
Marketing strategy and the marketing mix *pp. 48–52*

Learning Objective 5 **List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.**
Managing the marketing effort *pp. 52–56*
Measuring and managing return on marketing investment *pp. 56–59*

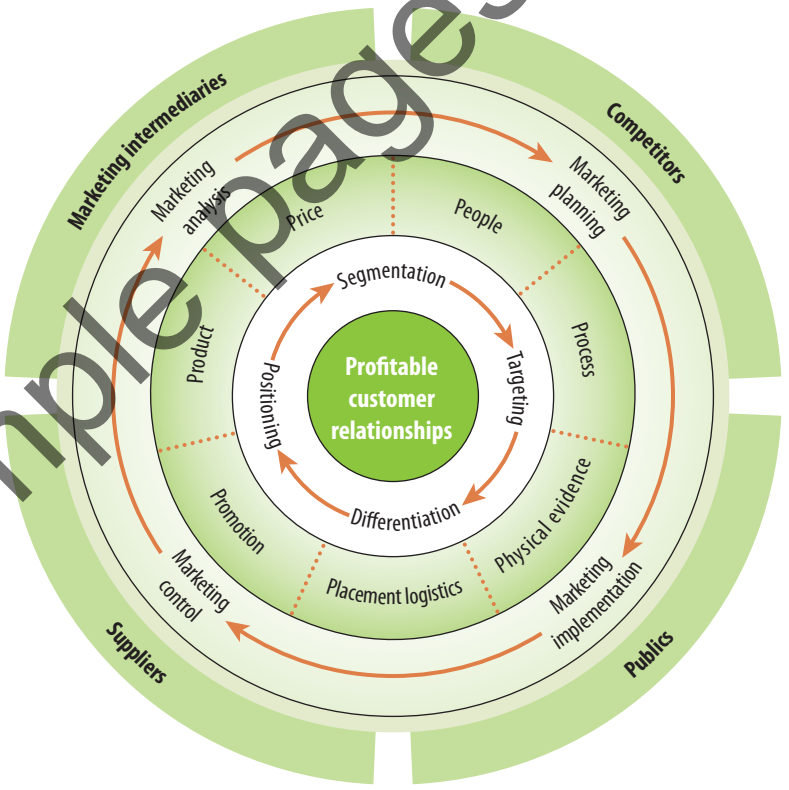
LO 1
Explain company-wide strategic planning and its four steps.
(pp. 38–42)



LO 2
Discuss how to design business portfolios and develop growth strategies.
(pp. 42–46)

LO 3
Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.
(pp. 46–48)

LO 4
Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.
(pp. 48–52)



LO 5
List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.
(pp. 52–59)

Outstanding marketing organisations employ strongly customer-driven marketing strategies and programs that create customer value and relationships. These marketing strategies and programs, however, are guided by broader company-wide strategic plans, which must also be customer-focused. To understand the role of marketing, we start with a discussion of the organisation's overall strategic planning process. Throughout the discussion, we use the term *company* to include all types of marketing organisations: profit-oriented businesses, not-for-profit organisations, government, and institutions generally.

Company-wide strategic planning: Defining marketing's role (pp. 38–42)

Strategic planning
The process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Each marketing organisation must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives and resources. This is the focus of **strategic planning** – the process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long-range plans and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the organisation to take advantage of opportunities in its constantly changing environment.

At the corporate level, the organisation starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission is then turned into detailed supporting objectives that guide the whole organisation. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.

Defining a market-oriented mission

An organisation exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: What is our business? Who is the customer? What do consumers value? What *should* our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely.

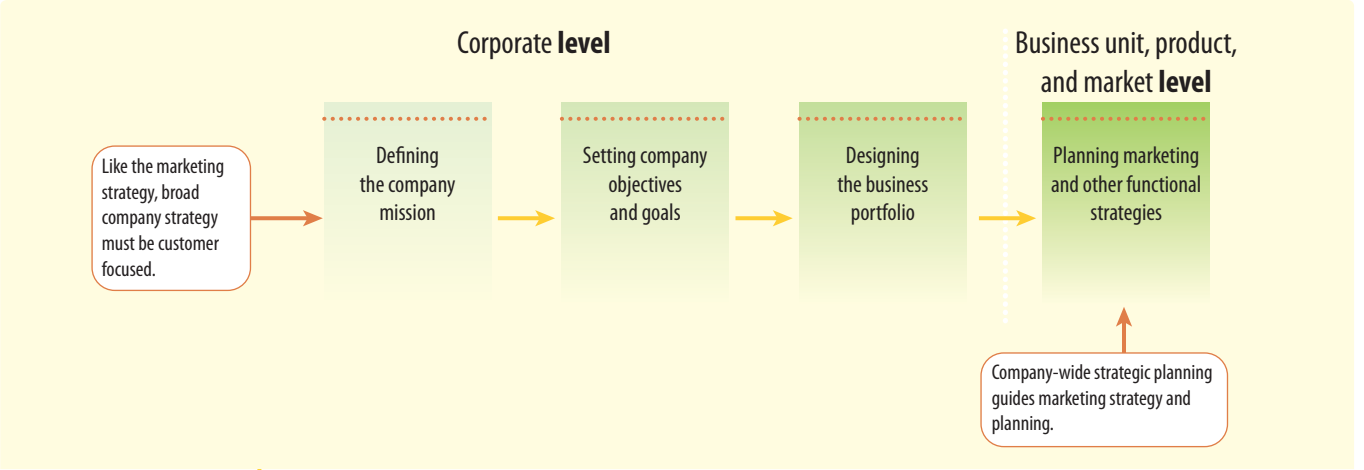


FIGURE 2.1 Steps in strategic planning

Many organisations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organisation's purpose – what it wants to accomplish in the larger environment. A clear mission statement acts as an 'invisible hand' that guides people in the organisation.

Mission statement
A statement of the organisation's purpose – what it wants to accomplish in the larger environment.

Some companies define their missions myopically in product or technology terms ('We make and sell furniture', or 'We are a chemical-processing firm'). But mission statements should be *market-oriented* and defined in terms of satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. Global pharmaceutical giant Pfizer Inc. set up the Pfizer Foundation, which provides funding and resources to local and international organisations that expand and improve global health strategies. In 2010, the Foundation provided some US$22 million in grants and employee matching gifts to non-governmental organisations around the world. Its mission is 'to promote access to quality health care, to nurture innovation, and to support the community involvement of Pfizer colleagues'.[1] Likewise, World Vision's mission is not just to provide aid, but rather 'to be a Christian organisation that engages people to eliminate poverty and its causes'.[2] Table 2.1 provides several other examples of product-oriented versus market-oriented business definitions.[3]

Mission statements should be meaningful and specific, yet motivating. They should emphasise the organisation's strengths in the marketplace. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Finally, a marketing organisation's mission should not be stated as making more sales or profits – profits are only a reward for creating value for customers. Instead, the mission should focus on customers and the customer experience the marketing organisation seeks to create.

Table 2.1 Market-oriented business definitions

Organisation	Product-oriented definition	Market-oriented definition
Amazon.com	We sell books, videos, CDs, consumer electronics and other products online	Our vision is to be Earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online. (This is a combination mission/vision statement, as it looks to the future.)
Facebook	We are an online social network.	We give people the power to share and make the world more open and connected.
eBay	We enable online auctions and selling.	We provide a global marketplace where practically anyone can trade practically anything.
Hulu	We are an online video service.	We help people find and enjoy the world's premium video content when, where and how they want it.
Revlon	We make cosmetics.	We sell lifestyle and self-expression; success and status; memories, hopes and dreams.
Village Roadshow	We distribute and show movies, and run theme parks.	We aim to build a world-class portfolio of entertainment and media assets in order to generate sound returns, a sustainable competitive advantage and enduring value for all stakeholders.
Virgin Atlantic	We fly people around the world.	To grow a profitable airline … Where people love to fly … And where people love to work.
Woolworths	We run retail outlets.	We, as passionate committed retailers, understand and lead our customers through excellence and a deep knowledge of our products and services and the world we live in. We live the Woolworths difference through our values: Quality and style – deliver the best Value – a simple and fair deal Service – think customer Innovation – discover the difference Integrity – do what you say you will do Energy – be passionate and deliver Sustainability – build for a better future.

Sources: See <www.virgin-atlantic.com>, accessed January 2013; and <www.woolworthsholdings.co.za>, accessed January 2013.

Thus, the mission of McDonald's is not 'to be the world's best and most profitable quick-service restaurant'; rather, it is 'to be our customers' favourite place and way to eat'. If McDonald's accomplishes this customer-focused mission, profits will follow. Marketing in Action 2.1 illustrates how Nokia has employed strategic planning in the process of reinventing itself using Microsoft's Windows phone software and later becoming part of Microsoft.

MARKETING IN ACTION 2.1

NOKIA'S STRATEGIC PLANNING INVOLVES PARTNERING WITH MICROSOFT

Hands up if you have bought, or plan to buy, an iPhone! This makes you part of a large market. While the iPhone is similar to many other smartphones in that it is a mobile phone that has internet capabilities, can send and receive the photos and videos it makes, and, of course, plays downloaded music, it is the hundreds of Apple-approved applications (apps) by third parties that make this device so desirable. Moreover, there is an undeniable cachet in the iPhone name and the one-finger way in which users navigate the device. This alone makes the iPhone a sought-after device.

But does your iPhone – or any smartphone, for that matter – go two weeks between charges? Do you care if you only get a day of use from your smartphone between charges, as long as it allows you to send photos to your friends and keeps you connected to what is happening in your world? If you were living in China, India or South Africa, then you *would* care. Nokia is one company that knows this. It markets models that include a flashlight – not for finding the keyhole when coming in late at night, but rather for navigating your way if your house has no electricity at all!

Nokia is a global company, a fact attested to by the many models of smartphones it makes and distributes to different parts of the world. Its website also has this global outlook, allowing visitors to select the site that matches their location. On its China site, it seamlessly switches to Chinese characters. Its mobile phones are similarly customised. Nokia managed to grow to hold 40 per cent of this global market in the face of such large rivals as Ericsson in its early days, then Motorola (now owned by Google), LG, Samsung, Taiwanese smartphone-maker HTC, and Research-in-Motion with its BlackBerry models – and, of course, Apple. It has seen off competitors such as Panasonic, Philips and Siemens, whose market shares fell away to less than 1 per cent. It did this with about 100 models at a range of price points, rather than face the market with a single phone as Apple does if we ignore minor variations in memory and WiFi-only usage. Nor did it over-rely on a few models that sold well, as Motorola did with its original Razr – a strategy that allowed the company to fall behind until it released its Droid in late 2009 and was taken over by Google.

Nokia's history is well worth studying. The company moved from the production of wood pulp in Finland in 1865 to include two other companies, the Finnish Rubber Works and Suomen Punomotehdas Oy, a wire and cable manufacturer, in its operations. As Nokia Ab, the company also started generating electricity during that early period. Nokia turned to the broader international market in each of its business areas in the late 1960s, which then included rubber, cable and forestry industries, electricity generation and electronics. At one time, the company claimed market leadership in the rubber industry in Europe and became the continent's third-largest manufacturer of TV sets.

From barter trading telecommunications products to the Soviet Union during the 1970s and 1980s, Nokia began exporting to the United States and Asia through trading companies. The company had to plan its way from an overdependence on markets in Iron Curtain countries and

Global marketing: It's all in the corporate planning.
Francis Dean/Corbis

competing with European cartels to entering Western markets employing strategic marketing. As countries formed alliances with the West, Nokia followed suit and entered these markets. A new organisational structure was established in 1982 and electronics became the company's main business focus. Thus began a long period of financial uncertainty as business units were divested during the 1990s and early 2000s. Nokia was separated into two business groups in the 2000s: Nokia Mobile Phones and Nokia Networks. Additionally, the company operated a separate Nokia Ventures Organisation and a Nokia Research Centre. Today, we see a global communications behemoth with offices in over 50 countries and manufacturing operations in Vietnam, India and other low-cost countries.

Despite stumbling in the face of competitors such as HTC and Samsung with seemingly gazelle-like skills in new-product development, Nokia has been able to reinvent itself by strategically planning for low-cost innovation and developing an extremely efficient supply chain. (See Chapter 10 for more on supply chain management.) Earlier, it purposely designed its mobile phones to include minimal features, and was thus able to keep its costs under control. But, when market demand is for colour screens and always-on push email in smartphones with high-definition glass touch screens, Nokia found that it had no choice but to adopt the manufacture of these higher-cost phones. In effect, Nokia's speed to market using its global operations and distribution system was not up to the standards of its competitors and so it lost market share.

More recently, Nokia has entered into a 'deep partnership' with Microsoft by selling its phone business and licensing its patents to the company in 2013, and by adopting the Windows phone operating system when it introduced the entry-level Lumia 610 among three other new phones – 710, 800 and the top-end 900. Under CEO Stephen Elop, a former Microsoft manager, Nokia sees its first and foremost strategy as beating Google's Android operating system with cheaper phones, given the number of Chinese manufacturers marketing sub-$100 phones running Android. Elop acknowledges that Nokia did stumble, but points out that 'you have to continuously transform an organization. I know we will have to make improvements and make efficiencies.'

Time will tell if this strategy allows Nokia to regain its former glory in the marketplace, and provide a return to investors who saw the value of their holdings fall by some 90 per cent in the five years to 2012. This story is unfolding, as Microsoft tries to reinvent itself to market gadgets and software just as Apple does.

Sources: Nokia, 'The history of Nokia 1865–2002', available at <http://r2.nokia.com/nokiahistory/index.html>, accessed 3 March 2010. See 'Highlights of new Nokia strategy', <press.nokia.com.au>, accessed January 2013. Stephen Elop's quotes from <blogs.wsj.com/tech-europe/2012/02/27/the-inspiration-behind-nokias-strategy>, accessed January 2013. Also see 'Nokia's new chairman sees no need for changes, hopes unicorns will save them', 3 May 2012, <thenextweb.com>, accessed January 2013.

Questions

1. Describe the advantages of strategic planning, and discuss how it might be employed by a company with which you are familiar.
2. What does Nokia's brand image mean to you?
3. Are you familiar with any products that compete on the basis of simplicity, rather than how fully featured they are? Is this a case of least-cost positioning versus market differentiation?

Setting company objectives and goals

The marketing organisation needs to turn its mission into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. For example, Goodman Fielder has a number of **strategic business units (SBUs)** – the key businesses that make up the company – manufacturing and marketing food products in Australia, New Zealand and internationally. Goodman Fielder's corporate strategy focuses on the development and exploitation of strengths in technology and distribution across the group in order to strengthen customer relationships. The company's vision, mission and values charter is stated as follows:

Strategic business units (SBUs)
The key businesses that make up a company.

GOODMAN FIELDER: Vision, mission, values charter

We are a leading Australasian Food Company.

Our purpose is to create long-term value for our stakeholders.

We are successful in creating value when:

- Our shareholders realise a superior return on their investment
- Our customers and suppliers benefit from our trading relationships
- Our employees are fulfilled with a sense of achievement and recognition
- Our consumers are passionate about our products and brands.

Our core values are based on:

- Honesty and integrity
- Innovation and responsiveness to our customer needs
- An unwavering focus on health and safety
- The courage to lead change
- Excellence over mediocrity
- A drive to continually improve our cost platform
- Environmental and social responsibility.[4]

This broad mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Goodman Fielder's overall objective is to build profitable customer relationships by adding value for its stakeholders. It does this by investing heavily in research and development (R&D). R&D is expensive and requires improved profits to plough back into research programs. So, improving profits becomes another major objective for the company. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's share of domestic and international markets. These goals then become the company's current marketing objectives.

Marketing strategies and programs must be developed to support these marketing objectives. To increase its market share, Goodman-Fielder's SBUs might increase their products' availability and promotion in existing markets and expand business via acquisitions. Each SBU develops broad marketing strategies that must then be defined in greater detail. For example, increasing the product's promotion may require more salespeople, advertising and public relations efforts; if so, both requirements will need to be spelled out. In this way, the organisation's mission is translated into a set of objectives for the current period.

SELF CHECK QUESTIONS

1. List the specific areas of focus in each level of the strategy hierarchy.
2. What is the mission statement of your favourite airline?
3. Who develops the marketing organisation's objectives and goals?

Designing the business portfolio (pp. 42–46)

Business portfolio
The collection of businesses and products that make up the company.

Guided by the marketing organisation's mission statement and objectives, management now must plan its **business portfolio** – this is the collection of businesses and products that make up a company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First, the company must analyse its *current* business portfolio and decide which businesses should receive more, less or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing.

When we examine Goodman Fielder-branded products, we see that they are icons in some of the largest grocery categories and include Meadow Lea, Praise, White Wings, Pampas, Mighty Soft, Helga's, Wonder White, Vogel's (under licence), Meadow Fresh, Edmonds and Irvines. The company also supplies edible fats and oils to Australian and New Zealand food manufacturers and wholesalers, and is the largest supplier of flour to New Zealand food industry customers. Thus, Goodman-Fielder seeks to add value by leveraging off its strength in the technology used to manufacture and distribute products by a portfolio of SBUs.

Analysing the current business portfolio

The major activity in strategic planning is business **portfolio analysis**, whereby management evaluates the products and businesses that make up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones.

Portfolio analysis
The process by which management evaluates the products and businesses that make up the company.

Management's first step is to identify the *strategic business units* that make up the company. An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it is a good idea to add and support products and businesses that fit closely with the organisation's core philosophy and competencies.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So, most standard portfolio analysis methods evaluate SBUs on two important dimensions – the attractiveness of the SBU's market or industry, and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.[5]

The Boston Consulting Group approach

Using the now-classic Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth-share matrix**, as shown in Figure 2.2. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth-share matrix defines four types of SBUs:

Growth-share matrix
A portfolio-planning method that evaluates a company's strategic business units (SBUs) in terms of its market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks or dogs.

- *Stars.* Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
- *Cash cows.* Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of cash that the company uses to pay its bills and to support other SBUs that need investment.
- *Question marks.* Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
- *Dogs.* Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

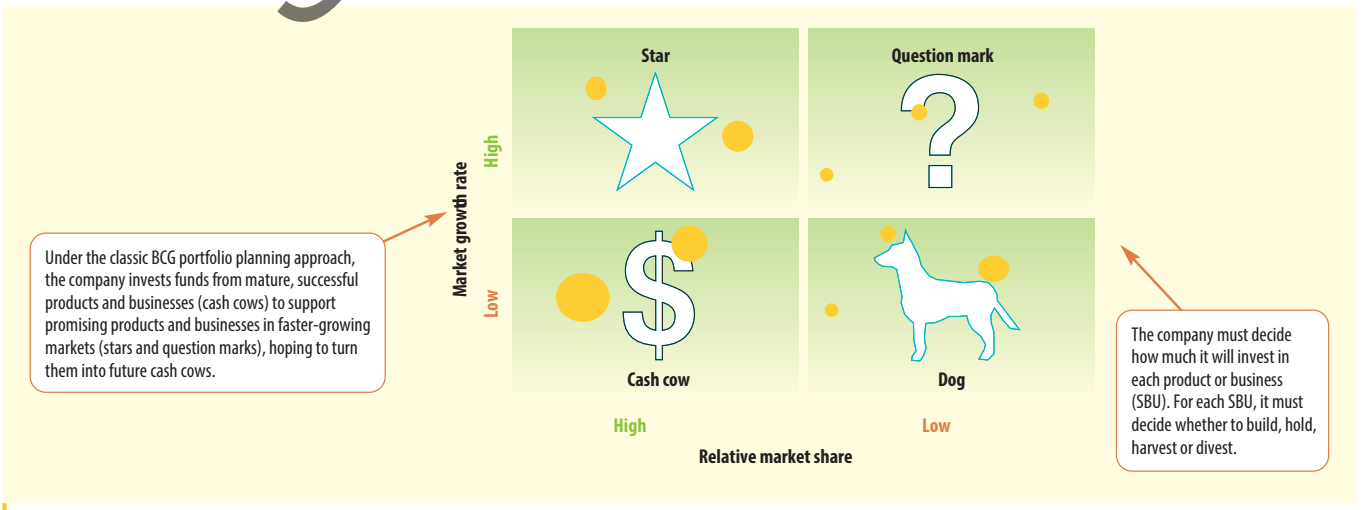


FIGURE 2.2 The BCG growth-share matrix

The ten yellow circles in the growth-share matrix represent a company's ten current SBUs. The company has two stars, two cash cows, three question marks and three dogs. The areas of the circles are proportional to the SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars and dogs. The company should take some decisive action concerning its dogs and its question marks.

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to *build* its share. Or it can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth-share matrix. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs towards the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

Problems with matrix approaches

While the BCG and other formal methods revolutionised strategic planning, such centralised approaches have limitations: They can be difficult, time consuming and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying *current* businesses, but provide little advice for *future* planning.

Because of such problems, many companies have dropped formal matrix methods in favour of more customised approaches that better suit their specific situations. Moreover, unlike former strategic planning efforts that rested mostly in the hands of senior managers at company headquarters, today's strategic planning has been decentralised. Increasingly, companies are placing responsibility for strategic planning in the hands of cross-functional teams of divisional managers who are close to their markets.

For example, consider The Walt Disney Company. Most people think of Disney as theme parks and wholesome family entertainment. But in the mid-1980s Disney set up a powerful, centralised strategic planning group to guide the company's direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge and diverse collection of media and entertainment businesses. The sprawling Disney grew to include everything from theme resorts and film studios (Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, and others) to media networks (ABC plus Disney Channel, ESPN, A&E, History Channel, and half a dozen others) to consumer products and a cruise line.

The newly transformed Disney company proved hard to manage and performed unevenly. Recently, Disney disbanded the centralised strategic planning unit, decentralising its functions to Disney division managers. As a result, Disney reclaimed its position at the head of the world's media conglomerates. And despite recently facing 'the weakest economy in our lifetime', Disney's sound strategic management of its broad mix of businesses has helped it fare better than its rival media companies.[6]

Managing the business portfolio: Most people think of Disney as theme parks and wholesome family entertainment. However, over the past two decades, it has become a sprawling collection of media and entertainment businesses that requires big doses of the famed 'Disney Magic' to manage.
Martin Beddall/Alamy

Developing strategies for growth and downsizing

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders and attract top talent. 'Growth is pure oxygen,' states one executive. 'It creates a vital, enthusiastic corporation where people see genuine opportunity.' At the same time, an organisation must be careful not to make growth itself an objective. The company's objective must be to manage 'profitable growth'.

Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate and select market opportunities and lay down strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in Figure 2.3.[7]

If we apply the product/market expansion grid to fashion house Sass & Bide, first, the company might consider whether it can achieve deeper **market penetration** – making more sales without changing its original product lines. It can spur growth through marketing mix improvements – adjustments to its product design, advertising, pricing and distribution efforts. For example, Sass & Bide might offer an ever-increasing range of styles and colours in its original apparel lines.

Second, Sass & Bide might consider possibilities for **market development** – identifying and developing new markets for its current products. Sass & Bide could review new *demographic markets*. For instance, the company continues to expand internationally, bringing its products to more young women in Japan and Asia and moving further beyond its Australasian and UK markets using its e-Boutique and stockists.[8]

Third, Sass & Bide could consider **product development** – offering modified or new products to current markets. In addition to adding Sass & Bide vie leggings and T-shirts, it added denims.

Finally, Sass & Bide might consider **diversification** – starting up or buying businesses outside of its current products and markets. For example, it could move into performance leisurewear or begin making and marketing Sass & Bide shoes. When diversifying, companies must be careful not to overextend their brands' positioning.

Companies must not only develop strategies for *growing* their business portfolios, but also strategies for *downsizing* them. There are many reasons that a firm might want to abandon products or markets. The firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many international markets without the appropriate research, or when it introduces new products that do not offer superior customer value. The market environment might change, making some of the company's products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less-profitable products and markets in order to focus their more limited resources on the strongest ones. Finally, some products or business units simply age and die.

When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest or divest them. Weak businesses usually require a disproportionate amount of

Product/market expansion grid
A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development or diversification.

Market penetration
Company growth by increasing sales of current products to current market segments without changing the product.

Market development
Company growth by identifying and developing new market segments for current company products.

Product development
Company growth by offering modified or new products to current market segments

Diversification
Company growth through starting up or acquiring businesses outside the company's current products and markets.

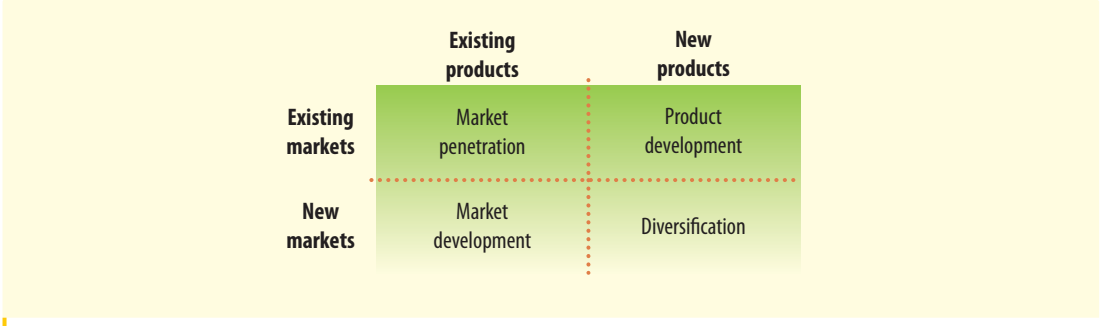


FIGURE 2.3 The product/market expansion grid

management attention. Managers should focus on promising growth opportunities, not fritter away energy trying to salvage fading ones.

SELF CHECK QUESTION

4 Consider the discussion on the BCG. Do a company's SBUs retain their positions in the growth-share matrix over time? Why or why not?

Planning marketing: Partnering to build customer relationships (pp. 46–48)

The company's strategic plan establishes what kinds of businesses the company will operate and its objectives for each. Then, within each business unit, more detailed planning takes place. The main functional departments in each unit – marketing, finance, accounting, purchasing, operations, information systems, human resources, and others – must work together to accomplish strategic objectives.

Marketing plays a key role in the company's strategic planning in several ways. First, it provides a guiding *philosophy* – the marketing concept – which suggests that company strategy should revolve around building profitable relationships with important consumer groups. Second, marketing provides *inputs* to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably.

Customer value is the key ingredient in the marketer's formula for success. However, as we noted in Chapter 1, marketers alone cannot produce superior value for customers. Although marketing plays a leading role, it can be only a partner in attracting, keeping and growing customers. In addition to *customer relationship management*, marketers must also practise *partner relationship management*. They must work closely with partners in other company departments to form an effective internal *value chain* that serves the customer. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external *value delivery network*. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with other company departments

Value chain
The series of internal departments that carry out value-creating activities to design, produce, market, deliver and support a firm's products.

Each company department can be thought of as a link in the company's internal **value chain**.[9] That is, each department carries out value-creating activities to design, produce, market, deliver and support the firm's products. The organisation's success depends not only on how well each department performs its work, but also on how well the various departments coordinate their activities.

For example, the goal of major grocery and liquor retailers ALDI, Coles and Woolworths is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at these chains play an important role. They learn what customers need and ensure the stores' shelves are stocked with the desired products at competitively low prices. They prepare advertising and merchandising programs and assist shoppers with customer service. Through these and other activities, the chain stores' marketers help deliver value to customers.

However, the marketing department needs help from the company's other departments. For instance, Coles Supermarkets' ability to offer the right products at low prices depends on the skill of its buyers and controllers in developing the needed suppliers and buying from them at low cost. Coles' information technology (IT) department must provide fast and accurate information about which products are selling in each store. And its operations people must provide effective, low-cost merchandise handling.

A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value, and on how well the activities of various departments

are coordinated. At Coles Supermarkets, if buyers cannot obtain the lowest prices from suppliers, or if operations cannot distribute merchandise at the lowest costs, then marketing cannot deliver on its promise of everyday low prices.

Ideally, then, a company's different functions should work in harmony to produce value for consumers. But, in practice, departmental relations are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view. But when marketing tries to develop customer satisfaction, it can cause other departments to do a poorer job *in their terms*. Marketing department actions can increase purchasing costs, disrupt production schedules, increase inventories and create budget headaches. Thus, the other departments may resist the marketing department's efforts.

Yet, marketers must find ways to get all departments to 'think consumer' and to develop a smoothly functioning value chain. One marketing expert puts it this way: 'True market orientation does not mean becoming marketing-driven; it means that the entire company obsesses over creating value for the customer and views itself as a bundle of processes that profitably define, create, communicate, and deliver value to its target customers.… Everyone must do marketing regardless of function or department.'[10] Thus, whether you are an accountant, operations manager, financial analyst, IT specialist or HR manager, you need to understand marketing and your role in creating customer value.

Partnering with others in the marketing system

In its quest to create customer value, the firm needs to look beyond its own internal value chain and into the value chains of its suppliers, distributors and, ultimately, its customers. Consider McDonald's. People do not swarm to McDonald's only because they love the chain's hamburgers. Consumers flock to the McDonald's *system*, not just to its food products. Throughout the world, McDonald's' finely tuned value delivery system delivers a high standard of QSCV – quality, service, cleanliness and value. McDonald's is effective only to the extent that it successfully partners with its franchisees, suppliers and others to jointly create 'our customers' favourite place and way to eat'.

More companies today are partnering with the other members of the supply chain – suppliers, distributors and, ultimately, customers – to improve the performance of the customer **value delivery network**. For example, cosmetics maker L'Oréal knows the importance of building close relationships with its extensive network of suppliers, who supply everything from polymers and fats, to spray cans and packaging, to production equipment and office supplies:

Value delivery network
The network made up of the company, suppliers, distributors and, ultimately, customers who partner with each other to improve the performance of the entire system.

> L'Oréal is the world's largest cosmetics manufacturer, with 25 brands ranging from Maybelline and Kiehl's to Lancôme and Redken. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality and socially responsible actions. The company carefully screens new suppliers and regularly assesses the performance of current suppliers. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. Whereas some companies make unreasonable demands of their suppliers and 'squeeze' them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's supplier website, it treats suppliers with 'fundamental respect for their business, their culture, their growth, and the individuals who work there. Each relationship is based on … shared efforts aimed at promoting growth and mutual profits that make it possible for suppliers to invest, innovate, and compete.' As a result, more than 75 per cent of L'Oréal's supplier-partners have been working with the company for ten years or more, and the majority of them for several decades. Says the company's head of purchasing, 'The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers.'[11]

Increasingly in today's marketplace, competition no longer takes place between individual competitors. Rather, it takes place between the entire value delivery networks created by these competitors. Thus, car

Cooperation and competition: The Toyota 86 is a well-reviewed sports car made in conjunction with Subaru, which markets the BRZ.
Bloomberg via Getty Images

maker Toyota's performance against Holden and Ford depends on the quality of Toyota's overall value delivery network compared to that of its competitors. Despite recalls of various models in recent times, Toyota and Honda have been renowned for making good cars. Toyota's network provides very customer-satisfying sales and service. This, on top of speed to market with innovative products such as the Prius and its new sports car made in partnership with Subaru, the 86, has led to Toyota's global success.

SELF CHECK QUESTION

5 **Is the marketing department solely responsible for the organisation meeting its strategic objectives?**

Marketing strategy and the marketing mix (pp. 48–52)

The strategic plan defines the company's overall mission and objectives. Marketing's role and activities are shown in Figure 2.4, which summarises the main activities involved in managing a customer-driven marketing strategy and the marketing mix.

Marketing strategy
The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

Customers stand in the centre. The goal is to create value for customers and build profitable customer relationships. Next comes **marketing strategy** – the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

Guided by marketing strategy, the company designs an integrated *marketing mix* made up of factors under its control – product, price, people, process, physical evidence, placement logistics and promotion. To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. We will now look briefly at each activity. Then, in later chapters, we will discuss each one in more depth.

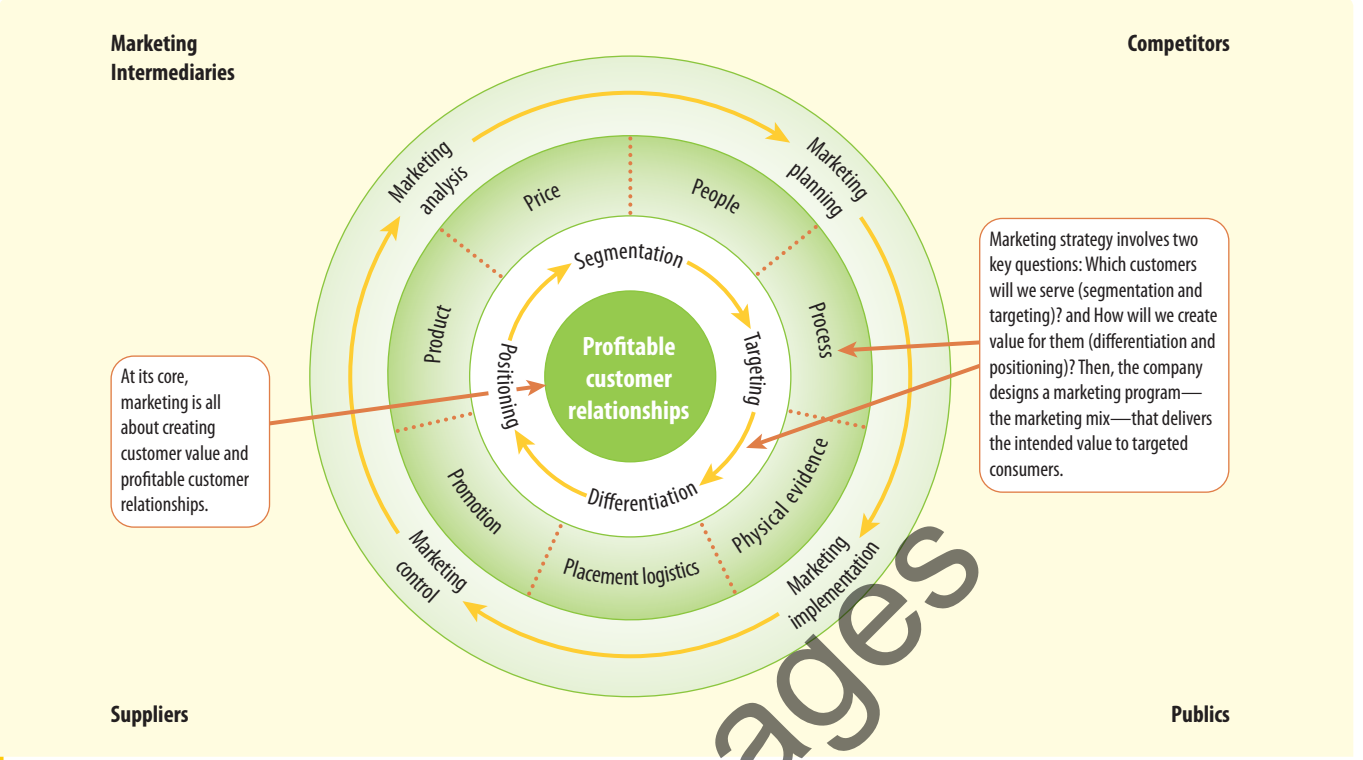


FIGURE 2.4 Managing marketing strategies and the marketing mix

Customer-driven marketing strategy

As we emphasised throughout Chapter 1, to succeed in today's competitive marketplace, companies need to be customer-centred. They must win customers from competitors, then keep and grow them by delivering greater value. But before it can satisfy customers, a company must first understand their needs and wants. Thus, sound marketing requires careful customer analysis.

Companies know that they cannot profitably serve all consumers in a given market – at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. And most companies are in a position to serve some segments better than others. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments. This process involves *market segmentation*, *market targeting*, *differentiation* and *positioning*.

Market segmentation

The market consists of many types of customers, products and needs. The marketer has to determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic and behavioural factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require separate products or marketing programs, is called **market segmentation**.

Market segmentation
Dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require separate products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful. For example, Panadol or Herron would gain little by distinguishing between low-income and high-income pain reliever users if both respond the same way to marketing efforts for paracetamol analgesics. A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts. In the car market, for example, consumers who want the biggest, most comfortable car regardless of price make up one market segment. Consumers who care mainly about price and operating economy make up another segment. It would be

Market segment
A group of consumers who respond in a similar way to a given set of marketing efforts.

difficult to make one car model that was the first choice of consumers in both segments. Companies are wise to focus their efforts on meeting the distinct needs of individual market segments.

Market targeting

Market targeting
The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

After a company has defined market segments, it can enter one or many of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

A company with limited resources might decide to serve only one or a few special segments or 'market niches'. Such 'nichers' specialise in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells less than 100 of its four-seater, V8-powered Californias in Australia each year, but at very high prices – at an eye-opening $400 000-plus. Most nichers are not quite so exotic. Yakult, maker of a fermented milk drink containing a beneficial bacterium called Lactobacillus casei Shirota strain, has found its niche as the nation's market leader of this type of acidophilus that helps get rid of unwanted bacteria in the body. And although Logitech is only a fraction the size of giant Microsoft, through skilful niching it dominates the PC mouse market, with Microsoft as its runner-up.

Alternatively, a company might choose to serve several related segments – perhaps those with different kinds of customers who have the same basic wants. Or a large company might decide to offer a complete range of products to serve all market segments. Most companies enter a new market by serving a single segment, and if this proves successful, they add more segments. For example, Nike started with innovative running shoes for serious runners. Large companies eventually seek full market coverage. Nike now makes and sells a broad range of sports products for just about anyone and everyone, with the goal of 'bringing inspiration and innovation to every athlete in the world'.[12] It has different products designed to meet the special needs of each segment it serves.

Market differentiation and positioning

After a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in those segments. A product's *position* is the place the product occupies relative to competitors' products in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be exactly like others in the market, consumers would have no reason to buy it.

Positioning
Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers.

Positioning is arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers. As one positioning expert puts it, positioning is 'why a shopper will pay a little more for your brand'.[13] Thus, marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

Bunnings promises: 'Lowest prices are just the beginning …'; Kmart says it is: 'Cutting the cost of living'; Telstra professes: 'To know our customers better than anyone else';[14] whereas YouTube lets you 'Broadcast Yourself'. You can 'Think smarter … Act faster' with Berocca; and with GSK's Nicabate aid to stop smoking, smokers are encouraged to 'Pledge to quit' and join Facebook for more community support. While at Hungry Jacks you can 'Have it your way', people at McDonald's say, 'I'm lovin' it'. Such deceptively simple statements form the backbone of a product's marketing strategy.

Differentiation
Actually differentiating the market offering to create superior customer value.

In positioning its product, a company first identifies possible customer value differences that provide competitive advantages upon which to build the position. The company can offer greater customer value either by charging lower prices than competitors, or by offering more benefits to justify higher prices. But if the company *promises* greater value, it must then *deliver* that greater value. Thus, effective positioning begins with **differentiation** – actually *differentiating* the company's market offering so that it gives consumers more value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing program should support

the chosen positioning strategy. For example, BMW designs its entire integrated marketing campaign – from television and print commercials to its online marketing – around its 'The Ultimate Driving Machine' positioning. McDonald's does this integration on a global basis.

Developing an integrated marketing mix

After deciding on its overall marketing strategy, the company is ready to begin planning the details of the marketing mix, one of the main concepts in modern marketing. The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into groups of variables known as 'the extended marketing mix' which we touched on in Figure 1.5 in Chapter 1: *product*, *price*, *placement logistics*, *promotion*, *people*, *process* and *physical evidence*.

Marketing mix
The set of controllable tactical marketing tools – product, price, place, promotion, people, process and physical evidence – that the firm blends to produce the response it wants in the target market.

- *Product* means the goods-and-services combination the company offers to the target market. Thus, a Ford Focus consists of nuts and bolts, spark plugs, pistons, headlights and thousands of other parts. Ford offers several Focus models and dozens of optional features such as self-assist parking. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.
- *Price* is the amount of money customers must pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Focus. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer's perception of the car's value.
- *Placement logistics* includes company activities that make the product available to target customers and end-consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford motor vehicles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.
- *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. Ford Motor Company spends millions each year on advertising in Australia and New Zealand to tell consumers about the company and its many products. Dealership salespeople assist potential buyers and persuade them that the Ford brand is the best car for them. Ford and its dealers offer special promotions – sales, cash rebates, low financing rates – as added purchase incentives.

  The subject of finance for motor vehicle purchases introduces the notion of financial services. As we discuss more fully in Chapter 7, services are intangible products. As such, they often require a variation in the marketing mix employed by service organisations. It is in this context that we briefly discuss three additional marketing mix variables.
- *People.* Services are often people-based, such as when a service manager attends to your needs at a Ford service centre. Such service encounters can be highly variable. It may be because the organisation's people lack motivation or have attitudinal issues, in which case we need to engage in internal marketing and perhaps provide additional training.
- *Process.* When Ford Focus owners take their car in for service, or when people check-in or out of airlines, hotels and motels, the process can be a satisfying experience, or one that causes the customer to vow never to return. Worse still, they may tell others of their poor experience, thereby negating the positive effects of any brand advertising. Marketers need to be involved in designing and monitoring the processes involved in buying and servicing any type of product.
- *Physical evidence.* What criteria might young parents adopt in order to compare day-care centres for their young child? Arguably, there are many criteria, ranging from the qualifications of the staff to the modernity of the centre, among others. Clearly, they cannot ask a very young child if she or he liked