Introduction: The World of Marketing

Part A

Chapter 1

Strategic Planning and the Marketing Management Process

The purpose of this introductory chapter is to present the marketing management process and outline what marketing managers must *manage* if they are to be effective. In doing so, it will also present a framework around which the remaining chapters are organized. Our first task is to review the organizational philosophy known as the marketing concept, since it underlies much of the thinking presented in this book. The remainder of this chapter will focus on the process of strategic planning and its relationship to the process of marketing planning.

THE MARKETING CONCEPT

Simply stated, the marketing concept means that *an organization should seek to make a profit by serving the needs of customer groups.* The concept is very straightforward and has a great deal of commonsense validity. Perhaps this is why it is often misunderstood, forgotten, or overlooked.

The purpose of the marketing concept is to rivet the attention of marketing managers on serving broad classes of customer needs (customer orientation), rather than on the firm's current products (production orientation) or on devising methods to attract customers to current products (selling orientation). Thus, effective marketing starts with the recognition of customer needs and then works backward to devise products and services to satisfy these needs. In this way, marketing managers can satisfy customers more efficiently in the present and anticipate changes in customer needs more accurately in the future. This means that organizations should focus on building long-term customer relationships in which the initial sale is viewed as a beginning step in the process, not as an end goal. As a result, the customer will be more satisfied and the firm will be more profitable.

The principal task of the marketing function operating under the marketing concept is not to manipulate customers to do what suits the interests of the firm, but rather to find effective and efficient means of making the business do what suits the interests of customers. This is not to say that all firms practice marketing in this way. Clearly, many firms still emphasize only production and sales. However, effective marketing, as defined in this text, requires that consumer needs come first in organizational decision making.

One qualification to this statement deals with the question of a conflict between consumer wants and societal needs and wants. For example, if society deems clean air and water as necessary for survival, this need may well take precedence over a consumer's want for goods and services that pollute the environment.

WHAT IS MARKETING?

Everyone reading this book has been a customer for most of their life. Last evening you stopped into a local supermarket to graze at the salad bar, pick up some bottled water and a bag of Fritos corn chips. While you were there, you snapped a $1.00 coupon for a new flavor salad dressing out of a dispenser and tasted some new breakfast potatoes being cooked in the back of the store. As you sat down at home to eat your salad, you answered the phone and someone suggested that you need to have your carpets cleaned. Later on in the evening you saw TV commercials for tires, soft drinks, athletic shoes, and the dangers of smoking and drinking during pregnancy. Today when you enrolled in a marketing course, you found that the instructor has decided that you must purchase this book. A friend has already purchased the book on the Internet. All of these activities involve marketing. And each of us knows something about marketing because it has been a part of our life since we had our first dollar to spend.

Since we are all involved in marketing, it may seem strange that one of the persistent problems in the field has been its definition.[1] The American Marketing Association defines marketing as "the process of planning and executing conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals."[2] This definition takes into account all parties involved in the marketing effort: members of the producing organization, resellers of goods and services, and customers or clients. While the broadness of the definition allows the inclusion of nonbusiness exchange processes, the primary emphasis in this text is on marketing in the business environment. However, this emphasis is not meant to imply that marketing concepts, principles, and techniques cannot be fruitfully employed in other areas of exchange. In fact, some discussions of nonbusiness marketing take place later in the text.

WHAT IS STRATEGIC PLANNING

Before a production manager, marketing manager, and personnel manager can develop plans for their individual departments, some larger plan or blueprint for the *entire* organization should exist. Otherwise, on what would the individual departmental plans be based?

In other words, there is a larger context for planning activities. Let us assume that we are dealing with a large business organization that has several business divisions and several product lines within each division (e.g., General Electric, Philip Morris). Before any marketing planning can be implemented by individual divisions or departments, a plan has to be developed for the entire organization.[3] This means that senior managers must look toward the future and evaluate their ability

Marketing Highlight 1–1

Basic Elements of the Marketing Concept

1. Companywide managerial awareness and appreciation of the consumer's role as it is related to the firm's existence, growth, and stability. As renowned management scholar Peter Drucker has noted, business enterprise is an organ of society; thus, its basic purpose lies outside the business itself. And the valid definition of business purpose is the creation of customers.

2. Active, companywide managerial awareness of, and concern with, interdepartmental implications of decisions and actions of an individual department. That is, the firm is viewed as a network of forces focused on meeting defined customer needs and comprising a system within which actions taken in one department or area frequently result in significant repercussions in other areas of the firm. Also, it is recognized that such actions may affect the company's equilibrium with its external environment, for example, its customers, its competitors.

3. Active, companywide managerial concern with innovation of products and services designed to solve selected consumer problems.

4. General managerial concern with the effect of new products and service introduction on the firm's profit position, both present and future, and recognition of the potential rewards that may accrue from new product planning, including profits and profit stability.

5. General managerial appreciation of the role of marketing intelligence and other fact-finding and reporting units, within and adjacent to the firm, in translating the general statements presented above into detailed statements of profitable market potentials, targets, and action. Implicit in this statement is not only an expansion of the traditional function and scope of formal marketing research, but also assimilation of other sources of marketing data, such as the firm's distribution system and its advertising agency counsel, into a potential marketing intelligence service.

6. Companywide managerial effort, based on participation and interaction of company officers, in establishing corporate and departmental objectives that are understood by and acceptable to these officers and that are consistent with enhancement of the firm's profit position.

Source: For an up-to-date discussion of the marketing concept, see Frederick E. Webster, Jr., "Defining the New Marketing Concept," *Marketing Management* 2, no. 4 (1994), pp. 22–31. For a classic discussion, see Robert L. King, "The Marketing Concept: Fact or Intelligent Platitude," *The Marketing Concept in Action*, Proceedings of the 47th National Conference (Chicago: American Marketing Association, 1964), p. 657.

to shape their organization's destiny in the years and decades to come. The output of this process is objectives and strategies designed to give the organization a chance to compete effectively in the future. The objectives and strategies established at the top level provide the context for planning in each of the divisions and departments by divisional and departmental managers.

Strategic Planning and Marketing Management

Some of the most successful business organizations are here today because many years ago they offered the right product at the right time to a rapidly growing market. The same can also be said for nonprofit and governmental organizations. Many of the critical decisions of the past were made without the benefit of strategic thinking or planning. Whether these decisions were based on wisdom or were just luck is not important; they worked for these organizations. However, a worse fate befell countless other organizations. Over three-quarters of the 100 largest U.S. corporations of 70 years ago have fallen from the list. These corporations at one time dominated their markets, controlled vast resources, and had the best-trained workers. In the end, they all made the same critical mistake. Their managements failed to recognize that business strategies need to reflect changing environments and emphasis must be placed on developing business systems that allow for continuous improvement. Instead, they attempted to carry on business as usual.

Present-day managers are increasingly recognizing that wisdom and innovation alone are no longer sufficient to guide the destinies of organizations, both large and small. These same managers also realize that the true mission of the organization is to provide value for three key constituencies: customers, employees, and investors. Without this type of outlook, no one, including shareholders, will profit in the long run.

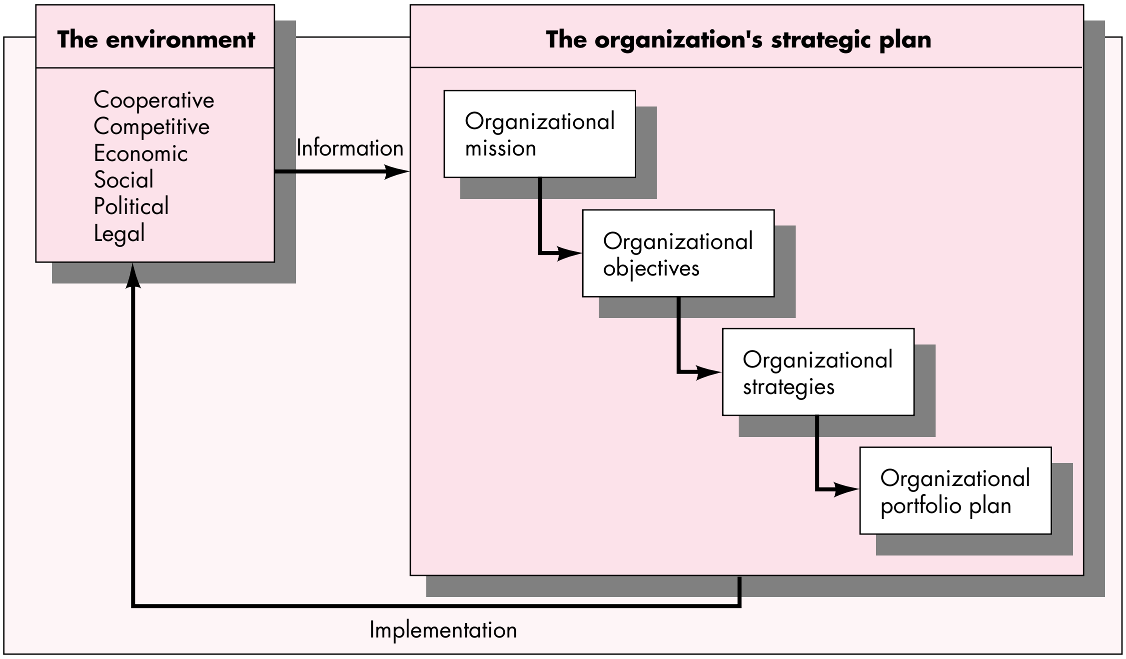
Strategic planning includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization. The form of the process itself has come under criticism in some quarters for being too structured; however, strategic planning, if performed successfully, plays a key role in achieving an equilibrium between the short and the long term by balancing acceptable financial performance with preparation for inevitable changes in markets, technology, and competition, as well as in economic and political arenas. Managing principally for current cash flows, market share gains, and earnings trends can mortgage the firm's future. An intense focus on the near term can produce an aversion to risk that dooms a business to stagnation. Conversely, an overemphasis on the long run is just as inappropriate. Companies that overextend themselves betting on the future may penalize short-term profitability and other operating results to such an extent that the company is vulnerable to takeover and other threatening actions.

The strategic planning process is depicted in Figure 1–1. In the strategic planning process the organization gathers information about the changing elements of its environment. Managers from all functional areas in the organization assist in this information-gathering process. This information is useful in aiding the organization to adapt better to these changes through the process of strategic planning. The strategic plan(s)[4] and supporting plan are then implemented in the environment. The end results of this implementation are fed back as new information so that continuous adaptation and improvement can take place.

The Strategic Planning Process

The output of the strategic planning process is the development of a strategic plan. Figure 1-1 indicates four components of a strategic plan: mission, objectives, strategies, and portfolio plan. Let us carefully examine each one.

FIGURE 1–1 **The Strategic Planning Process**



Organizational Mission

The organization's environment provides the resources that sustain the organization, whether it is a business, a college or university, or a government agency. In exchange for these resources, the organization must supply the environment with quality goods and services at an acceptable price. In other words, every organization exists to accomplish something in the larger environment and that purpose, vision, or mission usually is clear at the organization's inception. As time passes, however, the organization expands, and the environment and managerial personnel change. As a result, one or more things are likely to occur. First, the organization's original purpose may become irrelevant as the organization expands into new products, new markets, and even new industries. For example, Levi Strauss began as a manufacturer of work clothes. Second, the original mission may remain relevant, but managers begin to lose interest in it. Finally, changes in the environment may make the original mission inappropriate, as occurred with the March of Dimes when a cure was found for polio. The result of any or all three of these conditions is a "drifting" organization, without a clear mission, vision, or purpose to guide critical decisions. When this occurs, management must search for a purpose or emphatically restate and reinforce the original purpose.

The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. In essence, the mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal. While some argue that vision and mission statements differ in their purpose, the perspective we will take is that both reflect the organization's attempt to guide behavior, create a culture, and inspire commit-

Marketing Highlight 1–2

Some Actual Mission Statements

Organization	Mission
Health Publications	Our mission is to show people they can use the power of their bodies and minds to make their lives better. We say "You can do it" on every page of our books and magazines.
Local Bank	We will be the best bank in the state for medium-size businesses by 2010.
Skin Care Products	We will provide luxury skin care products with therapeutic qualities that make them worth their premium price.
Household Products	Our mission is offering simple household problem solutions.
Hotel Chain	Grow a worldwide lodging business using total quality management (TQM) principles to continuously improve preference and profitability. Our commitment is that *every guest leaves satisfied.*

ment.[5] However, it is more important that the mission statement comes from the heart and is practical, easy to identify with, and easy to remember so that it will provide direction and significance to all members of the organization regardless of their organizational level.

The basic questions that must be answered when an organization decides to examine and restate its mission are, What is our business? Who is the customer? What do customers value? and What will our business be?[6] The answers are, in a sense, the assumptions on which the organization is being run and from which future decisions will evolve. While such questions may seem simplistic, they are such difficult and critical ones that the major responsibility for answering them must lie with top management. In fact, the mission statement remains the most widely used management tool in business today. In developing a statement of mission, management must take into account three key elements: the organization's history, its distinctive competencies, and its environment.[7]

1. *The organization's history*. Every organization—large or small, profit or nonprofit—has a history of objectives, accomplishments, mistakes, and policies. In formulating a mission, the critical characteristics and events of the past must be considered.

2. *The organization's distinctive competencies.* While there are many things an organization may be able to do, it should seek to do what it can do best. Distinctive competencies are things that an organization does well: so well in fact that they give it an advantage over similar organizations. For Honeywell, it's their ability to design, manufacture, and distribute a superior line of thermostats.[8] Similarly, Procter & Gamble's distinctive competency is its knowledge of the market for low-priced, repetitively purchased consumer products. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.

3. *The organization's environment*. The organization's environment dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed. For example, managers in any industry that is affected by Internet technology breakthroughs should continually be asking, How will the changes in technology affect my customers' behavior and the means by which we need to conduct our business?

However, it is extremely difficult to write a useful and effective mission statement. It is not uncommon for an organization to spend one or two years developing a useful mission statement. When completed, an effective mission statement will be *focused on markets rather than products, achievable, motivating, and specific*.[9]

Focused on Markets Rather than Products The customers or clients of an organization are critical in determining its mission. Traditionally, many organizations defined their business in terms of what they made ("our business is glass"), and in many cases they named the organization for the product or service (e.g., American Tobacco, Hormel Meats, National Cash Register, Harbor View Savings and Loan Association). Many of these organizations have found that, when products and technologies become obsolete, their mission is no longer relevant and the name of the organization may no longer describe what it does. Thus, a more enduring way of defining the mission is needed. In recent years, therefore, a key feature of mission statements has been an *external* rather than *internal* focus. In other words, the mission statement should focus on the broad class of needs that the organization is seeking to satisfy (external focus), not on the physical product or service that the organization is offering at present (internal focus). These market-driven firms stand out in their ability to continuously anticipate market opportunities and respond before their competitors. This has been clearly stated by Peter Drucker:

> A business is not defined by the company's name, statutes, or articles of incorporation. It is defined by the want the customer satisfies when he buys a product or service. To satisfy the customer is the mission and purpose of every business. The question "What is our business?" can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market.[10]

While Drucker was referring to business organizations, the same necessity exists for both nonprofit and governmental organizations. That necessity is to state the mission in terms of serving a particular group of clients or customers and meeting a particular class of need.

Achievable While the mission statement should stretch the organization toward more effective performance, it should, at the same time, be realistic and achievable. In other words, it should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies.

Motivational One of the side (but very important) benefits of a well-defined mission is the guidance it provides employees and managers working in geographically dispersed units and on independent tasks. It provides a shared sense of purpose outside the various activities taking place within the organization. Therefore, such end results as sales, patients cared for, students graduated, and reduction in violent crimes can then be viewed as the result of careful pursuit and accomplishment of the mission and not as the mission itself.

Specific As we mentioned earlier, public relations should not be the primary purpose of a statement of mission. It must be specific to provide direction and guidelines to management when they are choosing between alternative courses of action. In other words, "to produce the highest-quality products at the lowest possible cost" sounds very good, but it does not provide direction for management.

Organizational Objectives

Organizational objectives are the end points of an organization's mission and are what it seeks through the ongoing, long-run operations of the organization. The organizational mission is distilled into a finer set of specific and achievable organizational objectives. These objectives must be *specific, measurable, action commitments* by which the mission of the organization is to be achieved.

As with the statement of mission, organizational objectives are more than good intentions. In fact, if formulated properly, they can accomplish the following:

1. They can be converted into specific action.
2. They will provide direction. That is, they can serve as a starting point for more specific and detailed objectives at lower levels in the organization. Each manager will then know how his or her objectives relate to those at higher levels.
3. They can establish long-run priorities for the organization.
4. They can facilitate management control because they serve as standards against which overall organizational performance can be evaluated.

Organizational objectives are necessary in all areas that may influence the performance and long-run survival of the organization. As shown in Figure 1–2, objectives can be established in and across many areas of the organization. The list provided in Figure 1–2 is by no means exhaustive. For example, some organizations are specifying the primary objective as the attainment of a specific level of quality, either in the marketing of a product or the providing of a service. These organizations believe that objectives should reflect an organization's commitment to the customer rather than its own finances. Obviously, during the strategic planning

FIGURE 1–2
Sample Organizational Objectives (manufacturing firm)

Area of Performance	Possible Objective
1. Market standing	To make our brands number one in their field in terms of market share.
2. Innovations	To be a leader in introducing new products by spending no less than 7 percent of sales for research and development.
3. Productivity	To manufacture all products efficiently as measured by the productivity of the workforce.
4. Physical and financial resources	To protect and maintain all resources—equipment, buildings, inventory, and funds.
5. Profitability	To achieve an annual rate of return on investment of at least 15 percent.
6. Manager performance and responsibility	To identify critical areas of management depth and succession.
7. Worker performance and attitude	To maintain levels of employee satisfaction consistent with our own and similar industries.
8. Social responsibility	To respond appropriately whenever possible to societal expectations and environmental needs.

Marketing Highlight 1–3

Potential Sources of Cross-Functional Conflict for Marketers

Functions	What They May Want to Deliver	What Marketers May Want Them to Deliver
Research and development	Basic research projects	Products that deliver customer value
	Product features	Customer benefits
	Few projects	Many new products
Production/operations	Long production runs	Short production runs
	Standardized products	Customized products
	No model changes	Frequent model changes
	Long lead times	Short lead times
	Standard orders	Customer orders
	No new products	Many new products
Finance	Rigid budgets	Flexible budgets
	Budgets based on return on investment	Budgets based on need to increase sales
	Low sales commissions	High sales commissions
Accounting	Standardized billing	Custom billing
	Strict payment terms	Flexible payment terms
	Strict credit standards	Flexible credit standards
Human resources	Trainable employees	Skilled employees
	Low salaries	High salaries

Source: G. A. Churchill, Jr. and J. Paul Peter, *Marketing: Creating Value for Customers* (Burr Ridge, IL: Irwin-McGraw-Hill, 1998), p. 15.

process conflicts are likely to occur between various functional departments in the organization. The important point is that management must translate the organizational mission into specific objectives that support the realization of the mission. The objectives may flow directly from the mission or be considered subordinate necessities for carrying out the mission. As discussed earlier, the objectives are specific, measurable, action commitments on the part of the organization.

Organizational Strategies

Hopefully, when an organization has formulated its mission and developed its objectives, it knows where it wants to go. The next managerial task is to develop a "grand design" to get there. This grand design constitutes the organizational strategies. Strategy involves the choice of major directions the organization will take in pursuing its objectives. Toward this end, it is critical that strategies are consistent with goals and objectives and that top management ensures strategies are implemented effectively. As many as 60 percent of strategic plans have failed because the strategies in them were not well defined and, thus, were unable to be implemented effectively.[11] What follows is a discussion of various strategies organizations can pursue. We discuss three approaches: (1) strategies based on products and markets, (2) strategies based on competitive advantage, and (3) strategies based on value.

FIGURE 1–3
Organizational Growth Strategies

Markets \ Products	Present Products	New Products
Present customers	Market penetration	Product development
New customers	Market development	Diversification

Organizational Strategies Based on Products and Markets One means to developing organizational strategies is to focus on the directions the organization can take in order to grow. Figure 1–3 presents the available strategic choices,[12] which is known as a product-market matrix.[12] It indicates that an organization can grow by better managing what it is presently doing or by finding new things to do. In choosing one or both of these paths, it must also decide whether to concentrate on present customers or to seek new ones. Thus, according to Figure 1–3, there are only four paths an organization can take in order to grow.

Market Penetration Strategies These strategies focus primarily on increasing the sale of present products to present customers. For example:

- Encouraging present customers to use more of the product: "Orange Juice Isn't Just for Breakfast Anymore."
- Encouraging present customers to purchase more of the product: multiple packages of Pringles, instant winner sweepstakes at a fast-food restaurant.
- A university directs a fund-raising program at those graduates who already give the most money.

Tactics used to implement a market penetration strategy might include price reductions, advertising that stresses the many benefits of the product (e.g., "Milk Is a Natural"), packaging the product in different-sized packages, or making it available at more locations. Other functional areas of the business could also be involved in implementing the strategy in addition to marketing. A production plan might be developed to produce the product more efficiently. This plan might include increased production runs, the substitution of preassembled components for individual product parts, or the automation of a process that previously was performed manually.

Market Development Strategies Pursuing growth through market development, an organization would seek to find new customers for its present products. For example:

- Arm & Hammer continues to seek new uses for its baking soda.
- McDonalds continually seeks expansion into overseas markets.
- As the consumption of salt declined, a book appeared: "101 Things You Can Do with Salt Besides Eat It."

Market development strategies involve much, much more than simply getting the product to a new market. Before deciding on marketing techniques such as advertising and packaging, companies often find they must establish a clear position in the market, sometimes spending large sums of money simply to educate consumers as to why they should consider buying the product.

Product Development Strategies Selecting one of the remaining two strategies means the organization will seek new things to do. With this particular strategy, the new products developed would be directed primarily to present customers. For example:

- Offering a different version of an existing product: mini-Oreos, Ritz with cheese.
- Offering a new-improved version of their product: Gillette's latest improvement in shaving technology.
- Offering a new way to use an existing product: Vaseline's Lip Therapy.

Diversification This strategy can lead the organization into entirely new and even unrelated businesses. It involves seeking new products (often through acquisitions) for customers not currently being served. For example:

- Philip Morris, originally a manufacturer of cigarettes, is widely diversified in financial services, Post cereals, Sealtest dairy, and Kraft cheese, among others.
- Brown Foreman Distillers acquired Hartmann Luggage and Sara Lee acquired Coach Leather Products.
- Some universities are establishing corporations to find commercial uses for faculty research.

Organizational Strategies Based on Competitive Advantage Michael Porter developed a model for formulating organizational strategy that is applicable across a wide variety of industries.[13] The focus of the model is on devising means to gain competitive advantage. Competitive advantage is an ability to outperform competitors in providing something that the market values. Porter suggests that firms should first analyze their industry and then develop either a *cost leadership strategy* or a *strategy based on differentiation.* These general strategies can be used on marketwide bases or in a niche (segment) within the total market.

Using a cost leadership strategy, a firm would focus on being the low-cost company in their industry. They would stress efficiency and offer a standard, no-frills product. They could achieve this through efficiencies in production, product design, manufacturing, distribution, technology, or some other means. The important point is that to succeed, the organization must continually strive to be the cost leader in the industry or market segment it competes in. It must also offer products or services that are acceptable to customers when compared to the competition. Wal-Mart, Southwest Airlines, and Timex Group Ltd. are companies that have succeeded in using a cost leadership strategy.

Using a strategy based on differentiation, a firm seeks to be unique in its industry or market segment along particular dimensions that the customers value. These dimensions might pertain to design, quality, service, variety of offerings, brand name, or some other factor. The important point is that because of uniqueness of the product or service along one or more of these dimensions, the firm can charge a premium price. L. L. Bean, Rolex, Coca Cola, and Microsoft are companies that have succeeded using a differentiation strategy.

Organizational Strategies Based on Value As competition increases, the concept of "customer value" has become critical for marketers as well as customers. It can be thought of as an extension of the marketing concept philosophy which focuses on developing and delivering superior value to customers as a way to achieve organizational objectives. Thus, it focuses not only on customer needs, but also on the question, How can we create value for them and still achieve our objectives?

It has become pretty clear that in today's competitive environment it is unlikely that a firm will succeed by trying to be all things to all people.[14] Thus, to succeed firms must seek to build long-term relationships with their customers by offering a unique value that only they can offer. It seems that many firms have succeeded by choosing to deliver superior customer value using one of three value strategies—best price, best product, or best service.

Dell Computers, Price/Costco, and Southwest Airlines are among the success stories of offering customers the best price. Rubbermaid, Nike, Starbucks, and Microsoft believe they offer the best products on the market. Airborne Express, Roadway, Cott Corporation, and Lands' End provide superior customer value by providing outstanding service.

Choosing an Appropriate Strategy

On what basis does an organization choose one (or all) of its strategies? Of extreme importance are the directions set by the mission statement. Management should select those strategies consistent with its mission and capitalize on the organization's distinctive competencies that will lead to a sustainable competitive advantage. A sustainable competitive advantage can be based on either the assets or skills of the organization. Technical superiority, low-cost production, customer service/product support, location, financial resources, continuing product innovation, and overall marketing skills are all examples of distinctive competencies that can lead to a sustainable competitive advantage. For example, Honda is known for providing quality automobiles at a reasonable price. Each succeeding generation of Honda automobiles has shown marked quality improvements over previous generations. Likewise, VF Corporation, manufacturer of Wrangler and Lee jeans, has formed "quick response" partnerships with both discounters and department stores to ensure the efficiency of product flow. The key to sustaining a competitive advantage is to continually focus and build on the assets and skills that will lead to long-term performance gains.

Organizational Portfolio Plan

The final phase of the strategic planning process is the formulation of the organizational portfolio plan. In reality, most organizations at a particular time are a portfolio of businesses, that is, product lines, divisions, schools. To illustrate, an appliance manufacturer may have several product lines (e.g., televisions, washers and dryers, refrigerators, stereos) as well as two divisions, consumer appliances and industrial appliances. A college or university will have numerous schools (e.g., education, business, law, architecture) and several programs within each school. Some widely diversified organizations such as Philip Morris are in numerous unrelated businesses, such as cigarettes, food products, land development, and industrial paper products.

Managing such groups of businesses is made a little easier if resources are plentiful, cash is plentiful, and each is experiencing growth and profits. Unfortunately, providing larger and larger budgets each year to all businesses is seldom feasible. Many are not experiencing growth, and profits and resources (financial and nonfinancial) are becoming more and more scarce. In such a situation, choices must be made, and some method is necessary to help management make the choices. Management must decide which businesses to build, maintain, or eliminate, or which new businesses to add. Indeed, much of the recent activity in corporate restructuring has centered on decisions relating to which groups of businesses management should focus on.

Obviously, the first step in this approach is to identify the various divisions' product lines, and so on, that can be considered a "business." When identified, these are referred to as *strategic business units* (SBUs) and have the following characteristics:

- They have a distinct mission.
- They have their own competitors.
- They are a single business or collection of related businesses.
- They can be planned independently of the other businesses of the total organization.

Thus, depending on the type of organization, an SBU could be a single product, product line, or division; a college of business administration; or a state mental health agency. Once the organization has identified and classified all of its SBUs, some method must be established to determine how resources should be allocated among the various SBUs. These methods are known as *portfolio models.* For those readers interested, the appendix of this chapter presents two of the most popular portfolio models, the Boston Consulting Group model and the General Electric model.

The Complete Strategic Plan

Figure 1–1 indicates that at this point the strategic planning process is complete, and the organization has a time-phased blueprint that outlines its mission, objectives, and strategies. Completion of the strategic plan facilitates the development of marketing plans for each product, product line, or division of the organization. The marketing plan serves as a subset of the strategic plan in that it allows for detailed planning at a target market level. This important relationship between strategic planning and marketing planning is the subject of the final section of this chapter.

THE MARKETING MANAGEMENT PROCESS

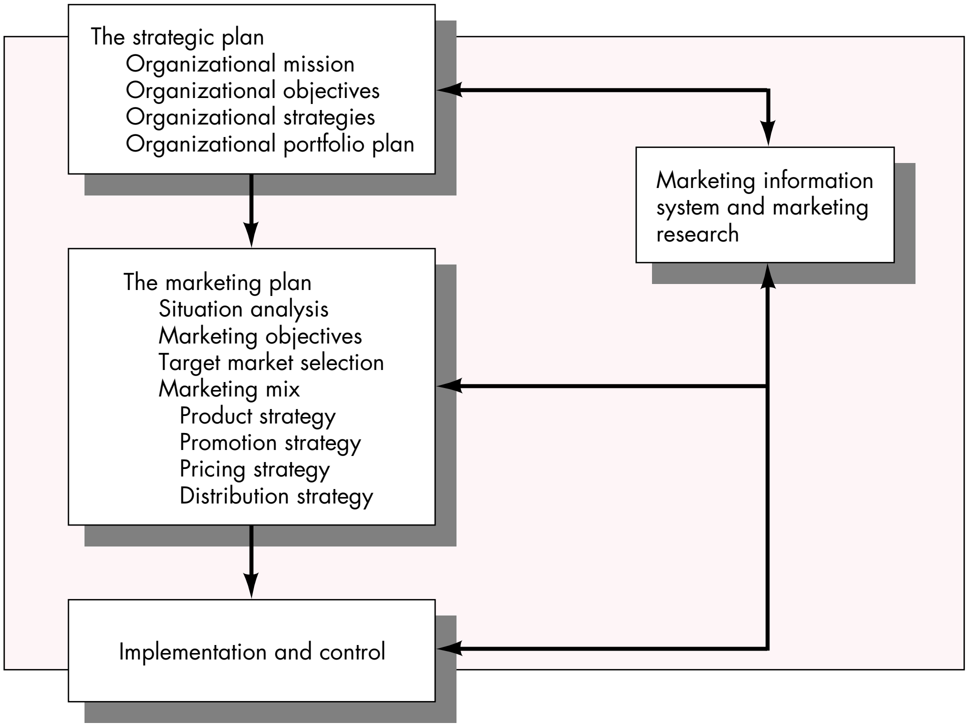
Marketing management can be defined as "the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives."[15] It should be noted that this definition is entirely consistent with the marketing concept, since it emphasizes the serving of target market needs as the key to achieving organizational objectives. The remainder of this section will be devoted to a discussion of the marketing management process according to the model in Figure 1–4.

Situation Analysis

With a clear understanding of organizational objectives and mission, the marketing manager must then analyze and monitor the position of the firm and, specifically, the marketing department, in terms of its past, present, and future situation. Of course, the future situation is of primary concern. However, analyses of past trends and the current situation are most useful for predicting the future situation.

The situation analysis can be divided into six major areas of concern: (1) the cooperative environment; (2) the competitive environment; (3) the economic environment; (4) the social environment; (5) the political environment; and (6) the legal environment. In analyzing each of these environments, the marketing

FIGURE 1–4
Strategic Planning and Marketing Planning



executive must search both for opportunities and for constraints or threats to achieving objectives. Opportunities for profitable marketing often arise from changes in these environments that bring about new sets of needs to be satisfied. Constraints on marketing activities, such as limited supplies of scarce resources, also arise from these environments.

The Cooperative Environment The cooperative environment includes all firms and individuals who have a vested interest in the firm accomplishing its objectives. Parties of primary interest to the marketing executive in this environment are (1) suppliers, (2) resellers, (3) other departments in the firm, and (4) subdepartments and employees of the marketing department. Opportunities in this environment are primarily related to methods of increasing efficiency. For example, a company might decide to switch from a competitive bid process of obtaining materials to a single source that is located near the company's plant. Likewise, members of the marketing, engineering, and manufacturing functions may use a teamwork approach to developing new products versus a sequential approach. Constraints consist of such things as unresolved conflicts and shortages of materials. For example, a company manager may believe that a distributor is doing an insufficient job of promoting and selling the product, or a marketing manager may feel that manufacturing is not taking the steps needed to produce a quality product.

The Competitive Environment The competitive environment includes primarily other firms in the industry that rival the organization for both resources and sales. Opportunities in this environment include such things as (1) acquiring competing firms; (2) offering demonstrably better value to consumers and attracting them away from competitors; and (3) in some cases, driving competitors out of the industry. For example, one airline purchases another airline, a bank offers depositors a free checking account with no minimum balance requirements, or a grocery chain engages in

Marketing Highlight 1–4

Fifteen Guidelines for the Market-Driven Manager

1. Create customer focus throughout the business.
2. Listen to the customer.
3. Define and nurture your distinctive competence.
4. Define marketing as marketing intelligence.
5. Target customers precisely.
6. Manage for profitability, not sales volume.
7. Make customer value the guiding star.
8. Let the customer define quality.
9. Measure and manage customer expectations.
10. Build customer relationships and loyalty.
11. Define the business as a service business.
12. Commit to continuous improvement and innovation.
13. Manage culture along with strategy and structure.
14. Grow with partners and alliances.
15. Destroy marketing bureaucracy.

Source: Frederick E. Webster, Jr., "Executing the New Marketing Concept," *Marketing Management* 3, no. 1 (1994), pp. 8–16.

an everyday low-price strategy that competitors can't meet. The primary constraints in these environments are the demand stimulation activities of competing firms and the number of consumers who cannot be lured away from competition.

The Economic Environment The state of the macroeconomy and changes in it also bring about marketing opportunities and constraints. For example, such factors as high inflation and unemployment levels can limit the size of the market that can afford to purchase a firm's top-of-the-line product. At the same time, these factors may offer a profitable opportunity to develop rental services for such products or to develop less-expensive models of the product. In addition, changes in technology can provide significant threats and opportunities. For example, in the communications industry, technology has developed to a level where it is now possible to provide cable television using phone lines. Obviously such a system poses a severe threat to the existence of the cable industry as it exists today.

The Social Environment This environment includes general cultural and social traditions, norms, and attitudes. While these values change slowly, such changes often bring about the need for new products and services. For example, a change in values concerning the desirability of large families brought about an opportunity to market better methods of birth control. On the other hand, cultural and social values also place constraints on marketing activities. As a rule, business practices that are contrary to social values become political issues, which are often resolved by legal constraints. For example, public demand for a cleaner environment has caused the government to require that automobile manufacturers' products meet certain average gas mileage and emission standards.

Marketing Highlight 1–5

Key Issues in the Marketing Planning Process That Need to Be Addressed

Speed of the Process. There is the problem of either being so slow that the process seems to go on forever or so fast that there is an extreme burst of activity to rush out a plan.

Amount of Data Collected. Sufficient data are needed to properly estimate customer needs and competitive trends. However, the law of diminishing returns quickly sets in on the data-collection process.

Responsibility for Developing the Plan. If planning is delegated to professional planners, valuable line management input may be ignored. If the process is left to line managers, planning may be relegated to secondary status.

Structure. Many executives believe the most important part of planning is not the plan itself but the structure of thought about the strategic issues facing the business. However, the structure should not take precedence over the content so that planning becomes merely filling out forms or crunching numbers.

Length of the Plan. The length of a marketing plan must be balanced between being so long it is ignored by both staff and line managers and so brief that it ignores key details.

Frequency of Planning. Too frequent reevaluation of strategies can lead to erratic firm behavior. However, when plans are not revised frequently enough, the business may not adapt quickly enough to environmental changes and thus suffer a deterioration in its competitive position.

N*umber of Alternative Strategies Considered.* Discussing too few alternatives raises the likelihood of failure, whereas discussing too many increases the time and cost of the planning effort.

Cross-Functional Acceptance. A common mistake is to view the plan as the proprietary possession of marketing. Successful implementation requires a broad consensus including other functional areas.

Using the Plan as a Sales Document. A major but often overlooked purpose of a plan and its presentation is to generate funds from either internal or external sources. Therefore, the better the plan, the better the chance of gaining desired funding.

Source: Donald R. Lehmann and Russell S. Winer, *Analysis for Marketing Planning,* 4th ed., chap. 1. © Richard D. Irwin, Inc., 1997.

The Political Environment The political environment includes the attitudes and reactions of the general public, social and business critics, and other organizations, such as the Better Business Bureau. Dissatisfaction with such business and marketing practices as unsafe products, products that waste resources, and unethical sales procedures can have adverse effects on corporation image and customer loyalty.

However, adapting business and marketing practices to these attitudes can be an opportunity. For example, these attitudes have brought about markets for such products as unbreakable children's toys, high-efficiency air conditioners, and more economical automobiles.

The Legal Environment This environment includes a host of federal, state, and local legislation directed at protecting both business competition and consumer rights. In past years, legislation reflected social and political attitudes and has been primarily directed at constraining business practices. Such legislation usually acts as a constraint on business behavior, but again can be viewed as providing opportunities for marketing safer and more efficient products. In recent years, there has been less emphasis on creating new laws for constraining business practices. As an example, deregulation has become more common as evidenced by recent events in the airlines, financial services, and telecommunications industries.

Marketing Planning

In the previous sections it was emphasized that (1) marketing activities must be aligned with organizational objectives and (2) marketing opportunities are often found by systematically analyzing situational environments. Once an opportunity is recognized, the marketing executive must then plan an appropriate strategy for taking advantage of the opportunity. This process can be viewed in terms of three interrelated tasks: (1) establishing marketing objectives, (2) selecting the target market, and (3) developing the marketing mix.

Establishing Objectives Marketing objectives usually are derived from organizational objectives; in some cases where the firm is totally marketing-oriented, the two are identical. In either case, objectives must be specified and performance in achieving them should be measurable. Marketing objectives are usually stated as standards of performance (e.g., a certain percentage of market share or sales volume) or as tasks to be achieved by given dates. While such objectives are useful, the marketing concept emphasizes that profits rather than sales should be the overriding objective of the firm and marketing department. In any case, these objectives provide the framework for the marketing plan.

Selecting the Target Market The success of any marketing plan hinges on how well it can identify customer needs and organize its resources to satisfy them profitably. Thus, a crucial element of the marketing plan is selecting the groups or segments of potential customers the firm is going to serve with each of its products. Four important questions must be answered:

1. What do customers want or need?
2. What must be done to satisfy these wants or needs?
3. What is the size of the market?
4. What is its growth profile?

Present target markets and potential target markets are then ranked according to (*a*) profitability; (*b*) present and future sales volume; and (*c*) the match between what it takes to appeal successfully to the segment and the organization's capabilities. Those that appear to offer the greatest potential are selected. One cautionary note on this process involves the importance of not neglecting present customers when developing market share and sales strategies. In a recent study, it was found that for every 10 com-

Marketing Highlight 1–6

Examples of Marketing Objectives

Poorly Stated Objectives	Well Stated Objectives
Our objective is to be a leader in the industry in terms of new product development.	Our objective is to spend 12 percent of sales revenue between 2001 and 2002 on research and development in an effort to introduce at least five new products in 2002.
Our objective is to maximize profits.	Our objective is to achieve a 10 percent return on investment during 2001, with a payback on new investments of no longer than four years.
Our objective is to better serve customers.	Our objective is to obtain customer satisfaction ratings of at least 90 percent on the 2001 annual customer satisfaction survey, and to retain at least 85 percent of our 2001 customers as repeat purchasers in 2002.
Our objective is to be the best that we can be.	Our objective is to increase market share from 30 percent to 40 percent in 2001 by increasing promotional expenditures by 14 percent.

Source: Charles W. Lamb, Jr., Joseph F. Hair, Jr., and Carl McDaniel, *Marketing,* 6th ed. (Cincinnati, OH: South-Western Publishing Co., 2002), p. 35.

panies that develop strategies aimed at increasing the number of first-time customers, only 4 made any serious effort to develop strategies geared toward retaining present customers and increasing their purchases.[16] Chapters 3, 4, and 5 are devoted to discussing consumer behavior, industrial buyers, and market segmentation.

Developing the Marketing Mix The marketing mix is the set of controllable variables that must be managed to satisfy the target market and achieve organizational objectives. These controllable variables are usually classified according to four major decision areas: product, price, promotion, and place (or channels of distribution). The importance of these decision areas cannot be overstated, and in fact, the major portion of this text is devoted to analyzing them. Chapters 6 and 7 are devoted to product and new product strategies; Chapters 8 and 9 to promotion strategies in terms of both nonpersonal and personal selling; Chapter 10 to distribution strategies; and Chapter 11 to pricing strategies. In addition, marketing mix variables are the focus of analysis in two chapters on marketing in special fields, that is, the marketing of services (Chapter 12) and international marketing (Chapter 13). Thus, it should be clear to the reader that the marketing mix is the core of the marketing management process.

The output of the foregoing process is the marketing plan. It is a formal statement of decisions that have been made on marketing activities; it is a blueprint of the objectives, strategies, and tasks to be performed.

Implementation and Control of the Marketing Plan

Implementing the marketing plan involves putting the plan into action and performing marketing tasks according to the predefined schedule. Even the most carefully developed plans often cannot be executed with perfect timing. Thus, the marketing executive must closely monitor and coordinate implementation of the plan. In some cases, adjustments may have to be made in the basic plan because of changes in any of the situational environments. For example, competitors may introduce a new product. In this event, it may be desirable to speed up or delay implementation of the plan. In almost all cases, some minor adjustments or fine tuning will be necessary in implementation.

Controlling the marketing plan involves three basic steps. First, the results of the implemented marketing plan are measured. Second, these results are compared with objectives. Third, decisions are made on whether the plan is achieving objectives. If serious deviations exist between actual and planned results, adjustments may have to be made to redirect the plan toward achieving objectives.

Marketing Information Systems and Marketing Research

Throughout the marketing management process, current, reliable, and valid information is needed to make effective marketing decisions. Providing this information is the task of the marketing information system and marketing research. These topics are discussed in detail in Chapter 2.

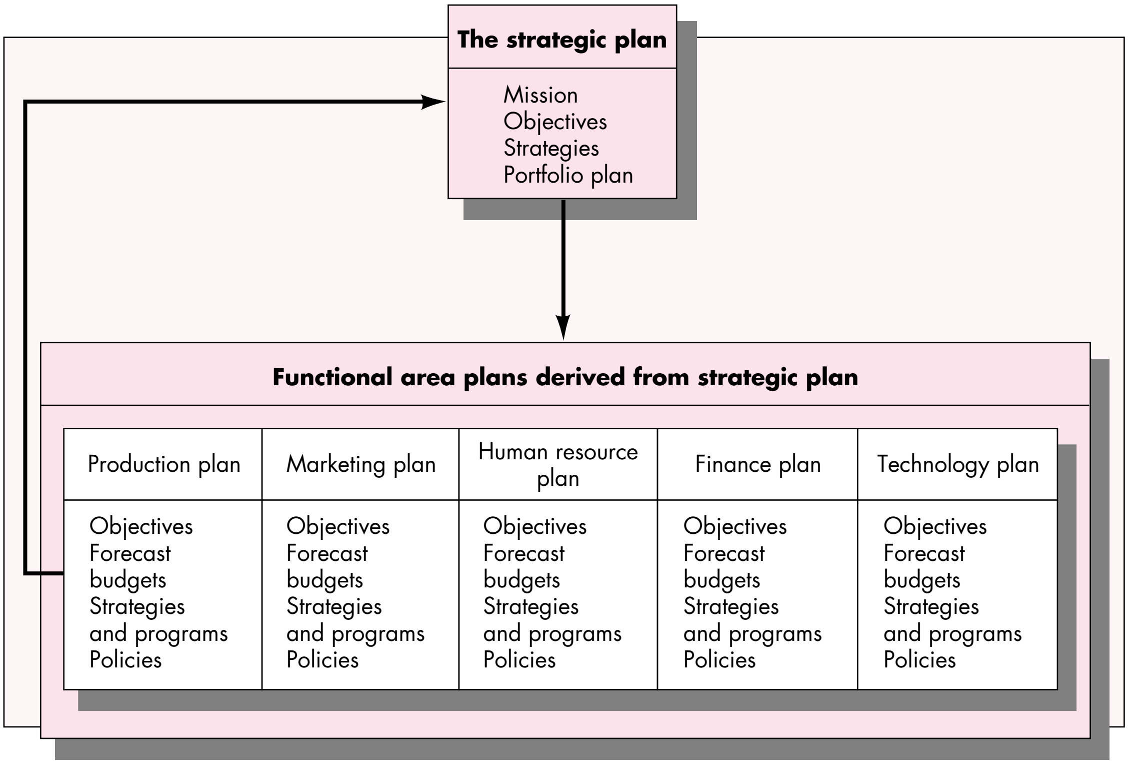
THE STRATEGIC PLAN, THE MARKETING PLAN, AND OTHER FUNCTIONAL AREA PLANS

Strategic planning is clearly a top management responsibility. In recent years, however, there has been an increasing shift toward more active participation by marketing managers in strategic analysis and planning. This is because, in reality, nearly all strategic planning questions have marketing implications. In fact, the two major strategic planning questions—What products should we make? and What markets should we serve?—are clearly marketing questions. Thus, marketing executives are involved in the strategic planning process in at least two important ways: (1) they influence the process by providing important inputs in the form of information and suggestions relating to customers, products, and middlemen; and (2) they must always be aware of what the process of stategic planning involves as well as the results because everything they do, the marketing objectives and strategies they develop, must be derived from the strategic plan. In fact, the planning done in all functional areas of the organization should be derived from the strategic plan.

In well-managed organizations, therefore, a direct relationship exists between strategic planning and the planning done by managers at all levels. The focus and time perspectives will, of course, differ. Figure 1–5 illustrates the cross-functional perspective of strategic planning. It indicates very clearly that all functional area plans should be derived from the strategic plan while at the same time contributing to the achievement of it.

If done properly, strategic planning results in a clearly defined blueprint for management action in all functional areas of the organization. Figure 1–6 clearly illustrates this blueprint using only one organizational objective and two strategies

FIGURE 1–5 **The Cross-Functional Perspective in Planning**



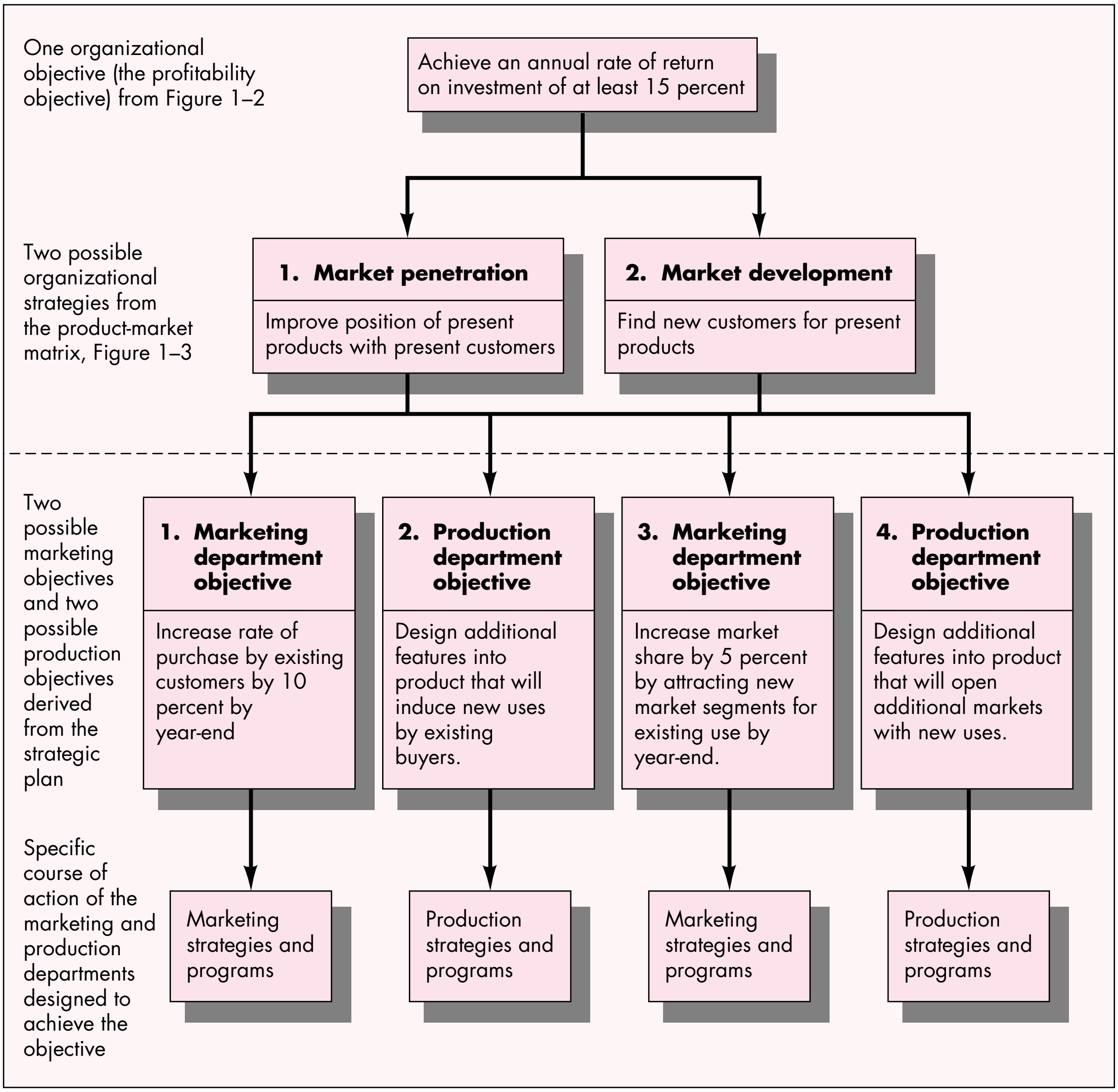
from the strategic plan (above the dotted line) and illustrating how these are translated into elements of the marketing department plan and the production department plan (below the dotted line). Note that in Figure 1–6, all objectives and strategies are related to other objectives and strategies at higher and lower levels in the organization: that is, a hierarchy of objectives and strategies exists. We have illustrated only two possible marketing objectives and two possible production objectives. Obviously, many others could be developed, but our purpose is to illustrate the cross-functional nature of strategic planning and how objectives and strategies from the strategic plan must be translated into objectives and strategies for all functional areas including marketing.

CONCLUSION

This chapter has described the marketing management process in the context of the organization's overall strategic plan. Clearly, marketers must understand their cross-functional role in joining the marketing vision for the organization with the financial goals and manufacturing capabilities of the organization. The greater this ability, the better the likelihood is that the organization will be able to achieve and sustain a competitive advantage, the ultimate purpose of the strategic planning process.

At this point it would be useful to review Figures 1–4, 1–5, and 1–6 as well as the book's Table of Contents. This review will enable you to better relate the content and progression of the material to follow to the marketing management process.

FIGURE 1–6 **A Blueprint for Management Action: Relating the Marketing Plan to the Strategic Plan and the Production Plan**



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Appendix

Portfolio Models

Portfolio models remain a valuable aid to marketing managers in their efforts to develop effective marketing plans. The use of these models can aid managers who face situations that can best be described as “more products, less time, and less money.” More specifically, (1) as the number of products a firm produces expands, the time available for developing marketing plans for each product decreases; (2) at a strategic level, management must make resource allocation decisions across lines of products and, in diversified organizations, across different lines of business; and (3) when resources are limited (which they usually are), the process of deciding which strategic business units (SBUs) to emphasize becomes very complex. In such situations, portfolio models can be very useful.

Portfolio analysis is not a new idea. Banks manage loan portfolios seeking to balance risks and yields. Individuals who are serious investors usually have a portfolio of various kinds of investments (common stocks, preferred stocks, bank accounts, and the like), each with different characteristics of risk, growth, and rate of return. The investor seeks to manage the portfolio to maximize whatever objectives he or she might have. Applying this same idea, most organizations have a wide range of products, product lines, and businesses, each with different growth rates and returns. Similar to the investor, managers should seek a desirable balance among alternative SBUs. Specifically, management should seek to develop a business portfolio that will ensure long-run profits and cash flow.

Portfolio models can be used to classify SBUs to determine the future cash contributions that can be expected from each SBU as well as the future resources that each will require. Remember, depending on the organization, an SBU could be a single product, product line, division, or a distinct business. While there are many different types of portfolio models, they generally examine the competitive position of the SBU and the chances for improving the SBU’s contribution to profitability and cash flow.

There are several portfolio analysis techniques. Two of the most widely used are discussed in this appendix. To truly appreciate the concept of portfolio analysis, however, we must briefly review the development of portfolio theory.

A REVIEW OF PORTFOLIO THEORY

The interest in developing aids for managers in the selection of strategy was spurred by an organization known as the Boston Consulting Group (BCG) over 25 years ago. Its ideas, which will be discussed shortly, and many of those that followed were based on the concept of experience curves.

Experience curves are similar in concept to learning curves. Learning curves were developed to express the idea that the number of labor hours it takes to produce one unit of a particular product declines in a predictable manner as the number of units produced increases. Hence, an accurate estimation of how long it takes to produce the 100th unit is possible if the production times for the 1st and 10th units are known.

The concept of experience curves was derived from the concept of learning curves. Experience curves were first widely discussed in the ongoing Profit Impact of Marketing Strategies (PIMS) study conducted by the Strategic Planning Institute. The PIMS project studies 150 firms with more than 1,000 individual business units. Its major focus is on determining which environmental and internal firm variables influence the firm's return on investment (ROI) and cash flow. The researchers have concluded that seven categories of variables appear to influence the return on investment: (1) competitive position, (2) industry/market environment, (3) budget allocation, (4) capital structure, (5) production processes, (6) company characteristics, and (7) "change action" factors.[17]

The experience curve includes all costs associated with a product and implies that the per-unit costs of a product should fall, due to cumulative experience, as production volume increases. In a given industry, therefore, the producer with the largest volume and corresponding market share should have the lowest marginal cost. This leader in market share should be able to underprice competitors, discourage entry into the market by potential competitors, and, as a result, achieve an acceptable return on investment. The linkage of experience to cost to price to market share to ROI is exhibited in Figure A–1. The Boston Consulting Group's view of the experience curve led the members to develop what has become known as the BCG Portfolio Model.

THE BCG MODEL

The BCG is based on the assumption that profitability and cash flow will be closely related to sales volume. Thus, in this model, SBUs are classified according to their relative market share and the growth rate of the market the SBU is in. Using these dimensions, products are either classified as stars, cash cows, dogs, or question marks. The BCG model is presented in Figure A–2.

- *Stars* are SBUs with a high share or a high-growth market. Because high-growth markets attract competition, such SBUs are usually cash users because they are growing and because the firm needs to protect their market share position.
- *Cash cows* are often market leaders, but the market they are in is not growing rapidly. Because these SBUs have a high share of a low-growth market, they are cash generators for the firm.
- *Dogs* are SBUs that have a low share of a low-growth market. If the SBU has a very loyal group of customers, it may be a source of profits and cash. Usually, dogs are not large sources of cash.
- *Question marks* are SBUs with a low share of a high-growth market. They have great potential but require great resources if the firm is to successfully build market share.

As you can see, a firm with 10 SBUs will usually have a portfolio that includes some of each of the above. Having developed this analysis, management must determine what role each SBU should assume. Four basic objectives are possible:

1. *Build share.* This objective sacrifices immediate earnings to improve market share. It is appropriate for promising question marks whose share has to grow if they are ever to become stars.
2. *Hold share.* This objective seeks to preserve the SBU's market share. It is very appropriate for strong cash cows to ensure that they can continue to yield a large cash flow.

FIGURE A–1 **Experience Curve and Resulting Profit**

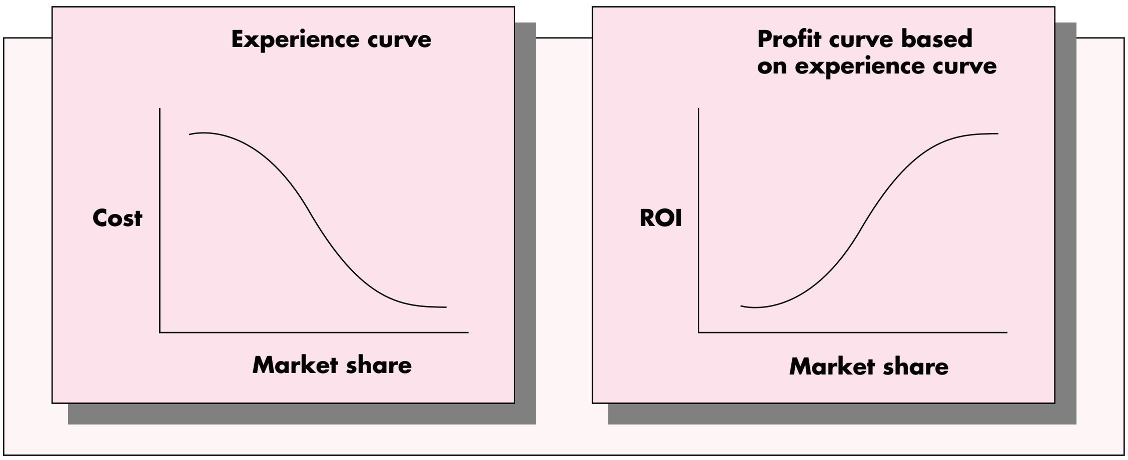
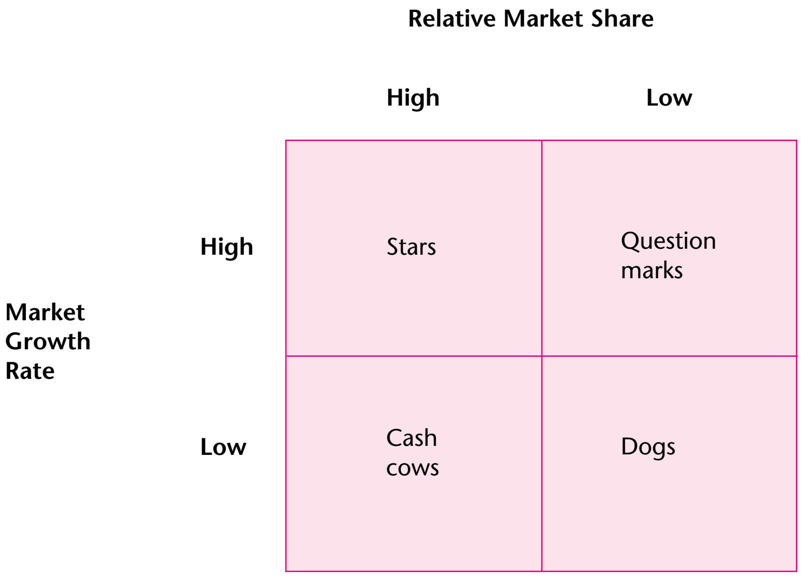


FIGURE A–2
The Boston Consulting Group Portfolio Model



3. *Harvest.* Here, the objective seeks to increase the product's short-term cash flow without concern for the long-run impact. It allows market share to decline in order to maximize earnings and cash flow. It is an appropriate objective for weak cash cows, weak question marks, and dogs.

4. *Divest.* This objective involves selling or divesting the SBU because better investment opportunities exist elsewhere. It is very appropriate for dogs and those question marks the firm cannot afford to finance for growth.

There have been several major criticisms of the BCG Portfolio Model, revolving around its focus on market share and market growth as the primary indicators of preference. First, the BCG model assumes market growth is uncontrollable.[18] As a result, managers can become preoccupied with setting market share objectives instead of trying to grow the market. Second, assumptions regarding market share as a critical factor affecting firm performance may not hold true, especially in international markets.[19] Third, the BCG model assumes that the major source of SBU financing comes from internal means. Fourth, the BCG matrix does not take into account any interdependencies that may exist between SBUs, such as shared distribution.[20] Fifth, the BCG matrix does not take into account any measures of profits and customer satisfaction.[21] Sixth, and perhaps most important, the thrust of the BCG matrix is based on the underlying assumption that corporate strategy begins with an analysis of competitive position. By its very nature, a strategy developed entirely on competitive analysis will always be a reactive one.[22] While the above criticisms are certainly valid ones, managers (especially of large firms) across all industries continue to find the BCG matrix useful in assessing the strategic position of SBUs.[23]

THE GENERAL ELECTRIC MODEL

Although the BCG model can be useful, it does assume that market share is the sole determinant of an SBU's profitability. Also, in projecting market growth rates, a manager should carefully analyze the factors that influence sales and any opportunities for influencing industry sales.

Some firms have developed alternative portfolio models to incorporate more information about market opportunities and competitive positions. The GE model is one of these. The GE model emphasizes all the potential sources of strength, not just market share, and all of the factors that influence the long-term attractiveness of a market, not just its growth rate. As Figure A–3 indicates, all SBUs are classified according to *business strength* and *industry attractiveness.* Figure A–4 presents a list of items that can be used to position SBUs in the matrix.

Industry attractiveness is a composite index made up of such factors as those listed in Figure A–4. For example: *market size*—the larger the market, the more attractive it will be; *market growth*—high-growth markets are more attractive than low-growth mar-

FIGURE A–3
The General Electric Portfolio Model

Industry Attractiveness	Business Strength: Strong	Average	Weak
High	A	A	B
Medium	A	B	C
Low	B	C	C

FIGURE A–4
Components of Industry Attractiveness and Business Strength at GE

Industry Attractiveness	Business Strength
Market size Market growth Profitability Cyclicality Ability to recover from inflation World scope	Market position Domestic market share World market share Share growth Share compared with leading competitor Competitive strengths Quality leadership Technology Marketing Relative profitability

kets; *profitability*—high-profit-margin markets are more attractive than low-profit-margin industries.

Business strength is a composite index made up of such factors as those listed in Figure A–4. For example: *market share*—the higher the SBU's share of market, the greater its business strength; *quality leadership*—the higher the SBU's quality compared to competitors, the greater its business strength; *share compared with leading competitor*—the closer the SBU's share to the market leader, the greater its business strength.

Once the SBUs are classified, they are placed on the grid (Figure A–3). Priority "A" SBUs (often called *the green zone*) are those in the three cells at the upper left, indicating that these are SBUs high in both industry attractiveness and business strength, and that the firm should "build share." Priority "B" SBUs (often called *the yellow zone*) are those medium in both industry attractiveness and business strength. The firm will usually decide to "hold share" on these SBUs. Priority "C" SBUs are those in the three cells at the lower right (often called the *red zone*). These SBUs are low in both industry attractiveness and business strength. The firm will usually decide to harvest or divest these SBUs.

Whether the BCG model, the GE model, or a variation of these models is used, some analyses must be made of the firm's current portfolio of SBUs as part of any strategic planning effort. Marketing must get its direction from the organization's strategic plan.