STRATEGIC MARKETING PROCESS

Characteristics of most product-markets:

* mature products

* large number of competing offerings

* highly competitive \(\rightarrow\) search for CompAdv

* constant new product introductions – high product failure rate \(\rightarrow\) new competitors

* zero-sum game \(\rightarrow\) cannibalization

* multi-product companies \(\rightarrow\) trade-offs among

* frequent corporate mergers \(\rightarrow\) to achieve efficiencies & synergies

* new and changing consumer demands:
  - greater convenience
  - eating-on-the-go culture
  - healthier food
  - health concerns – diabetes, heart disease, cancer, obesity
TWO KEY MARKETING CONTRIBUTIONS TO STRATEGIC MANAGEMENT

1. Find WHAT WORKS → to achieve CompAd

2. How best to ALLOCATE scarce resources

WHAT WORKS: What enhances Biz Performance

Search for the best tools & techniques:
- supply chain management
- CRM – customer relations management
- use of technology → Intranet, EDI, etc

RESEARCH: WHAT REALLY MATTERS & WHAT REALLY WORKS

Back to the basics:

1. Strategy
2. Execution
3. Culture
4. Structure
1. **STRATEGY:** DEVISE AND MAINTAIN A CLEARLY STATED, FOCUSED STRATEGY

Costco Wholesale BEATS Sam’s Club: HOW?

**Strategy:**
sell a limited selection of branded high-end merchandise at low prices

**Results:**
- 60% of SC stores BUT 2X the sales revenue
- attracts largest % of affluent shoppers

2. **EXECUTION:** FLAWLESS OPERATIONAL EXECUTION

Toyota: design & mfg of autos
Strategy: Kaizen (continuous improvement)
Results: halved the design→showroom time
3. **CULTURE:** PERFORMANCE-ORIENTED CULTURE

**Smuckers strategy:**
4 key elements in code of conduct
- listen with full attention
- look for the good in others
- have a sense of humor
- say thank you for a job well done

**Result:**
Stock & total return of 100% over previous 5 years
4. **STRUCTURE:** A FAST, FLEXIBLE, FLAT ORGANIZATION

Truth: Successful small orgs grow into bureaucratic large ones; flexible → red-taped

**Lockheed strategy: Skunk Works**

Result:  
50 engineers/100 expert machinist → deliver world-class aircraft

Key guidelines:  
- give director authority to make quick decisions  
- use a small # of good people who are problem solvers
HOW TO OPTIMALLY ALLOCATE MARKETING RESOURCES?

A Sales Response Function
Most effective relationship between marketing effort and achieving the desired results

Other applications:
- profit
- units sold
- level of awareness

How it works:
Allocate the firm’s resources (mktg, production, financial) to the markets and products where you can achieve the highest incremental revenues given an incremental cost

See figure 22-1

Horizontal axis: annual marketing effort in $M
Vertical axis: annual sales revenue in $M

Relationship between mkt effort and resultant sales = S-shaped curve
MID-RANGE of curve: at Point A
Optimal location for investing additional resources
Return on marketing effort is higher than at either side (lower or higher) of curve

NUMERICAL VERSION

At Point A:
increase Mkt effort by $1M ($3-$4M)
increase in sales = $20M
Ratio of Incremental sales to effort: 20:1

At Point B:
increase Mkt effort by $1M ($6-$7M)
increase in sales = $3 M
Ratio of Incremental sales to effort: 3:1

Managerial decision: MULTI-PRODUCT FIRM
Beyond Point A → look for higher returns in OTHER products in the total product mix to achieve total product mix return/productivity
HOW RESOURCES ARE ACTUALLY ALLOCATED

Key criteria:
SHARE POINTS (% of market share)

Decision criteria:
Cost of trying to increase our MS by 1 SP or more

Real issue: ALLOCATION TRADE-OFFS AMONG SBU’s/PRODUCTS → holistic/gestalt perspective of profitability/productivity

Other issues: manager must estimate
- the MS for the product
- the revenues associated with each point of MS
  - eg: 1 RTE share = 5X 1 cake mix share
- contribution to overhead & profit of each SP
- possible cannibalization effects on other products in the product line
RESOURCE ALLOCATION AND THE STRATEGIC MARKETING PROCESS

Converting marketing info into marketing action

See Figure 22-2 Actions and Info

Stages of Marketing Strategic Planning

Planning → Implementation → Control
Phase → Phase → Phase

PLANNING:
Output report: marketing plans – define goals & marketing mix strategies to achieve them

IMPLEMENTATION:
Output report: results that describe outcomes of implementing the plans

CONTROL:
Output report: corrective action memos – deviance analysis of plans to results → suggest solutions to problems, and take advantage of opportunities
PLANNING PHASE

Long-term (5 yrs) vs annual marketing plans

**Long term marketing plans: Strategic**
Marketing activities over extended period
Corporate level → deal with uncertainties over long time period

**Annual marketing plans: Operational**
Developed by mktg/product managers
Addresses marketing plans for existing products for single year

**Steps in annual marketing plan** → to continuously uncover new ideas thru key-issues sessions with in-house or external specialists

See Fig 22-3

Frequent reviews → refine the plans, fine-tune
WHY MARKETING PLANNING:
WHERE TO GROW

A: PORTER’S 4 GENERIC BIZ STRATEGIES

See Fig 22-4 Seeking competitive advantage

Low cost producer vs differentiation from compete

Broad target vs narrow target

1. Cost leadership strategy:
   - focus: reduce expenses $\Rightarrow$ lowers price
   - target broad array of market segments

   - HOW?
     - seek low-cost supplier
     - capital investment $\Rightarrow$ improve production or distribution process & achieve lower costs
     - continue to maintain quality levels
E.g.: Wal-Mart: sophisticated supply chain – regional warehouses & EDI with suppliers → huge cost savings → lower prices to customers

2. **Differentiation strategy**: premium price
   - significant points of difference in
     - product offerings
     - brand image
     - higher quality
     - advanced technology
     - superior service

3. **Cost focus strategy**:
   - controlling expenses → lower prices
targeted at a narrow range of market segments

   E.g.: Box stores → “category killers”
   Office Max → office supplies

4. **Differentiation focus strategy**:
   - significant points of diff → target few segments
   E.g.: Volkswagen: nostalgia segment
B. PROFIT ENHANCEMENT OPTIONS

Profits can be enhanced by
a. increase revenues
b. lower expenses
c. do both

see Fig 22-5

How to increase revenues?

1. **market penetration** → PP/PM → become market leader; #1 in market share in each product category
   P&G excels in this strategy

2. **product development** → NP/PM → J&J → Tylenol, Tylenol PM, Accuvue contact lenses

3. **market development** → PP/NM → Disney theme parks: from Anaheim → Orlando, Paris, Tokyo, Hong Kong

4. **diversification** → NP/NM → Philip Morris: cigarettes → consumer products portfolio: 7Up, Miller Brewing Co., General Foods, Kraft
How to decrease expenses?

1. **scale economies** from increased production volume to drive down costs & gross margins up → consumer electronic products
   Market size matters

2. **find ways to reduce costs:**
   - reduce # managers
   - sales force effectiveness via training
   - reduce product rejects via improved quality
   - reduce # packages, sizes, formulas
C. MARKET-PRODUCT SYNERGIES

Corporate level: consider mergers to achieve marketing and R&D/Mfg synergies?

Real goal: achieve customer value & satisfaction

How?
Customer value achieved via performing org functions more efficiently

See Fig 22-6: M-P grid of alternative strategies

STRATEGIES:

1. Market-Product concentration:
   - Pro: benefits from focus on a single product line & market segment
   - Con: loses opportunities for synergies between Mktg & R&D-mfg

2. Market specialization:
   - Pro: synergy via complete product line
   - Con: R&D/Mfg difficulty in dev & producing 2 new products
3. **Product specialization:**
   - **Pro:** gains R&D/Mfg synergy thru production econ of scale
   - **Con:** costly in gaining mkt distribution in 3 geographic areas

4. **Selective specialization:**
   - **Pro:** None
   - **Con:** no mktg or R&D/mfg synergies becos of uniqueness of the market-product combinations

5. **Full coverage:**
   - **Pro:** maximum synergies in both marketing & R&D/mfg
   - **???:** spread too thin becos of resources needed to reach all market-product combinations
GUIDELINES FOR EFFECTIVE MARKETING PLAN

1. Set measurable, achievable goals:
   goals = clarity, spelled out;
   quantified/measurable in terms of what is to be accomplished & by when
   - also must be achievable

2. Use a base of facts & valid assumptions:
   - no guesswork ➔ lowers risks & uncertainty
   - How? Use MR

3. Utilize simple, clear and specific, plans:
   - everybody should be able to understand it;
     easily communicated; people buy into it

4. Have a complete and feasible plan:
   - must incorporate all key mktg mix factors & supported by adequate resources

5. Make plans controllable & flexible:
   - enable results to be compared with planned targets ➔ allows for replanning ➔ flexibility
PROBLEMS IN MARKETING PLANNING & STRATEGY

1. Poor assumptions re environmental factors

2. Lose sight of customers’ needs
   - Papa John’s vs Pizza Hut

3. Too bureaucratic → not flexible

4. No sense of ownership by managers
   - top down & by strategic planners
   - involve line managers who execute
TRENDS INFLUENCING STRATEGIC MARKETING PLANS

1. Value-based planning:

   - combines mktg planning ideas & financial planning techniques → to assess how SBU’s contribute to company stock

   - value = financial return of strategic activity > cost of resources allocated to that activity

2. Value-driven strategies:

   - incorporates ethics, integrity, employee health & safety, environmental safeguards with common corporate values such as growth, profitability, customer service, & quality
   - socially responsible & support sustainable development