THE MANAGER'S GUIDE TO COMPETITIVE MARKETING STRATEGIES

3RD EDITION

NORTON PALEY

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Third Edition

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COMPETITIVE MARKETING STRATEGIES

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Dedication

To Hubert Paley, who left a legacy of art.

About the author

Norton Paley has over 25 years of corporate experience in general management, marketing management and product development at McGraw-Hill Inc, John Wiley & Sons and Alexander-Norton Inc. He has authored seven books, including:

- Manage to Win
- Successful Business Planning
- Marketing for the Non-marketing Executive: An Integrated Management Resource Guide
- The Marketing Strategy Desktop Guide
- Pricing Strategies and Practices
- Marketing Principles and Tactics Everyone Must Know
- The Manager's Guide to Competitive Strategies, 2nd Ed.

In addition to advising management on competitive strategies and strategic planning, Paley also has extensive global experience lecturing to managers at such firms as American Express, Cargill (worldwide), Chevron Chemical, Babcock & Wilcox, Dow Chemical (worldwide), W.R. Grace & Co., Prentice-Hall, Ralston-Purina, Hoechst, and McDonnell-Douglas. Also, he participated in lecture tours in the Republic of China and Mexico.

His byline columns have appeared in *The Management Review* and *Sales & Marketing Management*.

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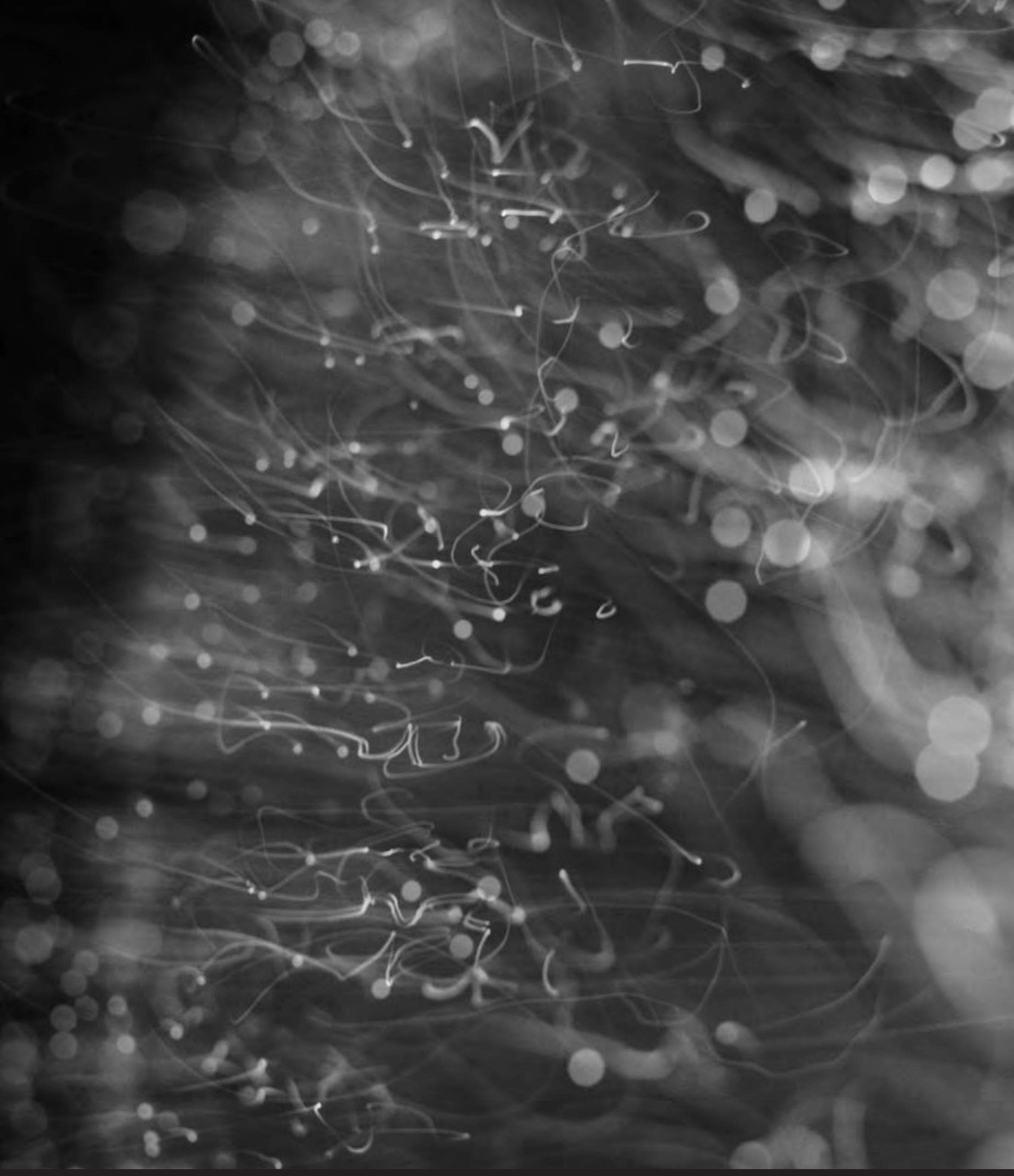

Introduction

Introduction

A new style of manager is in the making.

The paper shuffler, the procrastinator, the narrow-focused manager is giving way to the strategist, the implementer and the innovator.

The following executives from *Business Week's* 2005 list of the world's best managers embody the qualities of that new breed.[1] They are also the ones who are redefining the meaning of a market-driven organization and the role of marketing for the 21st century.

They represent a variety of backgrounds, industries, experiences and levels of skill. What they have in common is concrete achievement; the ability to move their respective companies forward during periods of economic difficulties, intense global competition and a variety of tough pressures pounding at them from in and out of their organizations. In all, they are the resolute ones that stayed on course through the maelstrom of market and technology changes.

Key accomplishments

Jeffrey Immelt, **General Electric**, repositioned GE's portfolio with major acquisitions in health care, entertainment and commercial finance. He created a more diverse, global and customer-driven culture.

Steven Reinemund, **PepsiCo**, attained consistent double-digit earnings growth through product innovation and smart marketing.

Hector Ruiz, **Advanced Micro Devices**, launched an initiative to sell low-cost PCs in developing countries in a bid to bridge the widening digital divide.

Robert Nardelli, **Home Depot**, turned a $46 billion company focused on big-box stores into a $70 billion chain with urban, suburban and international outlets.

1 Source: 'The Best Managers', cover story in Business Week, January 10, 2005 issue.

Joseph Tucci, **EMC**, revived growth by pushing sales of new, easier-to-use, less expensive storage gear.

Henning Kagermann, **SAP**, tied its software to other companies' products, which helped to win a plethora of new customers.

Anne Mulcahy, **Xerox**, pushed for faster decision-making and instituted lean Six Sigma to improve efficiency.

Linus Torvalds, **Open Source Development Labs**, turned Linux into the No. 2 server operating system in the world, after Windows.

Chung Mong Koo, **Hyundai**, turned the company into a leader in customer-satisfaction surveys and boosted Hyundai's presence in Europe, China, India and the U.S., resulting in record sales and profits.

Their visible accomplishments vary somewhat. Yet they have commonalities that include: seeking market growth with profitability, focusing on product innovations to satisfy customers' needs or solve their special problems, inspiring a customer-driven organization, developing a solid understanding of the workings of their respective markets and knowing what makes their customers tick.

Those achievements also define the current and down-to-earth meaning of marketing and what marketing strategy seeks to accomplish. Here, then, lies the purpose of this book.

As will be pointed out in the following chapters, there are finite processes and techniques associated with marketing and strategy. You need to:

- Estimate market opportunities and competitive threats before committing resources.
- Evaluate your organization's capabilities and its corporate culture to understand which strategies have a likelihood of success.
- Utilize competitive intelligence to achieve a solid competitive position or to protect an existing one.
- Prepare innovative strategic marketing plans to guide your decisions when selecting markets to enter or avoid.
- Use the five components of strategy: speed, indirect approach, concentration, unbalancing competitors and alternate objectives to respond quickly to competitors' actions.

- Develop strategies for the long-term growth of a market, while maintaining reliable customer relationships.
- Cultivate a corporate culture that uplifts personnel with the will to win.

The end result: achieve your objectives through the effective application of competitive marketing strategies. The following case example adds weight to the above points.

Case example

Procter & Gamble Co. aims to transform all levels of marketing managers into global strategic thinkers with an aggressive entrepreneurial spirit. The executive management of P&G pushes managers to take more risks and exploit opportunities more rapidly.

Why? A tougher competitive environment, shrinking market shares, changing market behaviour and maturing of key markets are forcing a fresh look at P&G's strategies of waging marketing warfare.

Managers are continually asked to generate long lasting, breakthrough products and ways to exploit new markets with P&G's technology.

In a departure from its paternalistic history, P&G management is phasing out mediocre performers from management ranks. Time honoured, cautious styles are rapidly changing. For example, in the past, P&G would test-market a new product, such as Bounce fabric softener, for years before finally introducing it.

In contrast, P&G began selling its Duncan Hines frosting in just 15 months of testing. One executive reports "a new sense of urgency throughout the organization."

One reason for the urgency of paying more attention to expanding product lines is that a failure to do so would enable even the smallest competitors to carve out niches in markets that P&G presently dominates. Now P&G is also adding a flood of variations to established products.

The results of these activities? As in the above examples, a new type of manager is emerging at P&G equipped to handle tough competitors and maturing markets.

The situation at Procter & Gamble shows that middle-level managers are in a threatened position unless there are changes in job performance. Here are some factors for you to consider:

- *Global perspective*: as indicated by P&G, the manager must think strategically with a total business perspective and not just a product focus.
- *Entrepreneurial thinking*: the emerging manager must look for innovative ways to expand existing markets, identify new markets and evaluate new product opportunities and innovations.
- *Planning capability*: an effective manager must have the ability to develop a well thought-out strategic marketing plan.
- *Team approach*: the manager must display the leadership to gain willing participation from R&D, manufacturing, finance, sales and other functional areas and merge that input into the strategic marketing plan.
- *Implementation*: the manager must be able to not only shape the objectives, but also implement them through competitive strategies.

In summary, it is vital that the subjects of competitive strategy and marketing be studied thoroughly. At stake are the livelihoods of employees, the survival of businesses and the economies of towns and cities. Planning, vision and the effective application of strategies can make the vital difference in developing a sustained competitive advantage.

Purpose and use of this book

The aim of this book, therefore, is to awaken managers at all levels to take responsibility for their respective divisions, departments, product lines, individual products, or sales territories.

The intent is to stimulate a businesslike spirit of entrepreneurship and innovation that expresses itself in the form of business-building strategies.

It is also intended for upper-level executives who run global organizations and for those owners who operate smaller businesses. In all, the purpose is to keep a proper balance of judgment between a long-term strategic outlook for the growth of markets and a short-term tactical viewpoint. Also, while wrestling with day-to-day operational problems, be able to sustain a competitive advantage against aggressive rivals while solidifying customer relationships.

This third edition has been updated to deal with the current issues facing executives. And to make it a practical desktop tool, new company cases have been added to each chapter to provide realism and authenticity.

The book can be used in several ways:

1. You can read it cover-to-cover and acquire the foundation concepts, explanations and techniques for analyzing, planning and developing competitive strategies.
2. You can use its workbook format and numerous checklists to develop an actionable strategic marketing plan.
3. You can open the book to the numerous case examples of companies that are operating successfully and find mental nourishment and stimulation for your own situation.

Chapter 1 describes five key strategies derived from over 2,500 years of recorded military history and shows how they apply to business situations. It also presents basic principles of strategy that you can use to draft your own competitive strategies.

Chapter 2 shows you how to develop a framework for competitive analysis by 'looking out the window,' by using an external viewpoint reached through careful scrutiny of customers' behaviours and needs, competitors' capabilities and industry trends. In connection with identifying market segments, time-tested techniques used by cultural anthropologists are applied in this book on competitive marketing strategies to form a new and organized process to evaluate a market segment.

Chapter 3 demonstrates how to 'look in the window' to examine your organization's capabilities for defending or attacking markets and helps you analyze those strengths and weaknesses with precision.

Chapters 4 and 5 discuss how to develop a working model for market research and competitor intelligence systems. This involves collecting, compiling, cataloguing and digesting data to be applied to strategy development.

Chapters 6 and 7 provide a highly successful format for developing a strategic marketing plan.

Chapters 8 through 13 deal with specific strategies and tactics for target markets with emphasis on product, pricing, supply chain and promotion strategies, as well as the use of cross-functional strategy teams for obtaining optimum results.

The Appendix provides checklists for shaping your competitive marketing strategies.

The bottom line: you will be able to acquire the skills to create a sustained competitive advantage by developing competitive strategies with a global marketing perspective. That perspective means *thinking like* a strategist and encompasses the primary themes of this book.

These include seeking new opportunities for targeting unserved, poorly served, or emerging markets; overcoming obstacles to securing a firm market position against intense competition and generally reacting quickly and decisively to stop aggressive competitors.

Good luck!

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PART ONE

Competitive marketing strategies: The hallmark of an effective manager

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Competitive marketing strategies: The hallmark of an effective manager

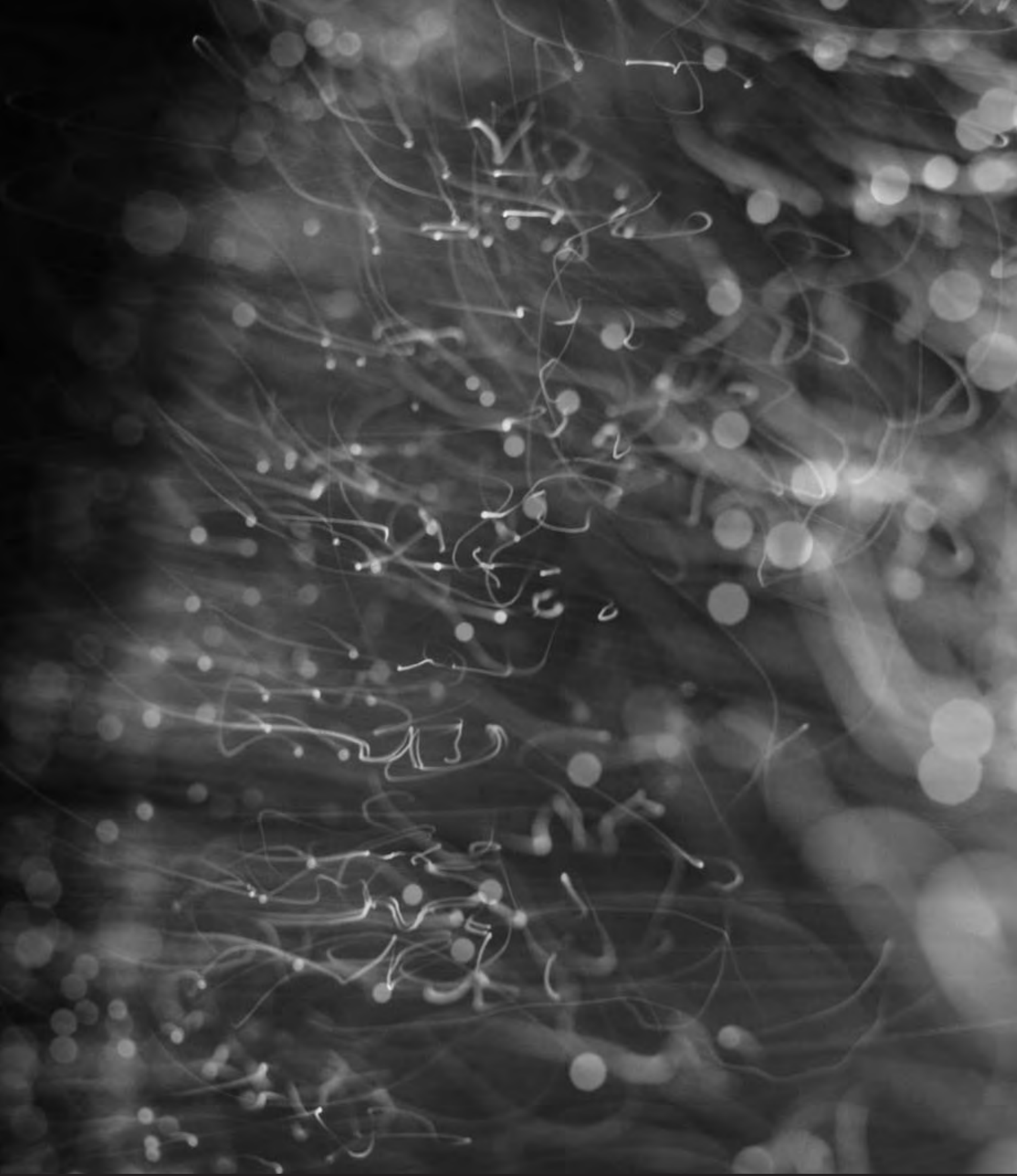
'Marketing strategy is the most significant planning challenge regardless of industry or size of company. Our goal will be to re-evaluate and examine constantly our marketing position. Our emphasis will be on market strategy, technique and product innovation.'

PRICEWATERHOUSECOOPERS, FROM THEIR SURVEY OF 250 CORPORATE EXECUTIVES

Marketing strategy has been the key planning challenge since the 1980s. From all indications, it should dominate your thinking and actions for the foreseeable future. Marketing strategy envelopes numerous and diverse issues, most of which relate directly to how successfully you can compete in a combative market place. They include:

- The level of customer relationships that you have cultivated.
- How effectively your new products and services match the needs of targeted customer groups.
- The commitment to competitive intelligence, which is the underpinning of competitive strategy.
- The awareness of changing demographic and shifting buying patterns.
- Where your company or product line is on the product life cycle.
- Your responsiveness to emerging, neglected and poorly served markets; supply chain issues; Internet and technological changes and the globalization of markets and products.

Your ability to consciously take into account those issues when developing competitive strategies is, and will remain, the hallmark of a skilled manager. To acquire that ability, you need to understand what strategy is and how to incorporate it into your planning. Chapter 1 provides just such a foundation.



PART ONE CHAPTER ONE

Competitive marketing strategies in action

ONE
Competitive marketing strategies in action

Chapter Objectives

Expand your marketing skills as you:

1. Interpret strategy principles and apply them to your own business.
2. Identify how time-honoured concepts of military strategy can strengthen your marketing campaigns.
3. Apply the basic strategy principles of speed, indirect approach, concentration, alternate objectives and unbalancing competition.
4. Devise competitive marketing strategies to outperform your competitors.

To view competitive strategies in action, let's see how one company effectively positioned its products in a crowded market.

Case example

Liz Claiborne Inc. is an apparel company skilfully balancing 26 brands that attract consumers spread over the demographic and psychographic (behavioural) spectrum, from teens to middle-aged women to bargain shoppers.

The company is the master of niche marketing and branding. Obsessively anchored to research trends and sales data, Claiborne's business practices have ingeniously assumed the status of a science in a business traditionally bent on fashion by inspiration, whim and by attempting to make trends rather than by following them.

Claiborne relies heavily on initiating numerous consumer studies, hiring colour-and-trend-consulting firms and even utilizing a small research firm staffed by psychologists who study women's shopping behaviour going so far as to comb through their closets.

Armed with reams of data, Claiborne's 250 designers methodically interpret the market trends for their respective clothing labels, which include DKNY, Lucky Brand Dungarees, Shelli Segal, Kenneth Cole, Dana Buchman, Villager and Crazy Horse.

Nine additional brands alone play off the Liz Claiborne name. Thus, the profile and buying behaviour associated with each brand is carefully dedicated to the market niche in which each designer operates.

Does the system stifle creativity? Apparently not. In a chaotic market where industry sales plummeted seven per cent, revenues at Claiborne jumped 11 per cent in 2000. And in 2001 sales skyrocketed 66 per cent.

Dedicated market research continues to drive the business and permits Claiborne to prosper in a market that is as accessible to the giants as it is to numerous boutique firms.

Action strategy

What can you learn from the Liz Claiborne case? If you want to position your products effectively in a crowded market and against market leaders, take into account the following action strategies:

> Develop a strategic marketing plan as a line of communications and an action-oriented document.

1. Select a competitive advantage that larger competitors cannot perform efficiently.

   Action: Employ market research, formal and informal, to identify possibilities for differentiation.

2. Commit to quality and service as an organizational priority.

   Action: Encourage individuals at all the functions you can influence to strive for quality. These are not one-time motivational talks, but continuous training with the goal of sustaining a full commitment.

3. Focus on speciality products that command premium prices; leave the commodity price segment to others – unless you are the low-cost producer in your industry.

   Action: Practise segmenting your market(s) for specific product and service applications. Get closer to your customers and their problems.

4. Establish long-term alliances with customers to grow with them and to build technology and product relationships.

   Action: Encourage trust with customers or suppliers so that sensitive information can be shared for mutual interests.

5. Maintain a market-driven orientation within your immediate group and throughout your organization (if within your authority) to maintain a competitive advantage.

   Action: Organize a strategy team made up of personnel from various functions. Then, have the team develop a strategic marketing plan and use it as a line of communications and an actionable document to respond rapidly to market opportunities.

6. Seek global opportunities that complement long-term objectives.

   Action: Make active use of the Internet. Explore joint ventures, licensing, or exporting opportunities to develop a global presence – if consistent with your company's mission.

7. Partner sales people with customers to provide product solutions to customers' problems.

   Action: Go beyond traditional forms of sales training. Instead, teach salespeople how to think like strategists so they can help their customers achieve a competitive advantage.

8. Identify market niches that are emerging, neglected, or poorly served.

   Action: Reassess how you segment your markets. Search for additional approaches beyond the usual criteria of customer size, frequency of purchase and geographic location. Look for potential niches related to just-in-time delivery, product performance and reliability, applications, quality, or technical assistance.

Additionally, the Claiborne case points out many applications of competitive strategy: team planning, competitive advantage, customer relationships, market intelligence, product positioning, market expansion and penetration, manoeuvring and product development.

These managed applications are directed on a two-pronged effort: (1) to sustain an advantage over competitors and (2) to satisfy customers' needs.

Strategy defined for business

Strategies are actions to achieve objectives.

Keeping in mind Liz Claiborne's practices, we can arrive at workable definitions of strategy:

- Strategy is the art of coordinating the means (money, human resources and materials) to achieve the ends (profit, customer satisfaction and company growth) as defined by company policy and objectives.

- Strategy is further defined as actions to achieve long-term objectives, which exist at three levels:

  First, *higher-level* or *corporate strategy*. Here, your aim is to coordinate and deploy company resources toward fulfilling your company's vision for the future, along with related long-term objectives. Specifically, that means implement your company's strategies with a view towards understanding changing market conditions, as you keep in mind the long-range potential for its future development and profitable growth.

  Second, *mid-level strategy*. This level operates at the division, business unit, department, or within a product-line. It is more precise than corporate strategy. It covers a period of three to five years and focuses on quantitative and non-quantitative objectives.

  The intent is to provide for continued growth by (1) penetrating existing markets with existing products, (2) expanding into new markets with existing products, (3) developing new products for existing markets and (4) developing new products for new markets.

  Third, *lower-level strategy – or tactics*. This level requires a shorter time frame than those at the two higher levels (usually one-year). Normally, it would correlate with your company's business plan and the budgetary process.

In its everyday application, tactics are actions designed to achieve your short-term objectives, while supporting longer-term objectives and strategies.

Tactics are precise actions that cover such areas as: pricing and discounts, advertising media and copy themes, the Internet, sales force deployment and selling aids, distributor selection and training, product packaging and services and selection of market segments for product launch.

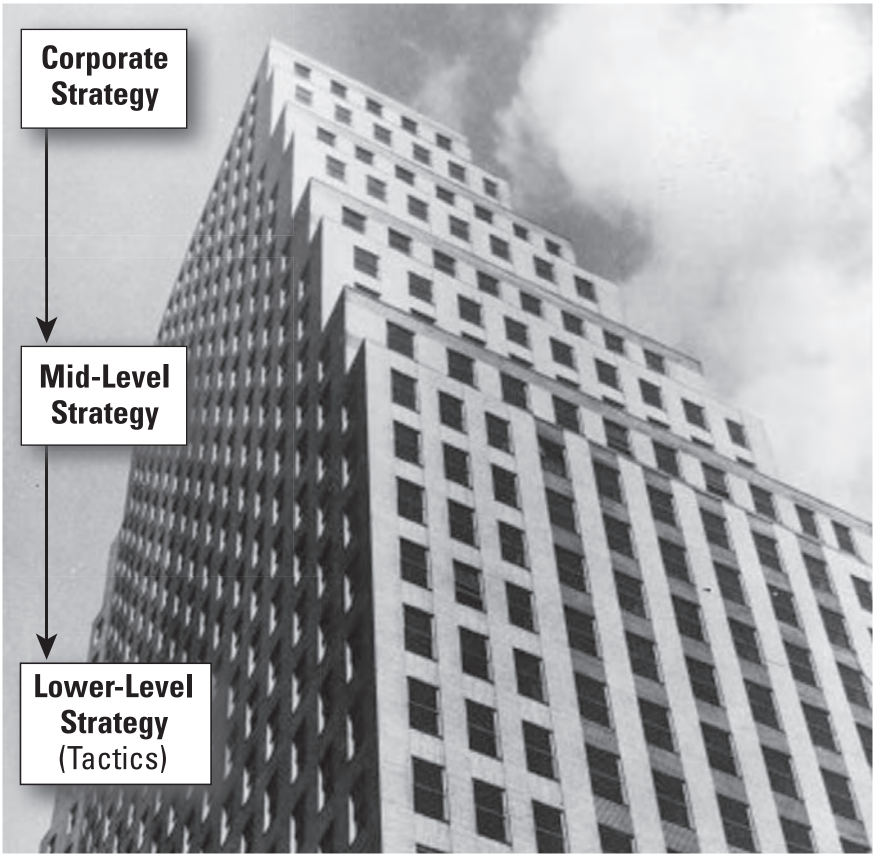


FIGURE 1.1 THE THREE LEVELS OF STRATEGY

Human factors in strategy

With the immense quantities of computerized reports available, particularly over the Internet, you may rely exclusively on quantified data to develop marketing plans and strategies. Doing so, however, suggests that you may think of the market as a set of impersonal factors that can be predicted, analyzed and managed through a variety of logic-based techniques.

While correct calculations and well-coordinated objectives are indispensable for devising marketing strategies, they lack the human element when attempting to handle unpredictable business conditions, such as a sudden competitive move and erratic buying behaviour.

Marketing – similar to the military[2] – is a battle of mind against mind, manager against competing manager and marketing strategy against a competitor's strategy. Essentially a conflict of human wills, strategies must, therefore, meet and counter unpredictable human responses.

Basil Liddell Hart, the foremost British military historian of the 20th century, counsels:

> *Natural hazards, however formidable, are inherently less dangerous and less uncertain than fighting human hazards. All conditions are more calculable, all obstacles more surmountable than those of human resistance. Reason, calculation and preparation can overcome them almost to a timetable.*[3]

> The prime aims of strategies are to lessen resistance and disrupt the competition.

To understand the role of strategy and the impact of human will, consider what happens when an existing firm enters a new market. Immediately the newcomer will encounter resistance from companies already entrenched in the market. Therefore, a prime purpose of your strategy is to *lessen resistance*.

A further goal of your strategy is to avoid head-to-head confrontations with competitors, which invariably drains resources, exhausts budgets and tends to increase resistance. Then, there is the related aim of strategy, which is to *disrupt* your competitor's plans against you. Disruption takes place at two levels: *physical* and *psychological*.

Physical disruption

At the physical level, disruption entails a series of moves to upset your competitor's plans through pinpointed actions against his market position. For instance, develop plans that would cancel out any advantage a competitor might have in making on-time deliveries by matching or exceeding the timing, thereby cancelling out the advantage.

2 See section on, Military strategy and marketing strategy: The indisputable relationship further on in this chapter.

3 B. H. Liddell Hart, Strategy (New York: Praeger, 1954), p. 163.

Other efforts include setting-up new incentive programs within the supply chain, launching cost-cutting electronic ordering systems, or establishing favourable long-term contracts with key accounts. In turn, those actions depend on your ability to:

- Correctly estimate market conditions.
- Evaluate your competitor's willingness to interfere with your efforts.
- Determine your customers' responsiveness to your product claims, media messages and promotional initiatives.
- Assess the best timing for your product launch, which includes factoring in any changing demographic or purchasing profiles[4].

Psychological disruption

At the *psychological* level, disruption is the effect any physical move has on the mind of the competing manager. It relies on surprise to distract his attention and undermine his confidence into making sudden and faulty decisions.

When the competing manager feels trapped and unable to counter your moves quickly enough, he or she may form mistakes in judgment and thereby play the market into your hands. Surprise also depends on estimating[5] the conditions that are likely to affect the *will* of the competing manager to flee or fight.

Movement and surprise – the physical and psychological elements – must work together to make your strategy succeed. Combining physical and psychological techniques distracts the competing manager from your efforts, disperses his attention among unprofitable approaches and dislocates him from his grip on the market. Overextended, limited in his options, the opposing manager will be less likely to interfere with your moves.

Then, if you are able to successfully disrupt your competition, your next move is to re-deploy your marketing efforts temporarily to make it look as if you are spread out. Once achieved, follow-up rapidly by concentrating your resources where it counts most by taking a position in markets that are emerging, neglected, or poorly served. That is what lessening resistance, speed, disruption, movement and surprise is all about.

4 See Chapter 2 on how to assemble estimates.

5 See above reference.

Concentrating resources also relates to the familiar business terms of *segmentation, niche marketing* and *target marketing*. And to further protect your efforts, the one added dimension you should take into account when segmenting your market is to deliberately look at preventing your competitor from interfering with your efforts.

To further assure success, set up a plan with *alternative market objectives*. Should the competing manager unravel your strategy, he has a chance at blunting your efforts. By taking a line that threatens him with alternative objectives, you distract his attention, divide his efforts and place him on the 'horns of a dilemma.'

Also, by leaving yourself a number of options, you ensure achieving at least one objective – perhaps secondary ones, as well. Therefore, your plan must be hands-on and flexible to respond to changing circumstances.

> Look at strategy and manoeuvre as an encounter of manager versus manager.

In sum, your aim is not to battle competitors directly. Rather, use strategy to disrupt, unbalance and weaken your competitor, while at the same time concentrating your company's strength at market opportunities.

Look at such strategizing and manoeuvring as an encounter of manager versus manager: your skill, experience and know-how pitted against those of a competing manager.

The following industry example illustrates the above concept where smallish banks manoeuvred against market leaders without creating a direct confrontation.

Case example

The **banking industry** has been consolidating for well over a decade into the hands of several megabanks, dominated by the likes of Citigroup, J. P. Morgan Chase, Bank of America and Wells Fargo. During the high-profile manoeuvring of the giants, small banks fell by the wayside and remained in a somewhat dormant state.

Then a fissure slowly appeared among the big banks into which a few surviving smaller banks forced a cavernous opening. The crack first became visible to executives at smaller banks as increased numbers of retail customers and commercial borrowers complained about long waiting periods for loan approvals, increasing account minimums, rising ATM fees and declining customer services.

Taking advantage of the opening, small banks charged forward offering scorned customers the royal treatment with an extensive variety of friendly efforts, from serving Starbucks coffee, free babysitting, investment advice, no minimum balances, customized account services to super-fast approval of loan applications.

In effect the small banks played their winning hand by exposing the megabanks' inability to respond appropriately with superior service. They focused on the competitors' unwillingness to reach out to underserved niches within minority communities, by opening branches in areas abandoned by big banks and cultivating loan terms backed by the personalized attention of senior level bank executives.

Results: Deposits at small banks increased by five per cent a year since the mid-1990s, while growth at large banks remained flat. And profits expanded by 11.8 per cent annually versus 8.5 per cent for the big players.

In general, the major banks did not respond suitably during that period. They continued to pursue more focused strategies dominated by maximizing profits through cost-cutting and similar financially oriented measures.

Action strategy

What can you learn from this bank case? Marketing-savvy managers were able to develop clever strategies that used manoeuvre to gain an advantage over larger competitors. Also, they exercised discipline and courage to remain in the fray and not be intimidated by industry leaders to pull out of the market.

> Manoeuvring means taking the most roundabout route to the customer.

Few marketing strategies are more difficult to execute than manoeuvre. First, it requires defining the most roundabout route to the customer; rather than suffer the consequences of a direct confrontation against stronger market leaders. The small banks manoeuvred by filling gaps with services that were not being supplied to disgruntled customers.

Next, manoeuvre requires that you assess your resources and evaluate market conditions before moving into a niche. That means weighing both advantages and dangers of maintaining a market presence for the long haul.

Finally, before you undertake a manoeuvre strategy, be aware of these guidelines for success:

- *Know your market*. Pinpoint the likely points that would increase your chances of success for market entry. Initially look at geographic location, availability of distributors and other intermediaries along the supply chain and buying motives of the targeted buyers. What entry point would give you the best possibility to manoeuvre?
- *Assess competitors' intentions and strategies*. Evaluate how energetically competitors will challenge your intrusion into their market space. Are they willing to forfeit a piece of the business as long as you don't become too aggressive?
- *Determine the level of technology required*. While cutting-edge technologies often win many of today's markets, numerous low-tech niche opportunities still remain open to smaller companies – as exhibited by the small banks that found resounding rewards by providing customer-oriented, feel-good services, such as baby sitting and coffee. How does your company view the technology issues?

- *Evaluate your internal capabilities and competencies*. One of the cornerstones to manoeuvring in today's market is the ability to turn out a quality product and provide services equal to, or better, than competitors. Again referring to the small bank manoeuvres, they concentrated resources on geographic locations neglected by the large banks. What are your company's outstanding competencies?
- *Maintain discipline and vision*. Attempting to manoeuvre among market leaders takes confidence, courage and know-how to develop a winning strategy. Certainly, management at the smaller banks displayed such qualities by imbuing a winning spirit among all levels of workers. How would you assess your company's willingness to challenge a market leader?
- *Secure financial resources*. Upper level management support is necessary if you are to obtain the finances to sustain an ongoing activity. If competitors detect any weakness, they can easily play the waiting game for the financially unsteady organization to cave in. What type of support can you count on?
- *Develop a launch plan to market your product or service*. Shape a marketing mix that incorporates a quality *product*, an appropriate *supply chain*, adequate *promotion* and market-oriented *pricing* to attract buyers. Keeping a service differential was a dominant part of the banks' marketing mixes. Which part of the marketing mix would represent your driving force?
- *Maintain a sensitive awareness of how customers will respond to your product offering*. Use market research to gain insight about what motivates various groups to buy your product or service. For the banks, it was implementing a plan dedicated at maintaining a commanding lead in service at locations that would attract a sufficient number of customers. What immediate action can you undertake to target a niche and avoid a head-on confrontation with a market leader?

Military strategy and marketing strategy: the indisputable relationship

Since the time the Ancient Greeks coined the word *strategia* (or strategos), meaning to lead an army or generalship, a multitude of generals have relied on the time-tested principles of military strategy to conquer territory and gain power.

To impose their wills on others, they had to distract and unbalance their opponents physically and psychologically. Faced with a conflict of wills, the generals on the battlefield were forced to maximize the effectiveness of their economic and human resources in order to achieve their goals.

These challenges – outwitting competing wills, gaining territory and power and conserving resources while expanding influence – are precisely those of businesses. Thus, the long history of documented military strategies of attack and defence are, therefore, an excellent resource for operating your business.

Most confrontations – whether military, business, or even athletic -involve a defence protecting its ground and an offence overtaking that ground. The key to offensive strategy is the efficient use of resources to undertake the attack and overtake the territory – or in business jargon, secure a profitable position in a market segment.

The military perspective provides five basic approaches that are transferable to competitive marketing strategies: *direct attack, indirect attack, envelopment attack, bypass attack and guerrilla attack.*

> The long history of military strategies is an excellent resource for your business.

Direct attack

Figure 1.2 illustrates the direct attack, which is a head-on confrontation by the attacker against a defender. Note there is no manoeuvre.

History dictates that in such a situation the initial advantage is always with the entrenched defender, as long as the defence is an active one and not a passive or unresponsive one.

In such an approach, losses are enormous for the attacker. In a military sense, the attacker is 'bloodied' in terms of losing human and material resources and exhausting itself before even reaching the primary target.

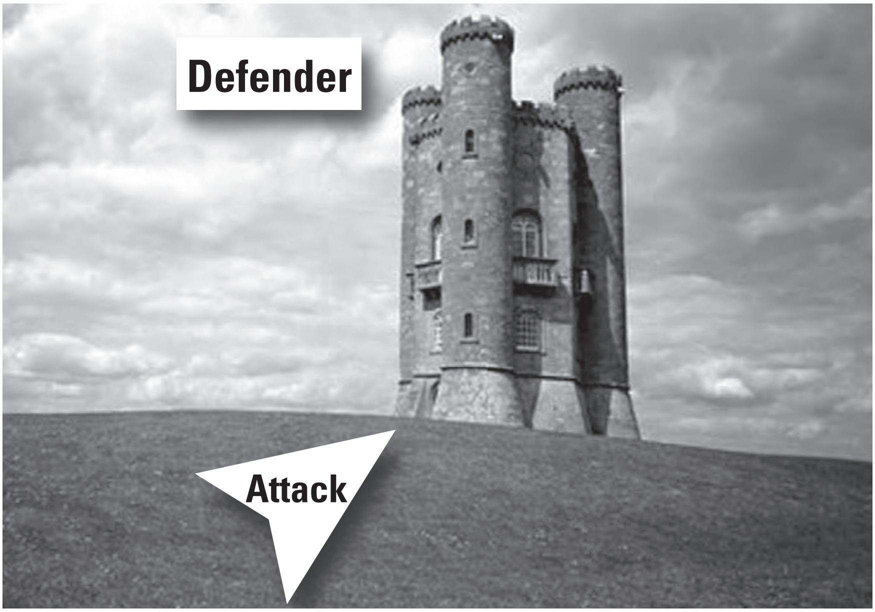


FIGURE 1.2 DIRECT ATTACK

In a business situation, a direct attack means exhausting budgets – using the sales force, advertising, distribution, manufacturing and other resources - without achieving the intended objectives.

Even if a company does achieve some minor objective, such as a minimal sales increase or a nominal gain in market share, little or no resources remain to penetrate the market.

In his book *Strategy*, Liddell Hart documents a massive study covering 12 wars that decisively affected the entire course of European history in ancient times and through 18 major wars of modem history up to 1914. In all, these 30 conflicts embraced more than 280 major military campaigns and spanned 2,500 years.

The study revealed that in only six of those campaigns did a decisive result follow a direct frontal approach. And of those six, most began with an indirect attack but were changed to a direct attack due to a variety of battlefield conditions.

Consequently, Liddell Hart states:

> *History shows that rather than resign himself to a direct approach a Great Captain will take even the most hazardous indirect approach – if necessary over mountains, deserts or swamps with only a fraction of his force even cutting loose from his communications. He prefers to face any unfavourable condition rather than accept the risk of frustration inherent in a direct approach.*[6]

Thus, reviewing the overwhelming evidence of history, we can conclude that no general is justified in launching his troops in a direct attack upon an enemy that is firmly in position.

Similarly, we can transpose the concept and state: no manager is justified in launching sales and marketing forces in a direct campaign against a competitor that is firmly in a market leader position.

Just how much stronger is the defence against a direct attack? Napoleon estimated a three-to-one advantage to break through a defender's line in a direct frontal attack. In Napoleon's time, a three-to-one advantage meant three times more infantry, artillery and cavalry; and three times more logistical support than that of the defender.

Thus, even if a breakthrough did occur by using a massive infusion of resources, inadequate human and material resources would remain for follow-up and penetration.

> No manager is justified in launching a direct campaign against a competitor that is firmly in a leadership position.

In business terms, a three-to-one advantage translates to three times more salespeople, advertising expenditures, research and administrative support – a huge expenditure of resources for little, or perhaps no return.

A classic business example of a direct attack is **General Electric**, **RCA** and **Xerox** launching a direct frontal attack without manoeuvre and little or no areas of differentiation during the 1970s against market leader, IBM, an entrenched and active defender. RCA alone lost $500 million on the venture. All three attackers retreated from that market.

6 B. H. Liddell Hart, Strategy (New York: Praeger, 1954).

To add still another perspective to the negatives of the direct attack: during World War II, General Douglas MacArthur made the following statement at a strategy meeting with U.S. President Franklin D. Roosevelt: *"The use of a direct frontal attack is a sign of a mediocre commander and there is no room in modern warfare for such a commander."*

To paraphrase MacArthur for our topic: *The use of a direct frontal attack against an entrenched competitor is a sign of a mediocre manager and there is no room in today's competitive environment for such a manager!*

Indirect attack

If the direct attack puts the defender at an advantage, requiring the challenger to expend an enormous quantity of resources while depriving him of the strength to follow up and penetrate the market, then an alternative approach must be used to succeed. The move should put the defender at a disadvantage by concentrating on his weaknesses.

At the same time, such an alternative approach should focus the challenger's resources at maximizing market share rather than exhausting them in the attack. Figure 1.3 illustrates the foremost method of accomplishing these goals: the *indirect attack*.

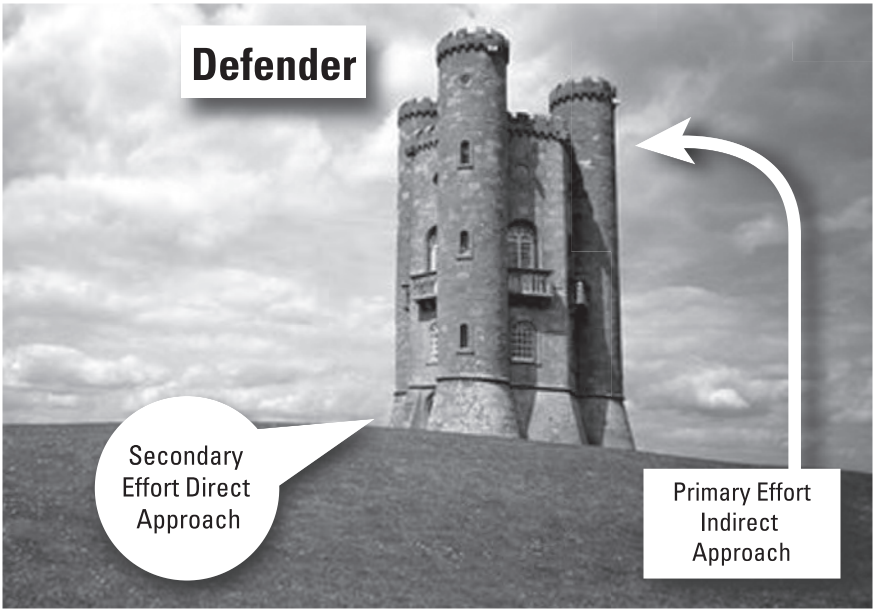


FIGURE 1.3 INDIRECT ATTACK

As shown in the diagram, the attacker launches a primary attack against one of the competitor's weaknesses and uses a secondary direct attack to distract attention away from the primary effort.

According to Liddell Hart, this form of attack is the most fruitful approach. It has the greatest chance of success while conserving the greatest amount of strength.

When an indirect attack is applied as a marketing strategy, the challenger would concentrate on a defender's weakness, or else move towards a market segment that is emerging, neglected, or poorly served by competitors.

This segment is the *point of entry*. It could be with a product (a new method of downloading music), in price (downloads as low as 50 cents a song), in promotion (targeted to students), or in distribution (sharing songs using peer-to-peer technology).

> An indirect attack concentrates on a market segment that is emerging, neglected, or poorly served.

Here is how the indirect attack works:

While applying its strength in one area, the challenger distracts the defending company by appearing to launch a direct movement against its strongest position. This dual action disorients the defender, causing it to waste time, effort and resources in the wrong direction.

After penetrating an underdeveloped or emerging market segment and establishing a market presence, the challenger can more easily secure a share of market previously dominated by competitors. This critical follow-up to entry is called *market expansion*.

Examples abound of the advantages of the indirect attack in business. For instance, when **German** and **Japanese** car-makers first entered the North American market, they came in with small cars, a market virtually neglected by domestic manufacturers.

Similarly, **Miller** discovered the light beer segment as an emerging market. **Honeywell** initially concentrated its computer sales at the medium- and small-size cities generally neglected by **IBM**. **Apple** became a dominant factor in schools, specifically serving that segment with computer hardware and software.

With the abundance of business examples and time-tested evidence from military history, there is never any justification for you to undertake a direct frontal attack in today's competitive market. Rather, it is your managerial duty and even obligation to use an indirect approach to:

1. Find an unattended, poorly served, or emerging market segment.
2. Create a competitive advantage by using the marketing mix (product, price, promotion and distribution) in a configuration that cannot be easily matched by competitors. Meaning: Direct your strength against the weaknesses of your opponent.
3. Mobilize all available resources to fulfil the unmet needs and wants of that market in a strength-conserving manner, thereby solidifying relationships with your customers.
4. Expand into additional segments of the market.

The following case offers a dramatic example of the damage the indirect approach can cause a market defender.

Case example

Xerox created the copier market. In the mid-1970s, the company proudly owned an 88 per cent share of that market, mostly in large- and medium-size copiers. By the mid-1980s, Xerox forfeited to competitors more than half of the market for plain copiers, even though it had virtually developed the plain copier machine with its classic 914 model.

What happened to cause the disastrous plunge?

Japanese companies, hoping to expand in North America during the mid-1970s, looked at the vast office products field and, in particular, to the still emerging copier market. Scanning for possibilities, they saw a sizable segment that was virtually unattended by Xerox: small-size copiers for small-size companies.

Research indicated that clerks in millions of companies were making copies at coin-operated machines in local stationery shops. At that time, the owners of these companies never thought they could afford to own a copier.

The Japanese companies saw the opportunity for an indirect approach into that exposed segment of the small business market. Meanwhile, Xerox focused in one direction by supplying large copiers to medium and large organizations. Initially, its managers paid little attention to competitors such as Canon, Sharp and Ricoh coming from behind. Figure 1.4 illustrates their attack.

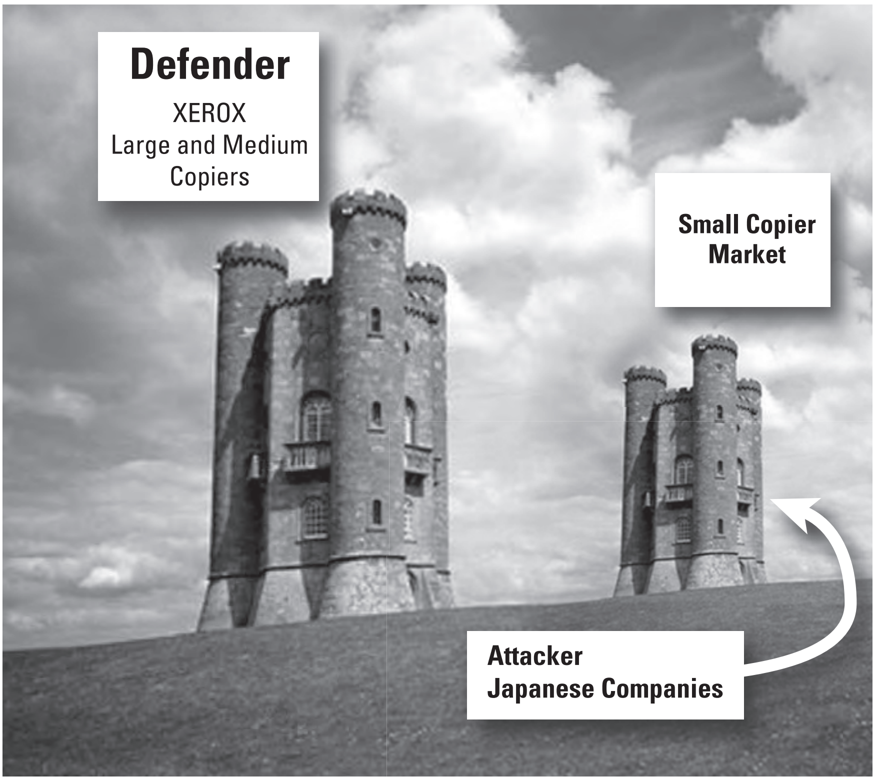


FIGURE 1.4 INDIRECT ATTACK ON XEROX

If the Japanese companies had tried to force their way into the market with large machines, they would have launched a costly direct frontal attack against Xerox with its dominant market presence.

The challengers would have expended huge amounts of time and money, exhausted their resources for future progress and might well have failed completely. Instead, the Japanese companies used an indirect strategy.

The indirect strategy consisted of the following elements:

PRODUCT

The Japanese competitors introduced a small tabletop copier that used plain paper, no chemicals and performed only the basic copying function. It could not copy two sides, staple, punch three holes, or collate. It simply made a copy. That was exactly what the small business owners wanted at that time.

PRICE

They entered with a low price to penetrate the market and gain market share rapidly. They reasoned that profits would come later as market share increased.

PROMOTION

Relevant media targeted the small business audience with copy themes announcing a new product as convenient and affordable.

DISTRIBUTION

The Japanese manufacturers could not match the huge direct sales force of Xerox. Instead, they used office supply dealers as middlemen to gain immediate access to the small business market – *the vacant target segment*.

That describes the Japanese *entry phase* to the market. However, to take on a position as a new comer with a minor foothold in a market is risky. The next logical move is to go for *market expansion*. In military terms, the aim is to get off the beaches and go inland or suffer the consequences of being pushed back into the sea.

The Japanese companies did the next predictable thing: they expanded their product line with a full range of mid-size and large models and eventually pushed Xerox's share of the market down to 44 per cent before levelling off.

How could Xerox have responded?

If Xerox had immediately applied its resources to develop a small copier, or private label one from an outside source, the Japanese attack would have become a direct one, which would have slowed down the penetration and could possibly have pushed the Japanese manufacturers out of the market.

Xerox had the product name, the reputation and the dominant market presence to give it a solid hold on the market. Accordingly, the initial strength was with the defender, Xerox. Napoleon's ratio of three-to-one suggests that the Japanese manufacturers would have had to expend huge resources to gain a minimal share of the market in a direct attack.

Xerox did not respond in time. Over the years, however, the company has made excellent strides in coming back and is now a 'lean and mean' organization with a full line of small and large copiers. But the fight back to regain lost market share is always costlier than retaining market share it already possessed.

Having lost its market dominance through inadequate defence against an indirect attack, Xerox used its own form of indirect strategies to recapture the market.

> The fight to regain lost market share is costlier than retaining market share it possesses.

Xerox executed its counter strategy with the following steps:

1. Utilized cost improvement strategies through quality teams, assembly-line automation and less labour-intensive product designs.
2. Changed its attitude on profitability – foregoing short-term results in favour of long-term profitability and market-share expansion.
3. Slashed prices on certain models to recapture market share.
4. Introduced new lines of copiers to envelop Japanese product lines.
5. Increased R&D spending for new product development.
6. Attacked the Japanese home markets through its joint venture with Fuji Xerox.
7. Competed against the Japanese in every market segment.

Envelopment attack

Envelopment consists of two stages. First, as in the indirect attack, the aggressor focuses on a specific market segment for a point of entry. Then, by identifying additional market segments and adding new products, it uses an expansion strategy to *envelop* the entire market (Figure 1.5).

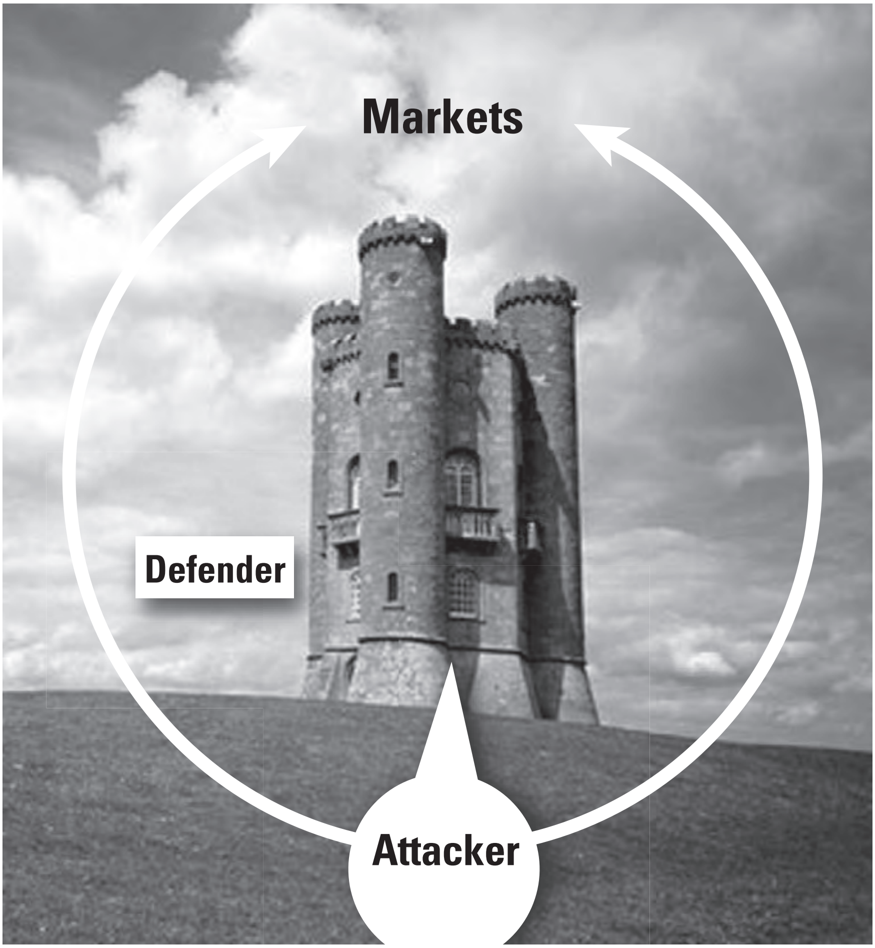


FIGURE 1.5 ENVELOPMENT ATTACK

In the consumer market, **Seiko** illustrates the indirect/envelopment combination. The Japanese company initially entered the North American watch market in one segment, digital watches and at one point enveloped the market by offering 400 models of watches to penetrate every major watch segment and overwhelm the competitors.

In the industrial sector, **The Timkin Company** offered 26,000 shaped ball-bearing combinations, a product line unmatched by any competitor, to envelop that market segment and fulfil virtually all its customers′ needs for those components.

The following case offers a classic example of the indirect/envelopment strategy.

Case example

Heublein, the producer of Smirnoff vodka, enjoyed a leading brand with a dominant share of its market for two decades. Smirnoff was then attacked on price by another brand, Wolfschmidt, produced by The Seagram Company Ltd.

Wolfschmidt was priced at $1.00 a bottle less than Smirnoff and claimed the same quality. Recognizing a real danger of customers switching to Wolfschmidt, Heublein needed a strategy to protect its market dominance. It had a number of options:

1. Lower the price of Smirnoff by $1.00 or less to hold on to its market share.
2. Maintain the price of Smirnoff but increase advertising and promotion.
3. Maintain its price and hope that current advertising and promotion would preserve the Smirnoff image and market share.

While some options were attractive, they were all obvious direct approaches. Heublein decided instead on envelopment (Figure 1.6). First, it raised the price of Smirnoff by $1.00 and preserved the premier image the brand already enjoyed.

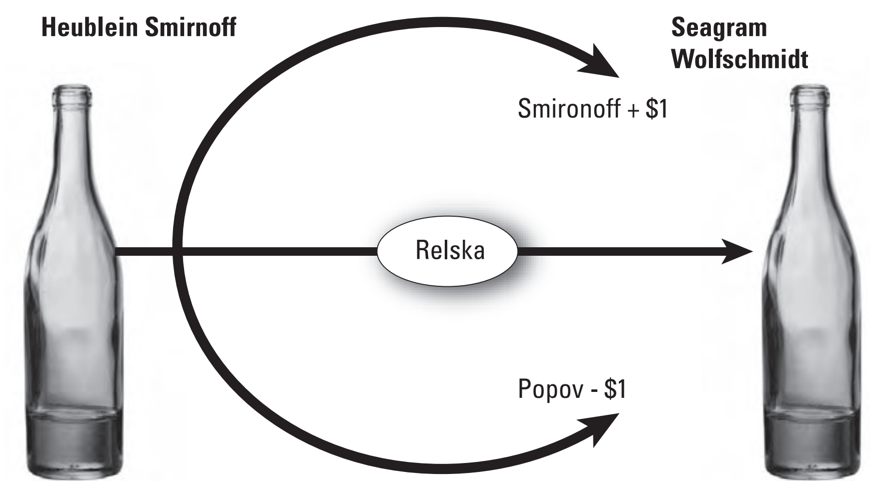


FIGURE 1.6. HEUBLEIN'S ENVELOPMENT ATTACK ON SEAGRAM

Next, Heublein introduced a new brand, Relska and positioned it head-to-head as a fighting brand against Wolfschmidt's price and market segment. Using that product entry as a means of diverting the opposing manager from other actions, Heublein introduced still another brand, Popov, at $1.00 less than Wolfschmidt.

That action had the decisive effect of enveloping Wolfschmidt. During the 1980s, Smirnoff remained number one in cases of all imported and domestic vodka shipped in North America, with Popov in the number two position.

The Heublein case clearly demonstrates how strategy lies in the sphere of human behaviour and how movement and surprise affect it. Movement is shown by the physical act of repositioning Smirnoff upscale and then introducing the threatening fighting brand, Relska, directly at Wolfschmidt as a distraction.

The move also demonstrates a psychological effect on Wolfschmidt managers who were sidetracked and unbalanced by the threat to their market share. By dislocating Wolfschmidt in this way, the strategy reduced their capabilities to resist.

Surprise, resulting from the envelopment created by the introduction of Popov, caused a psychological paralysis that reduced any further action by Wolfschmidt.

Bypass attack

The bypass attack allows the attacker to circumvent its chief competitors and diversify into unrelated products or all-new geographical markets (Figure 1.7).

At times, companies will employ the bypass attack to compensate for missed opportunities and expand into new uncharted industries.

For example, **Eastman Kodak Co**. successfully used a bypass approach to enter such diverse fields as electronics and biotechnology, with products as diverse as electronic publishing systems, cattle feed nutrients and anticancer drugs. These relatively sudden bypass moves followed an ultra conservative period during which the company stalled and competitors grabbed such homegrown markets as instant photography, 35mm cameras and video recorders, all natural extensions of Kodak's core business.

The bypass strategy does include a measure of risk because expansion into a range of unrelated fields can diminish a company's strength in any single area.

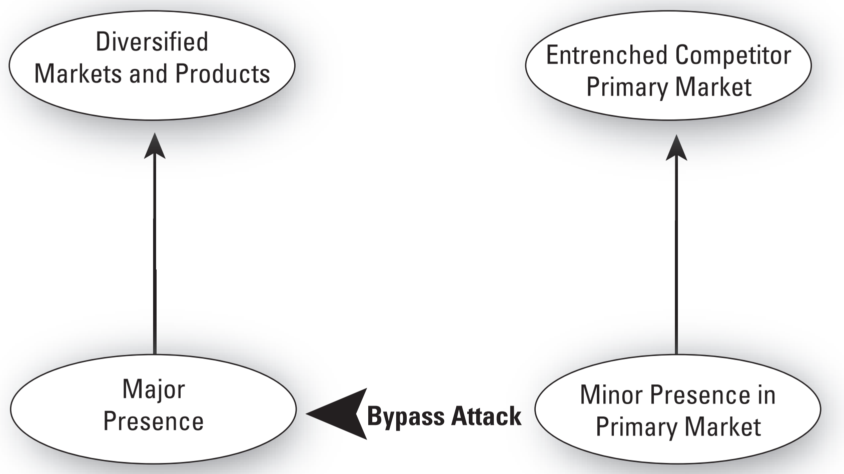


FIGURE 1.7 BYPASS ATTACK

Guerrilla attack

Guerrilla attack involves small intermittent forays into different markets. It is generally useful when a small company competes against a large corporation, or where a product with a small market share is skirmishing with a brand leader. It can also be executed by a larger organization against its competitors.

Guerrilla attacks are characterized by a number of actions: selective price cuts, supply interference, executive raids, intensive promotional bursts and assorted legal actions. The aim of movement and surprise is to create confusion and distraction, causing the opposing manager to make mistakes.

Even a giant company is not invulnerable to the threats of smaller competitors.

Case example

IBM illustrates a dramatic example of the guerrilla attack, as well as other indirect approaches. IBM noted the successful Japanese invasion of U.S. markets for cars, cameras and consumer electronics. Determined to prevent its markets from being shattered by those awesome successes, IBM became an aggressive strategic marketer.

When Japan tried to move into IBM's markets by attacking its vulnerable underside, software, IBM dealt a powerful blow in a clear example of a guerrilla attack.

After winning a lawsuit against Hitachi, Ltd. for allegedly stealing IBM software, IBM decided to stop disclosing its source codes (which are descriptions of the operating system of software needed to run all applications programs).

This single strategic move put the Japanese computer manufacturers on the defensive, forcing them to spend huge amounts of time and money rewriting old programs and developing software that would not infringe on IBM's copyright. According to some experts at the time, this put Japan five to ten years behind IBM.

While this guerrilla move took place, IBM aggressively moved into the Japanese home markets. Again, these strategic moves put the Japanese computer manufacturers on the defensive, protecting their home markets and thereby temporarily distracting them from invading U.S. and European markets.

Action strategy

While all the movement, surprise, distraction and dislocation were taking place through the various guerrilla actions already described, IBM moved aggressively with the following actions:

1. It invaded several potential growth markets. For example, IBM created a nationwide video text service through a joint venture with Sears and CBS.
2. It moved into additional growth markets by introducing 600 new software products for its personal computers.
3. IBM then moved into large, integrated information-processing systems that combined computer-aided design, automated manufacturing and back-office operations. It began to capture a segment of the huge global telecommunications market by forming a joint venture with Aetna Life & Casualty Company and Communications Satellite Corporation.
4. It moved into broader distribution patterns by utilizing direct response companies, retailers and value-added resellers who package the computers with software written for specific industries.
5. IBM continued to improve its strength in after-sales and consultative services, which it viewed as one of the most important aspects of its marketing strategy.

IBM's use of guerrilla warfare in strategic marketing demonstrates that even a giant company is not invulnerable to the threats of smaller competitors and must constantly maintain a defensive/offensive posture. In cases of medium-size or smaller companies the threat from competitors is even greater.

> The aim of movement and surprise is to create confusion and distraction.

Strategy principles

Keeping the discussion of attack techniques in mind, we can now bridge the vast historical perspective of military strategy with the more recent strategy applications in business. The military-marketing relationship can be summarized in the following statements:

The object of war is a better state of peace.

B. H. LIDDELL HART

The object of business is to create a customer.

PETER DRUCKER

FIGURE 1.8 STRATEGY PRINCIPLES

From the 2,500 years of recorded military history we can isolate five ruling principles that characterize all strategy, be it military, athletic, political, or financial. These hands-on principles would apply in your business to develop profitable competitive strategies.

They include *speed, indirect approach, concentration, alternative objectives* and *unbalancing competition* (Figure 1.8).

A thorough understanding of their applications is essential for you to implement business-building strategies. Below, you will find descriptions of the strategy principles, examples from actual corporations and step-by-step procedures for applying them to your firm.

Speed

Speed is as essential to marketing as it is to the military. There are few cases of overlong, dragged-out campaigns that have been successful. Exhaustion – the draining of resources – has ruined more companies than almost any other factor.

Extended deliberation, procrastination, cumbersome committees and long chains of command from home office to regional sales office are all detriments to success.

Drawn out efforts divert interest, diminish enthusiasm and depress morale. Individuals become bored and their skills lose sharpness. The gaps of time created through lack of action give competitors a greater chance to react and blunt your efforts.

In today's competitive business environment, your tasks require you to evaluate, manoeuvre and concentrate marketing forces quickly to gain the most profit at least cost in the shortest span of time.

In the cases already cited, IBM acted quickly to invade Japanese markets while bringing legal action against its Japanese competitor. Heublein worked rapidly to reposition Smirnoff and introduce two new brands before Seagram could respond.

The old proverb 'Opportunities are fleeting' or, in its current usage, 'The window of opportunity is open' has an intensified truth in today's markets. Speed is essential if you are to gain the advantage and exploit the lead.

At **Toyota Motor Corp.**, speed carries through from product inception to the market place. The combination of speed and flexibility is world class. Toyota plants worldwide can make as many as eight different models on the same line. That leads to a monumental increase in productivity and market responsiveness, which is all part of the company's obsession with what Toyota's president calls "the criticality of speed."

There are few cases of overlong, dragged-out campaigns that have been successful.

Organizing for speed and quick reaction

Two factors make it possible for you to react with speed: first, new technologies geared to product development, mobile communications and the wide-ranging use of the Internet should urge you to set up your organization or business unit to react quickly and decisively, in a ratio of a short span of time to a large amount of space.

Therefore, the second factor for maximum speed – the essential ingredient – is an *efficient organization* that simplifies the system of command and control. In particular, it shortens the chain of command.

Your own experience may well support the obvious conclusion that an organization with many levels in its decision making process cannot operate with speed. This situation exists because each link in a chain of command carries four drawbacks:

1. Loss of time in getting information back.
2. Loss of time in sending orders forward.
3. Reduction of the top executive's full knowledge of the situation.
4. Reduction of the top executive's personal influence on managers.

Therefore, to make your marketing effort effective, reduce the chain of command. The fewer the intermediate levels, the more dynamic the operations tend to become. The result is improved effectiveness of the total marketing effort and increased flexibility.

The fewer the intermediate levels, the more dynamic operations tend to become.

A more flexible organization can achieve greater market penetration because it has the capacity to adjust to varying circumstances, carry alternative objectives and concentrate at the decisive point.

Organizational flexibility can be enhanced by the use of cross-functional strategy teams (see Chapter 13 for duties and responsibilities) made up of junior and middle managers representing different functional areas of the organization.

To increase the speed of your operations and improve your flexibility, do the following:

1. Reduce the reporting levels in your company and increase the pace of communications from the field to the home office.
2. Utilize junior managers for ideas, flexibility and initiatives for identifying and taking advantage of new opportunities.
3. Use cross-functional strategy teams that tap any cultural diversity that exists in your firm, thereby benefiting from multiple perspectives.

Indirect approach

As noted in the discussion on the military-marketing relationship, you should avoid the frontal attack at all costs in favour of an indirect approach, which can include any of the non-direct forms of attack: indirect, envelopment, bypass, or guerrilla.

The object of the indirect approach is to circumvent the strong points of resistance and concentrate on the markets of opportunity with a *competitive advantage* built around product, price, promotion and distribution.

The previous cases of **Xerox** (small copy machines) and the Japanese and German firms (small automobiles) illustrated the indirect attack centred on market segmentation and product positioning. Whereas **Heublein** built an envelopment attack spearheaded by product and price strategies.

> The object of the indirect approach is to circumvent the strong points of resistance.

Consequently, you can gain substantial benefits by using the indirect approach to position your product or service. Specifically, positioning consists of a two-pronged effort: improve customer relationships and enhance your competitive position:

Improve customer relationships

As basic as it sounds, bonding with customers remains the controlling factor in positioning. You should infuse everyone in the organization, from salespeople to packers and shippers, with an attitude that strengthens customer relationships.

In particular, if in a business-to-business situation where face-to-face contact often permits interaction with customers, delve into the processes they use to conduct business.

What are their priority needs? What special problems do they face to remain competitive? Ultimately, the point is to resolve customers' problems with innovative products and services.

To do so, get out in the field and talk directly to customers on a regular basis. Don't just limit your visits to marketing and sales personnel, include periodic contact with senior management and technical people.

For instance, companies such as **Deere & Co.**, routinely send manufacturing and technical personnel to call on customers to track down information about product performance and technical problems.

Customers often view such contact by non-marketing individuals whose interests' centre on resolving operational problems as helpful, unobtrusive and non-threatening.

To properly interpret and quantify the intelligence you have gathered from these face-to-face visits, it is wise to verify the findings through formal market research. This process benefits you with benchmarks to measure product performance, customer service, distribution efficiency, pricing strategy and promotion effectiveness. All of which are the ingredients to improve your overall market position and profitability.

Enhance your competitive position

Once you activate the customer bonding and the market intelligence procedures, use the new benchmarks to determine how your market position compares with that of competitors. The key issues here are the *perceptions* embedded in the customers' minds about your company and its products and how they stack up against those of your competitors.

The output of this process drives product development; validates facts, figures and impressions; produces the calibre of innovations and leads to improved marketing plans and strategies that strengthen your market position.

Application

Overall, to use an indirect approach, do the following:

1. Search for emerging, neglected, or poorly served market segments through competitive analysis (see Part Two) and fill product gaps.
2. Identify a competitive advantage centred on price, product, promotion, or distribution (see Part Four).
3. Use movement, surprise, speed and alternative objectives to disrupt and disorient your competitor.
4. Move towards market expansion, once you have gained a point of entry.

Concentration

Concentration has two uses in marketing strategy:

First, it means directing your resources towards a market segment or target group and filling needs and solving problems. Second, as applied to strategy, concentration means focusing your strengths against the weaknesses of your competitor.

How do you determine the weaknesses of the competitor? You use *competitive analysis* in your strategy development to detect the strength-weakness relationship (see Part Two).

Internal analysis allows you to identify your unique competencies or natural strengths. External analysis allows you to identify your competitor's weaknesses.

Alternative objectives

There are four central reasons for developing alternative, or multiple objectives:

First, on a corporate scale, most businesses need a wide range of objectives with a variety of strategies and time-frames.

Second, as already discussed, the strategic principle of concentration is implemented successfully only through the application of alternative objectives.

Third, alternative objectives permit enough flexibility to exploit opportunities as they arise. By designing a number of objectives, any of which can be used depending on the circumstances, you hold options for achieving one objective when others fail.

Last and most important, alternative objectives keep your competitors on the 'horns of a dilemma' – unable to detect your real intentions. By displaying a number of possible threats, you force a competing manager to spread his resources and attention to match your action.

While you have dispersed intentionally in order to gain control, you cause him to disperse erratically, inconveniently and without full knowledge of the situation. Thus, you cause the opposing manager to lose control. You can then concentrate rapidly on the objective that offers the best potential for success.

> Alternative objectives keep your competitors on the 'horns of a dilemma'.

Since the major incalculable is the human will (the mind of one manager against the mind of a competing manager), the intent of alternative objectives is to unbalance the opposing manager into making mistakes through inaction, distraction, false moves, or misinterpretation of your real intentions. You thereby expose a weakness that you can exploit through concentration of effort.

This unbalancing or dislocation is achieved through movement and surprise. Refer again to the Smirnoff example: Heublein used physical movement in introducing a fighting brand, Relska and repositioned Smirnoff upscale.

Introducing the low-priced Popov created surprise, which had the psychological effect of paralyzing the Wolfschmidt management in its inability to respond to the multiple actions. In fact, you can implement concentration successfully only through the application of alternative objectives.

These aspects of strategy – dislocation, concentration and alternative objectives – are summarized in the following examples:

> **Deere & Company** created alternative objectives by moving beyond its basic farm equipment business to entering the consumer lawn-tractor market, manufacturing engine blocks and diesel engines for General Motors and making chassis for recreational vehicle manufacturers.
>
> **Reynolds Metals Co.** selected additional target segments beyond its stronghold in aluminium cans and building materials. It created opportunities in consumer plastic packaging and created a thriving business, including: aluminium foil, wax paper and cooking bags, resealable food storage bags and wraps.
>
> **Maytag Corporation** set alternative objectives for defending and attacking the medium-priced mass market and lower-end homebuilders' segments. Maytag thereby maintained flexibility about which segment it would defend and where it would aggressively increase market share.

While these examples may appear as simple moves for expansion, they actually serve as deliberate strategies to keep competitors guessing as to where the next concentration will take place.

The alternative objectives and strategies illustrated cut across a wide range of opportunities that send confusing signals to competitors, thereby permitting maximum flexibility in selecting areas for concentration.

Another point you can consider is to establish alternative objectives early in the life cycle so that you can implement them when needed. Doing so eases the panic that comes from the sudden awareness of a sales and market meltdown.

Unbalancing competition

Victory in many competitive situations is not necessarily due to the brilliance of the attacker or defender, but to the mistakes of either manager. If brilliance plays a roll at all, it is in the manager's deliberate efforts to develop situations that unbalance the competition.

Those efforts, in turn, produce the psychological and physical unbalancing effects on the opposing manager through speed, indirect approach, concentration and alternative objectives. Moreover unbalancing fulfils strategy's ultimate purpose: the reduction of resistance.

You might try an unbalancing action, for example, by announcing a new product that could make the competing manager's product line obsolete. Even a press release about a yet-to-be released product line can "make 'em sweat" and create panic – and mistakes.

This unbalancing is practised continuously in day-to-day activities that range from the threat of legal action to the effects of mergers and acquisitions. Another attempt at unbalancing, albeit with an unexpected outcome, is illustrated in the following case example.

> Unbalancing the competition fulfils strategy's ultimate purpose: the reduction of resistance.

Case example

Sony, the king of consumer products, revealed with great fanfare in 2004 its plans to reorganize the company. Its paramount goal: restore and retain market dominance.

The central themes called for more power to younger workers, the production of a new generation of networked products and efficiencies that would cut costs and generate higher profits.

Not only was the highly visible plan meant to impress market analysts and journalists, it was also intended as a clear signal to unbalance competitors and scare off any aggressive intrusion into its kingdom.

However, the unbalancing effect didn't entirely work as expected, particularly against one of its primary competitors. Three years before Sony's grand announcement, **Matsushita Electric** quietly developed a plan that was remarkably close to Sony's.

The plan attempted to change the former perception held by consumers and the trade that Matsushita's Panasonic product line was merely a copy of Sony products.

The brand has since emerged as a dynamic leader. Matsushita's 42- and 50-inch thin plasma displays are marketed at prices and quality levels seldom matched.

Also, the company pioneered and went on to dominate, DVD recorders with hard disk drives that score high in the market for video players and simple DVD players. Moreover, Matsushita is making a strong showing in digital cameras and other high volume consumer items.

The strategist behind the turnaround – and the one who was not unbalanced by Sony's plans – is Matsushita President Kunio Nakamura. On taking over the company in 2000, the long-time marketing man approached his formidable responsibilities by maximizing speed within the organization.

He gave each of the company's top 400 company executives an Internet-equipped mobile phone with requests that all reports to him would be submitted by mobile e-mail. They were required to summarize their reports in a few words or sentences. The result: faster communications and improved decision-making.

Nakamura spearheaded cultural change within the organization with the transfer of power to women designers and other employees in their 30s and 40s. He didn't want older men designing home appliances used by women. Nakamura also transferred power for much of the product-planning initiatives from engineers to marketers.

Result: He produced the maximum organizational change by shifting Matsushita personnel from a former deep-seated mindset of a product-driven orientation to a 21st century customer-driven direction.

Additional changes resulted in shrinking the organization from as may as 13 layers to three, thereby giving greater authority and responsibility to those individuals closest to the consumer.

Action strategy

What can you learn from the Sony/Matsushita case? Unbalancing has a vital psychological effect on the opposing manager.

That is what you should be attempting with an unbalancing strategy. While not every effort succeeds, as illustrated in the Sony case, nonetheless the attempt must be made.

Once again: The entire purpose of the move is to lessen resistance against you, preserve valuable resources and achieve your planned objectives. What follows are applications.

APPLICATIONS

To unbalance competition, do the following:

1. Identify the areas in which the competition is not able (or willing) to respond to your actions. (Use the competitor analysis checklists in Part Two for this purpose.)
2. Make a conscious effort to create an unbalancing effect through surprise announcements. For example, use enhanced Internet ordering procedures, improved just-in-time delivery systems, or 24/7 technical assistance. The unbalancing effect will have the greatest impact to the extent that you are able to maintain secrecy until the last possible moment.
3. Utilize new technology to unbalance competitors and make them scramble to catch-up. Investigate the various technologies applied to marketing, such as customer relationship management (CRM) programs to maintain links along the supply chain, interactive video and Internet systems and mobile e-mail to enhance communications and other marketing efforts (see Matsushita example).

A focus on business strategy

The five strategy principles derived from military history – speed, indirect approach, concentration, alternative objectives and unbalancing the competition – apply to most categories of competitive marketing strategies.

This section compresses those strategy principles into three foundation components: *indirect approach, differentiation* and *concentration*. Understanding how to incorporate them into your marketing plans will help you win major marketing encounters.

Indirect approach

Avoid a direct approach against an entrenched competitor. The odds are totally against you. Instead, take some of the following actions:

Distract your competitor. Create confusion about your real intentions. Search for emerging, neglected, or poorly served market segments and fill product gaps. Tie up the output of common suppliers. Gain access to the supply chain through add-on services or special inducements. Use legal actions to dislodge a competitor, if appropriate.

In all those activities use speed to create surprise, which in turn will cause confusion in the mind of your competitor; then use alternative objectives to further reinforce the unbalancing effect about your real intentions.

Differentiation

The most effective means of applying the indirect approach is to seek differentiation in the areas of the marketing mix (product, price, promotion and the supply chain.) It is important to remember that although your product may seem like an indistinguishable commodity, there are always ways to differentiate it.

"There is no such thing as a commodity," writes Levitt.[7] His astute suggestions for differentiating products and services are summarized as follows:

> Consider differentiation in such areas as customer service, improved delivery time, extended warranties, sales terms, after-sales support, packaging, management training (your own staff and that of your distributors/customers) and knowledgeable sales people.

Also try differentiation with such intangibles as reliability, image, nice-to-do-business-with reputation, credibility, prestige, convenience, value, responsiveness to problems and access to key individuals in your firm.

7 Theodore Levitt, The Marketing Imagination (New York: The Free Press, 1983), p. 72.

> Although your product may seem like an indistinguishable commodity, there are ways to differentiate it.

While the competitive products may be identical, these suggested areas of differentiation add up to a total customer-based product package that moves you away from the commodity status and gives you a competitive edge.

Concentration

Your ability to concentrate marketing resources is predicated on the effective application of the indirect approach. And concentration is successful only to the extent that you can distract the competitor and move quickly to seize an unserved, emerging, or neglected segment. Further, it is effective only to the extent that you can differentiate yourself from the competitor.

This particular component is so vital to successful strategies that Liddell Hart indicated that if all of strategy could be summed up into one word, it would be *concentration*.[8]

> If all of strategy could be summed up into one word, it would be *concentration*.

Competitive intelligence

You can apply those three pillars of strategy effectively only if adequate competitive intelligence is used (see Part Two). For example, identifying emerging markets is useful if you can pre-empt your competition and then satisfy the needs and wants of those markets.

Alternatively, applying differentiation is advantageous only if your competitor cannot, or is not willing to, respond to your actions. In sum, the confidence level of your strategy is strengthened by your diligent effort in using competitor intelligence to shape an indirect approach.

8 B. H. Liddell Hart, Strategy, (New York: Praeger, 1954), p. 347.

Strategy lessons

> The tools of marketing are physical acts. However, a mental process directs them.

From the time-tested principles derived from military history and applied to competitive marketing strategies, four major lessons stand out:

1. The tools of marketing (advertising, sales promotion, field selling, marketing research, distribution, pricing) are physical acts. However, a mental process directs them.

   Therefore, spend sufficient time to systematically think out your strategy. That is, act with the mind of a strategist and keep the principles of strategy in the forefront of your thinking. Doing so will give you the upper hand at the least cost in human and material resources.
2. The tougher you make your marketing practices, the more your competitors will consolidate against you. Result: You will harden the resistance you are trying to overcome. Even if you succeed in winning the market, you will have fewer resources with which to profit from the victory.
3. The more intent you are in securing a market entirely of your own choosing and terms, the stiffer the obstacles you will raise in your path and the more cause competitors will have to try to reverse what you have achieved.
4. When you are trying to dislodge your competitor from a strong market position, leave that competitor an easy way to exit the market. Do so by initiating programs and value-added services that would obligate the competitor to pump in far more resources to sustain his market position than budgets call for. On the whole, give the impression that it would be prudent for the competitor to pull out.

In a broad application, these pragmatic lessons are evident in the current strategies of major world-class companies. Such companies as **Cisco, Matsushita, Wal-Mart, IBM, Aldi, Microsoft** and **General Electric** have been monumentally successful in focusing human and material resources into shaping strategies that attack and overwhelm their respective markets.

Conclusion

With the military-marketing perspective and with the five basic strategy principles, you have the foundations for developing successful competitive strategies. It should be apparent from the discussion, however, that a good deal of work must precede the formulation of competitive strategies.

Such work includes conducting an external and internal analysis, developing a competitive intelligence system, employing marketing research and organizing all the data you have gathered into a strategic marketing plan. All of those areas will be covered in the following chapters.

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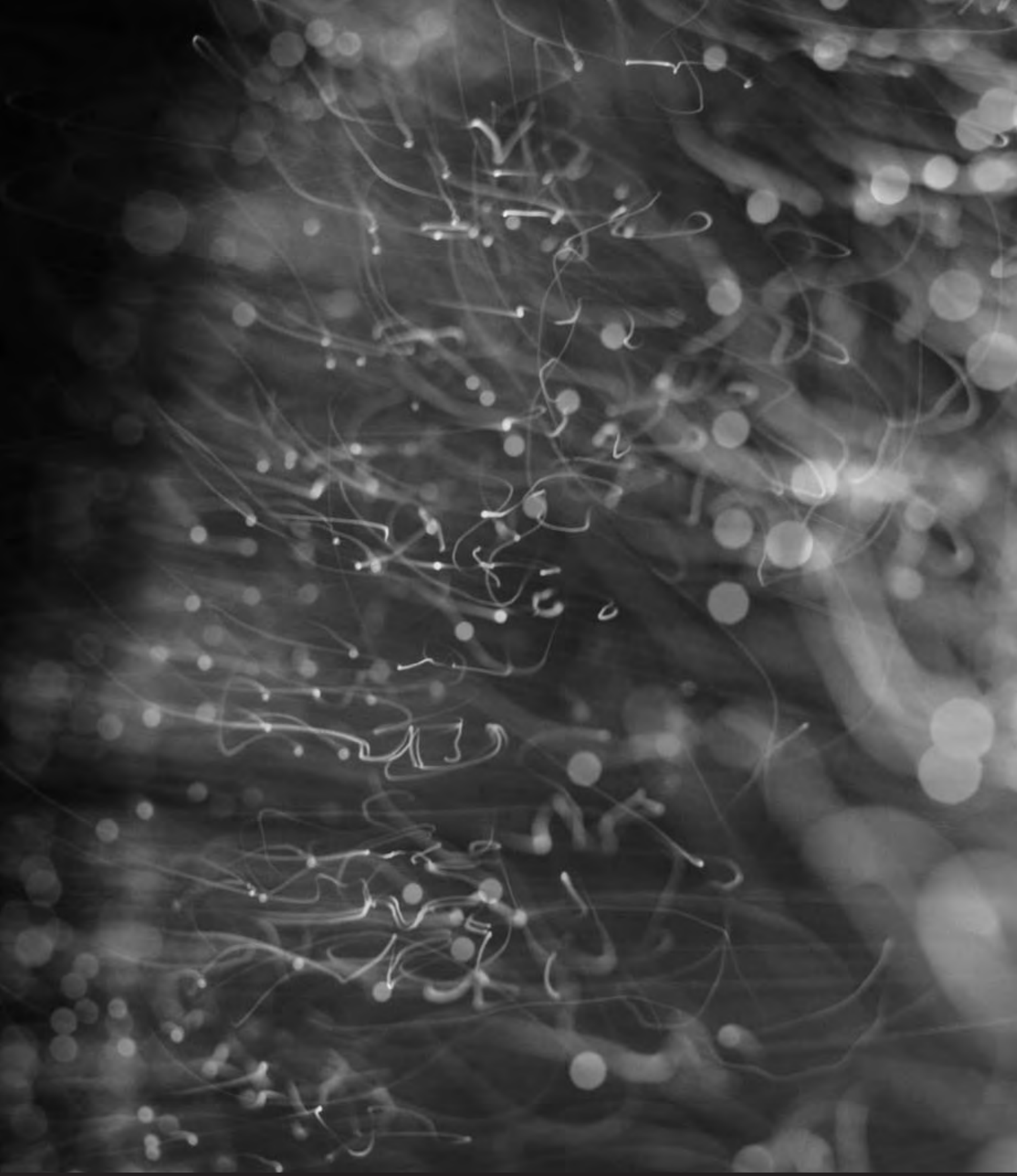


PART TWO

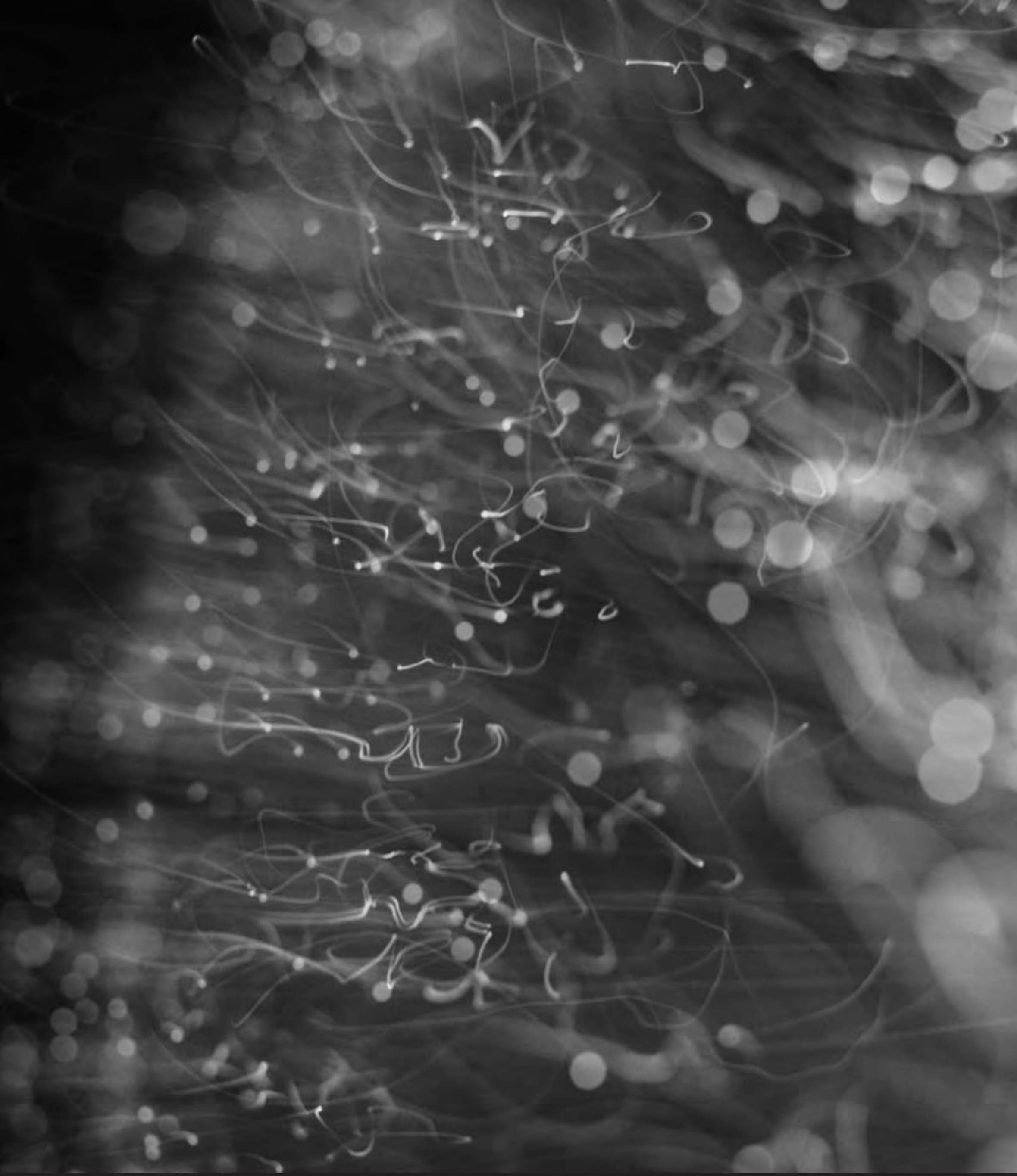
Develop a competitive analysis

PART TWO
Develop a competitive analysis

Developing a competitive analysis is your first step in creating competitive marketing strategies. The analysis helps you to systematically view all those factors, external (Chapter 2) and internal (Chapter 3) that could influence your strategy decisions.

By using sound analysis as the basis of strategy development, you will be in an excellent position to overcome competitors' pressures when entering a new market or defending an existing one.

You will be able to develop actions to circumvent aggressive competitors, identify areas for product differentiation and concentrate marketing and sales resources in a way that gains your objectives in a strength-conserving manner.



PART TWO CHAPTER TWO

External analysis: Understand the competitive world surrounding you

TWO

External analysis: Understand the competitive world surrounding you

Chapter Objectives

Expand your managerial skills as you:

1. Identify the key factors related to a *customer analysis* by segment, behaviour and wants and needs.
2. Conduct an all-inclusive *competitor analysis*.
3. Design an *industry analysis*.
4. Develop an *environmental analysis*.

In this chapter, you will see how to use an external analysis to obtain an organized look at market conditions. Another purpose for taking the time to develop an external analysis is to help you uncover opportunities and threats that will pay off for you in developing alternative strategies and, ultimately, in achieving a competitive advantage.

Consequently, the external analysis concentrates on four distinct spheres: customers, competitors, industry and environment. By examining each area, you will see how it contributes to shaping competitive strategies, which takes on a critical role within strategic marketing. Figure 2.1 illustrates the two major components of competitive analysis: external analysis and internal analysis (see Chapter 3).

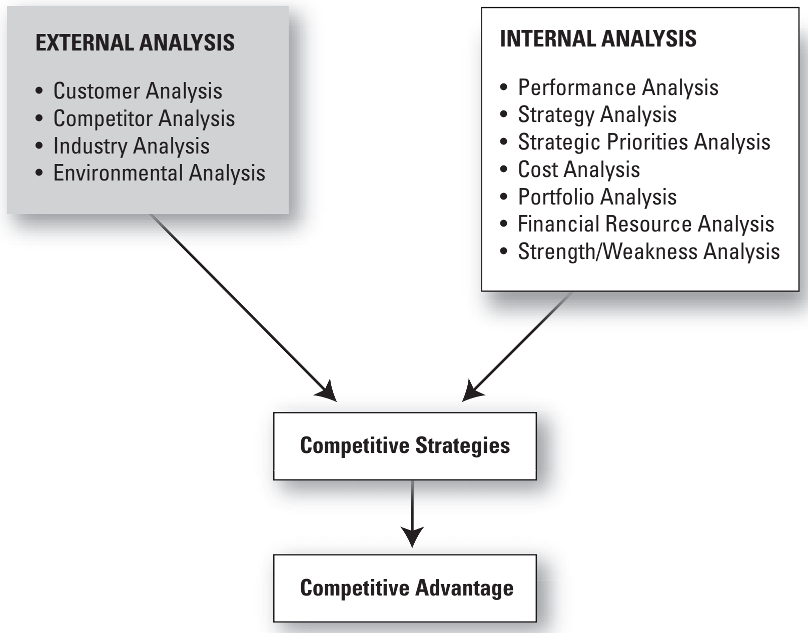


FIGURE 2.1 A FRAMEWORK FOR COMPETITIVE ANALYSIS[9]

Customer analysis

Strategic marketing is defined as *a total system of interacting business activities designed to plan, price, promote and distribute want-satisfying products and services to organizational and household users at a profit.*

From this functional definition you can see that the customer is the centre of marketing's attention. To produce 'want-satisfying products and services,' you must know what your customers want, where they can find what they want and how to communicate to them that you are able to meet their needs and solve their problems.

The following case illustrates how customer analysis helped one marketing-savvy company develop competitive strategies when competition heated up and targeted its customer base.

9 Similar frameworks for external and internal analyses have been pioneered by David Aaker, Developing Business Strategies (New York: Wiley, 1984) and Michael E. Porter, Competitive Strategy (New York: The Free Press, 1980).

Case example

Charles Schwab & Co., the first discount stockbroker, followed a marketing scenario that is now familiar in a variety of industries:

A company originates a decisive breakthrough with a product, service, or delivery system and enjoys rapid growth in its sector of business. Soon after, enterprising competitors enter and attempt to grab the lead.

That's what happened at Schwab. In their case, however, managers realized that enterprising rivals would quickly present a serious challenge by duplicating Schwab's success. Schwab managers possessed enough marketing know-how to realize the inevitable and set plans to pre-empt the competition with positive action.

Accordingly, they conducted extensive customer analysis and used the data to refine their products and services, initiate high-level customer service, apply new technology to product development and expand into new geographic and demographic segments.

Schwab's breakthrough

Schwab made its remarkable breakthrough in 1974, with an audacious attack at the full-service, high-commission brokers, such as the formidable Merrill Lynch, Smith Barney and Dean Witter.

From 1991 to 1994, Schwab's compounded revenues grew more than twice as fast as the industry average. By 1995-96, its growth was still at a respectable 30 per cent. However, an unwelcome statistic emerged that indicated the industry was averaging 28 per cent growth; meaning, the gap was closing between Schwab and its competitors.

Not blind to the threats of giant competitors, Schwab management assumed a resolute attitude toward customers and competition that remains the driving force behind the company's continuing growth. "Competition is the source of all innovation," asserts CEO Charles Schwab, whose mindset is intent on making things happen.

And innovate he did. Schwab changed the way mutual funds are sold by introducing a supermarket that lets investors choose among a wide range of funds and then consolidate them into one account. Managers and technical personnel harnessed new technology and developed self-help products to assist customers in making investment decisions.

For instance, they introduced a broad range of Internet-based transaction and information services such as Market Buzz. They streamlined customer service to identify those customers who needed assistance and provided them with personalized attention. And, catering to the vast numbers of worrisome first-time investors, they simplified mutual fund selection by offering 'funds of funds'.

Action strategy

What can you learn from the Schwab case? Understand your customers – if you expect to sustain growth and maintain a comfortable lead over hard-driving competitors. Beyond wishing for a brilliant idea to flash into your mind, there is a process you can follow to trigger marketing innovation. Use the following guidelines for your analysis:

> Understand customer analysis: *market and product segments, customer behaviour, unfulfilled wants and needs.*

- *Define your customers by demographic and psychographic (behavioural) characteristics.*

  Observe changes in the character of your markets. For instance, look for any unmet customer needs that would enable you to respond rapidly in the form of products, services, methods of delivery, credit terms, or technical assistance. Talk with customers to detect their most troublesome problems and frustrations. Meet with sales people and draw them out on ways to innovate.

- *Examine customer usage patterns or frequency of purchase.*

  Watch for alternative and substitute products that could represent an opportunity to replace competitive products. Also, observe deviations in regional and seasonal purchase patterns. Check for changes from past purchasing and usage practices that could translate into opportunities.

- *Survey selling practices.*

  Innovations often occur in selling, especially with the pervasive use of the Internet. Tune-in to current trends in promotional allowances, selling tactics, trade discounts, rebates, point-of-purchase opportunities, or seasonal/holiday requirements. Here, again, stay close to sales people for such information.

- *Survey your supply chain.*

  Examine your channels of distribution and look for opportunities to customize services consistent with the characteristics of the segment. Pay attention to warehousing (if applicable) and what could be fertile possibilities to innovate, such as electronic ordering and computerized inventory control systems.

- *Look at product possibilities.*

  Search for innovations with product-line extensions to maintain an ongoing presence in your existing markets, or to gain a foothold in an emerging segment. As illustrated by Schwab, harnessing new technology might broaden your customer base and leverage your company's expertise.

- *Explore opportunities to cut costs for you and your customers.*

  Investigate such areas as strengthening quality assurance and introducing new warranties related to product performance and reliability. Also look for possibilities to replace products or systems, improve internal and external operating procedures and discover new product applications.

To fully understand customers, familiarize yourself with the components that make up the analysis: *market and product segments, patterns of customer behaviour and unfilled wants and needs.*

Market and product segments

Segmentation means splitting the overall market into smaller sub-markets or segments that have more in common with one another than with the total market.

Subdividing a market helps you to identify and satisfy the specific needs of individuals within your selected segments and thereby strengthen your market position. Segmentation also allows you to concentrate your strength against the weakness of your competitor and improve your competitive ranking.

Choosing market segments

Segmentation is obviously an essential part of customer analysis and concentration in a segment is the essence of a competitive strategy. Therefore, in doing your own customer analysis, you have to know which criteria to use in choosing market segments, what factors to use in identifying a market segment and how to develop a segmentation analysis.

Use the following criteria to guide you in selecting market segments:

MEASURABLE

Can you quantify the segment? For example, you should be able to assign a number to how many factories, how many residences, or how many potential customers are in the market segment.

ACCESSIBLE

Do you have access to the market through a dedicated sales force, distributors, transportation, or the Internet?

SUBSTANTIAL

Is the segment of sufficient size to warrant attention as a segment? As important, is the segment declining, maturing, or growing?

PROFITABLE

Does concentrating on the segment provide sufficient profitability to make it worthwhile? Use your organization's standard measurements, such as return on investment, gross margin, or profits.

COMPATIBLE WITH COMPETITION

To what extent do your major competitors have an interest in the segment? Is it of active interest or of negligible concern to your competitor?

EFFECTIVENESS

Do your organization's personnel have sufficient expertise, as well as material and financial resources, to serve the segment effectively?

DEFENDABLE

Do your personnel have the drive and skill to mount counter strategies to defend itself against the attack of a major competitor?

Answering those questions will help you select a market segment with good potential for concentrating your resources and with sufficient information for customer analysis. These criteria can also be used as tests for the viability of a market segment once you have chosen it. But how do you select one?

You can identify market segments by dividing a market into groups of customers with common characteristics. (While new computer software may speed up the segmentation process, be certain the criteria presented here are included when you select the program.)

Categories for segmenting markets

Table 2.1 displays the four most common ways to segment a market, based on demographic, geographic, psychographic/cultural and product attribute factors.

DEMOGRAPHIC SEGMENTATION	**PSYCHOGRAPHIC AND CULTURAL SEGMENTATION**
Sex Age Family life cycle Race/ethnic group Education Income Occupation Family size Religion Home ownership	Lifestyles Psychological variables: • Personality • Self-image Cultural influences: • Group behavioural patterns
GEOGRAPHIC SEGMENTATION	PRODUCT ATTRIBUTE SEGMENTATION
Region Urban/suburban/rural Population density City size Climate	Usage rate Product benefits

TABLE 2.1 BASES FOR MARKET SEGMENTATION

The following case illustrates one aspect of segmentation.

Case example

Ericsson, the Swedish phone giant, defines its growth markets against a backdrop of intense competition and swift movements in technology. Within that twofold framework, managers faced tough decisions at the turn of the 21st century about how to defend their hard-won positions in established segments.

In particular, they had to determine how to keep ahead of aggressive competitors, while obtaining a foothold in new segments.

For Ericsson, the nagging problem was that even with a substantial share of wireless and fixed-line networks, it lagged in a key telecom growth market: mobile handsets. That void provided hard-driving competitors with an opening to gain solid positions.

For example, Finland's Nokia consolidated its hold on the mobile-handset business with a 23 per cent market share vs. Ericsson's third place 15 per cent. And such North American powerhouses as Cisco Systems, Lucent Technologies and Nortel seized the lead in the Internet telephony field.

The situation: Telephone handsets, once a big earner, were barely profitable because of pricing pressure, aging products and bulky designs.

Ericsson's strategy

To fight back, the Stockholm-based company advanced by using the following steps:

- Recognizing a prime opportunity, Ericsson employed its vast technical expertise to concentrate heavily on the growing applications for mobile phones to transmit reams of information. Also, the company expanded the segment for mobile phones by intensifying its efforts to offer wireless Internet access.

- As the wireless networks multiplied, Ericsson managers concentrated on the astonishing statistic of one billion mobile subscribers worldwide, along with 30 per cent to 40 per cent using mobile systems for the Internet.
- With those healthy projections, a massive market for equipment upgrades looked particularly attractive. And Ericsson positioned itself to grab a significant piece of that lucrative market segment.

Action strategy

What can you learn from the Ericsson case? To apply market segmentation to your strategy requires a thorough understanding of the various categories of segments. Let's examine the following approaches to segmenting a market as identified in Table 2.1.

Demographic segmentation

Demographic variables are among the most widely used segmentation approaches. They owe their popularity to two facts:

First, they are easier to observe and/or measure than most other characteristics. Second, their breakdowns by sex, age, family life cycle, race/ethnic group, education, income, occupation, family size, religion and home ownership are often closely linked to differences in buying behaviour.

In many instances, you can combine demographic variables to produce a more meaningful breakdown than just relying on a single criterion. For example, it is common to combine the age of the head of the household with the family size and the level of household income.

Geographic segmentation

Geographic segmentation is relatively easy to perform because the individual segments can be clearly defined on a map. It is a sensible strategy to employ when there are distinct differences in climatic conditions, access to transportation and proximity to round-the-clock service or repairs. The strategy also works if you find geographic considerations, such as varying regional tastes or unique culture-based habits and behaviours.

Geographically, you can segment by region, city size, by population density, or by geopolitical criteria. However, such segmentation is effective only if it reflects differences in need and buying patterns. Many firms, for example, adjust their advertising efforts to as small an area as a county.

Graphic techniques for segmenting markets

Figures 2.2 and 2.3 show graphic techniques you can use to define market segments. Figure 2.2 shows a matrix format for segmenting a *service* market. The vertical axis displays market segments that use natural gas and related services. The horizontal axis shows features that influence customers' choice of energy product.

A manager reviewing this matrix can look closely at the boxes and identify which have the greatest potential for market concentration. For instance, the industrial boiler markets would probably be concerned with gas availability. Making gas more readily available for that segment or designing gas conserving parts for industrial boilers would indicate two ways to concentrate on that market segment.

A similar matrix, Figure 2.3, is an example of *industry segmentation* in which types of design engineers are displayed on the horizontal axis and the industries in which they work are designated on the vertical axis. Here, a manager has several choices: focus on the needs of one type of engineer in one type of business, reach all businesses with one type of engineer, or serve all engineers in one type of business.

	Gas Availability	Gas Equipment Operational Cost	Gas Equipment First Cost	Gas Equipment Features
Residential Space Heating				
Residential Appliances				
Commercial Space Conditioning				
Commercial Cooking				
Co-Generation				
Industrial Process Markets				
Industrial Boiler Markets				
Utility Boiler Markets				

FIGURE 2.2 A MATRIX FORMAT OF MARKET SEGMENTS FOR NATURAL GAS SERVICES

Business and Industry	Technical or Engineering Management	Equipment Design Engineer	Circuit Design Engineer	System Design Engineer
Computers, Data Processing Equipment Manufacturing				
Test Management and Instrumentation Manufacturing				
Communications Systems and Equipment Manufacturing				
Industrial Controls and Equipment Manufacturing				

FIGURE 2.3 A MATRIX FORMAT OF MARKET SEGMENTATION FOR COMPUTER-AIDED DESIGN SYSTEMS

Applying field ethnography to segment a market

> Blending all segmentation methods gives you a more complete picture of a market segment.

A relatively new-to-marketing segmenting technique is available to you by adopting the time-tested techniques from cultural anthropology and using one of its fundamental tools of research: *Field ethnography*.[10]

The approach promises to provide a unique and more expansive method to qualify and quantify a segment for entry and expansion.

Such companies as **Intel** and **Eastman Kodak** employ cultural anthropologists to survey their respective markets to learn the buying behaviour and in-depth factors related to product usage.

Using field ethnography gives you the distinct advantage of adding insight and sensitivity to your decision-making process that is not available through traditional segmentation methods. However, blending all the methods gives you a more complete picture of a market segment and its behaviour.

Let's begin with definitions:

> *Ethnography* is the study of people in other cultures and the resultant written text from that study.[11]
>
> *Culture* is the invisible web of behaviours, patterns and rules of a group of people who have contact with one another and share a common language.[12]

10 The author acknowledges with thanks the numerous references and critical analysis provided by Julia Paley, Professor of Anthropology, University of Michigan.

11 Source: Paul Kutsche, Field Ethnography: A Manual for Doing Cultural Anthropology, Upper Saddle River, NJ: Prentice-Hall, 1998.

12 Source: Elizabeth Chiseri-Strater and Bonnie Stone Sunstein, Field Working: Reading and Writing Research, Upper Saddle River, NJ: Prentice-Hall, 1997, pp. 43.

The following steps for conducting a segmentation study consist of a very broad interpretation[13] based on Paul Kutsche's ethnographic techniques.

Step 1: Map a segment

PURPOSE

Initially, define the physical dimensions of the market segment that represents your best opportunity. Approach this activity as you would any other market investigation:

- Use personal observation, databases, the Internet and printed information to (1) assess, verify and redefine your existing segment; and (2) identify emerging, neglected, or poorly served niches that would serve as your entry points.
- Then describe the segment in non-judgemental terms. Use facts built around the physical layout of factories, stores, warehouses, roads and other transportation hubs – as well as consumers' locations within specific and well-defined geographic areas.

PROCEDURE

The segment you select could include a geographical region, a large or mid-size city, or an inner-city residential neighbourhood.

Looking at an industrial sector, draw a map and annotate it with items that provide a clear picture of the area, such as: architecture, condition of buildings, proximity of buildings to main roads, traffic flow, accessibility to railroad sidings, access to suppliers and services, condition of streets and other physical details that are pertinent to your business.

In the case of a residential neighbourhood, also draw a map of the area and comment on the physical condition and location of shops for purchasing daily essentials, availability of banks and similar services, types of residential housing, condition of schools, adequacy of street lighting, condition of main and secondary streets and any other relevant physical details that would contribute to the validity of your segmentation study when presenting it to management.

13 This interpretation represents my application of the ethnographic principles presented by Paul Kutsche. My purpose is to add to the extensive body of knowledge that already exists about market segmentation by tapping the rich sources of knowledge available from cultural anthropology and the techniques of ethnography.

PITFALLS TO AVOID

To the extent that you are able, avoid forming personal and premature impressions at this point in your investigation. Do your best to remain non-judgemental about what you observe.

That is, avoid adjectives such as attractive/unattractive, older/newer building, middle-class consumers, pricey, inexpensive, charming, interesting and so on. Just assemble facts at this stage of the process and use your eye and your ability to observe with accuracy. Impressions and conclusions come later.

Step 2: Create an exclusive language

PURPOSE

Using your 'professional' language can, at times, confine you. Your so-called objective business and marketing terms used to define the culture of a segment or the characteristics of a group, may distort a picture of the actual cultural 'web of behaviours, patterns and rules of a group'.

One remedy is to create your personal descriptive language. Another approach is to use terms, descriptions, or vocabulary borrowed from a neutral field or source that doesn't affect you with emotional or pre-judged terminology, such as military, architectural, sports, or agricultural terms.

It doesn't matter what terms you use, since the intent is to free your mind of biases. Again, you are attempting to capture accurate, unadorned and objective characteristics of a segment.

PROCEDURE

> Blending all segmentation methods gives you a more complete picture of a market segment.

Your special language can release a fresh viewpoint to see groups and cultures in a new light.

Write down in narrative form your description of the segment. Include maps and other appropriate references related to demographics, geographics and behaviour. Again, avoid the standard business jargon and technical terms normally used in your industry.

This process will help you redefine the makeup of an existing segment and even reveal fresh opportunities you may have missed by using conventional demographic studies. Or you may discover the segment no longer fits into your long-term plans.

Once again, use your exclusive language as a device to open your mind and release your creativity that translates into a product or service and satisfies the specific needs of a defined group of individuals. (After all, isn't that result the meaning of modern marketing and the intention of competitive strategy?)

PITFALLS TO AVOID

The familiar business language, terminology, technical and industry jargon tend to trigger usual responses and restrict innovation and dynamic thinking. Therefore, your special language can release in you a fresh viewpoint to see groups, segments and their respective cultures in a new light – and for a new opportunity.

Step 3: Observe body language

PURPOSE

The common phrases, "I can read him like a book" or "Clothes maketh the man," imply that individuals believe in non verbal forms of body language that can, if observed carefully, communicate significant amounts of valuable information.

Observing body language is not new. It is an art form supported by substantial quantities of literature from many of the behavioural sciences, including psychology, sociology and anthropology.

The intent, however, is not to make you an expert in this field. Rather, the object is to equip you with a keen awareness of how to apply body language as a step in the ethnographic process for defining a segment with greater accuracy.

Accordingly, learn to interpret meaningful gestures, for example, during prospecting and while observing the purchasing process. Also, there are the sophisticated electronic approaches that use hidden cameras aimed at supermarket aisles to observe non-verbal buying patterns and the application of scientific instruments to measure the dilation of the pupil in the eye when viewing a television commercial.

However, for everyday use you can conduct a more modest approach by watching body language as part of your overall observation of market and customer behaviour. Of course, not all gestures are readily interpreted, unless you have an intimate knowledge of the group.

Until sufficient experience is accumulated, you will have to gain expertise through continuous observation and by asking knowledgeable individuals who understand the gestures to decode them for you.

PROCEDURE

Through observation – and outside of hearing range – write down a communication exchange between two or more people shopping for a product or evaluating a purchase. Try to interpret the event, including its social, business and cultural contexts.

For instance, where two or more individuals are involved, how close or distant did the individuals stand during conversation? Were there cultural implications connected to the stance or gestures? (For instance, Arabs tend to stand very close to others in conversation, whereas Northern Europeans and North Americans tend to stand further apart.)

What other characteristics did you observe that would give you a clue to behaviour? Were there any unusual body movements that would require interpretation by hiring experts or 'insiders'?

Write down your observations. The outcome should result in pinpointing buying patterns or in determining how deliberate or impulsive the buying decision is.

In turn, such astute observations can influence how you promote to a customer, the amount and format of the information you put on a package, the type and quantity of back up service you provide and the range of languages you make available to answer a problem.

The central idea is to dispel stereotypical communications that result in inaccurate and costly assumptions about customer reactions and buying patterns. Where observation is not possible, as in behind-closed-door buying situations, you will have to obtain information about the buying process by interviewing individuals who can answer pointed questions related to behaviour (see Chapter 5 for marketing research techniques).

PITFALLS TO AVOID

Observe carefully. Gestures are less specific than words and more easily misinterpreted. If you are unsure about some form of body language, confirm the meaning with someone associated with the company or group.

Step 4: Describe the ritual

> Rituals apply to business practices that are natural to an individual, group, or organization.

PURPOSE

This step is likened to the shopping and decision-making 'ritual' practised by a consumer, group, purchasing manager, or senior executive. While much has been written in marketing and sales literature about the buying process, we can now add another layer of knowledge from the formidable body of work accumulated by cultural anthropologists over a period of almost 100 years.

As rituals vary with individuals, groups and societies so, too, do distinctive practices exist among consumers, companies and various institutions.

What is a ritual? Paul Kutsche points out, "A ritual is almost always a collection of symbols, which a good analysis separates out and considers one by one. You may find an event that is entirely ritual, for instance, initiations, weddings, funerals and other rites of passage…"[14] For our marketing purposes, rituals apply to business events and all those transactional practices that are intrinsic to an individual, group, or organization.

PROCEDURE

Write a detailed description of the ritual. There are no limitations about which rituals you observe. For example, they can include the purchase of sophisticated capital equipment, a computer system for a home, ordinary office supplies, life insurance, or home furniture.

For greater accuracy in targeting various purchasing rituals, you can categorize them by demographic, ethnic, geographic, behavioural and all those segmentation categories previously discussed.

14 Paul Kutsche, Field Ethnography: A Manual for Doing Cultural Anthropology, Upper Saddle River, NJ: Prentice-Hall, pp. 48.

In all cases, you want to find out what practices are important to members of the group. This is a critical point if you are to grasp the viewpoint of the customer, which is the essence of relationship marketing.

Therefore, stay flexible as you discover the key forms of behaviour associated with an event. Describe (or flow chart) in detail and in proper order the physical setting and record the events that make up the ritual, as in purchasing a product.

The amount of detail you record will vary with the product or service; for instance, hiring a financial consultant, purchasing a computer network, or simply buying a news magazine.

Finally, shape your observations and interpretations into a meaningful recommendation to your management that will impact on the market segment you select, the type of product, service, packaging, pricing and distribution required. The format in which this information is presented is usually a strategic marketing plan (see Chapters 6 and 7 for a planning format).

PITFALLS TO AVOID

Rituals include sentiments, emotions and symbolic expressions and are tied to an event. Therefore, keep in mind that ritual is part of the culture of a group or market segment.

While trying to stay objective, recognize that you are attempting to grasp the meaning behind the actions of those individuals you are observing. Accordingly, avoid giving your personal opinion of some practice as right, wrong, strange, or familiar.

Finally, the purpose of this four-step process is to add greater precision to your strategic marketing efforts. With resources often limited, competition more intense and viable segments harder to locate, you now have an additional evaluation tool to aid your decision-making.

Patterns of customer behaviour

> Understand customer behaviour and translate the findings into strategies.

As part of market segmentation and, as highlighted in the above ethnographic guidelines, a central component of customer analysis deals with patterns of customer behaviour. In turn, to connect behaviour with practical application raises these questions:

How is a customer likely to think, behave and make decisions regarding your products and services? How can you use that information to reach and attract potential customers? What impact does behaviour analysis have on customer analysis and, therefore, on the selection of strategies?

The following case example involving medical products illustrates the relevance of these questions to customer analysis and, thus, to the larger issue of marketing strategy.

case

Case example

Tecnol Medical Products markets disposable medical products for customers in hospitals, health care facilities and retail outlets. At the onset of operations, it needed a point of entry to penetrate the crowded health care market.

Larger competitors not only dominated with sizable market shares, but also commanded superior resources in R&D, production and marketing to maintain a continuing presence.

To overcome those formidable barriers, Tecnol managers initially concentrated on two major factors: customer behaviour and competitor characteristics. To find a point of entry, managers canvassed the medical products industry to catalogue the various product lines and the segments each served.

Tecnol's strategies

Their search revealed significant changes in surgical procedures driven by new technology. Along with the changes, they observed a sharp rise in health-related fears that were unnerving operating room personnel.

For example, they noted the soaring anxiety about AIDS, the concern about the increasing use of lasers in surgical procedures which produces airborne particles of bacteria from diseased tissue and the worry about the swelling number of TB cases in hospitals.

From the investigation, Tecnol managers reasoned that if they entered the market with a single product line of medical supplies, there could be a reasonable chance for success.

Their conclusion: enter the surgical mask market. Next, Tecnol managers evaluated two dominant competitors serving that niche: 3M and Johnson & Johnson. They judged that those leaders were satisfied with their market performance and, in Tecnol's opinion, were taking the surgical mask market for granted.

Further, they calculated that those companies weren't keeping up with rapidly changing surgical technology. Nor were they addressing the physical/emotional needs of the users – namely surgeons and nurses – by lagging behind in developing innovative surgical masks.

Using those customer behaviours and competitive characteristics as a framework for implementing its market entry strategy, Tecnol launched into 'high tech' surgical masks.

Most of the specialty masks had patented screens to filter out submicron size particles of bacteria, smoke and other airborne tissue fragments. They also developed a fluid-shield mask made of plastic that attaches to a mask to protect the surgeons' and nurses' eyes from blood splattered during surgery.

Imaginative products continued to roll out from Tecnol's continuing responsiveness to customers' behaviour, changing technology, emerging hospital hazards and awareness that the market leaders would eventually rise to meet the competitive challenger. Result: Tecnol commands over 50 per cent of the surgical mask market.

Action strategy

What can you learn from the Tecnol case? First, it takes diligent research to understand customer behaviour and translate the findings into market entry and product development strategies.

Tecnol's track record in both areas is exceptional and offers some of the best lessons for entering a new market that has high profile competitors. Second, when launching such a product line, follow these guidelines:

- Locate the optimum product/market entry point through a methodical probe of customer behaviour and competitors' dispositions. (Also review segmentation and ethnographic guidelines presented in this chapter.)
- Sustain growth with a continuous flow of new products, applications and services.
- List those existing products that are currently being sold to your existing markets. Where possible, quantify those products by sales, profits, market share, position in the market and any other pertinent criteria that permit you to appraise market performance.
- List new markets (or applications) in which your existing products can be sold. (As Tecnol did, rank those segments by competitive performance, rate of segment growth and level of technology changes.)
- Identify new or value-added products that can be sold to existing customers. These new products include any new systems you have licensed, private-labelled items, or modified products with wrap-around services that customers perceive as new.
- List new products for new markets. While this is the riskiest of the steps, it allows you to test emerging segments that have opened up through expanding applications of technology, government regulations, or unique requirements tied to customers' behaviour. (This step was successfully executed by Tecnol's perceptive actions.)

Unfilled wants and needs

The third component of consumer analysis is determining the unfulfilled wants and needs of various customer segments. The analysis, however, goes beyond simply identifying these wants.

It specifies ways to fulfil them by examining how consumers adopt a new product and how you can communicate your offerings to them. The following case illustrates how one progressive company shaped its strategy.

Case example

Baldor Electric Co. considers relationship marketing and the total orientation toward satisfying unfilled wants and needs as more than just a management buzzword. In the mid-1990s, management found its company dwarfed by two stalwart rivals, Reliance Electric and General Electric, competitors in electric motors, drives and generators that power pumps, fans, conveyor belts and the variety of automated components used in modern factories.

"If you have good relationships, you can weather the bad times," declares Baldor's president. Relationships extend beyond customers and include workers at Baldor, where there has not been a single lay off since 1962.

Even during the recession of 1991, workers were busy increasing inventory and expanding the product line in readiness for the eventual upswing in business. Since then, sales have skyrocketed by 46 per cent.

Customer relationships

Focusing on fulfilling customers' wants and needs at Baldor means providing customers with the motors they need, on time and according to their specifications.

The company accomplishes this by building up ready-to-go inventory early in the production cycle, permitting it to fill an order overnight for the numerous motors it stocks – ranging in size from 1/50 h.p. to 700 h.p. It assembles all other sizes on short order from a database that includes over 20,000 different specifications.

The core ingredients behind Baldor's ability to sustain sound customer relationships are:

> First, a bulk of its inventory is stored in warehouses strategically located in close proximity to customers' locations. Second, each warehousing facility is owned and operated by an independent Baldor sales representative who is in continuing contact with other reps around the country. Third, each facility is linked by computer, so that constant availability is online to respond to a customer's urgent request for a motor to prevent a potential manufacturing interruption.

Result: Unsurpassed customer relationships for reliability, responsiveness and flexibility where almost any size motor ships on virtually an overnight schedule – and exceeds the capabilities of most of its formidable competitors.

Action strategy

Make the commitment to customers a company ritual.

What can you learn from the Baldor case? With the customer as the centrepiece behind Baldor's success, consider using the following eight steps of a customer satisfaction program for your own operation:

1. *Define customer requirements and expectations.*

   Begin by establishing continuous dialogue with customers to define their current and future expectations. The feedback often falls into such basic areas as orders being shipped complete and on time and complaints being handled rapidly and to the customer's satisfaction.

2. *Maintain a system of customer relationship management.*

   On-going customer contact is a key component of the program. It means assigning permanent customer contact people, such as customer service, sales and technical service to selected customers. Each contact person is then empowered to initiate actions to resolve customers' problems.

3. *Adhere to customer service standards.*

   All quality plans, product performance and customer relationships are driven by customers' standards. Most often those standards are measured by the time it takes to handle complaints, the number of on-time shipments compared to previous time periods and the amount of invoicing errors, freight claims and product returns.

4. *Make the commitment to customers a company ritual.*

   A commitment means guarantees that include: stock orders shipped the same day received, technical service teams sent to customers' locations when needed, specialized training provided to customers' employees, products that conform to data supplied by customers and a 24-hour 'hot line' for support services.

5. *Resolve complaints to achieve quality-improvement results.*

   Empower customer-contact personnel to resolve customer problems on the spot. In particular, sales reps should follow up complaints and make a formal report to a Customer Satisfaction Committee.

6. *Determine what constitutes customer satisfaction.*

   Develop an index to measure customer satisfaction. With customer feedback as the input, assemble information from various sources, such as direct customer contact, customer audits and independent surveys, quality assurance cards with shipments, suggestions, inquiries and complaints.

7. *Customer satisfaction results.*

   Circulate the results so that functional managers can design customer satisfaction objectives for the following year.

8. *Compare customer satisfaction levels.*

   Contrast your results with those of competitors and with industry standards through formal and informal benchmarking. Then share the results with distributors to help them improve their customer satisfaction ratings.

Competitor analysis

While customer analysis lets you examine how to attract and satisfy customers, competitor analysis gives you a picture of your rivals' positions in the market. You can use this information to concentrate on their weak spots or differentiate your product line, with the overall aim of creating your own competitive advantage.

Competitor analysis should be viewed from a variety of perspectives:

> First, analyze competitors by how customers select a particular product or choose a company from which they purchase. Second, look at how competitors segment their market. Third, observe how customers display their various behavioural purchase patterns. And fourth, find out how competitors develop their strategies against you.

Of all four components of competitor analysis, you should single out competitors' strategies for major emphasis. Other parts of the analysis are subordinate to the strategies that your competitors will use against you.

Understanding the threats gives you options to develop counter-strategies.

> Analyze the total competitor organization and compare it with your own.

The following case underscores this vital issue of competitor analysis and how one company fought, and succeeded, in retaining its position as an industry leader.

Case example

Cummins Engines Co. dramatizes the excitement and challenges of competitor strategies in its encounter with aggressive Japanese manufacturers. Cummins Engines, the heavy diesel engine manufacturer, had been fighting uphill against those hawkish competitors, particularly Komatsu and Nissan.

The first word of the impending problem came from Cummins' customers, Navistar and Freightliner Corp., who reported that they were testing Japanese medium truck engines.

Knowing the Japanese strategy of using an indirect approach into a market, Cummins recognized the medium-engine entry into the market as a strategic move that would lead to the next step of penetrating Cummins' dominant 58 percent share of the U.S. market for heavy-duty diesel truck engines. It saw the strategy evolve:

- The Japanese competitors entered the market with prices as much as 40 per cent below prevailing levels to quickly gain market share.
- They found a poorly served and emerging market segment in medium-size engines.
- They developed a quality product and were prepared to expand their product lines.

Faced with the dilemma, Cummins took the following actions:

- They launched into the medium-size truck engine market with four new engine models. The timing, however, was coincidental because Cummins had been planning this market entry for five years through a joint venture with the J. I. Case Company.
- They immediately cut prices of the new engines to the Japanese level. "If you don't give the Japanese a major price advantage, they can't get in," observed then Chairman Henry Schacht.
- They cut costs by one third. This action was the toughest job in what was perceived to be a bare bones, efficient manufacturing operation. Schacht reduced overheads by using more flexible machinery to cut down on set up time for different engine models. He eliminated the

need for excess inventory, which was cut from a 60-day supply to a four-day supply.

- They gained participation from suppliers on suggestions about cost cutting. An impressive 18 per cent reduction in material costs resulted from changing the traditional adversarial attitude toward suppliers to one of fostering cooperative relationships.

The strategies worked as an effective defence against the competitors' in-roads.

Action strategy

What can you learn from the Cummins case? Strategy involves the mobilization of every human and functional part of a company and focuses the sum of those resources to achieve corporate, divisional, or product line objectives. Therefore, to analyze competitors you have to analyze the total competitor organization and compare it with your own.

However, in realistic terms, the extent of the analysis may focus only within the responsibility of a division vice-president of marketing, product manager, marketing manager, or sales manager and only on selected competitors within a target market. If the competitor's total organization must be analyzed, what are the areas for analysis?

Noted authors such as D. Aaker, D. Abell, J. Hammond, P. Kotler, M. E. Porter and G. Steiner have dealt with the subject of analysis in recent years. The intent here is to condense the various approaches into formats for everyday use, so that you as a manager can take charge of implementing successful strategies for your specific product or market.

All the approaches found in the literature essentially aim to answer similar questions, such as:

- What are the competitors' objectives as to size, growth, profitability and market share?
- What are the competitors' current strategies?
- How are they performing?
- What are their strengths and weaknesses?
- What actions can be expected from existing and emerging competitors in the future?

Developing a comprehensive checklist is one format for analysis (see Appendix.) Another approach is to determine how competitors fit into strategic groups and a third framework creates an operating profile that analyzes marketing strategies and tactics employed by competitors.

Strategic groups

A highly valuable method for analyzing competitors' strategies is to categorize them by strategic groups. This system organizes groups of competitors by similarities of the strategies they pursue. The strategic groups, which Porter[15] refers to as generic strategies, are identified as follows:

- Companies that pursue a *differentiation strategy* rely on product line depth, product quality, service, distribution, or brand identification to create a competitive advantage.
- Companies that follow a *low-cost strategy* base their operations on economies of scale, the experience curve, manufacturing facilities and equipment and access to raw materials.
- Companies that use a *focus strategy* go after the boundaries of a competitor's product line and served markets.

Use your best judgment to categorize groups. Many organizations tend to merge one or more broad generic strategies in order to either maintain their presence in the marketplace or increase their share of market in a cost-efficient manner.

For example, **Deere & Company**, the farm and industrial equipment manufacturer, has been moving on a solid course of survival and growth for a long period.

During one period of a treacherous agricultural market, when recession caused 2,000 farmers per week to sell out, one of Deere's executives pointed out, "We can't rely on wage rates going down, we can't rely on markets going up, we've got to drive costs down."

15 Michael E. Porter, Competitive Strategy (New York: The Free Press, 1980).

Deere's successful strategies can be grouped as follows:

- *Create a low-cost advantage*. For example, costs of a small sprocket wheel were reduced by 50 per cent. The cost of engines for construction machinery has been knocked down by 27 per cent. And on a model-by-model basis, the industrial equipment division claimed its newest machinery was coming in at 30 per cent lower costs than previous lines.
- *Focus on segments of opportunity*. One of these segments was the lawn tractor business, which had been booming even against aggressive Japanese competitors such as Honda.
- *Differentiate through market and product development*. Deere manufactured engine blocks for General Motors and made axles and chassis for recreational vehicle manufacturers. The joint relationship permitted Deere to experiment with materials such as ceramics that could give it a competitive edge.

Thus, the Deere example shows the use of several generic strategies working within one organization.

Summary of competitor analysis

Conduct a competitor analysis by examining customer selection (how do customers choose competitors); competitor segments (how do competitors divide up the market); behavioural purchase patterns (why do customers buy from your competitors and not from you); and competitive strategies (how do competitors' plans to gain market share work against you).

Industry analysis

The third part of the external analysis is the industry. Think of your industry as the sum of many parts:

There are sources of supply, existing competitors, emerging competitors, alternative product and service offerings. Also, consider various levels of customers such as original equipment manufacturers (OEM), intermediaries and after-market end users. Operating within these levels are powerful forces that have varying affects on an industry.

The following case illustrates how one smallish company used changing industry conditions to prime its strategy.

Case example

Netframe Systems, a small company in a giant computer market, is a valuable study in precision marketing and industry analysis. The firm succeeded in locating a premium-price niche with its clustered network servers for local and wide area networks.

During a one-year period, the company achieved remarkable performance by doubling revenues and tripling earnings. Netframe's marketing strategies provide clues to a systematic process that you can use to build your marketing strategy.

Netframe's actions fall into three major categories: industry transition, product technology and buyer behaviour. Within those groupings Netframe's managers designed their strategies.

- *Industry transition*. Netframe managers observed the on-going transition of organizations replacing large computer mainframes with small, but powerful personal computers. In addition, managers detected another trend: PCs were no longer stand-alone pieces of equipment. Instead, they were linked into networks feeding off the server computers. At this precise juncture, Netframe targeted those companies making the conversion.
- *Product technology*. Here's where product technology and industry transition converged. Netframe designed a powerful computer server to run its Netware operating system, providing functions that exceeded anything available from the clone makers. The unique product could handle a network of over 100 machines, run a complex network of 50 engineering workstations working off a single operating system and access huge databases – and do so in a single box.

- *Buyer behaviour*. Next, Netframe managers singled out a particular buyer segment that displayed a distinct form of behaviour. During the industry transition from large to small computers, one influential group felt threatened: data processing personnel in large organizations. These individuals had cared for the big mainframe computers, had managed complex systems through the decades of evolving computer technologies and had led their organizations into the new systems revolution. Now, they might be left out of the transition to new PC technologies.

Netframe's strategies

Netframe managers understood their anxiety and saw an opportunity to partner with data processing people. By collaborating with them, Netframe marketing and sales people reasoned they could help transform the data processing department's role into the broader responsibility of information technology (IT) for mutual benefit.

Jointly they could explore innovative approaches to managing the increasing number of desktop computers, spearhead new applications of the networking technology within the organizations, speed-up communications and disseminate updated competitive information to marketing and sales personnel.

This form of relationship marketing would benefit Netframe, IT managers and their respective organizations. Thus, a strategy was shaped that positioned Netframe to stay ahead of the clones, prevent it being pulled into the commodity battle and provide a powerful selling proposition for the sales force.

Action strategy

What can you learn from the Netframe case about analyzing your situation? If your company is introducing a new product or service into a saturated market, you can do the following:

1. *Customer analysis*. Use formal research, informal observation, or one-on-one conversations with customers to understand the subtleties of your customers' needs, and do so, segment-by-segment. By learning about the fears of data processing personnel, understanding their buying motives and building a trusting relationship with them,

Netframe's managers isolated and constructed an appropriate sales strategy for its customers.

2. *Competitor analysis*. Evaluate your competitors' products, distribution strategies, promotion expenditures, pricing levels, financial strength, managerial and technical capabilities and ability to respond to your actions. Know what competencies you have for a counterattack and then time your strategies carefully. Netframe knew that clone-makers and even the industry giants were only short product cycles behind.
3. *Industry analysis*. Rate your industry's readiness to accept new products, technologies and value-added services. Estimate industry trends and the stage of your industry in its life cycle. Netframe's major success factor was pinpointing the industry trend and latching-on to the transition from mainframes to networks of PCs.
4. *Environmental analysis*. Consider the impact of government policies and regulations as an opportunity or an obstacle. Look, too, at the behaviour of new customer groups by tuning into fresh segmentation opportunities that relate to cultural diversity. Netframe's actions and sensitivities to the marketplace indicate that it was well positioned to outrun the commodity trap, where price serves as the primary buying motive.
5. *Global analysis*. Use the above guidelines to analyze global opportunities. However, after identifying those trading blocs you want to enter, then narrow your analysis and determine if you have sufficient capabilities to sustain a long-term marketing advantage.

Conducting an industry analysis

There are interacting forces that you must consider in an industry analysis. It proceeds from the broad analysis of suppliers, existing competitors, emerging competitors, alternative product offerings and customers to a finite listing that can be used as a checklist.

Level 1 analysis – checklist

> Analyze emerging competitors with the same detail as you apply to existing ones.

SUPPLIERS

If a few suppliers in an industry control the flow of materials that result in the control of prices, then a powerful influence is exerted on all the other forces within the industry. Therefore, a review of supplier practices at key stages of the supply chain will provide you with a clue to future patterns of supplier behaviour. In turn, that will push you to develop alternative strategies.

Such analysis has had the effect of driving user organizations to outsource jobs to other countries, find other sources of supply, or form joint ventures to acquire new technologies.

On the other hand, when suppliers see the threat of losing their dominance in an industry, cooperative relationships can be formed (as shown by the case example of Cummins Engines working in unison with its suppliers).

EXISTING COMPETITORS

How do you rate the intensity of competitive actions? Examine the pattern of price wars. Which competitors seem to retaliate first against movements in prices?

Review the amount of advertising and identify its themes. Is there a tendency to ‘knock the competition’ or use a more compliant approach? Is there a war-like environment that is changing the character of the industry?

EMERGING COMPETITORS

The entry of new competitors over the last 25 years in many European and North American industries – such as steel, automobiles, consumer appliances, textiles, footwear and high technology – have had a jarring effect on the established companies.

Some companies have succumbed to the ravages of aggressive competitors. Others have risen to the threat by reinventing their companies through reengineering, downsizing and imbuing personnel with the spirit to fight back with new skills and fresh competitive strategies.

In conducting an industry analysis there is a tendency to focus only on existing players. The wrenching lesson from this experience is that you must identify and analyze emerging competitors with the same intensity of detail as you apply to existing ones.

ALTERNATIVE PRODUCT OFFERINGS

It is appropriate in this type of analysis for you to tap the knowledge of R&D and manufacturing personnel in your organization who are more likely to know about alternate products. Or, use outside industry specialists from academia, research organizations and other industry consultants as expert sources. The auto industry provides a familiar example of how aluminium replaces steel for many components and how plastics and other space age materials increasingly provide an alternative to aluminium.

Customers

Customers are classified at all stages of the buying cycle: from end-use consumers to business-to-business buyers, as well as to intermediaries such as distributors, wholesalers and retailers. Each stage represents a force within an industry that warrants investigation.

Level 2 analysis – checklist

Industry analysis continues with Level 2, a more detailed analysis that you can use as a checklist:

- *Current demand for product*: Indicate, in quantitative terms, the usage of your product in sales, units and number of users, share of market, or whatever measurement provides a reliable indication of demand.
- *Future potential for product*: Use a timeframe of three to five years to forecast the potential for your product, using the same unit of measurement as in determining current demand.

- *Industry life cycle*: Identify, even in broad terms, the stage of your industry in its life cycle – for example, introduction, growth, maturity, or decline (life cycle is discussed in Chapter 9).
- *Emerging technology*: Identify technologies that are currently available and those about to be introduced; determine where the technology is coming from and who holds patents or copyrights.
- *Changing customer profiles*: Use segmentation techniques (identified earlier in this chapter) to track any emerging changes in demographics, geographics, or psychographics.
- *Frequency of new product introductions*: Monitor the introduction of new products to determine any industry patterns that you can benchmark for your own level of product development.
- *Level of government regulation*: Determine if government regulation is increasing or declining and assess the impact on your industry.
- *Supply chain*: Indicate if there are any innovations in your distributor channels. For example, is there emphasis on pushing the product through distributors, or pulling the product through the channel by influencing the end user, or perhaps eliminating distributors entirely?
- *Entry and exit barriers*: Assess the ease or difficulty of entering and exiting an industry. The entry barriers include the amount of capital investment needed, extent of economies of scale, access to the supply chain and opportunities for product differentiation.
- *Marketing innovation*: Determine if there are innovations involving areas such as automatic reordering systems and use of the Internet, 'smart' diagnostic systems, interactive product demonstrations, new promotional incentives and onsite technical support.
- *Cost structures*: Evaluate the impact of economies of scale on costs and profits as they relate to manufacturing, purchasing, R&D and distribution. Determine what impact they would have on your marketing efforts.

Summary of industry analysis

> Industry analysis exposes trends so that you can observe opportunities.

Industry analysis helps you define many factors in your industry: Customer profiles, existing and emerging competitors, products and technology. By giving you a picture of the overall industry from all these aspects, industry analysis lets you see trends into the future so you can stake out opportunities for growth.

Remember, too, that industry analysis consists of two levels:

First, it requires a broad analysis of suppliers, existing competitors, emerging competitors and alternative product offerings to give you a wide picture of the entire industry.

Second, it entails a much more detailed analysis of conditions related to product, customers, technology, cost, distribution and other factors. In your own analysis, use the checklist provided for Level 2 analysis to consider each of these factors in your own business situation.

Environmental analysis

The fourth and final part of the external analysis is environmental analysis. Consider the following company's problems of reorienting its operations from a highly regulated environment to a freewheeling competitive operation. It will provide you with a marketing perspective on environmental considerations and how they can affect your business.

case

Case example

Pacific Gas & Electric Co., a large natural gas and electric utility, had enjoyed the secure and generally non-competitive world of a regulated industry. As in many other industries and countries, that comfort zone came to an end with the relentless push toward deregulation.

For PG&E, there were marketing implications: the company had to fight anybody and everybody that was an electric supplier; from small, independent generating companies entering its markets with rates as much as 30 per cent below those of PG&E. Further, PG&E has to confront revenue declines where some of its large corporate customers, such as Chevron had begun generating power in-house.

PG&E's strategies

Managers soon recovered from the jolting realities of those competitive threats and shifted into a fight-back mode with new strategies.

First, they confronted legislation and policies created over 25 years ago in a monopoly-oriented environment by redirecting their behaviour to a competitive, customer-driven culture. Leaning heavily for inspiration on companies in the private sector, managers began installing a service-oriented, marketing function.

For instance, PG&E launched a 24-hour, seven day a week, toll-free, customer service line that parallels those of IBM, General Electric and Dell Computer.

Next, management aggressively moved forward with the following market-driven strategies:

- PG&E Enterprises was created as the company's unregulated subsidiary. Enterprises, in turn, joint-ventured with the engineering company, Bechtel Group Inc. to construct power plants across the U.S., with expansion into India, China and South America.
- Managers identified revenue-generating plans that include a portfolio of products and services, such as selling plant management and energy conservation advice, installing computerized power-quality systems

to industrial clients and providing customized billing services for power suppliers around the country.

Action strategy

What can you learn from the PG&E case? Whether a large or small organization, when you need to generate fresh marketing strategies to counter the effects of unwanted regulations or other environmental conditions, use a successful system of developing a business-portfolio plan which links you to a strategic marketing plan. (See details on planning in Chapters 6 and 7.)

While many formats are available, the classic Ansoff model is extremely practical. It consists of the following steps:

1. *Market penetration*. List all current products going into your current markets. The listing should include sales, profits and market share information to help you measure market penetration. Then consider how to increase sales by focusing on changes in customer behaviour, new technology, or improved customer service.
2. *Product development*. In this section, look for new products to sell to current customers. These may include either modified products for special applications or all new products. Both categories could consist of added features, improved quality, new packaging, extended warranties and other value-added items – as long as the products are *perceived* as new.
3. *Market development*. Identify how to move current products into new markets. Explore market development possibilities by identifying emerging, neglected, or poorly served segments in which to sell existing products. At this juncture, it is appropriate to involve the sales force, marketing and product development people.
4. *Diversification*. Identify new geographic areas, new products and new markets. For some companies the move is risky, although numerous opportunities exist for diversification through alliances and joint ventures. For others, such as PG&E, diversification is not an option, it's a necessity.

PG&E devoted much of its attention to sections 2, 3 and 4 of the business portfolio plan. It is also in your best interest to use the portfolio format in your strategic marketing plan. Doing so gives you the opportunity to explore possibilities that are not normally addressed in the conventional marketing plan.

Summary of environmental analysis

> Environmental analysis requires that you look beyond the immediate scope of your market.

The PG&E case demonstrated how one company reoriented itself to operate in a deregulated, competitive range of markets. Had the company remained rooted to its monopoly mentality, unaware of the host of threats from other energy companies, local competitors and the movement of its large customers to generate their own energy, PG&E's prospects would have been dismal. Instead, it shaped a strategy that responded to environmental factors.

In conducting your environmental analysis, focus on the major environmental events that might affect your marketing strategy. In your own business, you will have to go beyond the specific trends noted in this chapter and consider new and changing environmental factors as they appear.

Sources of information include demographic and economic reports, government accounts of new and pending legislation, periodicals citing breakthroughs in technology and cultural trends reported in news weeklies and evident in daily life.

Further, you may need to focus on the differences in environment in different areas of the country or world. Whatever your approach, environmental analysis requires a broad outlook and flexibility beyond the immediate scope of your market.

Summary of external analysis

This chapter provides guidelines on how to analyze external market conditions so you can personalize your competitive strategies. Using the guidelines permits you to examine four key components:

1. customer analysis,
2. competitor analysis,
3. industry analysis and
4. environmental analysis.

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PART TWO CHAPTER THREE

Internal analysis: The central framework for implementing competitive marketing strategies

THREE

Internal analysis: The central framework for implementing competitive marketing strategies

Chapter Objectives

Expand your managerial skills as you:

- Conduct an *internal analysis* along seven dimensions: performance, strategy, strategic priorities, cost, portfolio, financial resources and strengths/weaknesses.
- Identify an organizational design with a *customer-oriented* focus.
- Discover your corporate culture and determine how it will impact your ability to implement marketing strategies.
- Determine the effect of *cost behaviour* on the selection of competitive strategies.
- Conduct a *strengths/weaknesses analysis* to find your firm's distinctive competencies.

Figure 3.1 illustrates the two major components of competitive analysis: external analysis (see Chapter 2) and internal analysis. Internal analysis enables you to 'look in the window' to examine the capabilities of your own organization or business unit in defending or attacking markets.

As you analyze your strengths and weaknesses in an organized manner, you can match your strong points against competitors' weak spots when planning a competitive attack.

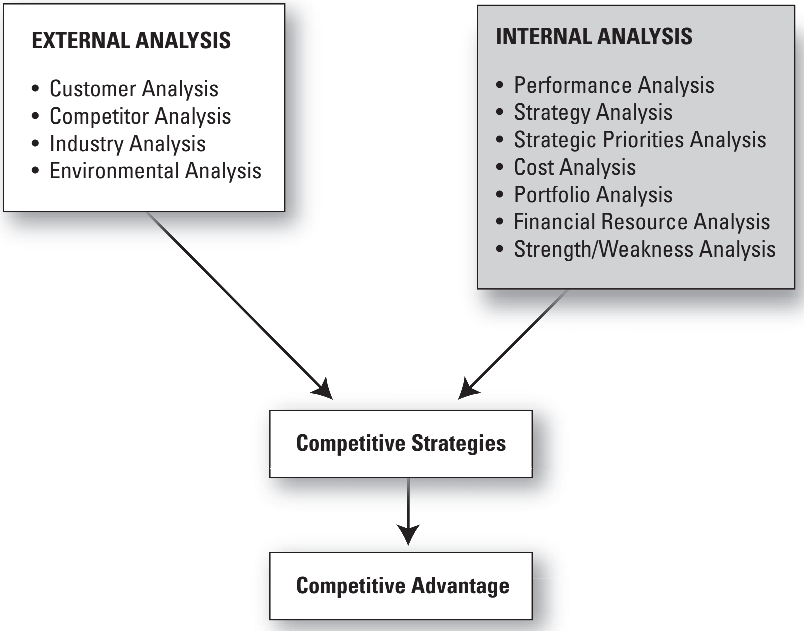

FIGURE 3.1 A FRAMEWORK FOR COMPETITIVE ANALYSIS

The following case illustrates how one company conducted a self-examination through internal analysis to help shape its strategies and redirect activities during an industry turndown.

Case example

Owens Corning Corp. faced tough times as a producer of fibreglass insulation and fibre glass-reinforced plastic. Its core product line, the famous pink insulation for the building industry, had been sliding for several years. Also, its plastics operation suffered with the decline in car and boat sales.

Whether officially labelled a recession or not, the economy in which Owens Corning operated clearly faced a prolonged downturn. Let's review some of its strategies – some of which can apply to your business, large or small.

Owens Corning's strategies

1. In what appears to be an obvious action, the company cut costs. It was not indiscriminate cutting, however, but strategic cutting, with a clear view of how the company would chase opportunities after the recession.

   Managers probed for ways to maintain a strengthened position through more efficient operations, readying it to sprint ahead of competitors at the proper time. In four years, managers saved multi-millions in production costs alone.

2. Managers relentlessly searched for new market opportunities. To reduce exposure to the depressed construction market, they refocused objectives toward fibreglass industrial plastics with new applications.

3. Product developers created new products from existing materials and technologies. For example, engineers developed fancy new designs of fibreglass roof shingles and introduced new extra protection insulation to help its residential and industrial customers save on heating costs.

4. Marketing and technical personnel, working with their fibreglass customers, initiated new uses for the materials. One carmaker, for example, agreed to use fibre glass-reinforced plastic in the front end of one of its car models.

> Implementing strategies depends on an internal analysis of your company or business unit.

The lessons behind the strategies

Managing in a competitive or recession environment requires a delicate balance between internal activities and external market conditions. For example, consider the following actions: cutting costs and people to maintain profitability, yet ensuring that personnel preserve product quality; maintaining customer satisfaction through product performance, while maximizing on-going technical and customer service.

Then, what about your attitudes during the down period? Outwardly, you must continue motivating your staff, encouraging them to introduce new products and find methods of adding value to existing products.

Simultaneously, you must search for techniques to safeguard a viable competitive position. Finally, you must prepare for the post-recession period by planning how to go after opportunities shelved during the down period.

Action strategy

What can you learn from the Owens Corning case? The above strategies apply not only to large organizations, but also to midsize and smaller organizations that are even more vulnerable to the shock waves of competition and industry downturns.

Implementing those strategies depend on your leadership and managerial capabilities. In particular, your ability to initiate an internal analysis of your company or business unit will provide the systematic and logical framework to make prudent decisions.

The Owens Corning case exposes many issues related to the internal capabilities of a company or division – among them, its attitudes, strategic priorities and the organization design. It is exactly the function of internal analysis to enable you to determine what condition or state of readiness your operation is in to win against competition.

To get a complete picture of your organization, you need to evaluate it along the following lines:

> Internal analysis determines what condition your operation is in to win against competition.

- *Performance analysis relates* to structure, people, culture, tasks, systems, resource utilization, innovation and productivity.
- *Strategy analysis* examines the ability of senior management and other personnel to react to aggressive competition, to defend existing markets and to attack new markets.
- *Strategic priorities analysis* concerns the long-term effects on strategic direction, commitment to quality, customer orientation and human resource development.
- *Cost analysis* relates to achieving competitive advantage.
- *Portfolio analysis* reviews markets, products and the strengths of business units in each market.

- *Financial resource analysis* studies the availability of cash within different competitive scenarios.
- *Strengthlweakness analysis* surveys areas of distinctive competencies and types of unique assets.

Performance analysis

Performance analysis begins with a thorough look at your company's or business unit's organizational structure. It is in that unique design that business life exists and where the relationships with those of the same level, with superiors, or subordinates interact.

It is in those surroundings that your product, promotion, pricing and supply chain strategies materialize. Also within this everyday environment is where managerial leadership emerges to influence the attitudes and collective morale of individuals within your group.

Ultimately, within that organization, you will succeed (or fail) to carry out your marketing plans based on the physical and cultural structure that supports (or frustrates) your efforts.

Whether you operate in a highly structured environment or in a loosely run hands-off group, be aware that a complex culture exists that embodies a history of people and corporate events, a set of deep-rooted values and a pattern of behaviours and mannerisms that surface under a variety of internal and external conditions.

Lodged in that highly individualized corporate culture is the DNA of the organization or business unit. It consists of a unique set of characteristics that will influence how you can react when you reach the following critical junctures:

- The types of risks that are used to maintain a market position.
- The tolerance for change dictated by an Internet-driven market place.
- The display of calmness or panic when confronted by an aggressive competitor set on grabbing your market share.
- Your overall ability to respond quickly to create value, differentiate your product or service, delight customers and grow.

Consequently, it is in your best interest to uncover the design of your organization and the inner shape of its culture. Then, you can evaluate with some degree of accuracy how successful you will be in putting your strategies into action.

> Within the organization, a culture exists with a highly individualized DNA that will influence your actions.

One characteristic common to most successful organizations and singled out by senior executives, is the need for speed in decision-making and converting the resulting decisions into real-time actions. Consequently, the long chain of command is at a distinct disadvantage.

Instead, fewer layers of management tend to increase the timely and accurate flow of information up and down the organization. Complementing the streamlined corporate structure is the abundance of wireless communication devices.

Additionally, inherent in the trimmed-down organization, speed impacts a number of competitive issues that should have major concern in handling your marketing effort, including:

- How your decisions flow downward to their swift implementation in the field. Also, how smoothly communications move without getting stuck in a maze of managerial layers, which often results in unsuspecting distortions and misinterpretations of what was originally intended.
- How fast you react to an aggressive competitor, where his clear-cut aim is to feed-off your customers and erode your market position.
- How confident you are in your strategic marketing plan, so that pre-planned strategies and tactics are set in motion in a timely manner that produces utmost effect – rather than reacting with hasty, fit-and-start movements.
- How and when you launch a new product to gain a competitive edge and secure a favourable share-of-mind position among early adopters.

- How rapidly you harness the exceptional advantages of the Internet and integrate it into your internal operations, so that the technology impacts favourably on customer solutions.
- How fast you adopt new systems to foster virtual communications within your organization and along the entire supply chain.

> Rapid action improves your market position as opposed to slow and deliberate delays.

In contrast, tardiness unquestionably affects many internal functions of the organization and influences your ability to manage employees effectively. Further, sluggishness, often identified as an ingrained cultural trait of the organization, could inhibit your ability to lead under real-time market and competitive conditions.

Just as damaging for you is to get bogged down in dragged-out market campaigns that drain your company's resources over long periods. In its worse case scenario, excessive slowness and lethargy in a fast-moving marketplace can result in bankruptcy.

Such consequences have tormented managers in many organizations, from old-line blue chip companies to the shaky start-ups plagued by inadequate operating capital to sustain themselves over prolonged periods.

Learning to act with rapid action and quick response to an opportunity or threat, more times than not, improves your market position as opposed to slow, deliberate and potentially ruinous delays.

Speed offers the indispensable advantage of conserving precious resources from being dissipated over prolonged and arduous campaigns. Also, you gain the personal advantage of sustaining your employees' morale with decisive action.

The following examples show the wide-ranging applications and advantages of speed and communications that lead to a competitive advantage:

- **Ebay**, the global online marketplace, is where people find products to buy and sell. It is the virtual hub of trade for everything from antiques to BMWs, to industrial equipment from the U.K. to Germany, South Korea and Brazil.

- **Amazon.com** is the No. 1 e-tailer. Its prowess is best illustrated by the ability to ship 1.4 million copies of *Harry Potter & the Order of the Phoenix* in a single day. And its expansion goes well beyond books and media to sell other retailers' products to its 33 million customers
- **Intel** with its innovative Centrino Wi-Fi chip is establishing a global standard for wirelessly connecting devices and for tapping the Net.
- **Salesforce.com**, a smallish start-up, gained market attention by demonstrating to corporations that buying software delivered as a near-instant service over the Web is a viable alternative to expensive software packages that often take months or years to install.

Taking into account the previous discussion, let's now examine factors that make it possible for you to react with speed. First and foremost, as discussed above, e-business has become the pillar of the economy.

Consumers are more eager than ever to go places where only the Web can take them and the companies making the smartest use of the Internet more times than not will surpass their competitors when it comes to operating swiftly and efficiently.

Your challenge: use new technologies to collect market intelligence as you react quickly and decisively in a ratio of a short span of time to a large amount of space.

Strategy analysis

The ability to react skilfully and shove aside aggressive competition, protect market share and utilize the resources of the organization is the mark of an effective manager. The following case exemplifies such an operation and how it responded to opportunity.

> It's often cheaper to protect existing market share than to gain new market share.

Case example

Haworth Inc., a manufacturer of office furniture, meandered from its beginning in 1948 as a single-product company making wood and glass office partitions and remained small until 1975. Then came the big break when Haworth management exploited a product opportunity pioneered by market leader, Herman Miller Inc.

Following a business trend, Herman Miller introduced movable office panels that permitted dividing open spaces into offices. Haworth took that product into the next generation by adding factory-installed wiring inside the panels. For the customer, that innovation eliminated the time and cost of hiring union electricians to wire a new office. Instead, panels were simply snapped together.

Then the inevitable happened. Competitors entered the market with knock-off products. Haworth pounced with unrelenting speed to counter the threat. It took legal action charging those competitors with patent infringement as its primary weapon to block their entry. Haworth won huge settlements from Herman Miller and Steelcase.

With the hefty court settlements and the surge in revenues from its highly successful pre-wired panels, Haworth methodically began an expansion policy to protect the market share it had won.

- Haworth acquired companies and moved out of the one-product category to become a full-line office furniture maker.
- The company developed a line of inexpensive office furniture to parallel the needs of a growing distribution channel through low-end outlets, such as Office Depot.
- Concurrent with manufacturing an inexpensive line, Haworth invested in efficient production systems, so that raw materials such as metal, wood and plastic, move by robot from machine to machine, where they are formed into desks, chairs and panels.
- New products and product systems continue to flourish as a defence against competitors' threats to market share. For example, Haworth worked on an open system where its products will work with products made by competitors.

Action strategy

What can you learn from the Haworth case? Overall, it is often cheaper to protect existing market share in which you already have an investment than to gain new market share. Specifically, consider using these guidelines:

- Where a competitor attempts to clone your product innovation to gain market entry or reduce your market penetration, blunt its efforts by rapidly matching the innovation. In doing so, you deprive the competitor of promotional impact and any product advantage.
- Believe in the maxim, 'The best defence is a good offence.' In the context of competitive strategy, that means employ continuous innovation and continuous improvement. Your aim is to protect your market share by becoming as invincible as possible.
- Search for possibilities within the marketing mix. For example, Haworth's active defence included a new low-end product line, cheap pricing and mass-market distribution through Office Depot. Further, Haworth continued its active defence by innovating with open systems.

Altogether, the greatest execution of opportunistic strategy is to create a situation that discourages a competitor from even entering your territory because of the formidable barriers you have established. Also, as pointed out above, successful strategy is greatly influenced by cultural values and beliefs.

Strategic priorities analysis

Your internal analysis continues with an examination of how your organization and particularly how your group, looks at its long-term strategic priorities. The level of market orientation is the focal point from which strategic priorities emerge.

For instance, does a customer-driven mentality exist in your organization or is it just given lip service? How much commitment is given to product quality and long-term market development?

> Every organization has marketable competencies to help enhance its competitiveness.

The following case illustrates how a small company focuses on its strategic priorities as it survives in an industry driven by high technology and ruled by competitive giants.

Case example

Glenayre Technologies, a provider of messaging solutions for wireless and wireline service, has seen its product line sales remain stagnant in a down market and watched enviously as competitors' fortunes recovered with a market upturn. Yet its managers have shown that they can ride out market cycles and latch on to changing technologies.

Background: Starting operations in Canada, Glenayre originally made power supplies for high school science courses. From that base, it entered the growing market for mobile telephones and then phased into specialized areas such as data transmission equipment for use in railroads.

In the early 1980s and now located in the U.S., the company entered another growth cycle for cellular phones. Its managers recognized a fast-growing opportunity in what subsequently became the flourishing paging industry.

But how does a smallish company – even one with a mounting list of technical competencies – move into an industry dominated by one of the wireless electronic giants, Motorola?

Answer: Glenayer looked for an emerging and poorly served niche in the paging business. It found one and a mighty niche it is. Glenayer shifted strategies to design and produce the back-office transmitters, related base-station equipment and software used by paging companies.

When Glenayer initially located the niche, its managers observed that Motorola was busy making and selling a major portion of what is estimated to be over 100 million paging units in use today. At that time, purposely or not, Motorola paid little attention to the back-office niche and had gleaned only a relatively minor share of those sales.

Also, Glenayer believed that with 20 years of following one technology cycle after another, it had the technical competencies and internal capabilities to excel in designing and manufacturing the specialized paging equipment.

What next? Glenayre set its strategic priorities

Follow market trends and keep growing in technical competence. For instance, managers track all upgrades offered by the messaging companies, such as next-generation services including voice dialling, voice navigation of voice and voice-powered access to Internet content.

As a result, Glenayre fastens itself to industry innovations and provides the advanced equipment to 200 service providers that support 51 million subscribers in over 60 countries. With this approach and its strategic priorities firmly in order, Glenayre commands about 55 per cent of that segment – and the company is still growing.

Action strategy

What can you learn from the Glenayre case? First, you don't have to fear moving out of your comfort zone to follow the trends in your industry, even if giant companies dominate the market. For instance, Motorola's product innovations pulled Glenayer along as an industry supplier – as long as Motorola didn't perceive a threat from Glenayre.

Second, you need to understand what makes your company tick. Glenayer's success didn't just happen. It evolved over years of absorbing hard-won skills, nurturing them into competencies to fit the explosive movements in electronics and shaping those competencies into strategic priorities.

Let's consider competencies. Every organization has marketable ones to help enhance its competitiveness. It's your job to identify and exploit distinctive competencies that uniquely set your company apart from those of your competitors.

Begin searching such areas as: *product development, production skills, technical services, marketing capabilities, R&D management, distribution, or complaint handling*.

Don't overlook the softer areas in your search for competencies. These may include: *customers' easy access to your senior management, your company* *helping smaller customers develop financial packages, or the specialized training you offer customers.*

Once you have categorized these unique competencies, integrate them as strategic priorities into your marketing plans and develop business-building strategies focused on two goals:

1. *Deliver ever-improving value to customers.*

   To meet this goal, you might develop the competencies needed to deliver quality products and services that contribute value to customers and result in customer satisfaction. In particular, quality includes not only the product and service that meet basic customer requirements, it also covers those features that differentiate them from competing offerings.

2. *Communicate to customers your company's readiness to improve its overall company performance.*

   This high-minded goal translates into creating a customer orientation that communicates clear and visible values to your customers. Several types of improvements can generate positive customer perceptions. Among them: enhancing value to customers through new and improved products and services, reducing errors, defects and waste. It also means improving responsiveness and turn-around performance, improving productivity and efficiency with the positive effect of reducing costs. Overall, a customer orientation means bettering your company's total performance and market position.

> When superior quality and large market share are both present, profitability is virtually guaranteed.

The entire thrust of your firm is now aimed at discovering and exploiting market opportunities. This reorientation is accompanied by another remarkable change: companies are no longer committed only to emerging technologies and existing products, they are primarily focused on consumers and their evolving wants and problems.

Therefore, what is basic to developing customer relationships is tuning-in to customer expectations. In turn, that orients you to the practicalities of aiming for customer satisfaction. All of which are catalysts to trigger profitable new business. Initially, however, your emphasis is on gathering actionable information, such as positive feedback as well as negative complaints from customers. To be actionable, the information should meet two conditions:

(1) Responses must tie directly to key business processes, so that opportunities for improvement are clear; and (2) responses must translate into cost/revenue implications to support the setting of marketing priorities.

As for customer satisfaction, you can focus on three types of requirements:

1. How you follow up with customers regarding products, services and recent transactions to determine your company's ability to resolve their problems quickly.
2. How you gather information on customer satisfaction, including any significant differences in approaching customer groups or market segments. The technique you use provides clues that reflect customers' initial buying behaviour, repurchase patterns and potential for new business referral.
3. How you measure customer satisfaction relative to that of competitors. You might obtain such information from company-sponsored studies or ones made by independent organizations. The purpose of this comparison is to develop information that you can apply to improving your company's performance relative to that of competitors.

Summarizing: Approaches to building customer relationships vary greatly, depending on your products/services and types of customers. Thus, tailor your relationship-building program so that it focuses on the special characteristics of your customer groups and market segments.[16]

Cost analysis

The fourth component of internal analysis focuses on costs. Its practical application is illustrated in the following case where a company must deal with two conflicting goals of market share and profits.

16 See the section in Chapter 2, Applying Field Ethnography to Select a Market Segment, for practical techniques to gain additional insights about customer groups and market segments.

Case example

United Parcel Service, the well-known package carrier, is learning to manage two often-conflicting goals: market share and profits. Fortunately for UPS, it is succeeding at both goals.

Revenues during the mid-1990s rose an average 8 per cent, along with sizable growth in market share. Such growth is impressive when compared to UPS' flat performance during the early part of the decade against aggressive rivals like Airborne Express, Federal Express and other regional carriers that all achieved double-digit growth.

Turning UPS around, however, didn't come easily. It required changes in some sensitive areas, in particular, its haughty corporate culture that generated responses to customers' requests with the self-serving comment, "It's not in our best interest."

But that was yesterday. Competition has a compelling way of changing attitudes from self-serving to customer-serving. Today, a cultural transformation has remade UPS into an energetic, customer-oriented organization.

For example, one large corporate customer now rates a full-time UPS service representative on its premises with instructions to manage complaints in a responsible manner and find pragmatic ways to reduce the customer's shipping costs. Result: The satisfied customer increased its shipments with UPS by 15 per cent.

> Competition has a compelling way of changing attitudes from self-serving to customer-serving.

UPS' strategies

1. *Customized service*. Rigidity gave way to flexibility. UPS offers its customers customized shipment plans, which include flexible pick-up and delivery times. Following solid marketing practice, that service

was launched after UPS conducted thousands of face-to-face interviews with customers.

2. *Market-oriented pricing*. The former untouchable policy of one-price-for-all was replaced with flexible rates based on customers' volume.
3. *Computerized tracking system*. UPS uses cellular-phone hookups that connect delivery trucks with a central computer that, in turn, answers customer inquiries with fast and accurate information. Pivotal to establishing customer confidence, the tracking system provides a unique selling benefit to secure new customers and build profitable market share.
4. *Market focus*. UPS expanded its marketing staff to reach out to customers in two ways: first, to handle questions and resolve complaints rapidly; second, to acquire customer and competitor information that would lead to improved products and services (review section on, "listening and learning strategies.") One outcome: customers who want assured delivery but not the fastest service can have three-day guaranteed delivery, with a corresponding 20 per cent saving over second day delivery.

For tradition-bound UPS, these changes required senior executives to commit to a total customer orientation. Concurrent with that switch in orientation, managers adhered to a scrupulous analysis of costs to maintain profitability, as they installed expensive programs to build market share.

Also, they conducted formal training for lower-echelon supervisors to think in terms of customer service and competitiveness. Result: As one transportation analyst remarked, "It's awesome, given their size that they grow as fast as they do."

Action strategy

> It takes less promotional expenditures to maintain market share compared to the cost of building new market share.

What can you learn from the United Parcel Service case? Regardless of company size, you don't have to compromise between market share and profitability goals, if you conduct a cost analysis to maintain a balance of costs and expenditures that are synchronized with your marketing objectives.

Here are practical guidelines, with implications on how to maintain a balance among market share growth, costs and profitability:

1. While large expenditures are required to build market share, it takes less promotional expenditures as a percentage of sales to maintain market share.
2. Look at the criteria you use to evaluate market share. If you serve a segment rather than an overall market, there are implications for costs and profitability. For instance, examine market share based on customer type, region and the type of support provided through on-site technical service, overnight delivery, price contracts, or guaranteed product performance.
3. It is less expensive to defend market share by investing in value-added services and differentiated products than it is to buy-back market share, after being pushed out by competitors.
4. Examine the following components that contribute to increases in market share and ask which strategies would impact your cost structure and profitability:
   - *Customer penetration*. What actions would increase the total number of customers who would buy your product, as compared to the overall market – or its market segments?
   - *Customer loyalty*. Which approaches would increase the purchase of your product compared to your customers' total purchases from competitors offering of the same product?
   - *Customer usage*. How could you raise the quantity of your customers' purchases, compared to the average size order from competitors?
   - *Price selectivity*. What would determine the profitability of your product at the average price charged, compared to the average price charged by all companies selling the product?

The UPS case illustrates how costs have broad implications for selecting competitive strategies. To have a broader decision base from which to select a strategy, you will need to understand cost from the standpoints of the *experience curve* and *sales forecasting*.

Experience curve

Understanding the experience curve gives you an added dimension to look at costs as they relate to strategy options for your own company as well as of your competitors.

Much of the work on the experience curve began when the Boston Consulting Group (BCG) and others conducted thousands of cost studies. The results showed that each time the volume of a product doubled, the total costs – including administration, sales, marketing and distribution, in addition to manufacturing – fell by a constant and predictable percentage.

Further, the cost of purchased items usually fell as suppliers reduced prices as their costs fell, also due to the experience effect. This relationship between costs and experience is called the *experience curve*.

Knowing that costs will be reduced by a fixed percentage each time production doubles is only part of the equation. The other parts are in knowing which factors contribute to the experience curve and then consciously incorporating those factors into your marketing plan.

Some of the key factors that would impact your marketing plan include labour productivity, work methods, production and technology efficiency and product design and materials.

Specifically related to competitive marketing strategies are the costs related to maintaining customer relationships. The following list will guide you:

- *Basic*. This type of customer typically makes a one-time purchase and does not require personalized service. Alternatively, the profit margins are so low that extra services would result in losses. In this situation, using a customer service person to maintain telephone contact may suffice.
- *Reactive*. This customer is encouraged to call for assistance only with a product problem or some other complaint. However, a periodic check is appropriate to determine if the customer can be upgraded to one of the following levels.
- *Accountable*. The sales rep calls the customer a short time after purchase to check if the product is meeting expectations. This action begins a proactive approach to relationship marketing.

- *Proactive*. The sales rep meets with the customer periodically and recommends improved products or suggests applications of technologies to solve customer problems.
- *Partnering*: The salesperson and a team of specialists work intensely to solve customer's problem. The relationship ranges from regular contact to the extreme of placing a technical person full-time at the customer's location.

Strategy implications

> If you accumulate experience faster than competitors, you have the advantage of price flexibility.

Implied in the experience curve is that it is prudent to accumulate experience faster than competitors do. One practical approach to accumulating experience suggests pursuing a first-into-the-market strategy and going for a large share of the market.

Another is to be a follow-the-leader into a market, assess the mistakes of the leader and move rapidly to dominate an emerging, neglected, or poorly served market segment.

The primary point: if you can accumulate experience faster than competitors, with the corresponding reductions in costs, then you have the advantage of price flexibility to use as a weapon to attack a competitor's position.

The negative side of this scenario could result in becoming a slave to the experience curve by adopting a production-driven mentality rather than a market-driven orientation. For example, if the production-driven approach prevents responding to changing consumer patterns, or reacting to competitors' innovations, then the cost efficiencies will have a negative effect in a changing marketplace.

In summary, the marketing strategy implications of the experience curve for you are:

1. A competitive advantage is possible if you accumulate greater experience than your competitors. The resulting cost advantage can be used to plough back investment to achieve additional manufacturing efficiencies, to improve products, shore-up the marketing effort, or build market share through lower prices.

2. Within the context of competitor analysis, it is important to examine your competitors' experience curves. It is not a simple task and certainly needs the cooperation of your production, purchasing and financial staff to create examples of different experience curves under a variety of pricing scenarios.
3. Experience curves can be used to forecast costs, which in turn can be used to set prices. However, costs and prices are usually calculated on the basis of a reasonably accurate sales forecast. The major quantitative contribution you can make to these calculations is to provide a reliable sales forecast.

Sales forecasting

> The purpose of sales forecasting is to anticipate future events and develop the strategic means for controlling them.

Attempts to foretell the future are as old as mankind. In competitive marketing, however, such attempts are particularly significant because they can influence those cost and price decisions resulting from the experience curve. In turn, they impact the strategies you are likely to pursue.

Company sales normally result when your company's marketing effort connects with marketing opportunities. Add to that any challenges imposed by the competition and the general economic climate.

Taking all these dynamic forces into account, the job of forecasting is to furnish a set of alternative sales potentials derived from various market scenarios, along with the probable effect on sales under each condition.

You can use these sales potentials as a frame of reference in assessing your marketing opportunities and evaluating the pay-offs of your marketing strategies under a variety of conditions. The outcome of this process is your sales forecast.

Sales forecasting is an organized effort to predict the future level of sales, given a specific marketing strategy and particular assumptions about market conditions. You get under way by looking at past events and developments, as well as by making use of your present knowledge and experience to project future sales possibilities.

Merely projecting past figures into the future as if they were isolated from events is not sales forecasting. You need to combine objective, factual inputs with subjective judgment.

A well-managed forecasting program will make projections in time to allow corrective measures, not when developments are too far gone. Such a program can also provide you with frequent comparisons of actual-to-forecast figures so you can revise your tactics during the forecast period.

> It is advisable to use multiple approaches to arrive at estimated sales.

Sales forecasting techniques

Although various computer models are available to do sales forecasts, time and budget restrictions often bar their use. Rather, marketing executives usually rely on a set of relatively simple, quick, do-it-yourself techniques that substantially reduce the time and money required in forecasting. There are a number of such forecasting techniques that, along with subjective judgment, add precision to sales estimates.

These forecasting techniques can be roughly subdivided into (1) judgmental methods, involving the opinions of various kinds of experts such as executives, sales people and informed outsiders and (2) market surveys using buyer surveys and market tests.

Judgmental methods

JUDGMENT FROM THE EXTREMES

Judgment from the extremes involves asking for an expert's opinion as to whether or not future sales are likely to be at an extremely high or extremely low level. If the expert's reaction is that neither seems probable, the range between the extremes is successively reduced until an approximate level of expected sales is reached. Resulting in a range rather than a single figure estimate, this approach is appropriate in situations where experts feel incapable of giving one-level forecasts.

PERT-DERIVED METHOD

The approach taken by PERT (Program Evaluation and Review Technique) is to make three estimates: an optimistic estimate (O), a most likely estimate (M) and a pessimistic estimate (P). Instead of asking for accompanying estimates of the likelihood of occurrence of each one, a standard equation is applied in order to arrive at the expected value (EV) or forecast:

$$EV = \frac{O + 4M + P}{6}$$

With this method, a measure of real values against expected ones, the standard deviation can be developed. Taking, for instance, an optimistic sales estimate of 250 (figures in thousands), a most likely estimate of 240 and a pessimistic estimate of 200 (dollars/pounds or units), the expected value can be computed as follows:

$$EV = \frac{250 + 4(240) + 200}{6} = 235$$

The standard deviation is then derived by means of the following formula:

$$SD = \frac{O-P}{6} = \frac{(250 - 200)}{6} = 8.33$$

According to probability theory, the true value lies within two standard deviations plus or minus from the expected value, with about 95 per cent probability. The true value of sales, therefore, can be expected to lie in a range from 235 ± 2(8.33), or between 218.34 and 251.66.

GROUP DISCUSSION METHOD

The accuracy of a PERT-derived forecast hinges heavily on the ability of the expert(s) to produce realistic estimates. As a quick check on figures arrived at by other methods, the PERT approach can be very useful. But the analyst frequently feels that a number of specialists should be invited to participate in forecasting.

Most often, the team meets as a committee and comes up with a group estimate through consensus. This group discussion method has the advantage of merging divergent viewpoints and moderating individual biases.

You should, however, guard against the potential disadvantage of one or more individuals dominating the discussion, or offering superficial responses where there is a lack of individual responsibility.

POOLED INDIVIDUAL ESTIMATES METHOD

While the pooled individual estimates method avoids the potential pitfalls of group discussions, it also lacks the benefits of group dynamics. A project leader simply merges separately supplied estimates into a single estimate, without any interplay with or between the participants.

DELPHI TECHNIQUE

An increasingly popular method for forecasting is the Delphi technique, which overcomes the drawbacks of both group discussion and pooled individual estimates methods. In this approach, group members are asked to submit individual estimates and assumptions.

These are reviewed by the project leader, revised and fed back to the participants for a second round. Participants are also informed of the median forecast level that emerged from the previous round.

Domination, undue conservatism and argument are eliminated because of the written, rather than oral, procedure and the group members benefit from one another's input. After successive rounds of estimating and feedback, the process ends when a consensus emerges.

The Delphi technique overcomes the drawbacks of group discussion and pooled individual estimates.

JURY OF EXECUTIVE OPINION

As mentioned, the experts consulted in one or more of these methods typically are recruited from one of three pools: executives, salespeople and informed outsiders. A jury of executive opinion is often composed of top-level personnel from various key functions such as sales, production and finance.

The major advantage of this type of source is that forecasts can be arrived at quickly. This advantage is, however, easily outweighed by the disadvantage inherent in involving people in the estimating process whom, in spite of their high rank, are relatively unfamiliar with the forces that shape marketing success.

COMPOSITE OF SALES FORCE OPINION

The composite of sales force opinion approach collects product, customer and/or territorial estimates from individual salespeople in the field. Since they are in constant contact with customers, sales people should be in a position to predict buying plans and needs. They may even be able to take into account probable competitive activity.

Few companies simply add up their sales force's estimates to compute the sales forecast. Since sales quotas are frequently based on these estimates, a sales person will tend to be conservative or pessimistic in estimating sales.

This tendency can be partially corrected by rewarding accuracy and distributing records showing the accuracy of past forecasts, or by allocating promotional support to a territory in line with the sales estimate.

OUTSIDE EXPERTS

When it comes to outside experts, any knowledgeable source could be consulted, for example, trade associations or economists. Marketing researchers are another valuable resource, together with dealers and distributors.

However, it is generally difficult to assess the degree of familiarity with industry conditions and trends of such outsiders. Thus, they should be used with caution and only in a supplementary capacity.

Market survey

CONSUMER SURVEYS

The judgmental methods just described involve estimates by people who are not the ultimate buyers. Some observers consider this fact a weakness and suggest getting the word directly from "the horse's mouth."

Surveys of consumer buying intentions are particularly appropriate when past trends (such as energy consumption) are unlikely to continue or historical data (as for a new product or market) do not exist.

This technique works best for major consumer durables and industrial capital expenditures, since these types of buying decisions require a considerable amount of planning and lead time and the respondents are able to predict their own behaviour with reasonable accuracy.

TEST MARKETING

The problem of accuracy can be remedied by using the test-marketing approach whereby a new product, or a variation in the marketing mix for an established one, is introduced in a limited number of test cities. The entire marketing program that is scheduled on a national basis is put into effect, scaled down to the local level, but otherwise identical in every detail, including advertising, pricing, packaging and so forth.

The problem of accuracy can be remedied by using the test-marketing approach.

The new marketing effort now has to compete in a real sales environment. Purchases, if any, are actual, not hypothetical. If carefully chosen and monitored, test markets provide a significant mini-picture of the full-scale reaction to the planned change. On the basis of actual sales results in the test markets, sales forecasts are simply scaled up by appropriate factors. Table 3.1 summarizes the methods discussed.

METHOD	NATURE	BENEFITS	DRAWBACKS
Judgmental			
Judgment from the extremes	Successive narrowing of high-low range	Range instead of single figure	Depends on individual estimating
Group discussion	Group consensus estimate	Merges divergent view, moderate biases	Domination by one individual, superficiality
Pooled and individual estimates	Averaging of individual estimates	Avoids group discussion pitfalls	Lacks group dynamics
Delphi technique	Successive written rounds of estimating with feedback from other participants	Eliminates domination, conservatism, superficial response	Lacks group dynamics
Jury of executive opinion	Top-level committee	Quick	Unfamiliar with market conditions
Composite of sales force opinion	Adjusted estimates from individual sales people	Front-line expertise, motivational tool	Bias due to impact on compensation, unfamiliar with economic trends
Outside experts	Merging of outside opinions	No bias due to personal interests	Difficult to assess degree of expertise
Market Surveys			
Consumer surveys	Consumer interviews about buying intentions	Directly from 'the horse's mouth'	Hypothetical behaviour
Test marketing	Sale in limited number of cities	Actual sales results	Costly, time-consuming, exposed strategy to competitors

TABLE 3.1 COMPARISON OF NON-MATHEMATICAL FORECASTING METHODS

Portfolio analysis

Portfolio analysis consists of formal models that provide a systematic approach to assessing a competitive position and determining investment levels. In practice, portfolio analysis is used for self-contained organizational units – divisions, departments and product lines – in which you make investment decisions on a market-by-market or product-by-product basis.

Your job is to seek out the information needed for these portfolio approaches and determine which approach suits your business. The results can be of immeasurable help in systematically analyzing your situation and in developing competitive strategies.

> Portfolio analysis consists of models that assess a competitive position and determine investment levels.

The following case introduces you to the practical application of portfolio models.

Case example

Hewlett-Packard Co., the highly successful computer and instrument manufacturer, was reorganizing for continued growth when domestic and foreign competitors attacked it from all sides. Such firms as IBM, Sun Microsystems Inc. and Tektronic carved out market niches against many of Hewlett-Packard's 9,000 products.

Organizationally, Hewlett-Packard had been a loosely knit collection of 50 autonomous divisions, each responsible for its own production and marketing. It was best described as an engineering-oriented company, run by engineers for engineers. But changing patterns in market behaviour began to emerge.

Large customers insisted that whatever equipment they bought must fit together into a unified system. Further, the buying influence was no longer left solely with the engineer.

Consequently, the loosely run engineering-oriented organization resulted in inefficient selling practices (several sales people from various divisions calling on one prospect) and delays in developing new product systems (engineering workstations and high-powered desktop computers).

Opportunities in these growth segments fell to the smaller, faster-reacting competitors. Recognizing that organizational changes were needed to change the company into a market-driven company, Hewlett-Packard also saw an urgent need to analyze its products and markets using the formal techniques of portfolio analysis. Hewlett-Packard undertook portfolio analysis for its 50 autonomous divisions and then for its major product lines.

Action strategy

What can you learn from the Hewlett-Packard case? The following section describes three of the more popular models used in portfolio analysis and which can apply to your business: BCG Growth-Share Matrix, General Electric Business Screen and the Arthur D. Little Matrix.

BCG growth-share index

With a technique developed by the Boston Consulting Group, this classic model has proven highly useful in assessing a portfolio of businesses or products. BCG Growth Share Matrix (Figure 3.2) graphically shows that some products may enjoy a strong position relative to those of competitors, while other products languish in a weaker position.

> The BCG Growth-Share Matrix permits you to evaluate where your products and markets are relative to competitors.

Also, each product has its own total strategy depending on its position in the matrix. The various circles represent a product. From the positioning of these circles management can determine the following information:

- Dollar/pound sales, represented by the area of the circle.
- Market share, relative to the firm's largest competitor, as shown by horizontal position.
- Growth rate, relative to the market in which the product competes, as shown by vertical position.

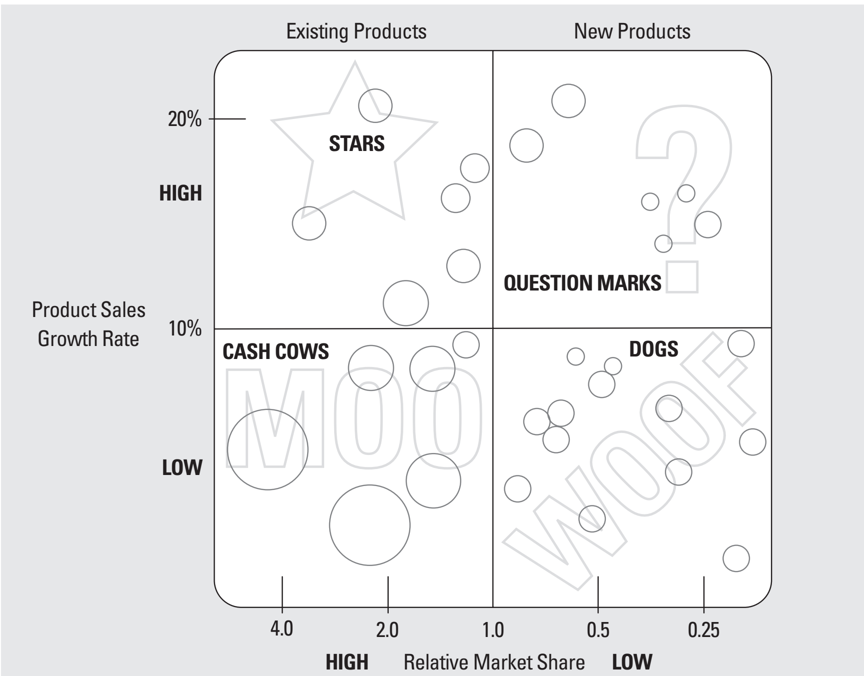

FIGURE 3.2 A BCG GROWTH-SHARE MATRIX

In addition, the quadrants of the matrix categorize products into four groups:

1 *Stars*: Products that have high market growth and high market share. These products need constant attention to maintain or increase share through active promotion, product improvement and careful pricing strategies.

2. *Cash cows*: Products that have low market growth and high market share. Such products usually hold market dominance and generate strong cash flow. The object: retain a strong market presence without large expenditures for promotion and with minimal outlay for R&D.

The central idea behind the cash cow is that businesses with a large share of the market are more profitable than their smaller-share competitors.

3. *Question marks* (also known as problem children or wildcats): Products with potential for high growth in a fast-moving market but with low market share. They absorb large amounts of cash (usually from the cash cows) and are expected to reach the status of a star.
4. *Dogs*: Products with low market growth and low market share, reflecting the worst of all situations. A number of alternatives are possible, maintain the product in the line to support the image of being a full-line supplier, eliminate the product from the line, or harvest the product through a slow phasing out.

As you review the growth-share matrix, note on the vertical axis that product sales are separated into high and low quadrants. The ten per cent growth line is simply an arbitrary rate of growth and represents a middle level. For your particular industry the number could be five per cent, 12 per cent, or 15 per cent.

Similarly, on the horizontal axis there is a dividing line of relative market share of 1.0 so that positioning your product in the lower left-hand quadrant would indicate high market leadership and in the lower right-hand quadrant, low market leadership. The significant interpretations from the matrix are as follows:

- The amount of cash generated increases with relative market share. (This point was borne out in the section covering the experience curve.)
- The amount of sales growth requires proportional cash input to finance the added capacity and market development. If market share is maintained, then cash requirements increase only relative to market growth rate.
- From a manager's point of view, cash input is required to keep up with market growth. Increasing market share usually requires cash to support advertising and sales promotion expenditures, lower prices and other share-building tactics. On the other hand, a decrease in market share may provide cash for use in other product areas.
- In situations where a product moves towards maturity, it is possible to use enough funds to maintain market position and use surplus funds to reinvest in other products that are still growing.

In summary, the BCG Growth-Share Matrix permits you to evaluate where your products and markets are relative to competitors and what investments are needed relative to such basic strategies as building share for your product, holding share, harvesting and withdrawing from the market.

General Electric business screen

The BCG Growth-Share Matrix focuses on cash flow and uses only two variables: growth and market share. The General Electric Business Screen (Figure 3.3) on the other hand, is a more comprehensive, multi-factor analysis that provides a graphic display of where an existing product fits competitively in relation to a variety of criteria. It is also an aid in projecting the chances for a new product's success.

> The GE approach illustrates where an existing product fits competitively in relation to a variety of measures.

The key points in using the GE Business Screen are:

1. *Industry attractiveness* is shown on the vertical axis of the matrix. It is based on rating such factors as market size, market growth rate, profit margin, competitive intensity, cyclicality, seasonality and scale of economies. Each factor is given a weight classifying an industry, market segment, or product as high, medium, or low in overall attractiveness.
2. *Business strength* is shown on the horizontal axis. A weighted rating is made for such factors as relative market share, price competitiveness, product quality, knowledge of customer and market, sales effectiveness and geography. The results show the ability to compete and, in turn, provide insight into developing strategies in relation to competitors.
3. The matrix is divided into three-color sectors: green, yellow and red. The green sector has three cells at the upper left and indicates those markets that are favourable in industry attractiveness and business strength. These markets have a 'green light' to move in aggressively. The yellow sector includes the diagonal cells stretching from the lower left to upper right. This sector indicates a medium level in overall attractiveness. The red sector covers the three cells in the lower right. This sector indicates those markets that are low in overall attractiveness.

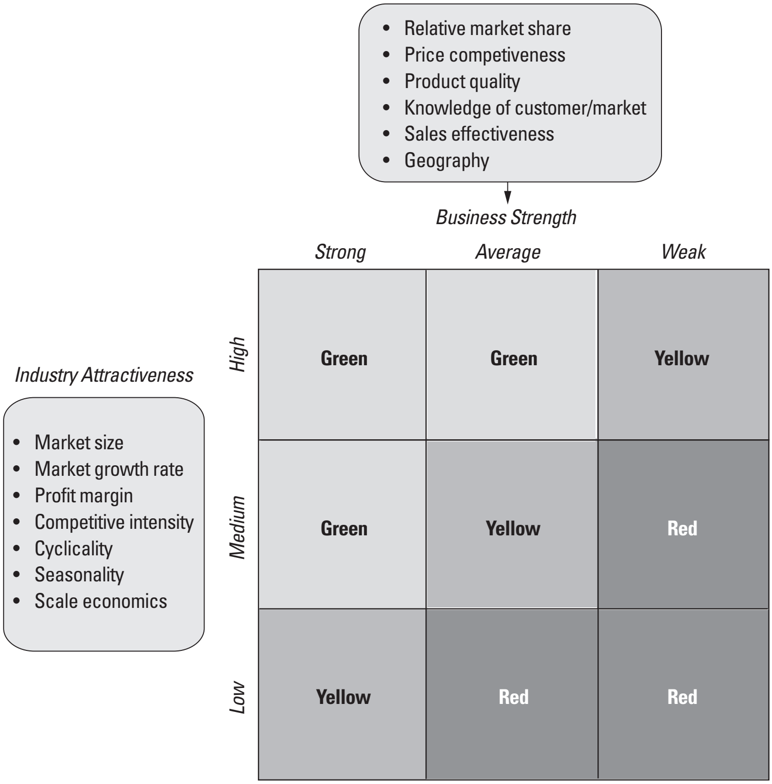

FIGURE 3.3 GENERAL ELECTRIC BUSINESS SCREEN

Arthur D. Little matrix

Another time-tested portfolio analysis approach is associated with the consulting organization, Arthur D. Little Inc. In one actual application, a major manufacturer in the health care industry used this approach to analyze how its various products stacked up in market share.

In Figure 3.4, some of the company's products are used to demonstrate the function of this matrix. First, note the similarities of this format to the other portfolio analysis approaches already discussed.

The competitive positions of various products are plotted on the vertical axis according to such factors as *leading, strong, favourable, tenable, weak and non viable*. On the horizontal axis, the maturity levels for the products are designated *embryonic, growth, mature* and *aging*.

The key interpretations for this matrix are:

1. *Non-viable*: the lowest possible level of competitive position.
2. *Weak*: characterized by unsatisfactory financial performance but with some opportunity for improvement.
3. *Tenable*: a competitive product position where financial performance is barely satisfactory. These products have a less than average opportunity to improve competitive position.
4. *Favourable*: a competitive position that is better than the survival rate. These products also have a limited range of opportunities for improvement.
5. *Strong*: characterized by an ability to defend market share against competing moves without the sacrifice of acceptable financial performance.
6. *Leading*: incorporates the widest range of strategic options because of the 'competitive distance' between the given products and the competitors' products.

An examination of the four products shows how this matrix worked during a particular period in those products' life cycle.

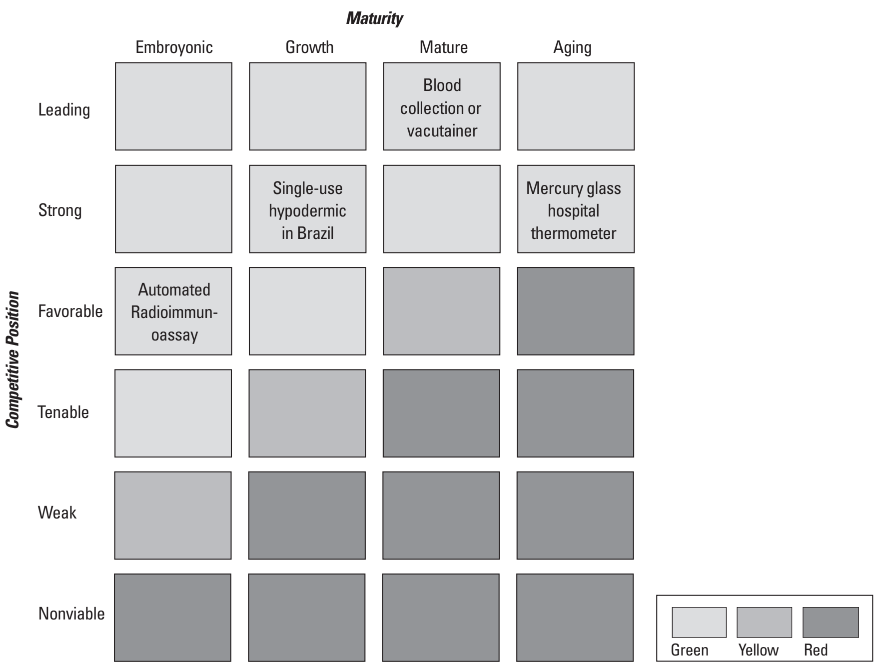

FIGURE 3.4. ARTHUR D. LITTLE MATRIX APPLIED TO PRODUCTS

Automated radioimmunoassay (a diagnostic product used in laboratories) was considered in its embryonic stage with a favourable competitive position at the time the analysis was prepared. This favourable position offered the manager a range of strategy options as long as the decisions related to the overall corporate strategy.

Single-use hypodermic needles and syringes had a strong competitive position in a growth industry. Here, too, strategy options were fairly flexible and depended on competitive moves, as well as on how quickly increases in market share were desired.

Blood collection system, (Vacutainers) had a leading competitive position in a mature industry. To hold existing market share, the company's strategy centred on product differentiation.

Mercury glass hospital thermometers held a strong competitive position in a declining industry. This product had less price flexibility. However, by using service, repackaging and distribution innovations, the company attempted to maintain its strong position before giving in to price reductions.

As in the GE Business Screen, a green-yellow-red system is used to indicate strategic options: green indicates a wide range of options, yellow indicates caution for a limited range of options for selected development and red is a warning of peril with options narrowed to those of withdrawal, divestiture and liquidation.

Financial resource analysis

Financial analysis is an essential part of an internal analysis. It enables you to quantify your strategy decisions. This section concentrates on those areas of financial analysis that a general manager or marketing manager needs to understand to conduct an internal analysis.

The following company case illustrates an application of financial analysis for monitoring its selling strategy.

Case example

Parametric Technology Corp. (PTC) uses partnering and customer satisfaction selling strategies to win handsomely against tough competitors.

PTC produces Pro/ENGINEER, a CAD/CAM software product that helps engineers design anything from a disposable shaver, an automobile powertrain, to an airplane wing joint in three dimensions.

The software demands a substantial commitment from customers who often must allocate up-front expenditures and disrupt their production routines simply to test the software.

The company combines a dogged determination to obtain sizable commitments from customers. The tough job is to persuade customers that the benefits outweigh the cost and inconvenience.

As one Parametric executive puts it, "The customer faces a dilemma and says, 'Now I've got to buy some new hardware, install the software, schedule training, convert all my data and change all my support structure.'"

Specific selling strategies are needed to overcome that challenge. While PTC maximizes its efforts to offer customers an absolute focus on engineering and manufacturing excellence, its selling strategies still include a level of persistence where sales reps have been known to insist that customers make the necessary commitment to test the software.

If a rep feels the decision process is dragging he or she will go over a prospect's head to the next level of authority – and to levels beyond, if necessary.

Preparing sales reps for such tough encounters requires intensive training aimed at honing their attitudes and skills. In fact, PTC spends 40 per cent of revenue to field a sales person. And the preparation doesn't end there; all sales people are required to dress for success by wearing such expensive items as Hickey Freeman suits for men and Coach bags for women.

Financial analysis enables you to quantify your strategy decisions.

Action strategy

What can you learn from the Parametric case? An examination of its selling practices reveals some principles that apply to most companies. First, the strategy issue is not one of hard sell versus soft sell. That's a tactical choice, even though a hard sell approach appeared to be a dominant strategy at Parametric.

Instead, the strategy issue is that sales management must be tuned to the characteristics of markets, customers' buying behaviour, the complexity or simplicity of the product offerings and the amount of post-sale service required.

Depending on how you define each factor, selling can take one of two paths:

1. A sales-oriented approach is commonly identified with the hard-hitting selling used with products such as automobiles or appliances.
2. A customer-oriented approach is associated with the selling of computer systems, machine tools and other products where problem resolution is vital. For the most part, the trend in selling is toward building long-term relationships.

Next, regardless of the selling system or strategy you use, evaluating financial performance is essential to managing for bottom-line results. Use these common measurements to achieve that goal:

- *Current-to-past sales comparisons*. To measure the performance of sales reps and sales territories, a company must generate periodic reports on the quantities of products sold by product line, the profitability of territories and any quantitative data specific to measuring the overall selling efficiency of your operation.
- *Customer satisfaction evaluation*. This measure is vitally important when long-term relationship marketing is the strategy of choice. Although a rep's likeability remains a factor, a more meaningful evaluation should assess outcomes and interests that are important to the customer. These may include being attentive to problems, overcoming technical obstacles and meeting production schedules.
- *Qualitative evaluation of sales reps*. Use this measure to determine the reps' knowledge of your products, customers, competitors and territory, as well as the economy and any other issues that are important to making a sale. Individual characteristics, such as dress, speech and personality, also become part of the measure.

What are the responsibilities of sales reps? As the trend accelerates towards sales people becoming more accountable for the financial health of their territories, a need exists for them to take responsibility not only for the territory as a whole, but for the financial condition of each customer, as well.

What follows are the broader measurements of a financial analysis.

Return on investment

There are several approaches to calculating return on investment (ROI) depending on how 'investment' is defined. The most often used is:

RETURN ON INVESTMENT

$$ROI = \frac{\text{Net Income}}{\text{Investment}} \times 100\%$$

RETURN ON SALES

$$ROS = \frac{\text{Net Income}}{\text{Total Sales}} \times 100\%$$

CASH FLOW

CF = (Net Income + Depreciation) – (change in plant and equipment) – (change in working capital)

In some organizations, the term *cash flow* is used to identify cash flow from operations only and does not include cash flow arising from balance sheet changes, as noted in the equation.

Market share analysis

While not used in traditional financial analysis, market share is useful because of its financial implications to ROI. Before a calculation can be made, you need to determine which of the four measures of market share will be used: [17]

- *Overall market share*: The company's overall market share is its sales (in units or dollars/pounds) expressed as a percentage of total industry sales. Industry practice or historical company reporting patterns will usually dictate the form of measurement. You will also

17 The list is adapted from Philip Kotler, Marketing Management: Analysis, Planning and Control, 11th edition (Upper Saddle River, NJ: Prentice-Hall, 2004, p. 686).

have to consider how you want to define the market as it relates to the product lines offered by your company. Consistency and accuracy of what is being measured are the criteria.

- *Served market share*: The company's served market is its sales expressed as a percentage of the total sales to its served market. The served market is that segment that can be reached and served by the company's marketing effort. It could be a geographic region or a particular product line.

  If you use this category of market share, don't be lulled into a false sense of security. You could boast an 85 per cent share of a served regional market with a limited product line; yet have only 15 per cent of the total market. Again, good judgment and consistency should prevail. A served market is particularly useful if it is your strategy to expand on a segment-by-segment rollout to other geographic regions or customer categories.

- *Relative market share (to multiple competitors)*: This market share shows the company's sales expressed as a percentage of the combined sales of say the three largest competitors. This measure is especially valid when three or four companies command the major share of the market (fuel oil and dry cereals, for example).
- *Relative market share (to a leading competitor)*: In some cases a company may simply track its sales as a percentage of the leading competitor's sales. This measure is effective when the industry is fragmented with very small competitors and your growth is measured against the dominant competitor.

Marketing expense-to-sales analysis

One of the key financial ratios to watch is marketing expense-to-sales. When you are monitoring different strategies in situations such as either defending market share or aggressively pursuing market share, it becomes a platform for projecting the financial impact of future strategy approaches.

The components of this ratio comprise salesforce-to-sales, advertising-to-sales, sales promotion-to-sales, marketing research-to-sales and sales administration-to-sales. The ratios can be monitored either through a chart, which graphically shows deviation from budget, or from the more typical periodic budget variance reports.

Strengths/weaknesses analysis

This last component of internal analysis, strengths/weaknesses analysis, is actually an integration of both internal and external analysis. It provides an excellent summary for grasping the total value of competitive analysis by examining the strengths and weaknesses of your own firm compared to those of your competitors.

The following case illustrates how one company uncovered its strengths and weaknesses and developed a higher level of competitiveness.

Case example

TRW Inc. operates in the auto-parts, defence and space-electronics business segments. In the past, it looked for longer-term payout and placed its investments in technology.

Then, with a slump in those businesses and with pressure to improve the bottom line, management began planning on an upswing by focusing on its core competencies to transform its technological edge into stronger earnings growth.

To do so, the following changes took place: first, at the middle-management level, cross-functional teams took on the day-to-day responsibilities for transforming competencies into viable opportunities.

Second, rapid response to market opportunities resulted from organizational restructuring. For instance, the automotive business was divided into three groups representing distinct market niches: steering systems, engine components and occupant safety systems.

All groups report directly to the CEO. This structure permitted greater flexibility in utilizing capital, deploying people skills, allocating technology/production and employing other TRW capabilities. One application of rapid response was the way TRW used its resources to take advantage of the current high growth in automotive air bags.

Using the team approach managers continually examined their strengths and weaknesses and searched for ways to apply them to changing market opportunities. For example:

- Expertise in air bags extended to power steering systems and auto electronics, which, in turn, capitalized on the industry movement toward safety and quality.
- Skill in manufacturing huge satellites originally designed to detect the former Soviet Union's nuclear missiles was applied to smaller satellites to track regional troop movements. Also, the electronics skills associated with satellites became transferable to the emerging market in on-board navigational systems for automobiles.

Not only do basic competencies shift among industries, but also they cut across geographic boundaries where TRW's innovative auto products have cracked the Japanese auto market.

Action strategies

> Competitors often see only the tactics, not the strategies from which you achieve market success.

What can you learn from the TRW case? It is in your best interest to appraise your company's core competencies before entering new markets, dealing with hard-hitting competitors, or responding correctly to shifting customer-buying patterns.

Essential, however, to evaluating core competencies is validating the reliability of your input. This is best done by tapping the knowledge and experience of cross-functional team members who represent the major functions of the organization.

The resulting information is then organized into a portfolio of competencies representing the overall strengths of the organization, the individual skills of team members and the capabilities of their respective functions. Then, within this portfolio, you and team members can look for fresh product ideas, applications of technologies into other industries and feasible markets to enter.

TRW implemented a similar approach as it supplied its products to several industries. And it did so by feeding off a relatively small number of core competencies.

At first glance, what may appear on the surface as a disorganized portfolio without a cohesive base is, in reality, a well-ordered group of competencies, fundamental strengths and tangible products.

One special benefit of building a portfolio of various strengths is that you can take a fresh look at so-called mature products which is, in effect, admitting you've run out of product ideas, when in fact working with core competencies, you can use a building-block approach to bring about continuous product and service improvements.

Another key benefit is that you avoid showing your hand to the competition, thereby making it difficult for competitors to detect your overall strategy and frustrating their attempts to duplicate it.

Reason: Competitors only see such surface factors as product/price performance, how your salesforce is deployed and the types of promotions used. Thus, competitors see the tactics by which you conduct day-to-day operations, what they don't see are the primary strategies from which overwhelming market successes evolve.

Building a portfolio permits a fresh look at so-called mature products.

The strengths/weaknesses analysis questionnaire presented as Figure 3.5 consists of 100 questions that serve as a marketing audit. They contribute to the total competitive analysis in two ways:

1. They analyze marketing operations and key environmental factors affecting your company (external analysis).
2. They assess your company's competencies and strategic marketing capabilities and determine what strategies can be used to increase competitive advantage (internal analysis).

By using this questionnaire, you should be able to identify what makes your company or division or product outstanding. It helps you compare your overall distinctive competencies and specific strengths with those of your competitors.

Similarly, it pinpoints the weaknesses that would prevent you from achieving a competitive advantage. (Chapter 7 provides specific ways of incorporating these findings into competitive strategies.)

Part 1: Reviewing the Firm's Marketing Environment

CONSUMERS

1. Who are our ultimate buyers?
2. Who or what influences them in their buying decisions?
3. What are our consumers' demographic and psychographic profiles?
4. When, where and how do they shop for and consume our product?
5. What need(s) does our product satisfy?
6. How well does it satisfy?
7. How can we segment our target market?
8. How do prospective buyers perceive our product in their minds?
9. What are the economic conditions and expectations of our target market?
10. Are our consumers' attitudes, values, or habits changing?

CUSTOMERS

11. Who are our customers, that is, intermediate buyers (wholesalers and/or retailers)?
12. Who or what influences them in their buying decisions?
13. Where are our customers located?
14. What other products do they carry?
15. What is their size and what percentage of our total revenue does each group represent?
16. How well do they serve our target market?
17. How well do we serve *their* needs?
18. How much support do they give our product?
19. What made us select them and them select us?
20. How can we motivate them to work harder for us?
21. Do we need them?
22. Do they need us?

23. Do we use multiple channels?
24. Would we be better off setting up our own distribution system?
25. Should we go direct? And to what extent is the Internet used?

COMPETITORS

26. Who are our competitors?
27. Where are they located?
28. How big are they overall and, specifically, in this product area?
29. What is their product mix?
30. Is their participation in this field growing or declining?
31. Which competitors may be leaving the field?
32. What new domestic competitors may be on the horizon?
33. What new international competitors may be on the horizon?
34. Which competitive strategies and tactics appear particularly successful or unsuccessful?
35. What new directions is the competition pursuing?

OTHER RELEVANT ENVIRONMENTAL COMPONENTS

36. What are the legal constraints affecting our marketing effort?
37. To what extent does government regulation restrict our flexibility in making marketing decisions?
38. What requirements do we have to meet?
39. What political or legal developments are looming that will improve or worsen our situation?
40. What threats or opportunities does technological progress hold in store for us?
41. How well do we keep up with technology in product development and in the plant?
42. What broad cultural shifts are occurring that may affect our business?
43. What consequences will demographic and geographic shifts have for our business?

44. Are any changes in resource availability foreseeable?

45. How do we propose to cope with ecological constraints?

Part II: Reviewing marketing management procedures and policies

ANALYSIS

46. Do we have an established marketing research function?

47. Do we conduct regular, systematic market analyses?

48. Do we subscribe to any regular market data service?

49. Do we test and retest carefully before we introduce a new product?

50. Are all our major marketing decisions based on solidly researched facts?

PLANNING

51. How carefully do we examine and how aggressively do we cope with problems, difficulties, challenges and threats to our business?

52. How do we identify and capitalize on opportunities in out market place?

53. What care is given to determining gaps in needs?

54. Do we develop clearly stated and prioritized short-term and long-term marketing objectives?

55. What are our marketing objectives?

56. Are our marketing objectives achievable and measurable?

57. Do we have a formalized annual marketing planning procedure?

58. Do we manage by objectives and performance?

59. What is our core strategy for achieving our marketing objectives?

60. Are we employing a push-pull strategy in dealing with our customers and consumers?

61. How aggressively are we considering or employing diversification?

62. How effectively are we segmenting our target market?

63. Are we allocating sufficient or excessive marketing resources to accomplish our marketing tasks?

64. Are out marketing resources optimally allocated to the major elements of our marketing mix?
65. How well do we tie in our marketing plan with the other functional plans of our organization?

IMPLEMENTATION AND CONTROL

66. Is our marketing plan truly followed or just filed away?
67. Do we continuously monitor our environment to determine the adequacy of our plan?
68. Do we use control mechanisms to ensure achievement of our objectives?
69. Do we compare planned and actual figures periodically and take appropriate measures if they differ significantly?
70. Do we systematically study the contribution and effectiveness of various marketing activities?

ORGANIZATION

71. Does our firm have a high-level marketing office to analyze, plan and oversee the implementation of our marketing effort?
72. How capable and dedicated are our marketing personnel?
73. Is there a need for more training, incentives, supervision, or evaluation?
74. Are our marketing responsibilities structured to best serve the needs of different marketing activities, products, target markets and sales territories?
75. Does our entire organization embrace and practice the marketing concept?

Part III: Reviewing strategy aspects of the marketing mix

PRODUCT POLICY

76. What is the make-up of our product mix and how well are its components selling?
77. Does it have optimal breadth and depth?
78. Should any of our products be phased out?
79. Do we carefully evaluate any negative ripple effects on the remaining product mix before we make a decision to phase out a product?
80. Have we considered modification, repositioning and/or extension of sagging products?
81. What additions, if any, should be made to our product mix?
82. Which products are we best equipped to make ourselves and which items should we buy and resell under our own name?
83. Do we routinely check product safety and product liability?
84. Do we have a formalized and tested product recall procedure?
85. Is any recall imminent?

PRICING

86. To what degree are our prices based on cost, demand and/or competitive considerations?
87. How would our customers react to higher or lower prices?
88. Do we use temporary price promotions and, if so, how effective are they?
89. Do we suggest resale prices?
90. How do our wholesale or retail margins and discounts compare with those of the competition?

PROMOTION

91. Do we state our advertising objectives clearly?
92. Do we spend enough, too much, or too little on advertising'?
93. Are our advertising themes and copy effective?
94. Is our media mix optimal?
95. Do we make aggressive use of sales promotion techniques?

PERSONAL SELLING AND DISTRIBUTION

96. Is our salesforce large enough to accomplish our marketing objectives?
97. Is it optimally organized according to geographic, market, or product criteria?
98. Is it adequately trained and motivated and characterized by high morale, ability and effectiveness?
99. Have we optimized our supply chain, or are there opportunities for further streamlining?
100. Is there a customer relationship program? And is our customer service up to par?

FIGURE 3.5. STRENGTHS/WEAKNESSES ANALYSIS QUESTIONNAIRE

Summary of internal analysis

There are seven basic components of internal analysis that taken together will give you a reliable picture of your organization:

1. *Performance analysis* helps you evaluate the organization of your company or business unit. Whether you organize by function, geography, product, or market will depend on the size of your firm, your product mix and the character of the market.
2. *Strategy analysis* is a way to examine the attitudes and directions your organization or business unit has chosen. It can answer questions such as: Is it best to use available resources? How can the business readjust product lines and marketing efforts to meet market needs?
3. *Strategic priorities analysis* gives you a more focused look at how well you are pursuing a customer-oriented strategy that puts the needs and wants of customers first. It highlights the essential lesson that you provide products for markets, rather than attempting to create markets for products as the preferred approach to exploiting new and profitable market opportunities.
4. *Cost analysis* has two components. First, the experience curve shows you that as cumulative production (or experience with a product) increases, costs decrease. Second, you should engage in sales forecasting in order to predict and, therefore, control future levels of sales. Both of these factors give you a way to evaluate and manage costs.
5. *Portfolio analysis* takes place in an organizational unit, such as a division, strategic business unit, or in most small businesses. It helps you assess your competitive position systematically in order to determine investment levels. The three popular portfolio models include the BCG Growth-Share Matrix, the General Electric Business Screen and the Arthur D. Little Matrix.
6. *Financial resource analysis* offers a range of quantitative techniques for identifying the financial implications of strategies. The major techniques include return on investment, return on sales, cash flow, market share analysis, marketing expense-to-sales ratio and break-even analysis.
7. *Strengths/weaknesses analysis* summarizes both the internal and external aspects of competitive analysis. It examines your strong and weak points in comparison with those of your competitors, so that you can concentrate in areas of the highest potential for market expansion.

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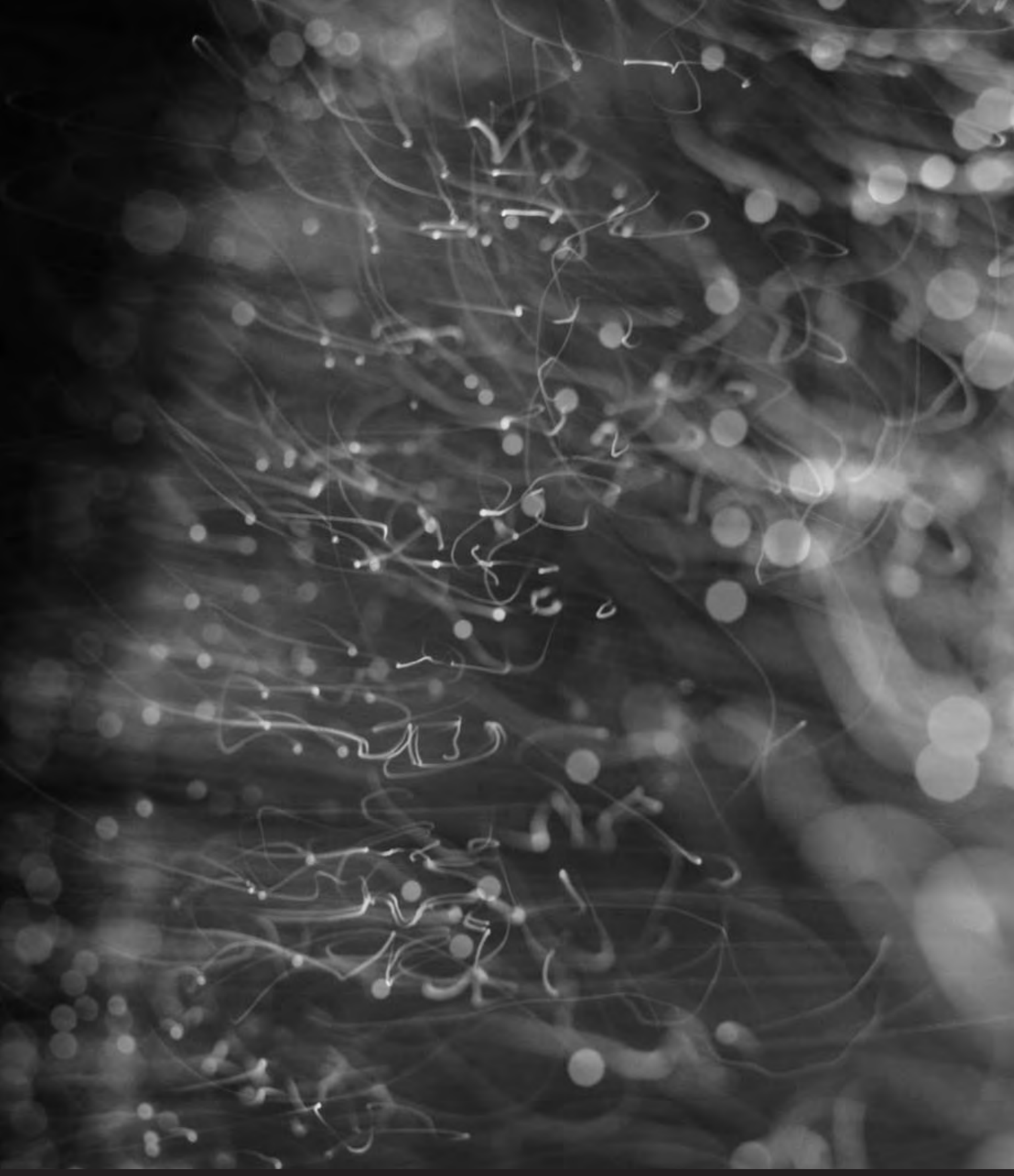


PART THREE

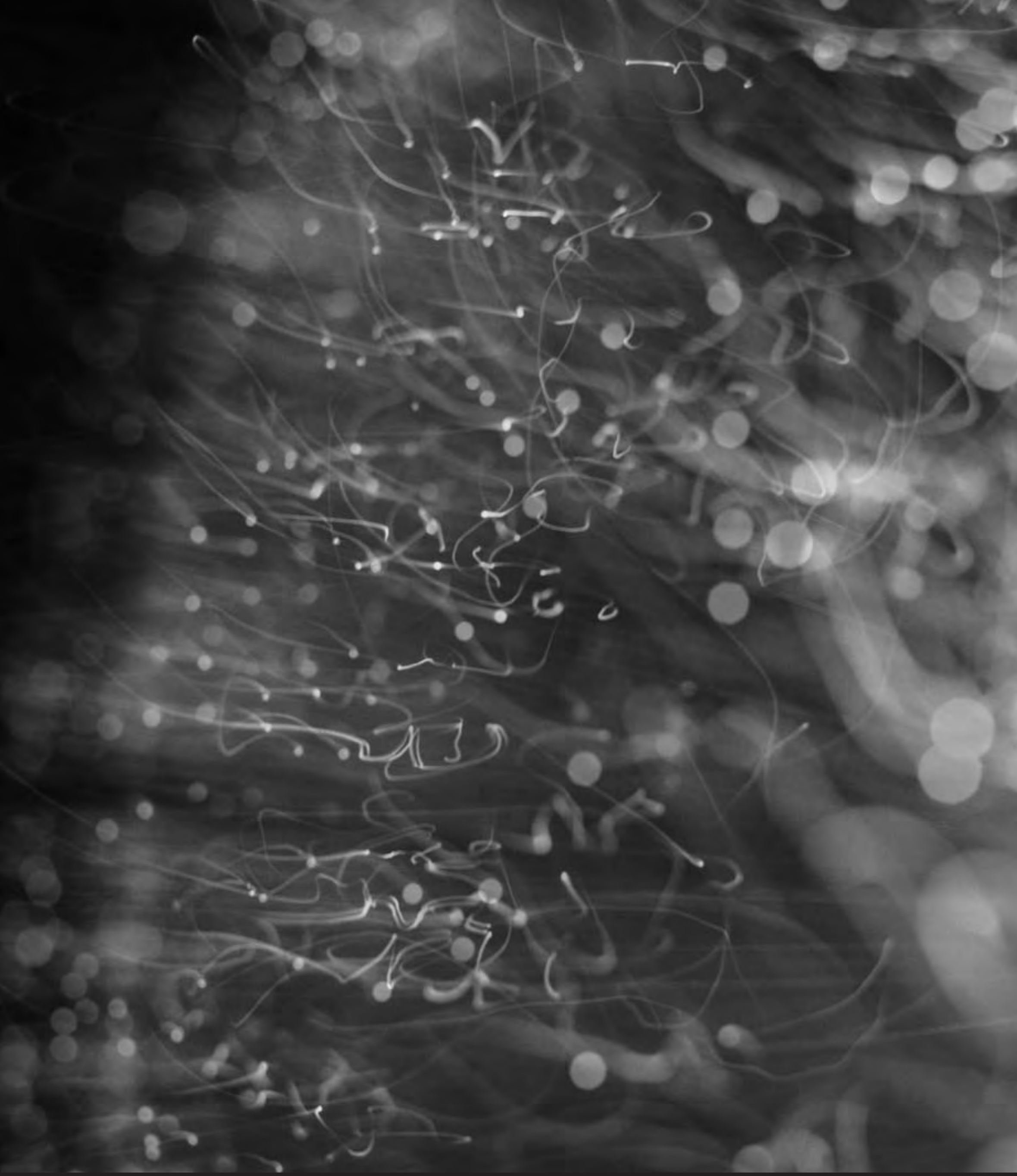
Market intelligence and planning

PART THREE
Market intelligence and planning

Part Three presents a framework for a total marketing and competitor intelligence system (Chapter 4), including guidelines and how-to techniques on data collection methods (Chapter 5).

The intent is not to turn you into a marketing researcher or a specialist in constructing market intelligence systems. Rather, the aim is to show you the systems and inputs that you can coordinate to assist in developing competitive strategies.

This part, then, answers the question: What do you do with all the competitive analysis and other marketing data? Chapters 6 and 7 describe a structure for organizing and sorting the information into a useable format for shaping your objectives and actions. That structure is the *strategic marketing plan*.



PART THREE CHAPTER FOUR

Developing a marketing intelligence system: The underpinnings of your marketing strategy

FOUR

Developing a marketing intelligence system: The underpinnings of your marketing strategy

Chapter Objectives

To enable you to:

1. Develop a *competitor intelligence system*.
2. List the applications of a *market intelligence system* as they relate to developing competitive strategies.

You cannot expect to boost your company's marketing effort without a workable marketing intelligence system. Action without information leaves results to chance, as opposed to planning your course and controlling the outcome. Strategic marketing planning and the development of tactics require an effective and efficient information system.

Marketing and sales executives are discovering that market and competitive intelligence systems represent potent strategic and tactical weapons. By using information in a variety of new ways, you can better support your core products, offer new value-added services that distinguish them from competitors and create new products and businesses that extend your markets.

As management guru Peter Drucker points out, "In the next 10 to 15 years, collecting outside information is going to be the next frontier." The following case illustrates how one organization found new places to grow its business.

Case example

Honeywell Inc., a diversified manufacturing company that is also known for inventing the thermostat and related control technologies, has been probing new areas to grow that segment of its business. During its initial search the company learned some indispensable lessons:

First, the pathway to growth is to exploit basic competencies. For Honeywell, those competencies include the ability to design, manufacture and distribute a superior product line of thermostats.

Second, to strategically expand the business, Honeywell needed to broaden its product definition of 'thermostats' to that of 'controls,' which is a more expansive concept.

Was that just a play on words? How did the notion of being in the controls business help Honeywell? How did managers translate the concept into a competitive strategy?

Let's follow the process:

- Managers began by gathering pertinent data from their records of sales to residential housing. They noted that on average a home contains about $350 of Honeywell products. They then asked a fundamental question: "How do we increase usage and size of order in a market we already serve?"

  Their answer: Tie product development into the new house designs of architects and builders – as well as to the personal needs of future house buyers. One outcome: A new product, Total Home, that controls lights, security, temperature, shuts off the television and closes windows.

- Searching for growth possibilities, marketing and sales managers then singled out commercial segments for special applications. For example, they focused on schools that were under pressure to control costs. Honeywell sold schools a process guaranteeing savings from heating and lighting, which also included integrated fire and safety systems. In one year they doubled sales to that segment. As if to punctuate the concept of building on one's core competence, one Honeywell manager stated, "And somebody says there's no growth in building. We just have to know where to look."

- Determined to increase market share in key industries even more, Honeywell acquired a European company specializing in automating papermaking companies. While Honeywell was a contender in process controls for pulp-makers, it lacked paper-quality sensors that were needed to increase sales to the forest products industry. Managers internalized the lesson that forming relationships to strengthen core products and markets permits a disciplined approach to managing growth.
- Viewing the burgeoning East European markets and observing that they barely scratched the surface, managers pinpointed their research and uncovered major growth opportunities. Looking to Russia, for example, they singled-out the following segments for Honeywell's products: energy-conserving control systems for large industrial complexes, special controls for huge fertilizer plants, boiler controls for Moscow's expansive residential district and residential thermostats for the vast number of individual living units. And with those opportunities in only one country of the former Soviet Union – and but one country in Eastern Europe – Honeywell managers saw immense opportunities. Translating growth to sales, Russia and Eastern Europe could turn into an immensely lucrative market for Honeywell.

Action strategy

> Determining where to sell your products relies on accurate intelligence to pinpoint opportunities.

What can you learn from the Honeywell case? Honeywell's growth strategy of leaning heavily on its core products and broadening its product definition can apply to your business, as well. Yet, there is still another component to implementing the strategy: determining where to sell the products, which in turn, means relying on accurate marketing intelligence to pinpoint opportunities.

To fill in this missing piece, consider the following framework for acquiring and organizing marketing information:

- Use information from your internal records (as Honeywell did.) The most basic information should include reports on sales by segment, prices, inventory levels and customer activity. By analyzing these data, you can spot significant opportunities.
- Develop a market intelligence system. While internal records supply results data, a marketing intelligence system provides in-depth information to aid decision-making in such areas as setting advertising budgets, determining market saturation, assessing competitors' strategies and measuring customer satisfaction.
- Systematize your approach to pursue marketing intelligence along four pathways:
  1. Overall exposure to information from newspapers, trade publications and your sales force, where there is no special purpose in mind other than keeping current.
  2. Controlled exposure to a clearly identified area of information by talking informally to customers, suppliers, distributors and other outsiders.
  3. Informal research to obtain information for a specific purpose by attending trade shows, reading competitors' published reports, attending their open trade meetings, talking to their former employees and collecting competitors' ads.
  4. A planned effort to secure specific information. This form of market intelligence is gathered through (a) syndicated-service research firms, such as A.C. Nielsen, that supply periodic trade information; (b) custom marketing research firms; (c) speciality-line marketing research firms which sell specialized research service to others; (d) online services such as America Online and CompuServe that offer information at a modest cost.

Finding new places to grow surface constantly. Your best approach is to utilize as many of the above sources as possible and organize an information system to capture the opportunity.

Information, intelligence and decision making

The cost of intelligence is justifiable as long as it improves decision-making.

Today's market place does not allow for a great deal of management by instinct and intuition. Still, many managers feel compelled to utilize that approach because they find management science techniques overwhelming and intimidating. As is often the case, a compromise between the two extremes seems to be the answer.

In highly volatile environments, instinct and market intelligence must be combined for effective business management. While it is not easy to work through the quantitative language often accompanying sensitive intelligence, the alternative of 'flying by the seat of your pants' is hardly promising.

In a competitive world, scientifically based information is undoubtedly needed to support and streamline your decision-making. To adequately satisfy this need, information sources and flows must be managed. Clearly defining your information requirements will, in turn, govern the acquisition and processing of information and establish the appropriate controls.

The process of building a complex marketing information system may start with this simple thought: "If I knew exactly what happened in the past and some insight into what may happen in the future, I would have a better feel for what actions are needed."

This statement reveals the manager's desire to develop a mechanism to supply meaningful and up-to-date intelligence that can improve decision-making. You should be able to refer questions to a current and consolidated reservoir of information responsive to the "If I knew…" wishes. Such a reservoir forms your database and the method of inquiry.[18]

Contrary to a common misconception, intelligence systems are not developed with the intention of replacing people with machines. Their purpose is to improve, not replace, decision-making.

For example, the intelligence delivered by an information system will guide you in allocating scarce resources in a manner that will optimize profits. For obvious reasons, the cost of intelligence is justifiable only as long as it continues to improve decision-making.

18 Note the distinction between information and intelligence: Information is simply an accumulation of random data, while intelligence is refined and synthesized information.

Such a system can accomplish the following:

- Monitor competitors' actions to develop counter-strategies.
- Identify neglected or emerging market segments.
- Identify optimum marketing mixes.
- Assist in decisions to add a product, drop a product, or modify a product.
- Develop more accurate strategic marketing plans.

Considering the wealth of material available on systems planning and development, this section can only highlight key developmental issues. It is intended mainly to give you an appreciation of what is involved in setting up and operating a marketing intelligence system.

The World Wide Web

The most useful contribution to setting up a marketing intelligence system is the dynamic expansion of the World Wide Web. It provides ready access to broad, multi-industry coverage of virtually every major sector of the business world.

You can locate company and industry overviews, management practices, regulatory decisions and executive changes. You can access information on industry trends, market share and size, mergers and acquisitions, new products and technologies, facilities and resources, sales and earnings performance and R&D activities.

The web affords timely and comprehensive coverage of the world's leading trade and business journals, as well as up-to-date directory information on today's fastest growing companies. There is an enormous wealth of competitive intelligence to help identify the key developments and trends that influence their business or profession.

Important, too, is that the World Wide Web provides you with a barometer of popular culture. The databases enhance your search for trends in the following areas:

- Research on ways in which consumer products are marketed to specific ethnic groups.

- Lifestyle trends and changing attitudes among aging baby boomers to products related to fashion, entertainment, education, cosmetics, food and nutrition, personal fitness and home computing.
- Demographic information on users of various products and services associated with travel, toys, religion, personal finance, automobiles and music.

  (See additional information on applications of the World Wide Web in Chapter 5.)

The following case illustrates the value of market intelligence where a company moved against a market leader with 80 per cent share of market.

Case example

Invacare Corp., a manufacturer of home health care equipment, has been winning major market share in the highly competitive wheelchair segment. To do so, Invacare had to contend with the formidable Everest & Jennings International that, during one time period, controlled an 80 per cent share of the wheelchair market.

Background: A group of investors bought out Invacare, once a division of Johnson & Johnson, in 1979. Its sales then were about $20 million, but under new management sales figures jumped to over $500 million. In contrast, over those years Everest & Jennings' sales and market share plummeted.

Invacare's strategies

For Invacare to gain any leadership position it had to use market intelligence to identify weak spots through which to implement strategies of differentiation. Here is how Invacare proceeded:

1. Despite its inability to meet consumers' expectations, it had for a long time enjoyed supremacy in this industry. However, whether real or imagined, Invacare managers noted that customers were beginning

to perceive Everest & Jennings as inaccessible and that its then unreliable distribution system further compounded the problem.

Invacare managers also discovered these weaknesses through its market intelligence system. Here, then, was a hot opportunity to fulfil customers' needs that their rival could not perform at that time.

2. By strengthening its supply chain, Invacare focused on independent home health care dealers who wanted to have products delivered faster. Next, Invacare fortified its hold on distribution through value-added enhancements. It offered dealers pre-paid freight, 48-hour delivery, bargain financing, money for cooperative advertising and volume discounts.

   Over the years, each move tightened Invacare's hold on the supply chain and solidified customer relationships. Most important, the competition lacked the ability to duplicate these efforts.

3. Invacare further exploited its heavy dealer orientation by using the supply chain to introduce new products such as crutches, oxygen concentrators and a variety of ancillary items. The strategy helped Invacare launch new products and benefited dealers with volume discounts on its entire line of products.

Invacare recognized that to sustain the momentum against Everest & Jennings, it needed a blockbuster product. Invacare scored by launching a motorized wheelchair with computerized controls that soon became the industry standard.

Also, to arm itself against the inevitable price wars with look-alike products, Invacare embraced continuous improvement, quality and cost-cutting procedures to protect its growing market position.

Action strategy

What can you learn from the Invacare case? Invacare managers shaped their strategies with the confident attitude that the size of a competitor was not the issue, nor should the market leader intimidate them.

To support that bold spirit, managers acquired meaningful competitive intelligence from which they learned that the competitor was vulnerable because it was not meeting customers' needs. They concluded that if challenged with a well-planned set of strategies, the rival could be displaced.

As with Invacare, you can meet a similar challenge with a well-defined set of strategies that combines isolating your competitor's weaknesses and applying your core competencies. You can do this by:

- Researching market needs, customer values and technologies that will support your business immediately and long-term.
- Selecting a favourable position consistent with your firm's capabilities and available resources.
- Enhancing products and services to satisfy customers' needs which places you in a more favourable competitive position.

Implementing a marketing intelligence system

Give high priority to getting your intelligence system into the mainstream of your company's management process.

The importance of any marketing intelligence system does not lie in the elegance of its logic or the harmony of the hardware in the computer centre. Rather, its value is measured by its use in decision-making. Therefore, give high priority to getting your system into the mainstream of your company's marketing management process.

Also, the marketing intelligence system is not supposed to inundate you with reams of computer printouts. Rather, it is to synthesize variable activities to facilitate managerial decision-making. The delivery mechanisms can be more or less costly and sophisticated, depending on your management's priorities.

What you should expect from your system is to be able to run your business more efficiently on a day-to-day basis. It should also be used to track progress toward long-term strategic goals and alert you to significant competitive and market changes.

Table 4.1 summarizes what your system can and cannot do for you. The intent here is to show that if the task of developing a system is given to an IT manager or outsourced to a provider, you should have input to its design and usefulness. Once again, the primary criterion: does the system provide reliable intelligence that can shape your competitive marketing strategies?

CAN DO	CANNOT DO
1. Track progress toward long-term strategic goals.	1. Replace managerial judgment.
2. Aid in day-to-day decision-making.	2. Provide all the information necessary to make an infallible decision.
3. Establish a common language between marketing and 'back office' operations.	3. Work successfully without management support
4. Consider the impact of utilizing similar marketing strategies on multiple market segments.	4. Work successfully without confidence.
5. Automate many labour-intensive processes, thereby effecting huge cost savings.	5. Work successfully without being adequately maintained and responsive to the user community.
6. Serve as an early-warning device for operations or businesses not on target.	
7. Help determine how to allocate resources to achieve marketing goals.	
8. Help service customers more effectively.	
9. Enable you to improve overall performance through better planning and control.	
10. Alert you to unusual competitive activity that would indicate developing problems.	
11. Improve control over your marketing and non-marketing activities.	
12. Provide marketing and economic data on unusual problems to permit appropriate remedial action.	
13. Anticipate competitive moves in time to deploy your human, financial and material resources for maximum impact.	

TABLE 4.1 CAPABILITIES AND LIMITATIONS OF A MARKETING INTELLIGENCE SYSTEM

The urgency for competitor intelligence earns it a distinct place in the total framework of market intelligence. According to one reliable source, approximately 50,000 electronic bugging devices are now hidden in the offices and meeting rooms of U.S. corporations, with 10,000 more planted every year, usually by rival corporations. In addition, estimates show that corporate spending on electronic surveillance is growing by 30 per cent annually.

This single form of intelligence gathering provides just one example of how ferociously businesses are working to get information on competitors. But bugging competitors' meeting rooms is not the only method for obtaining such intelligence.

The following case example shows how one company used competitor intelligence as part of an overall marketing intelligence system to gain competitive advantage.

Case example

Nabisco Corp. is the maker of such favourite cookies as Oreo and Chips Ahoy! brands. Together with its 65-year-old flagship brand Ritz Crackers, there's enough brand equity to make most managers feel comfortable, particularly with snack-hungry consumers.

But such feelings often breed complacency. That's what happened to Nabisco when its chief rival, Procter & Gamble, pulled off a marketing coup. P&G's Duncan Hines operation secretly prepared a soft chocolate chip cookie to attack Oreo and Chips Ahoy!.

The assault caused total shock to Nabisco. Within only a few months P&G seized a full third of the test market, while Nabisco's sales nose-dived by 30 per cent.

How did it happen? By Nabisco's admission, they fell asleep. Their field intelligence did not detect the goings-on at Duncan Hines.

That advantage didn't last long, however. Nabisco's management awakened with a vengeance. Within six months the company counter-attacked with a 15 flavour line of soft cookies called Almost Home. By the time P&G was preparing a national roll-out of its product, Nabisco was also ready to go national.

Result: P&G's Duncan Hines brand garnered only a five per cent share of the national market, while Nabisco's national cookie share actually jumped two points to 36 per cent.

The incident left its scars on Nabisco's managers who vowed never to be caught napping again. Now, they have one of the strongest new products marketing teams in the food business.

Whereas, at the time of the P&G attack, Nabisco was introducing about two or three new products a year. Within a two year time period, it has launched more than 100 new products and line extensions, including reduced fat versions of Oreos, Chips Ahoy! and Triscuits.

Action strategy

What can you learn from the Nabisco case? For starters, if attacked by an aggressive competitor trying to pry away market share from you, develop a superior market intelligence system – or strengthen your existing one, with emphasis on your competitors.

Otherwise, your hard-earned share of market is totally vulnerable. With reliable market intelligence you at least have a fighting chance to respond, particularly in markets where brand loyalty may be superficial.

Further, you can't afford to be complacent, even if you enjoy a commanding share of the market – particularly in a flat market. Some competitor is certain to yearn for some of that share. (A situation experienced by Nabisco.) Conversely, if you are up against a market leader, don't assume the market is impregnable to your new product entry.

Assembling reliable competitor intelligence helps you in the following ways:

- You can develop defensive strategies to counter competitive moves, as Nabisco managers did by launching the Almost Home product line to defuse P&G's attack.

- What's more, you can design offensive strategies that move you into new market segments by feeding information to product developers about customer trends and problems.

One telecommunications company developed a competitive information system to monitor rivals in its various product categories. The system answers the following questions, which you may wish to modify for your own use:

1. What are our competition's current strategies?
2. How are they performing? (By sales, ROI, market share?)
3. What are their strengths and weaknesses relative to your own?
4. What action might they take in the future that would affect the company?

Further, the system then attempts to collect the following information about all major competitors:

Competitor's plans	Distribution facilities and strategy
Competitor's organization	Pricing strategy
Product strategy	Regulatory strategy
Production strategy	Major events
New product development	Product line strategy
Investment strategy	

Answers to the four questions, combined with the information contained in the above categories, create a profile that will offer insight into likely competitive actions. For example, take product development: accurate intelligence helps you determine if any competitive new products are ready for launch. (A situation that Nabisco failed to detect about Duncan Hines.)

Then consider pricing strategy: competitor intelligence helps you decide to what extent a competitor can hold out against heavy discounting, or even all-out price wars. Further, think about distribution: reliable information helps you estimate if your competitor has the promotional capacity to roll-out its product on a national launch.

Finally, the primary lesson you can derive from the Nabisco case:

There is no reliable way to develop competitive strategies without accumulating and accurately interpreting market intelligence.

Additional lessons

We can review Nabisco's competitor analysis as a six-step process that led to its strategies:

1. *Competitors' size* – categorized by market share, growth rate and profitability.
2. *Competitors' objectives* – both quantitative (sales, profits, ROI) and non-quantitative (product innovation, market leadership and international, national and regional distribution.)
3. *Competitors' strategies* – analyzed by internal strategies (speed of product innovation, manufacturing capabilities, delivery, marketing expertise) and external strategies (supply chain network, field support, market coverage and aggressiveness in defending or building market share).
4. *Competitors' organization* – examined by structure, culture, systems and people.
5. *Competitors' cost structure* – examined by how efficiently they can compete, the ease or difficulty of exiting a market and their attitudes toward short-term versus long-term profitability.
6. *Competitors' overall strengths and weaknesses* – identified by areas of vulnerability to attack as well as areas of strength to bypass or neutralize.

Overall, Nabisco's ability to develop aggressive strategies was based on a comprehensive marketing intelligence system that served as a window through which to develop a clear image of the actions needed to sustain a competitive advantage.

Assembling competitor intelligence

If you are in charge of the marketing function, then responsibility for competitor intelligence sits squarely on your shoulders. Otherwise, it lies with any executive in charge of devising competitive strategies.

In order to understand the flow of data, you need to examine the following parts of the system.

Accumulate field data

At the top of the list is the *sales force*, which represents one of the most valuable sources of competitor intelligence. When sales people are trained to observe key events and oriented to believe their input fits into the competitive strategy process, these men and women are first-line reporters of competitors' actions.

Communications with sales people can be maintained by periodically travelling with them, by conducting formal debriefing sessions to gain detailed insights behind the competitor actions they observed and by creating or expanding a section of the sales force call reports to record key competitor information.

> The central purpose of competitive intelligence is to provide input for developing marketing strategies.

Gathering published data

There are numerous sources of published information, from small town newspapers, in which a competitor's presence makes front-page headlines, to large city or national newspapers and magazines that provide financial and product information about competitors. Monitoring want ads in print and over the Internet provide clues to the types of personnel and skills being sought.

Also, speeches by senior executives of competing companies provide valuable insights into other firms' future plans, industry trends and strategies under consideration. At times it is astonishing how much sensitive information is provided in speeches that are given at trade shows and professional meetings and that subsequently get into print.

Assembling the data

Additional marketing intelligence sources include clipping services that gather information about competitors and interviews with individuals who come in contact with competitors and key events, such as trade shows.

Organizing the data

The varied sources of data come together at this point in the system. Depending on the facilities available to you, the data should be organized and maintained by a marketing analyst, manager of competitive intelligence, IT manager, or librarian.

Management analysis

The first four procedures are mechanical ways of collecting, compiling and cataloguing data. The analytical and creative aspects now apply as you begin to synthesize the data to detect opportunities. It is appropriate to call in key functional managers from finance, manufacturing and product development to assist in the analysis.

Transmitting the intelligence

There are various approaches to communicate the synthesized information: oral reports at weekly staff meetings and the increasingly popular competitor newsletter.

Formulating strategies

As has been mentioned elsewhere, the whole purpose of internal and external analysis and the entire competitor intelligence system is to develop competitive strategies.

Applications of the competitor and marketing intelligence systems

> Become the driving force behind installing a marketing intelligence system.

The broad purpose of competitor intelligence is to provide accurate information about your competitors' strengths and weaknesses so that you can attack those weaknesses. (See Chapter 1 to re-examine the power behind the indirect attack.)

By focusing on the weaknesses of competitors' services, product performance, pricing policy, promotion strategy, supply chain relationships, or ability to pursue poorly served market segments, you can dislocate and unbalance the competition. You thereby gain your objectives without costly market confrontations that may result in using your resources with little or no gain.

The following case shows the application of market intelligence where a company wishes to expand out of a mature market.

case

Case example

Fisher-Price Inc., an industry leader in children's toys, with a stronghold in the pre-school market, found itself in a precarious position after making a foray into toys for older children. Even backed with an extraordinary image for product quality and a loyal customer base honed by years of dedication to pre-schoolers, the expansion cost Fisher-Price dearly. Share in its core market nose-dived from 64 per cent to 44 per cent, with a corresponding drop of 17 per cent in revenues.

The painful experience required corrective actions, such as pulling back from product development projects beyond its traditional pre-school market, closing three factories and other aggressive cost cutting measures.

Let's examine the contributing factors to the problem and observe the lessons:

Market expansion

Expanding into additional segments, after reaching an acceptable market share position in your primary market, is a prudent option. After all, aren't the strategy lessons touted by marketing experts for the 21st century geared toward searching for new market segments?

The common strategy is to penetrate with either line extensions or technology applications. It is an acceptable and logical move for a market leader, such as Fisher-Price, particularly in a flat market.

It's only advisable though if sufficient resources are available to penetrate the new segment and, providing sufficient management attention and resources are available to vigorously protect the primary segment. Otherwise, it may be necessary to pull back from the expansion because resources are spread too thin.

If Fisher-Price looked for new segments in a mature market, so, too, did its competitors: Rubbermaid and Hasbro. When Fisher-Price launched into the older kids segment, the diversion created a 'window' through which the competitors saw an opportunity to make a massive assault into Fisher-Price's core market of pre-schoolers.

These moves were legitimate and almost predictable. One can assume the competitors had been eyeing expansion into the pre-school segment for a long time.

Therefore, concurrent with planning a market expansion, create likely scenarios of competitors' actions against your expansion moves. Gather the competitive intelligence needed to predict competitors' movements and make this information an essential ingredient in building your strategy. Assuming competitors would do nothing places your company in jeopardy.

Action strategy

What can you learn from the Fisher-Price case? Above all, when going outside your prime markets use Competitive Intelligence (CI) to determine your competitors' strategies.

Consider the following criteria of CI:

1. CI must be *accurate*: critical decisions affecting expenditures of money, human resources and time are at stake.
2. CI must be *timely*: events have time cycles. Past a certain point, an opportunity may not occur again – or, competitors may seize the opportunity.
3. CI must be *usable*: data without application becomes irrelevant.
4. CI must be *understandable*: information that cannot be interpreted with relative ease by the average manager and then applied to developing strategies and tactics is nearly useless.
5. CI should be *meaningful*: if it cannot be translated into scenarios of strategies, it's just nice-to-know information.

While it is in your best interest to become the driving force behind installing a marketing intelligence system and for gathering competitor intelligence, your most important role is to know where to apply the information.

For instance, strategic withdrawal or market expansion can be viewed through (1) market segmentation analysis, (2) product life cycle analysis and (3) new product development, all of which have a foundation of solid marketing intelligence and competitor intelligence.

For market segmentation analysis, intelligence systems can be used to:

- Identify segments as demographic, geographic, cultural and psychographic (lifestyle); and by product attributes and usage rates.
- Determine common buying factors within segments.
- Monitor segments by measurable characteristics – for example, customer size, growth rate and location.
- Assess potential new segments by common sales and distribution channels.
- Evaluate segments to protect your position against competitor in-roads.
- Determine the optimum marketing mix for protecting or attacking segments.

For *product life cycle analysis*, marketing systems output can be used at the introduction stage to:

- Determine if the product is reaching the intended audience segment and how customers are reacting to the initial offering.
- Analyze the marketing mix and its various components for possible modifications, for example, product performance, back-up service and additional warranties.
- Monitor for initial product positioning to prospects – that is, to determine if customer perceptions match intended product performance.
- Identify possible points of entry by competitors in such areas as emerging or poorly served segments, product or packaging innovations, aggressive pricing, concentrated or innovative promotions, distribution incentives and add-on services.

- Evaluate distribution channels for market coverage, shipping schedules, customer service, effective communications and technical support.
- Compare initial financial results to your budget.

At the growth stage, system output can be used to:

- Analyze product purchases by market segment.
- Identify emerging market segments and any new product applications.
- Conduct a competitor analysis and determine counter-strategies by type of competitor.
- Adjust the marketing mix to emphasize specific components, for example, change product positioning by shifting from a pull-through advertising strategy directed to end users to a push advertising program aimed at distributors.
- Decide on use of penetration (low) pricing to protect specific market segments.
- Provide new incentives for the sales force.
- Monitor financial results against plan.
- Provide feedback on product usage and performance information to R&D, manufacturing and technical service for use in developing product life cycle extension strategies.

At the maturity stage, system output can be used to:

- Evaluate differentiation possibilities to avoid facing a commodity type situation.
- Determine how, when and where to execute product life cycle extension strategies, for example, finding new applications for the product to new market segments.
- Expand product usage among existing market segments or find new users for the product's basic materials.
- Determine potential for product line extensions.
- Continue to monitor threats on market segments and threats to total market share on a competitor-by-competitor basis, then use competitor intelligence to develop strategies to protect market share.
- Evaluate financial performance, particularly profitability. (If all went well you should be in a cash cow stage of the cycle.)

At the decline stage, output can be used to:

- Evaluate options such as focusing on a specific market niche, extending the market, forming joint ventures with manufacturers or distributors and locating export opportunities.
- Determine where to prune the product line to obtain the best profitability.
- Monitor financial performance as a means of fine-tuning parts of the marketing mix.
- Identify additional spin-off opportunities through product applications, service, or distribution networks that could create a new product life cycle.

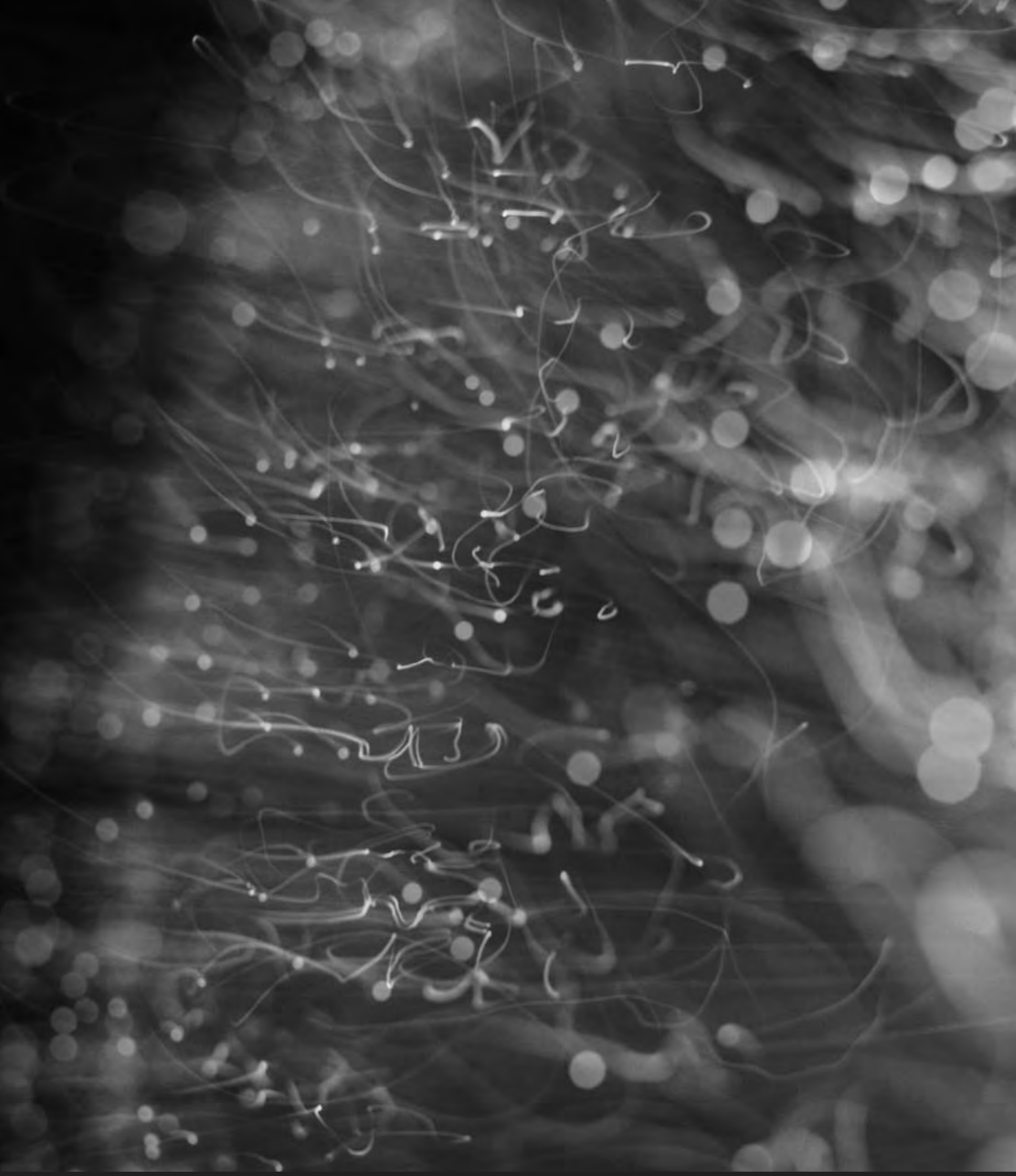
For *new product development*, marketing intelligence systems output can be used as a preliminary screening device to:

- Identify potential market segments as an idea generator for new product development.
- Determine the marketability of the product.
- Assess the extent of competitors' presence by specific market segments.
- Develop a product introduction strategy from test market to roll-out.
- Develop financial performance.

Summary

As indicated at the outset of this chapter, your company's marketing effort requires a practical marketing intelligence system. Attempting to fashion a strategy without reliable information opens you up to excessive risks, as compared to planning a course of action that permits you to manoeuvre to areas of greatest opportunity at the least cost of resources.

By using marketing intelligence you are in a better position to provide support to products and services, identify new or vacant niches and monitor competitive moves. Further, a quality system can monitor competitors' actions, identify optimum marketing mixes, assist in decisions to add a product, drop a product, or modify a product and develop a more accurate strategic marketing plan.



PART THREE CHAPTER FIVE

Marketing research: The primary tool to stay in touch with customers and markets

FIVE

Marketing research: The primary tool to stay in touch with customers and markets

Chapter Objectives

To enable you to:

1. Describe the characteristics and applications of the three basic methods of primary data collection: experimentation, observation and interview.
2. Compare the strengths and weaknesses of the three principal interview research strategies: in-person, telephone and mail.
3. List the useful applications of focus group interviews.
4. Identify which marketing mix factors affect a product's image and how an image can be researched.
5. Utilize the variety of sources for secondary information and the World Wide Web.

When you use market intelligence to plan competitive strategies, marketing research is the primary input to reduce the risks inherent in making decisions. Such research is invaluable during every phase of the marketing process. This is specially so during the onset of a new product or service idea through the stages of its evolution and market life and, finally, to the decision to discontinue the product or service.

As corporations grow more complex and the buying process becomes more intricate, marketing research acts as the primary tool for bridging the communications gap that enables managers to stay in touch with their markets.

Better and more successful strategy decisions can be made when based on facts rather than hunches. These facts are the product of marketing research, which act as a listening post between your company and the customer.

Marketing research, then, is the mechanism to improve the effectiveness of your marketing decisions by furnishing accurate information about consumer needs or problems through which you can base your recommendations.

> Superior strategy decisions are made when based on facts rather than hunches.

Further, marketing research is the systematic gathering, processing and analyzing of relevant data to solve your firm's short- and long-term competitive problems, as well as to clarify potential marketing opportunities. Ideally, your marketing research efforts should be *systematic, comprehensive and objective*.

They should be systematic because an unplanned undertaking cannot be interpreted quantitatively. They should be comprehensive because having only some of the truth can be misleading. And they should be objective because research is worthless if it not reproducible and aimed at discovering the truth.

However, the ideal is often not attained because of budget and time constraints. Some marketing research projects have to be completed rather quickly and this haste severely limits their thoroughness. Similarly, insufficient funds for marketing research may limit the amount and quality of work that can be completed.

The following case sets the scene for the practical application of marketing research by showing how a company applied market feedback to reveal new product and market opportunities.

Case example

Case Construction Equipment successfully pulled out of a decade old period of dismal sales, profits and market share performance. In a combative market, such progress against the likes of Caterpillar and John Deere is in itself a colossal achievement.

Significant growth towards recovery began when the then CEO Jean-Pierre Rosso launched a new era for Case. His fundamental assertion when taking office marked a new humility for the equipment maker and rekindled respect for its customers: "We need to be asking what the farmer and contractor really need," declared Rosso.

Basic as his statement may appear, for several tumultuous years "asking" was not part of Case's product development process. Instead, products flowed off the production line to optimize factory capacity. That resulted in churning out such products as low horsepower tractors that entered the market place through low prices and incentives.

Worse yet, when market demand plummeted, dealers found themselves with a glut of unsold Case equipment. To aggravate the situation further, relationships with dealers deteriorated, characterized by dealers' suspicion of new product announcements.

Case's strategies

In the face of those desperate conditions, Case managers set out to determine the wants and needs of its customers. One incident showcases the process managers used to obtain reliable customer feedback:

- A contractor was flown in and put to work for three exhaustive days testing a piece of Case equipment and comparing performance with similar Caterpillar and Deere machines. Each day and well into the night hours, managers and engineers grilled the customer about features, benefits and operating problems.
- In another approach, Case sent teams of engineers and marketing personnel to talk to key customers and users of rival equipment.

Applying the feedback, engineers developed prototype machines and shipped them to hundreds of participating users for their evaluation. Engineers then incorporated information from actual field trials into final prototypes.

- Beyond market research, Case engineers looked outside the industry to identify techniques other companies used to make their products more cost efficient. For instance, they borrowed a time-tested system from the automotive industry:

To reduce the time and cost of design – and to shrink inventories – Case began building its new family of backhoes around a common platform. Result: 75 per cent of parts are shared, up from 30 per cent.

Bottom line: All this market-driven "asking" is a far cry from Case's former practices.

What can you learn from the Case example? The successful use of customer feedback can apply to your business, as well. Especially in predicaments where you have to reverse a sales decline, polish a tarnished product image, or re-establish customer relationships.

Consider the following benefits of market research. You can:

- Single out market segments for growth and expansion, as well as protect an existing market position against competitors' inroads.
- Shift emphasis in your product, price, promotion and supply chain to target special groups of buyers with greater precision.
- Generate reliable customer feedback so product developers can coordinate their efforts to improve a product's usage, performance and reliability.
- Avoid the threats of your product facing an indistinguishable commodity situation by accurately defining differentiation strategies.
- Suggest meaningful options for growth as you evaluate market data and pinpoint viable export markets.
- Target poorly served customer niches as fresh opportunities to accumulate incremental sales.

> Customer feedback applies to reverse a sales decline, polish a tarnished product image, or re-establish customer relationships.

Market research guidelines

As detailed in the balance of this chapter, reliable market research comes from two major sources: *primary data* and *secondary data*. For you to gain the optimum use for the feedback, market research must be:

1. *Accurate*. At stake are critical decisions affecting expenditures of money, human resources and time.
2. *Timely*. Events have cycles that, once past, may not occur again or whose opportunities pass to competitors who have seized the moment.
3. *Usable*. Data that cannot be applied is irrelevant. It must fill the gaps of information in your marketing plan.
4. *Understandable*. Information is virtually useless if you cannot interpret it with relative ease and use the output to develop strategies and tactics.
5. *Meaningful*. If the information lacks importance, if it is not significant but is merely nice-to-know information, you have missed the vital contribution of market research to survival and growth.

Finally, marketing research is essential for measuring, evaluating and projecting various competitive scenarios. A clear understanding of the data plays a key role in maintaining competitive strength in existing markets and expanding into new growth areas.

Types of data

You can get the data needed for marketing research either by turning to existing information (secondary data) or by generating your own (primary data). Initially, you should avoid a primary research study for reasons of time and cost.

Instead, many of your marketing questions would probably be answered satisfactorily by utilizing secondary data. Only if this avenue proves inadequate should you consider primary research.

The distinction between the two types of data is a matter of purpose and control. With secondary data you have no control over their gathering, processing and interpretation. Therefore, check carefully to see how applicable they are to your situation.

The unit of investigation may have been different (for example, families instead of households); the sample size may have been insufficient; the wrong people may have been queried; the questions may have been leading; the data may now be obsolete.

Even so, a thorough review of available secondary data is a must before you undertake a primary research project, because these data may provide all the answers you need. For instance, if you must find out who are the heavy users of powdered detergents and where they are located, it would be unwise to collect your own data at great expense.

Data of this type is readily available from commercial suppliers. Even if you want to know who your own ultimate buyers are, you don't necessarily need to generate your own information. A professional data collection organization may already have this information in its files.

Generating primary data

> Three major methods generate primary data: experimentation, observation and interviewing.

Of course, if you come up with 'what if' questions, secondary data are no longer useful. They cannot address the issues of new product information, reactions to advertising, the impact of alternative pricing approaches, or the effect of a package change, among others.

It then becomes unavoidable to generate your own data for the specific research purpose at hand. To help you do so, you have three major methods at your disposal that have been refined to a high degree of sophistication: experimentation, observation and interviewing.

Experimentation

Experimental research aims to discover the impact of changes of two variables to help you optimize your marketing mix. It involves creating artificial situations in which all variables except the one to be tested are kept constant.

In the experiment, one variable is deliberately manipulated to test its effect on the outcome, usually measured in terms of sales. For example, a test market is selected in which different prices are charged for the same product in different cities to test the direct effect of price on sales.

To be meaningful, experimentation requires controlled situations, either in the field or in the laboratory. If influences from uncontrollable variables (for example, dealer display) are found, the data will have to be adjusted accordingly.

It is always advisable to employ *control groups*, in which no changes are introduced, to ensure the reliability of the experimental research. Each experiment must be designed and tailored to meet the specific needs of your project.

Observation

Should you want the reactions of consumers to your product, packaging, advertising, or some other aspect of your marketing mix, observation can supply you with the input. Researcher and marketing manager could personally watch a test for a firsthand look at the consumer's reaction to an intended change before implementing it on a large scale.

Observation records the behaviour of people or the results of this behaviour. At times it is done without the knowledge or consent of the subjects, thus allowing them to behave naturally. Observation can be recorded either by a person or by an electronic device (review ethnographic guidelines in Chapter 2). For example, you could personally observe the behaviour displayed by consumers in selecting toys. In contrast, a surveillance camera or a psychogalvanometer (lie detector) are examples of electronic devices used to record consumer reactions.

Auditing and visual assessment, often referred to as 'looking' research, is another kind of observation. By generating a count of the merchandise most recently moved through the nation's supermarkets, observation research gives you a capsule overview of the competitive framework for your product at a particular point in time.

> Use observation to find out what people do.

Observation can be carried out either in the market place (traffic counts) or in a laboratory setting (pupillometric, or eye movement, studies to measure the interest or emotions aroused by exposure to a specific ad or picture). Whatever the circumstances, you use observation to find out what people do. Its big limitation is, of course, that it cannot tell you *why* they do what they do.

Interviewing

Interviewing is asking questions of selected respondents who might possess valuable insights about the group under investigation. Such survey research can be conducted formally or informally, structured or unstructured and disguised.

If it is informal, the results cannot be extended to the underlying population. If it is structured, a formal questionnaire is used. And if it is disguised, the true purpose of the research is concealed from the interviewee.

An example of an informal, unstructured questioning technique is the focus group interview (see the later section in this chapter), while a mail questionnaire is a formal, structured, disguised technique.

These various characteristics explain why interviewing is by far the most widely and most frequently used approach in primary data generation. It is not as cumbersome and expensive as experimentation and it digs beneath the observed behavioural surface in perception and motivation.

To get at the truth, however, a great deal of skill is required in executing a survey, because it is subject to even more human bias than either experimentation or observation. Bias on the part of both the interviewer and the respondent add to any inherent defects in the wording or sequence of questions.

Interview research you conduct can be extended over a period of time to monitor changes in your competitive environment. Or, it can provide a one-time snapshot of your market highlighting, for instance, the impact of a particular advertising campaign. As with the other two methods, you can interview either in the field (in supermarkets, shopping malls, or homes) or in the laboratory (inviting selected consumers into a research facility).

Three approaches

Depending on the nature of your research task, the amount of money and time available and the accessibility of the target group to be surveyed, conclusive interview research may take one of three forms:

1. *In-person interview*: Interviewer questions respondent face to face (a) in the privacy of the interviewee's home or office, or (b) in a central location by intercepting the consumer in a shopping mall or on the street.
2. *Telephone interview*: Interviewer conducts survey over telephone (a) in a local market, or (b) nationwide over toll-free lines.
3. *Mail interview*: Survey questionnaire is mailed to selected respondents and returned by mail.

When choosing one approach over another, look not only at your budget and time frame, but also at your likely rate of response and your response bias. The rate of response is the ratio of those who respond to the total number of people contacted.

It is subject to possible non-response bias because those who are not responding may differ substantially from people who do. If this discrepancy is significant, a question may arise as to whether the results are representative.

Response bias, on the other hand, is the distortion inherent in the answers given due to misinterpretation of the questions or deliberate misrepresentation. You will want to keep the rate of return as high and the response bias as low as the constraints of time and budget will allow.

Table 5.1 compares the three primary interviewing techniques. The various criteria can assist you in examining their relative merits and choosing the approach best suited to your research objectives.

	IN PERSON	TELEPHONE	MAIL
Flexibility in data collection	Most flexible. Can use videos, depth probes and various rating scales, and can even alter direction of interview while still in progress.	Fairly flexible. Although visual aids and extensive rating scales cannot be used.	Least flexible. But pictures and rating scales that do not require investigator assistance may be incorporated into a questionnaire. Too many open-ended questions reduce response rate.
Quality of data obtainable	Fairly extensive. Data may be obtained, subject to respondent-investigator rapport.	Generally limited by short duration of interview.	Long questionnaire adversely affect response rate and are not recommended.
Speed of data collection	Process of personally contacting respondents is time-consuming.	Data available almost instantaneously. Ideal for ad-recall and similar studies.	Delays result from slow and scattered returns.
Expense of data collection	Generally most expensive.	Less expensive than in-person interview.	Least expensive, depending on return rate.
Investigator bias	Respondent-investigator interaction may significantly modify responses.	Investigator bias, while present, is less serious than with in-person interview.	No investigator bias.
Lead time for respondents	Need to respond quickly to questions may result in incomplete or inaccurate data.	Same problem as with in-person interviews.	Respondents have time to think things over and do calculations to provide more detailed and accurate information.

Sampling considerations	In-person interviews require detailed addresses of all respondents. Problem may be overcome by using area and systematic sampling procedures.	Problems resulting from imperfections in telephone directory may be controlled to some extent by using 'random digit dialling' or other computerized procedures.	Mailing list is required. Samples generated from unreliable lists introduce substantial selection bias.
Non-response bias	Refusal rate is generally somewhat higher than with telephone interviews.	Call backs can reduce non-response bias and are fairly inexpensive.	Non-response bias could be very serious in cases where those who return the questionnaire differ substantially from those who do not.
Sequence bias	No serious problem. Investigator can record any changes respondents wish to make to answers to previous questions as interview progresses.	Same problem as with in-person interviews.	Respondents can see entire questionnaire and modify their responses to individual questions.
Anonymity of responses	In-person, eye-to-eye contact may stifle frank interchange on sensitive issues.	Obtaining frank responses is a problem, although less so than in in-person interview situations.	Frank responses on sensitive issues can be obtained by guaranteeing anonymity.
Identity of respondents	Easily available for future reference.	Name and telephone number are available for future reference.	May not be available in many cases. Someone other than intended respondent may even have filled out questionnaire.
Field control	Difficult and expensive.	Centralized control is no problem. Results in better quality data.	Generally not a problem.

Difficulty of reaching certain segments of population	The very rich are hard to reach and investigators avoid very poor areas. Most working men and women cannot be reached during normal working hours.	Most working men and women are unavailable unless interviews are conducted in the evening and at weekends.	Individuals with a low literacy level cannot be reached.
Geographic coverage	Generally limited by cost considerations.	Call centres permit wide coverage at reasonable cost.	Geographic coverage is no problem.
Investigator assistance	Easily available to explain instructions; provide help with unfamiliar terms and research procedures.	Available, although not to the same extent as in in-person interviews.	Not available. Instructions may be misinterpreted and incomplete answers or blanks are fairly common.

TABLE 5.1 COMPARISON OF RELATIVE STRENGTHS AND WEAKNESSES OF THE THREE PRIMARY INTERVIEWING TECHNIQUES

Focus group interviews

> Focus groups are a qualitative research technique and cannot replace quantitative research.

Focus group interviews are a flexible, versatile and powerful tool for the decision-maker. These interviews can furnish you with valuable information on a variety of competitive and marketing problems in a short span of time and at a nominal cost. But you have to keep in mind their limitations.

Focus groups are a *qualitative* research technique and should not be a device for head counting. The results of focus group interviews cannot be projected to your target market at large. They may not even be representative and certainly cannot replace the quantitative research that will supply you with the necessary numbers.

The interviews, however, can improve the quality of your quantitative research significantly. When there is no time for a well-planned formal project, you can call upon this technique to supply factual and perceptual input for making reasoned decisions, which otherwise would have to rely exclusively on conjecture.

Focus group interviewing involves the simultaneous interviewing of a group of individuals – physicians, homemakers, police officers, purchasing agents, or any other group of potential buyers or specifiers representative of your market. A session is usually conducted as a casual round table discussion with six to ten participants.

Fewer than six poses the danger of participants feeling inhibited. More than ten could result in some members not being heard. The idea, of course, is to get input from everybody.

Although the length of a focus group interview varies, an average session lasts about two hours. Jetting around the country in a week, you can collect a good geographic cross-section of opinions. Also, there has been some success in conducting focus group session though online, interactive sessions. Thus, focus groups offer a quick and relatively inexpensive research technique.

Use focus group interviews to

- Diagnose your competitor's strengths and weaknesses.
- Spot the source of marketing problems.
- Spark new product lines.
- Develop questionnaires for quantitative research.
- Find new uses for your products.
- Identify new advertising or packaging themes.
- Test alternative marketing approaches.
- Streamline your product's positioning.

The key individual in a focus group interview is the moderator who introduces the subject and keeps the discussion on the predetermined topic. The moderator could be you or someone employed by an outside marketing research firm. The job of moderator is not an easy one and much preparation is necessary, but the information obtained can be substantial and well worth the effort.

The focus group interview does not follow a strict question-and-answer format. Rather, questions presented by the moderator serve essentially as catalysts for effective group discussions. Typically, answers point out areas that merit deeper probing by the moderator through spur-of-the-moment questioning.

> Questions presented by the moderator serve as catalysts for effective group discussions.

A successful session leads to thoughts and ideas that were not anticipated. Consequently, it is vital that the moderator create an atmosphere conducive to spontaneity and candour. This format allows for flexibility and enables the moderator to pursue leads suggested by participants. Table 5.2 contains guidelines that will help avoid crucial mistakes.

DO	**DON'T**
Keep discussion on topic	Mention company or brand name
Cover all questions, though not necessarily in sequence	Permit excuses or verbal battles
Involve all participants	Let anyone dominate the discussion
Play 'devil's advocate' if none is present	Let more than one person talk at a time
Pursue worthwhile ideas of participants	Let an unclear answer stand

TABLE 5.2 GUIDELINES FOR FOCUS GROUPS

After you have completed all your focus group interviews related to a particular marketing problem, listen to the tapes several times and excerpt relevant statements. Frequently, verbatim transcripts are made with the moderator's statements capitalized for easier identification. Videotapes offer an additional benefit over voice tapes, since you can examine gestures and facial expressions as well as posture (body language).

Effective research on the worldwide web

Perhaps the biggest breakthrough in conducting marketing research is the Internet. In the early 1990s, it was a much-used communications tool for academics and researchers in government-funded institutions.

Then with the coming of the World Wide Web and its easy-to-use browser interface, the Internet became a viable platform for online research services, database producers and primary publishers of all types.

Now there is a proliferation of services and databases generating huge amounts of business information. Corporate directories are used to identify and screen customers, prospects, competitors and to obtain quick profiles of particular firms and their lines of business, management structure, staffing levels and sales.

Detailed financial reports help in assessing the financial health of an individual company, as well as overall industry trends. Press releases highlight new product announcements, staffing changes and quarterly financial results.

Trade journals and general business publications provide a wealth of information, including company profiles, case studies and analyses, interviews with executives, industry surveys and overviews on emerging technologies. There is also background and expert analysis on broad economic and market place issues.

The pioneers in providing business information on the Internet include such professional online services as Knight-Ridder/Dialogue, Dow Jones News/Retrieval, Lexis-Nexis and Information Access/Insight. Table 5.3 shows a typical example of industry coverage advertised by one online service.

Company activities and events	Professional business activities
Industry trends and overviews	International trade
Economic/demographic information	Company stock performance
Management theory and practice	Editorials
Legislative/regulatory information	Biographies
Product evaluation and reviews	Financial exchange information
Executive changes and profiles	

TABLE 5.3 EXAMPLE OF ONLINE INFORMATION

The following case illustrates the scope of competitor and market intelligence needed to drive business development, product innovation – and refine overall marketing strategies.

case

Case example

Procter & Gamble has taken the bold move of spinning off a totally independent company separated physically, organizationally and culturally from its vast corporate structure. The innovative start-up is known by an imaginative name: reflect.com.

The business concept calls for selling cosmetics and hair products customized to the looks and preferences of each woman who shops on the Internet. Its specific goal: introduce make-up and shampoos so personalized that no two individuals would get the same items.

Action strategy

Pivotal to making its core strategy come alive, reflect.com managers moved forward with the following actions:

- Acquired finite information about each woman's needs through an interactive question and answer process. To execute the strategy, reflect.com allied with Ask Jeeves Inc., which specializes in a technology that enables customers to pose questions on a Web site through a natural dialogue that easily obtains answers to key questions.
- Used P&G's research and development lab to formulate a truly personalized product and packaging to match each customer's specifications. Each product, in turn, would contain the buyer's name. reflect.com managers envisioned as many as 50,000 unique hair, skin and make-up combinations from which to tailor unique products. And it would market the product at a cost no greater than high-end merchandise at a department store cosmetic counter.
- Maintained ongoing market analysis to watch over other product offerings, for instance from such new competitors as Web rival and gloss.com that sell upscale cosmetics with brands that include Calvin Klein or Chanel, to make sure that they would not throw up barriers to impede its progress.

What can you learn from the reflect.com case? The World Wide Web is now the trigger for the explosive level of activity designed to acquire finite information not only of groups but also of individual behaviour. The technology is becoming so pervasive and eye-popping that individuals can surf the Web and do their shopping through secured transactions. Then, as customers make enquiries or purchases, hidden files or tags called 'cookies' are deposited on their computers. Software programs then use those files to track and analyze online behaviour. Such data becomes the underpinning to design a product or service offering built around a one-on-one approach.

Britain's ICL illustrates the major innovations of the new information technology. For instance, consumers can order groceries over the Net by scanning product bar codes on computers built into their refrigerators using ICL's technology.

Smart cards allow users to do everything from storing personal information to earning bonus points at retailers. In turn, such information provides vendors with valuable data on usage patterns, expenditures, time of purchase and numerous other pieces of information that when assembled provide an exacting customer profile.

The information gathering activity is so mammoth that one Web portal, Yahoo!, collects some 400 billion bytes of information every day – the equivalent of a library crammed with 800,000 books – about where visitors click on a site. Armed with the information, it calculates which ads and products appeal most to visitors so it can garner more e-commerce sales.

> The World Wide Web offers a fresh and unrivalled approach to marketing research.

Then there are the abundant information sources available with the popularity of Google, CompuServe, Prodigy and America Online, which give users access to numerous print publications, all at a modest fee. For example, online company directories for companies, their divisions and subsidiaries typically provide the following information: business description, annual revenues, number of employees, SIC codes, officer names and titles, year founded and stock-related information.

Altogether, the World Wide Web opens up an unparalleled source for detailed information on industries, companies, company individuals, competitors and consumer behaviour that can add greater precision to your research and consequently to your plans and strategies.

Image research

> An image consists of attitudes, beliefs, opinions and experiences.

The consumer and the industrial purchaser buy an image as well as a product or service. An image is the complex of attitudes, beliefs, opinions and experiences that make up an individual's total impression of a product, service, or organization.

An image represents a 'personality' with which the prospective buyer either can or cannot identity. Our purchases involve projections of our images of the world and ourselves. We want the products and services we use to reflect those images.

For example, **Gillette Company** has long produced quality products for men. When Gillette introduced a deodorant intended for both men and women, women were reluctant to consider it for their personal use. Only when the company stressed a family theme in its advertising for Right Guard did Gillette attain the top position in this market.

The example can extend to industrial goods, utilities, or foreign markets. But it becomes clear, even from this brief description that familiarity with one's own image is of great importance. To that end, you should conduct image research.

The importance of a favourable image

Gillette's masculine image was a definite handicap in trying to introduce a family deodorant. The company might have met with less resistance by establishing a separate division or subsidiary under a different name.

In introducing shavers for women, other male-oriented firms, such as Schick Inc. and Remington Products Inc., have added a feminine touch by labelling their products lady Schick and Lady Remington. Whether a 'Mr. Clairol' label would be successful in selling male-oriented products, though, is questionable.

Trying to change an existing image is a slow and expensive process that requires considerable patience, skill and commitment. The best insurance against an unfavourable image is prior testing of strategic and tactical marketing moves. As a manager you know that images, as intangible and elusive as they are, cannot be left to chance. Rather, they need careful and skilful management.

Image research is thus an invaluable input into your managerial decision making. It is governed by three questions that should concern you when creating and maintaining a favourable image:

- How does an image develop?
- How is it researched?
- How can it be changed?

Images, as intangible and elusive as they are, cannot be left to chance.

Developing an image

An image stems from a multitude of factors. It can be outcomes of a company's own efforts as well as those of its competitors. It can result from the choice of corporate or brand name, the symbolism used, or any other part of the entire marketing effort, including product design, pricing and distribution. The symbolism may include *logos, slogans, jingles, colours, shapes, or packaging*.

In a classic packaging test, for example, housewives were presented with identical samples of a new detergent in three different experimental packages. After using the contents, the housewives reported that the product in the blue package did not possess enough cleaning power.

They reported that the one in the yellow package damaged the fabric, while the one in the blue package with yellow sprinkles was just right, having enough cleaning power but gentle on the clothes. This example shows that a mere change in packaging colours can substantially influence the image of a product.

Therefore, if you plan to strategically shape your product's image, Table 5.4 offers some useful insights and guidelines. It presents a dozen image ingredients that are under your control and briefly highlights their respective roles in determining your product's overall image.

CONTROLLABLE IMAGE INGREDIENTS	WHAT THEY CAN DO
Design	Provides aesthetic appeal
Colour	Sets a mood
Shape	Generates recognizability
Package	Connotes value
Name	Expresses central idea
Slogan, jingle, logo	Creates memorability
Advertising, personal selling	Communicates benefits
Sales promotion	Stimulates interest
Price	Suggests quality
Channels of distribution	Determines prestige
Warranty	Establishes believability
Service	Substantiates product support

TABLE 5.4 MARKETING MIX AND PRODUCT IMAGE

Changing an image

The answer to the question, "How can an image be changed?" can often be summed up in one word: *quality*. If you determine that your product's malady is an unfavourable image, you can correct this situation by first being concerned with quality.

In this framework, quality includes product performance, supporting services and total reliability, which would be backed-up with generous and uncomplicated guarantees.

Quality, in its broadest application, extends into every controllable image ingredient listed in Table 5.4 and must connote this commitment. The following case example provides a practical look at the effects of quality.

Case example

Hyundai Motor Co. lived for several years with a dismal image problem that even became a verbal target for late-night TV hosts with such debasing comments as: Hyundai is a car that "you have to push to get going; and it only goes downhill." That was in 2000.

Five years later, Hyundai moved from talk-show joke to serious contender with a real shot at successfully challenging specific models from Toyota, Honda and Ford; and for achieving a ranking among the world's top carmakers. The move centred on new products with *quality* as the spearhead of its image-remake strategy.

Hyundai's strategies

The company totally reengineered its mainstay Sonata sedan with bumper-to-bumper changes, including a more powerful engine, a bigger cabin and superior suspension. Hyundai hopes the new Sonata, along with a small SUV, will be the first in a string of winners. Specifically, the South Korean company implemented the following changes:

- *Quality*: Engineers focused on fixing even the smallest problems with the satisfying result that Hyundai appears favourably alongside Toyota and Honda on customer satisfaction surveys.
- *Exports*: Exports account for 64 per cent of sales, up from 30 per cent in 2000. New overseas plants will help double production capacity to 5 million cars annually by 2010.
- *R&D*: New design and R&D operations in Europe, Japan and the U.S. have been expanded and funded to develop new models, engines and transmissions with Toyota, Honda and Ford as its benchmark for quality.

Bottom line: J.D. Power & Associates survey of initial quality, which measures the number of complaints in the first 90 days of ownership, showed Hyundai neck-in-neck with its Japanese rivals. The quality improvement is showing up in Hyundai's results, as well. In 2004, profits jumped 21 per cent, with forecasts showing a continuation of double-digit growth.

What can you learn from the Hyundai case? In addition to all the above areas that represent quality, also examine the quality of your sales force and service organization to improve the presentation and quality of product performance. There have been occasional instances when an entire sales force has been replaced in an attempt to strengthen a company's image and sales.

All told, the availability of a reliable, competent and friendly service is certainly a key factor that makes up quality and, in turn, can make or break a sale.

In addition, advertising messages and news releases can obviously go a long way towards improving an image and restoring public confidence by communicating improvements that have been made and correcting any false impressions.

Guidelines to image management

Here are some of the key questions that you may want to ask yourself with respect to your image management responsibilities and efforts:

- What do we know about the image of our company/product/service in the eyes of actual or potential buyers?
- Do we have any image at all? Are we well-enough known?
- Is our image positive or negative?
- Is the perceived image accurate or inaccurate? Are we better than our reputation?
- What does our name suggest? Is it appropriate? Have we outgrown it?
- How does our image compare with that of our competition?
- What are our perceived strengths and weaknesses?
- How can we improve our image?

Favourable images serve to attract investment, talent and buyers. A company's image can make products stand out that are otherwise indistinguishable. Mostly, however, good images lead to a competitive edge.

Major sources of secondary information

Depending on your location, various national and regional government sources can provide an abundance of information. The following listings represent the major sources of information open to you, either through direct access, service organizations, or over the Internet.

Industry studies

A variety of broad industry studies are conducted by organizations such as Frost & Sullivan Inc., Arthur D. Little Inc., Stanford Research Institute and a number of Wall Street securities firms. It should be noted that many of these studies do attempt to make broad generalizations. You should carefully examine these reports to be sure of applications for your particular organization.

Trade associations

There are a variety of directories (published by Gale Research Company, for example) of trade associations covering virtually every product or business category.

Periodicals and directories

- *Business Periodicals Index*: lists business articles appearing in a wide variety of business publications.
- *Standard and Poor's Industry Surveys*: updates statistics and analysis of industries.
- *Moody's Manuals*: offers financial data and names of executives in major companies.
- *Journal of Marketing, Journal of Marketing Research and Journal of Consumer Research*.

- *Advertising Age, Chain Store Age, Progressive Grocer, Sales and Marketing Management, Electronics, Architectural Record, Plastics*.
- *Business Week, Fortune, Forbes, Harvard Business Review (general business magazines)*.

Suppliers of commercial marketing data

A.C. Nielsen Co.: Provides data on products and brands sold through retail outlets, on television audiences and on magazine circulation.

Market Research Corporation of America: Provides data on weekly family purchases of consumer products, on home food consumption and on retail drug and discount retailers in various geographic areas.

Selling Areas Marketing Inc.: Offers reports on warehouse withdrawals to food stores in selected market areas (SAMI reports).

Simmons Market Research Bureau: Provides annual reports covering television markets, sporting goods and proprietary drugs with demographic data by sex, income, age and brand preferences.

Other research sources: Audit Bureau of Circulation; Audits and Surveys; Dun & Bradstreet; National Family Opinion; Standard Rate and Data Service, Inc.; and Starch/Inra/Hooper, Inc., Information Access Company (exclusive use of research on the World Wide Web).

Overall, the central methods for gathering market intelligence include the following:

- *Competitive audits*: Measure market share and find out how competitors 'stack up' against each other in product quality, performance, delivery, price and distribution – as well as any other areas of particular significance to your industry and to prospective customers.
- *Customer satisfaction studies*: After you have made your initial entry, track your company's performance over a period of time and measure progress (or lack of it) towards becoming a better supplier.
- *Perceptive review*: Find out through personal observation or formal research techniques how competing products are perceived. Also identify if there are any neglected, poorly served, or emerging market niches that represent additional opportunities.

- *Testing new products at the conceptual stage*: Avoid investment in products with no or very little acceptance in the market place. Prioritize those that do have a chance.

> Look at the Strategic Marketing Plan to identify what voids of information exist to make intelligent decisions.

Summary

There is an overwhelming amount of information available to input into a marketing intelligence system. Yet, as a practical matter, there is not enough time or money to gather all the pertinent information and sort out what is significant to make meaningful decisions and commit company resources.

The prudent approach to determining what specific research to undertake is to look at the *Strategic Marketing Plan* (Chapters 6 and 7) and identify what voids of information exist and what information is needed for you to make intelligent decisions.

The bottom line: If you are going to develop strategies and tactics that have any real chance of success, you must rely on quality intelligence to support your decisions and subsequent actions.

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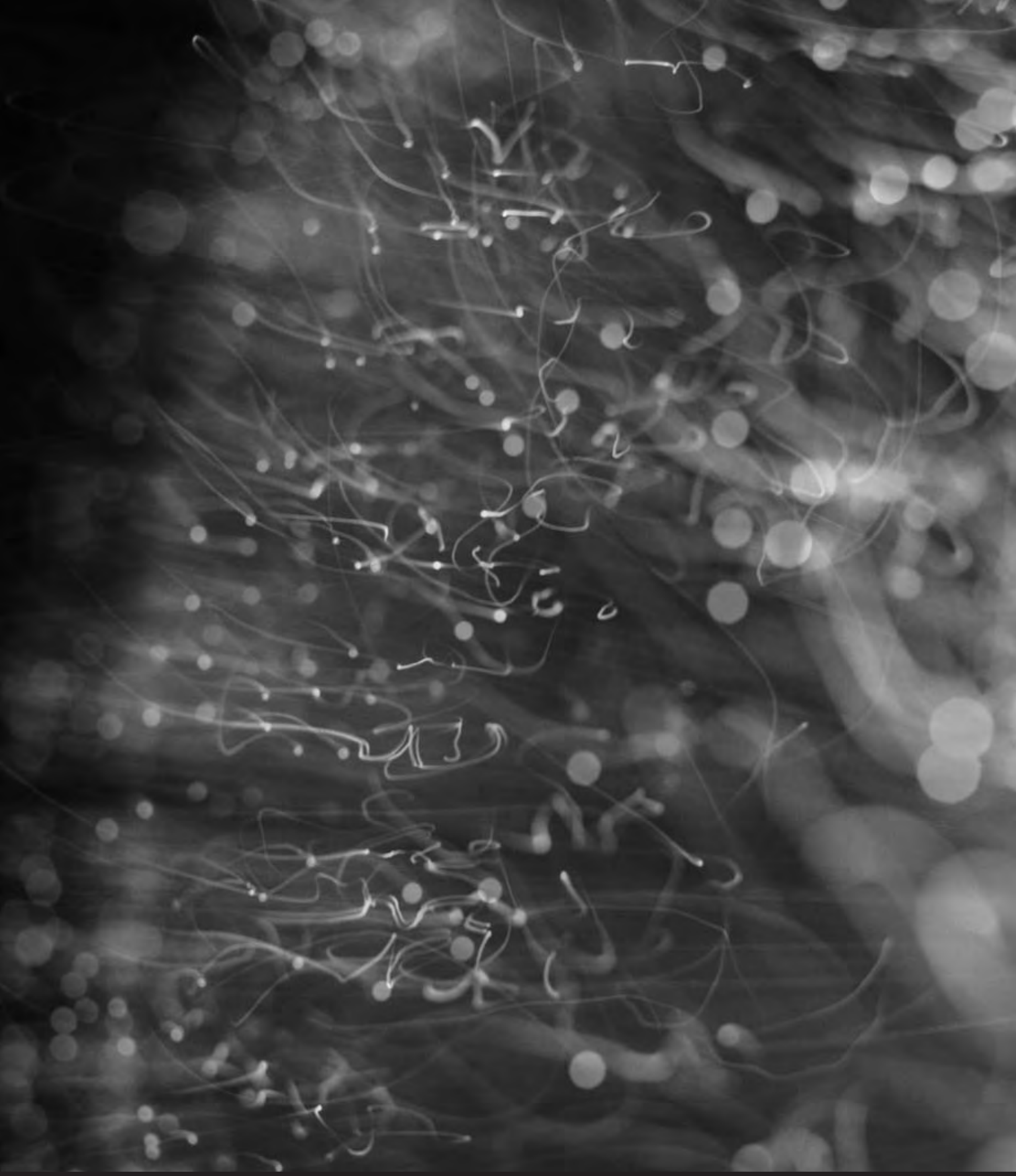

PART THREE CHAPTER SIX

Strategic marketing planning: Shaping your company's growth and prosperity

SIX

Strategic marketing planning: Shaping your company's growth and prosperity

Chapter Objectives

To enable you to:

1. Identify the steps in the *strategic marketing planning process*.
2. Develop a long-term *strategic direction (mission)* for a company, business unit, product line, or single product.
3. Identify objectives and strategies with *long-term implications*.
4. Develop a *portfolio of products and markets* based on the strategic direction.

Two-thirds of rapid-growth firms have written business plans, according to PricewaterhouseCoopers Trendsetter Barometer survey. The survey also reveals that firms with written plans enable CEOs to manage more critical business functions, grow faster and achieve a higher proportion of revenues from new products and services than those whose plans are unwritten.

Additionally, growth firms with a written business plan have increased their revenues 69 per cent faster over the past five years than those without a written plan.

As further evidence to rank planning as your essential responsibility, particularly in the current frenzied competitive scene, a Business Week cover story highlighted the following: *'Strategic Planning – It's Back! Re-engineering? Cost-cutting? Been there, done that. Now, strategy is king for real growth.'*

The story cited these key issues as an outcome of the planning process:

- Strategy is again a major focus for higher revenues and profits – and to hatch new products, expand existing business and create new markets.
- Business strategy is the single most important management issue and will remain so for the next five years.
- Democratize the strategy process by handing it over to teams of line and staff managers from different disciplines.
- Create networks of relationships with customers, suppliers and rivals to gain greater competitive advantage.

The following case illustrates how one company used strategic marketing planning to identify long-term opportunities and manage day-to-day operations.

case

Case example

Emerson Electric Co. brings together technology and engineering to provide solutions in a wide range of industrial, commercial and consumer markets with such products as process control systems, climate control technologies, electric motors and a variety of home and workplace products.

What distinguishes this company from the herd is its dazzling record of uninterrupted years of increased earnings. Throughout two decades, Emerson staunchly endured the challenges of low cost Brazilian, South Korean and Japanese competitors.

Several factors contributed to Emerson's success:

1. Management recognized, early on, that low cost, aggressive competitors would remain a permanent part of the global scene and would intensify into the following decades.
2. It exerted the discipline to secure cost-efficient operations at every level of the organization.

3. Management demonstrated the flexibility to focus on growth markets and exit those segments with little chance of turning a profit, such as defence and construction and niche businesses such as gardening tools.
4. It realized that cost cutting was only one part of the success equation to sustain growth. The other, that *strategic marketing planning* should function as the operating system for managing both long-term objectives and day-to-day operations.

A single example sums up Emerson's accomplishments: ten years ago a Japanese plant could offer temperature sensors for washing machines for 20 per cent below Emerson's prices. Today, Emerson's costs are below the Japanese and the company has regained market share. Rigorous planning, then, is at the heart of Emerson's system for managing growth.

To make the planning system work, Emerson:

- Periodically surveys all employees to assure input and participation from every functional area of the business.
- Identifies customers' problems early, while they are still manageable, enabling marketing and sales to take immediate action.
- Keeps vigilant watch on troublesome competitors so that managers lose no time in redirecting their efforts where needed.
- Tracks sales growth, new product development and market expansion as benchmarks to monitor the plan.

Action strategy

> Strategic marketing planning functions as the operating system to manage long-term objectives and day-to-day operations.

What can you learn from the Emerson case? Like Emerson, you can utilize strategic marketing planning to grow present markets, spot growth markets, recognize new product innovations and stay alert to new opportunities.

The following screening process will help you zero in on likely possibilities for growth. (Additional details are presented in this chapter.) Once identified and prioritized, you can convert them into long-and short-term marketing objectives, strategies and tactics.

1. PRESENT MARKETS

To identify the best opportunities for expanding your present markets:

Investigate emerging businesses or acquire new users for your product. Determine how to displace competition – a particularly significant move in no-growth markets. Increase product usage by your current customers and redefine market segments where there are changes in customers' buying patterns.

Also, work jointly with customers on innovative ideas to reformulate or repackage your product according to their specific needs. Identify new uses (applications) for your product. Reposition the product to create a more favourable perception over rival products. Also investigate where to expand into new or unserved market niches.

2. CUSTOMERS

To identify the best opportunities for expanding your customer base:

Improve or expand distribution channels. Refine your product pricing policies to match market-share objectives. Enrich your communications, including advertising, sales promotion and publicity and deploy the sales force to target new customers with high potential.

Pay close attention to opportunities to enhance customer service, including technical service and complaint handling; and identify changes in trade buying practices, where the buying power may have shifted from manufacturer to distributor or to end-user.

3. GROWTH MARKETS

To identify your major growth markets:

Target key geographic locations, including global markets, specifying which markets or user groups represent the greatest long-term potential.

4. NEW PRODUCT DEVELOPMENT

To give priority to 'hot' candidates for any new product and service development that will impact on immediate and long-range opportunities:

Focus on new products that you can differentiate and that have the potential for an extended sales cycle. Search for ways to diversify into new or related products, product lines and/or new items or features.

Further, examine techniques to modify products by customer groups, distribution outlets, or individual customer applications. Work on improving packaging to conform to customers' specifications and to distinguish your product from its rivals. Also establish new value-added services.

5. TARGETS OF OPPORTUNITY

To focus on areas outside your current market segment or product line not included in the other categories:

Be innovative and entrepreneurial in your thinking. However, refer to your strategic direction or mission statement as a guideline to how far your company can realistically diversify from its core business and still retain its vitality.

> The strategic marketing plan provides a step-by-step process for your company, business unit, or product line.

If you were to consider the strategic planning process used by Emerson Electric as a flow chart, it would appear as in Figure 6.1. Explanations for the top row of boxes, the strategic portion of the plan covering a period of three to five years, follow.

The details of the bottom rows of boxes, representing the annual marketing plan, are covered in Chapter 7. Seen as a whole, the process provides you with a total strategic marketing plan that can be used for your company, business unit, product line, or single product.

While the strategic portion of the plan (top row of boxes) and the marketing plan (bottom row) are explained in separate chapters, it is done for ease of explanation. In the final version of the plan, however, you would merge the two levels of rows. Then, your strategic marketing plan should be a cohesive unit consisting of both rows of boxes.

The strategic plan: looking forward three to five years

The top row of four boxes shown in Figure 6.1 represents the *strategic plan* section of the strategic marketing plan. It is defined as the managerial process of developing and maintaining a *strategic fit* between the organization and changing market opportunities.

It relies on developing (1) a strategic direction or mission statement, (2) objectives and goals, (3) a growth strategy and (4) business portfolio plans. Let's examine each of the boxes.

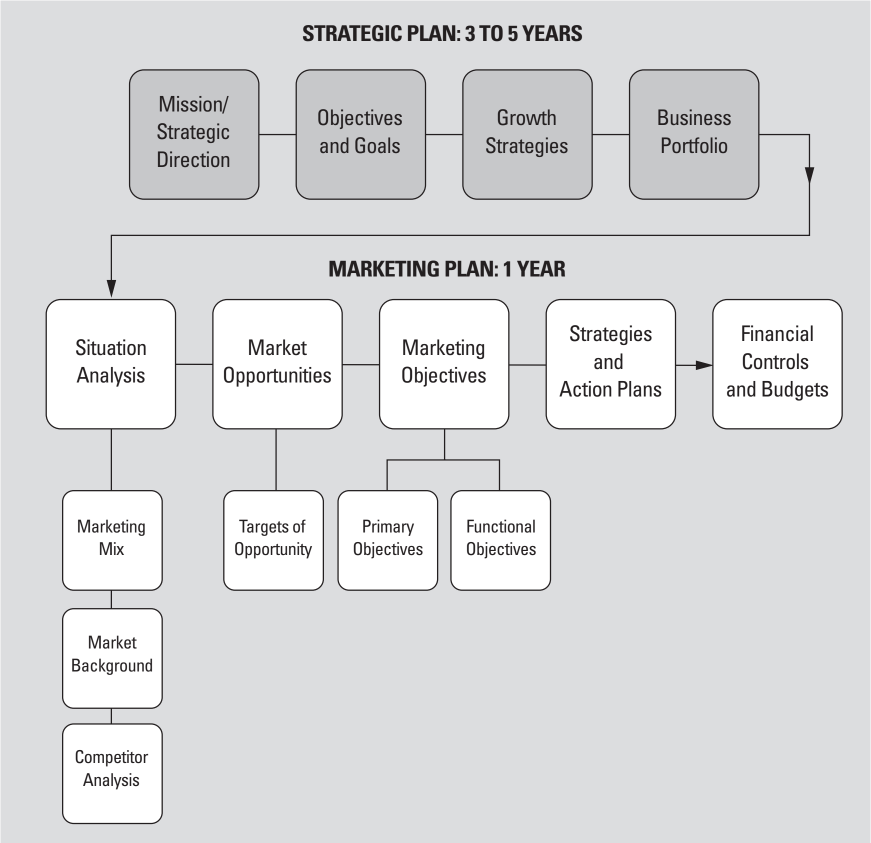

FIGURE 6.1 STRATEGIC MARKETING PLAN

Strategic direction

Think of your strategic direction as the mission or vision statement of the company, business unit, product line, or individual product. It is the long-range philosophy of a business unit. It reflects a strategic vision of what your product or business can become within three to five years. As you think about your strategic direction, consider the following:

- What are your distinctive areas of expertise?
- What business should you be in over the next three to five years?
- What types or categories of customers will you serve?
- What customer functions are you likely to satisfy as you see the market evolve?
- What technologies will you use to satisfy customer/market needs?
- What changes are taking place in markets, consumer behaviour, competition, environment, culture and the economy? (See Chapter 2, External analysis for details.)

The point of this exercise is that the responsibility for defining a strategic direction no longer belongs only to upper management. Managers from various departments – marketing, product development, manufacturing, finance and sales – contribute to the overall strategic direction of a business by asking, *"What business should I be in for my individual product?"*

The landmark work in this area of strategic thinking is attributed to Theodore Levitt,[19] of the Harvard Business School, in his classic article, Marketing Myopia. Using the railroads as a prime example, Levitt shows how the railway system declined in use as technology advanced because managers defined their product too narrowly. He explains that to continue growing, companies must determine customers' needs and wants and not rely simply on the longevity of their products.

According to Levitt, a myopic view is based on the following four beliefs that begin in a manager's mind and permeate an organization:

1. Growth is guaranteed by an expanding and affluent population;
2. there is no competitive substitute for the industry's major product;

19 T. Levitt, "Marketing Myopia," Harvard Business Review (Sept. – Oct. 1975), p.28.

3. excessive belief in mass production and rapidly declining unit costs as output rises;
4. preoccupation with a product that lends itself to experimentation and manufacturing cost improvement.

Looking out the window toward inevitable change, not into a mirror that reflects existing patterns, is the distinguishing characteristic of a market-driven, rather than a product-driven, organization. Table 6.1 gives practical examples of how these opposite points of view differ in their expressions of identity, which is the basis of a company's strategic direction.

PRODUCT-DRIVEN ORIENTATION	**MARKET-DRIVEN ORIENTATION**
Railroad company	Transportation company
Oil company	Energy company
Baby food manufacturer	Child care business
Cosmetics company	Beauty, fashion, health company
Computer manufacturing company	Information processing company
Electrical wire manufacturer	Energy transfer business
Vacuum cleaner manufacturer	Cleaner environment business
Valve company	Fluid control company

TABLE 6.1 COMPANY IDENTITY AS REFLECTED BY ORIENTATION CONCEPTS

The following actual examples illustrate how a strategic direction or mission would be written.[20]

20 These statements were developed in company training sessions. This author has no inside knowledge if the senior managements of those companies adopted them.

Case example

Dow Chemical Co.

A strategic direction for one of Dow Chemical's agricultural herbicide products originally read, "Chemical control of brush on rights-of-way." This product-driven orientation was considered too 'myopic' and comes across more as a product definition than a strategic vision.

When revised to reflect a broader market-driven focus that would drive future product and market development, it read:

> *'Provide high quality products and services to meet vegetation management goals on rights-of-way, industrial, municipality and aquatic/wetland sites at a profit. Products and services may include chemical, mechanical, application, distribution, consultation and establishment of desirable vegetation.'*

Notice how expansive the statement is and how it defines potential markets and product/market development. In other words, it summarizes and clarifies a vision.

Becton Dickinson Co.

In another example, Becton Dickinson, a health care firm, originally described the strategic direction for its product line of hypodermic needles as, "Our strategic direction is to be the leading manufacturer of hypodermic products for the health care field." Here, too, this narrow focus of good intentions was broadened to provide a forward-looking orientation.

The revamped statement read:

> *'Our strategic direction is to meet the needs of consumers and health care providers for drug-delivery devices by offering a full line of hypodermic products and product systems. Our leadership position will be maintained through acquisition to provide alternative administration and monitoring systems.'*

Guided by such a statement, managers could expand their vision and direct their product line into innovative product systems, technologies and ultimately expand their hold on existing markets and launch into new markets.

Cargill Corp.

A division of Cargill Corp. developed its strategic direction that would take it from a commodity-type business of egg production to a value-added, broader definition:

> *"We will be a leading marketer of quality, value-added egg-based food products serving primarily the food service industry. We will be a least-cost producer and a leader in developing and implementing innovative products and processes to meet the needs of an evolving market place."*

The statement reflects a clear and pragmatic vision which moved the division away from its myopic orientation of just dealing with fresh egg production to one of going to the next step of adding value by preparing and packaging ready-to-use, egg-based products for all types of institutions.

These statements are no mere play on words. Rather they have a practical application in creating a workable mental orientation, whereby managers can envisage how a product line or business might expand over the next three to five years. In turn, the statements help shape objectives, strategies and a portfolio of products and markets.

> A myopic view begins in a manager's mind and permeates an organization.

Think about Levitt's example of the railroad company versus the transportation company. If you view the basic product as railroad cars travelling on parallel tracks down a path, the result is a short-sighted business condition that, in turn, confines product, service and market development on a narrow dimension.

Redefined as a transportation company, however, the strategic vision includes transportation of all types – air, water, space and diverse forms of transportation still unknown. Since railroad companies own land on either side of the tracks, a transportation viewpoint can conceivably include laying underground pipe to transport food, fluids, chemicals and power lines.

Even companies with strong positions in the market place and with profitable businesses are redefining mission statements to embrace the inevitable movement toward new technologies.

Just how far should your thinking go toward a market-driven orientation? It is best to initially think as far toward that orientation as possible and then return to a more comfortable position somewhere between the two extremes of a product-driven and market-driven orientation. That position is usually based on the following factors:

- The *culture* of the organization, with the broad ranges of behaviours from conservative to aggressive.
- The availability of *human, material and financial resources* for maintaining existing business functions and for investing in future growth.
- The amount of *risk* that management is willing to assume in going into debt. (This factor relates to the organization's culture.)
- The degree of environmental *change* that is anticipated in market behaviour.
- The threat of *competitive activities* and their impact on survival and growth.

> Responsibility for shaping the strategic direction begins with you – regardless of your level in the organization.

Even surrounded by these factors, think as expansively as possible. On the other hand, staying rooted to a product-driven orientation can bog you down in mature and ultimately declining businesses.

If you hold responsibility for your company, business unit, or product line, then conceptualizing a mission or strategic direction begins with you – regardless of your level in the organization. As such, you are no longer a victim of a narrow focus that ends up with mature products, price wars and other competitive conflicts. The broader market-driven viewpoint permits you to think more expansively about business, market and customer needs – not just products.

Objectives and goals

When developing objectives and goals (the second top box in Figure 6.1), your primary guideline is to continue with a strategic focus. Look at the broad impact objectives would have on your business, in keeping with the scope of your strategic direction and within the time frame of three to five years.

This time period is reasonable for most businesses: short enough to be realistic and achievable in an increasingly volatile marketplace, yet long enough to be visionary about the impact of new technologies, changing behavioural patterns, the global market place, emerging competitors and changing demographics.

Specifically, your objectives and goals can be classified as quantitative and non-quantitative. For example, in quantitative statements, you include performance expectations such as sales growth, market share, return on investment and other quantitative measurements that are usually dictated by your general management or financial department.

Non-quantitative objectives and goals cover such areas as upgrading the dealer organization, expanding into secondary markets, improving marketing intelligence systems, building new speciality product lines, repositioning older commodity products and reorganizing to become a market-driven business.

Case example

Diverse examples of two actual companies – an auto parts manufacturer and an electric utility company – illustrate specific ways in which quantitative and non-quantitative objectives and goals are stated. Because of the confidential nature of these statements, the names of these two companies are omitted and the numbers have been altered.

Furthermore, these objectives are only a sampling. The actual number of objectives ranged from 15 to 25 for each company. Smaller companies could realistically have as few as five to ten objectives.

Auto parts manufacturer

QUANTITATIVE OBJECTIVES AND GOALS

Attain net sales of $37.0 million by the year 200x within the following categories:

	Net sales ($ mil)	Mix (%)
Distributor	13.0	35.1
Corporate brand (direct)	6.5	17.6
Generic	7.0	18.9
National accounts	5.5	14.8
Military	3.0	8.1
Export sales	2.0	5.5
Total	**37.0**	**100.0**

- Launch 200 new products on a quarterly basis over the next three years, including electrical, front end, brake, air conditioning and power train.
- Maintain 60 or more dedicated distributors strategically located worldwide to achieve sales objectives.
- Improve customer satisfaction to 94.5 percent, as measured by the Customer Service Index base period of 2000-01.

Quantitative objectives and goals

- Utilize as a marketing mix element an effective supply chain for the potential launch of existing products into new market segments.
- Develop a prototype of an automated catalogue information system for use with distributors by the fourth quarter of 200x.

Electric Utility Company

QUANTITATIVE OBJECTIVES AND GOALS

Achieve total revenues of 1.242 kWh (kilowatt-hours) in the following end-use categories by 200x:

Process heat	875 kWh
Space conditioning	185
Lighting	115
Residential water heating	20
Major appliances	15
Commercial food service	32
Total	**1.242 kWh (mil)**

- Effectively promote process heat in targeted manufacturing markets by increasing account load of sales force from 90 to 125 over a 36-month period.
- Re-establish relationships with builders, realtors and appliance manufacturers to take advantage of the 20 per cent customer turnover each year, adding 100 kWh of electric process heat equipment.

NON-QUANTITATIVE OBJECTIVES AND GOALS

- Change customer perceptions that electric energy is an expensive commodity.
- Improve knowledge of the marketplace, customers and competition through a comprehensive marketing intelligence system.
- Reorganize to become a more customer-oriented, market-driven company.

While some managers resist the use of non-quantitative objectives, there are long-term market conditions or internal obstacles that need to be overcome and numbers cannot always be attached to such objectives. Yet, for measurement purposes, dates and reporting periods can be used to show progress toward achieving these objectives. The use of quantitative and non-quantitative objectives in combination allows for the most accurate and effective planning.

Growth strategies

> Objectives indicate what you want to accomplish, growth strategies deal with how to achieve those objectives.

While objectives and goals indicate what you want to accomplish, growth strategies deal with *how*, or what actions you are going to take to achieve those objectives.

The major guideline is this:

- Each objective must have a corresponding strategy. If you cannot come up with a strategy for a particular objective, perhaps the so-called objective is not one at all, but a strategy for some other objective.
- Strategies (third box in Figure 6.1) are divided into two categories: internal and external. *Internal strategies* relate to marketing, manufacturing, R&D, distribution and pricing, as well as to existing and new products and services, market research, packaging, customer services, information technology, finance, sales activities, and organizational changes.
- *External strategies* refer to such possibilities as joint ventures, licensing agreements, new supply chain networks, emerging market segments and any opportunities for diversification, providing diversification fits the company's strategic direction.

case

Case example

Auto parts manufacturer

INTERNAL STRATEGIES

- Install an internal computerized program that links the top 80 distributors' inventories with the ordering requirements of independent repair shops.
- Complete the upgrade of the Manchester depot and launch just-in-time delivery service to distribute within 125 miles of the facility.
- Execute a new warranty administration program that is equitable to the company, distributors and end-user customers, with a timing of 15 days for claims disposition, compared with the current 21 days.
- Implement a quality improvement program consisting of continuing education programs and establish indices of performance levels in accordance with new corporate objectives.

EXTERNAL STRATEGIES

- Establish quality teams throughout the supply chain to review causes of errors and recommend corrective action.
- Form joint venture with (name of company) to increase total market share in selected fuel and cooling systems components, resulting in sales of $17 million and 22 per cent market share.
- Establish an image for high performance parts in the after-market by establishing 125 new performance centre dealers in key segments of the country.
- Establish video conferencing broadcasting sessions to the field to maintain competitive advantage.

A strategy is a longer-term action to achieve a long-term objective.
A tactic is a shorter-term action to achieve a short-term objective.

Electric Utility Company

INTERNAL STRATEGIES

- Establish a corporate lighting group to plan marketing programs and serve as technical support for all lighting activities.
- Establish a central promotional group to develop literature and sales aids, plan and coordinate trade show activities, develop advertising themes and positioning strategies and coordinate publicity campaigns.
- Operate an ongoing training activity to introduce products and share information with contractors, dealers, realtors and customers on equipment features, sales and service. Develop a performance-type housing construction rating system to certify properly insulated and weatherized homes.

EXTERNAL STRATEGIES

- Construct and manage a network of insulation, weatherization materials and electric heating equipment distributors to support builder design and construction activity.
- Develop and implement an active call program targeted at key builders in prime market areas identified for long-term urban redevelopment.
- Develop joint working relationships with electric equipment manufacturers to work on applications involving high temperature and environmental concerns.

It is also appropriate here to distinguish between a strategy and a tactic. A strategy is a longer-term action to achieve a long-term objective, with wider implications for your company than does a tactic. A strategy usually affects the functional areas of your organization, such as manufacturing, product development and finance. It concerns the broader aspects of new markets and the supply chain.

On the other hand, a tactic is a shorter-term action to achieve a short-term objective. It is sub-set of a strategy and is usually concerned with local issues of more limited impact, such as a single product being launched in a target market segment with specific promotional activities. In normal practice, a single objective could be accomplished through four or six related tactics.

Business portfolio

> Your strategic direction has meaning only if it translates into a realistic business portfolio of markets and products.

A business portfolio (box 4 of Figure 6.1) contains a listing of all existing markets and products, as well as all potential new markets and products that are feasible within the next three to five years and which match your company's strategic direction.

The central guideline is that your strategic direction has tangible meaning only if it translates into viable markets and products. Generally, the broader the scope of the mission, the broader the range of market and product possibilities; the narrower the scope, the smaller the portfolio of markets and products.

The following case illustrates the usefulness of a business portfolio plan to balance short-term earnings with long-term growth, yet still maintain a competitive advantage.

Case example

Electronic Sensors and Systems Division of Northrop Grumman Corp. has successfully transformed its expertise in surveillance equipment from the defence business to the growing commercial sector.

For Northrop Grumman, surveillance has a broader product application than just military. Surveillance technology translates into an expansive business portfolio of products and markets, such as electronic products for tracking illegal immigration and drug trafficking, home security systems consisting of alarms and motion detectors and smart police cars with computer links to the law enforcement agencies that give immediate analysis of fingerprints. So far, the company's biggest success is in the home security market.

Along with broadening its product definition, Northrop Grumman also redefined the division's strategic direction and reshaped business plans for the near- and long-term. Its flexible strategic marketing plan maps erratic shifts in markets, identifies feast-or-famine cycles and spells out strategies for avoiding competitive opposition.

The plan also identified profit-generating opportunities. It advocated relaunching existing – and paid for – products while avoiding a costly product development period. Thus, revenues were stabilized during the market transition, creating a balance of short-term earnings with long-term growth.

With this flexible plan in hand, Northrop Grumman kept looking for appropriate market opportunities to expand its business portfolio. For example, when law enforcement selected its new battle-tested, handheld biosensor for detecting chemicals and drugs on a person's skin and clothing, the company quickly recognized the technology's potential to enter new customer segments.

What follows is Northrop Grumman's adaptation of these security products and other modified electronic products for wider commercial use.

Implementing the plan

Northrop Grumman's engineers redesigned the surveillance equipment and crammed existing radar, sensor and communication hardware into a lower-cost twin-engine turboprop aircraft, rather than the military version Boeing 767.

The new product was considered viable for numerous market segments, such as federal agencies monitoring illicit drugs, locating bomb-making chemicals and tracking illegal immigration; the Forest Service for detecting forest fires; and a potentially huge foreign market in countries with security needs similar to those of Northrop Grumman's domestic markets. A line of security products ranging in prices as a low-cost biosensor to high-end one for a surveillance aircraft gives the company enormous growth potential.

Action strategy

> The strategic marketing plan is usually developed with a team of cross-functional personnel.

What can you learn from the Northrop Grumman case? Effective planning accounts for the division's smooth transition into the commercial markets. With a strategic marketing plan patterned after the format in this chapter and Chapter 7, you can achieve short-term goals while preparing for long-term growth.

The strategic marketing plan is usually developed with a team of cross-functional personnel from marketing, sales, production, finance and technical staffs.

The following four planning steps (the top row of boxes in Figure 6.1 that represent the long-term strategic section of the plan) provide an organized process for you to follow:

Step 1, Strategic direction. As previously discussed, define the scope of your company, business unit, or product line. Establishing a strategic direction forces you to think of your unit's competencies, the customers you want to serve over the next three to five years, the technologies you will need and the environment and competition you will face. Northrop Grumman's division redefined its strategic direction from a dedicated defence contractor to a more expansive provider of products and services for the total surveillance business.

Step 2, Objectives and goals. As illustrated in the auto parts and the electric utility cases, indicate the performance expectations such as sales, profits and other quantitative objectives. Also list non-quantitative objectives including upgrading your supply chain, building speciality products for niche markets, upgrading field services to fortify customer relationships and launching new or upgrading old products.

Step 3, Growth strategies. Select strategies to reach your objectives. These relate to product positioning, product quality, distribution, pricing, packaging, online marketing, value-added services and customer/technical services.

Step 4, Business portfolio. Based on the previous three sections, develop a product and market portfolio strategy that results in:

- Penetrating existing markets with existing products by identifying emerging, neglected, or poorly served niches that could increase market share and obtain any economies of scale that could materialize.
- Introducing existing products into new markets (Northrop Grumman's division focused on law enforcement markets).
- Identifying new products for existing markets to prevent having to defend a mature product line and risk losing market share.
- Investigating new products for new markets (Northrop Grumman's long-term new product development efforts for the division were identified here and, in turn, matched its revamped strategic direction).

To amplify Step 4 still further, look at Figure 6.2 that graphically shows how to construct an organized business portfolio of markets and products. This classic product-market grid is part of the strategic marketing planning process that permits you to categorize markets and products to reflect your strategic direction.

As you view the business portfolio diagram, note that you can list existing products into existing markets and the process is identified as (1) *market penetration*. You can also view existing products for new markets, which you can define as (2) *market development*. Also look at introducing new products into existing markets, a process known as (3) *product development*. Finally, look at new products for new markets, expressed as (4) *diversification*.

To use the grid, list products and markets in each of the quadrants. The listing will then serve as a guideline for product-market growth over three- to five-years.

	Existing Products	*New Products*
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

FIGURE 6.2 BUSINESS PORTFOLIO PLAN GUIDELINES

The total plan

A review of the strategic portion of the strategic marketing plan makes it apparent that you can no longer think narrowly about a product. You must now think about markets and how to incorporate them into an operational one year marketing plan.

The lower row of boxes in Figure 6.1 makes up the marketing plan, which has a time frame of 12 months. The detailed plan and actual work forms are presented in Chapter 7.

The combination of the three to five year strategic and the one-year marketing plans form a total *strategic marketing plan* for any managerial level, from corporate management to product manager. Further, for every major product and market described in the business portfolio, you should develop a specific annual tactical marketing plan.

You thereby combine a long-term strategic viewpoint with a one year tactical framework to create action – something that the strategic plan by itself could not accomplish and for which the stand-alone marketing plan alone is too narrow a perspective for today's competitive environment.

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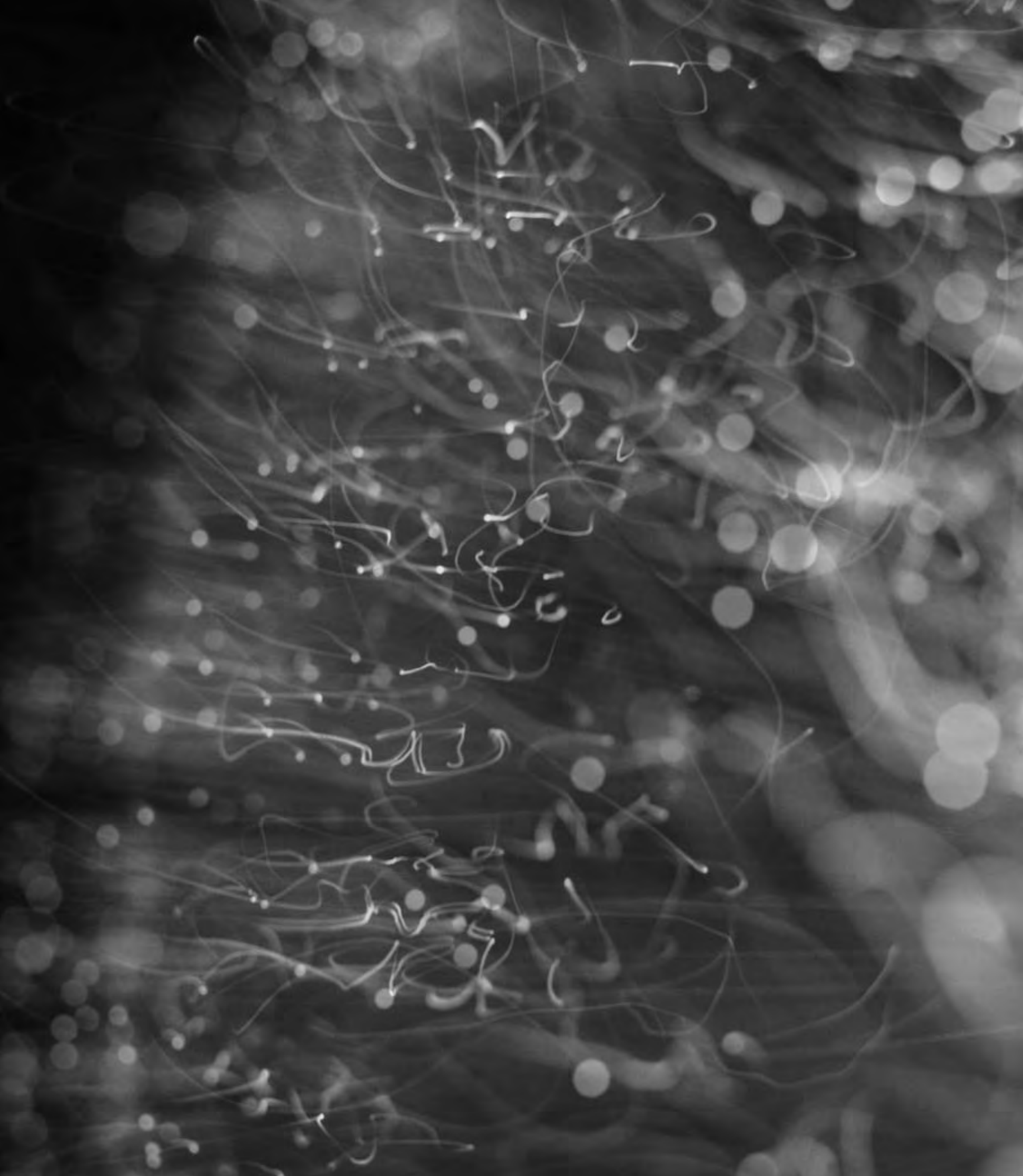


PART THREE CHAPTER SEVEN

Developing the marketing plan: Initiating rock-solid action

SEVEN

Developing the marketing plan: Initiating rock-solid action

Chapter Objectives

To enable you to:

1. Identify the steps in developing the tactical one-year marketing plan.
2. Explain the relationship between the strategic plan and the marketing plan.
3. Develop a marketing plan using the sample format.
4. Use qualitative and quantitative measures to evaluate a strategic marketing plan.

The total framework for a strategic marketing plan consists of a three to five year strategic plan (detailed in Chapter 6) and a one year marketing plan. As highlighted in Figure 7.1, we now turn to formulating a tactical plan for dedicated products and markets.

In Chapter 6, an auto parts manufacturing company and an electric utility company were used to illustrate how two diverse organizations write objectives and strategies. The sample marketing plan that follows uses only the electric utility company as an example.

It is an actual case of a company facing extensive competition for the first time. Deregulation hit the industry and set in motion a whole series of events that created a monumental competitive predicament and initiated strategic marketing planning.

Consider the following events that impacted the utility company in a flat-growth economy:

1. Deregulation brought in more aggressive pricing competition from natural gas companies;
2. lower-priced energy entered from neighbouring areas;
3. major industrial customers began generating their own energy and bypassing the utility company; and
4. the company completed a nuclear plant with the capability of doubling its electric energy output and placing it in an oversupply situation.

Thus, there was an urgent need to develop a workable plan with fresh strategies to penetrate existing markets. And with the oversupply situation, it needed to increase usage of electric energy by identifying industrial, commercial and residential users that could consume more energy through additional applications.

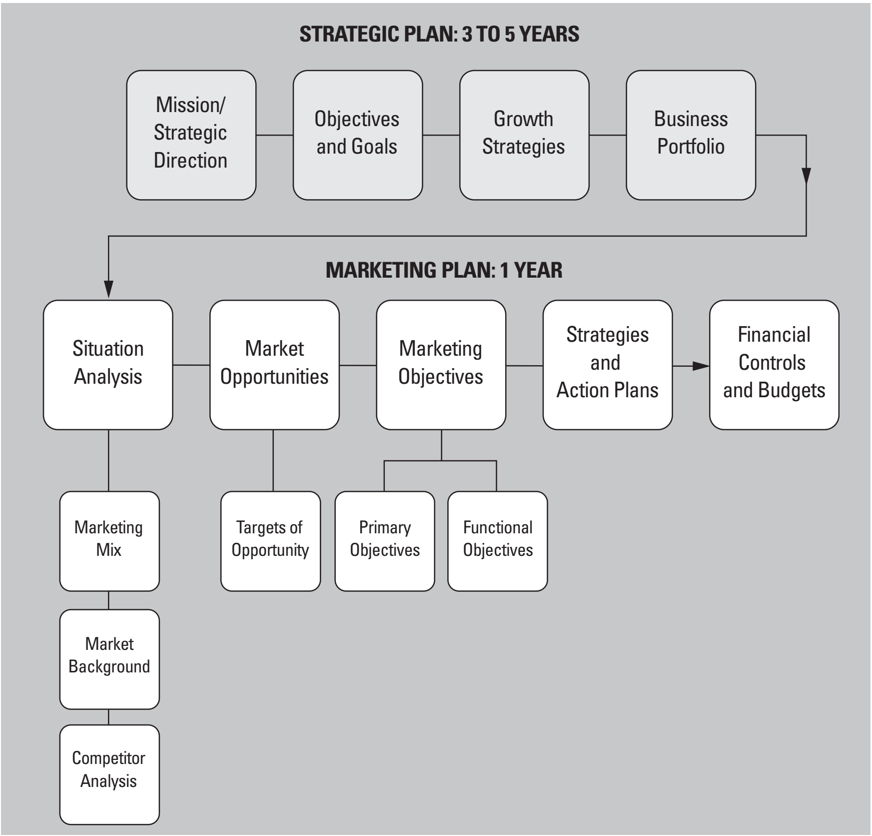


FIGURE 7.1 STRATEGIC MARKETING PLAN

Sample marketing plan

The product produced by the electric utility is energy expressed in kilowatt-hours (kWh.) It is used in a variety of end-use applications such as major appliances, water heating, space conditioning, lighting, commercial cooking, electric transportation, motor drives and process heating.

The markets for this product are residential, manufacturing, non-manufacturing and municipalities. But these markets are generally grouped as residential, industrial and commercial.

The sample plan focuses on only one segment of the total market, *lighting*. The plan includes detailed planning guidelines to help you master the principles and issues, followed by an application on how to fill out each section of the plan.

This format will help apply the strategic marketing plan to your own situation, regardless of your product or service. Although the term ‘product’ is used in the guidelines, a service organization can use the same planning format, whether that service is in the financial, medical, or some other professional field.

For authenticity in using the electric utility company as an example, only the numbers from its actual plan have been disguised for confidential purposes. Also, the information provided does not constitute the utility’s entire plan, but only enough of a sampling to show you how to write an actual plan.

The marketing plan

Situational analysis: Planning guidelines

THE MARKETING MIX

In this section, describe in factual and objective terms where your operation stands in relation to the total marketing mix (product, price, distribution and promotion). Compile data for a period of at least three years. Then, indicate what the future trends are for your industry, market segments and product line.

A. Product

Objectively describe the product by:

Provide information related to product position, competitive trends and changes to improve competitiveness.

1. Sales history.
2. Position in the industry, including market share as well as less tangible aspects of position in the life cycle curve (introduction, growth, maturity, decline and phase-out).
3. Future trends in the industry relative to government regulation, technology, financial, buyer behaviour, that may affect product position.
4. Intended purposes of the product(s), in terms of market use, uniqueness, or positioning.
5. Features and benefits of the product(s), in terms of cost, safety, or convenience, that make for a winning proposition.
6. Other pertinent product information, such as expected product improvements and additional product characteristics (quality, size, model, price).

Application

Product: Lighting

1. SALES HISTORY

Year	Sales (millions kWh)	Revenues	Number of Customers (000)
Current	275	29.5	715
Year 1	265	22.7	608
Year 2	259	18.8	597
Year 3	213	12.1	359

2. POSITION IN INDUSTRY

Based on an analysis of where electric energy fits into the total energy picture within the company's trading area, the following key points emerge.

- For our trading area, use of energy is declining. We are not in a growth cycle.
- Electric energy represents about ten per cent of total energy.
- Commercial and industrial customers (manufacturing and non-manufacturing) use about 60 per cent of the electric energy produced.
- The lighting market is a major one for the company: almost one half of total sales over the past three years went into lighting. The following table shows the approximate percentage of total energy sales for lights and lighting energy.

Market	Percentage	Billions kWh
Residential	13.0	1.25
Manufacturing	16.5	2.05
Non-manufacturing	24.0	2.45
Street lighting	1.2	0.75

3. FUTURE TRENDS

- Trends indicate growth of energy-saving lamps and longer-life products, with a proliferation of new products from China, Korea, Hungary, Poland and Canada.
- Trends toward customer reluctance to spend money for the higher-cost, higher-efficiency lamps and fixtures, such as fluorescent circle lights. Initial cost is a strong consideration in determining lighting systems.
- Ninety per cent of assaults and burglaries occur at night.

4. INTENDED PURPOSES OF THE PRODUCT

The intended purpose is to provide a reliable source of energy and related products and services to safely light homes, businesses, car parks and roadways. The use of the energy within the lighting segments is categorized as follows:

- *Residential interior lighting* represents about 13 per cent of residential customer electric energy used for lighting.
- *Commercial and industrial interior lighting* represents 16 per cent of electric energy used for lighting.
- *Street lighting* represents 65 per cent of electric energy used for lighting. It is also estimated that 40 per cent to 55 per cent of service area streets could use additional lighting for safety, security, crime prevention and business merchandising.
- *Residential and commercial outdoor protective lighting* (OPL), represent six per cent of electric energy for lighting. OPL's function is to provide all-night protection to business and residential customers.

5. FEATURES AND BENEFITS OF THE PRODUCT

The reliable source of energy and the effective application of lighting provide safety, security, comfort and crime prevention and are a benefit to business merchandising. The benefits and features of lighting are related to the following statistics:

- Twelve times as many crimes of violence are committed at night.
- Sixty per cent of auto accidents occur at night, even though only 30 percent of all driving is done after dark.
- Four times as many fatal accidents occur at night.

B. Pricing

PLANNING GUIDELINES

1. *In this section, evaluate the company's and competitors' pricing policies for each market segment and/or distribution channel and their impact on market position.*
2. *Evaluate what the pricing trends will be on the basis of raw material sourcing, product specification changes, financial factors, customers' attitudes and possible competitive response.*

Application

PRICING

1. The pricing classifications are highly fragmented and are categorized by residential, commercial, industrial and municipal. Within these segments prices vary by street lighting, traffic and signal lights and ornamental lighting.
2. At the present time, the company has 23 rate classifications in the breakdowns shown above. (*Author's note*: Detailed information typically would be provided in a table of rates by classification or made part of an appendix).

3. FUTURE PRICING TRENDS

A 12 per cent to 18 per cent per year increase is anticipated for the next three to five years. This prediction contrasts with the no, or very low, annual increases forecasted for natural gas.

C. Distribution channels and methods

PLANNING GUIDELINES

1. Conduct a value chain analysis that includes quantities sold directly and through dealers; and prepare an analysis of physical distribution.
2. Identify effectiveness of coverage through the current supply chain with the functions each of the links performs. Include and evaluate key activities that require special attention.

3. List special functions or unique sales activities performed by the company's sales force to specific market segments.
4. Identify future trends in distribution methods and channels. Indicate expected growth in each major market segment. Describe the impact of using the Internet as a channel of distribution and technical support.

Application

1. CURRENT CHANNELS OF DISTRIBUTION

Distribution takes place through a multi-level channel system. At one level, architects, builders and interior designers specify lighting. At another level, direct distribution takes place through representatives to major retailers, manufacturers and municipal governments. At still another level of distribution, there are the manufacturers of lighting fixtures and bulbs, including company-owned stores.

2. EFFECTIVENESS OF COVERAGE THROUGH CURRENT CHANNELS

- The company sells through its 17 customer offices. The offices stock 61 different lamps. The share of the total area lamp sales was 3.6 per cent.
- General Electric has about 50 per cent of the incandescent bulb market, with Sylvania and Westinghouse at about ten per cent each. There are 28 manufacturers of all types of lamps with about 17 per cent of the market.
- About 13 per cent of the incandescent lamps and five per cent of the fluorescent lamp are imported primarily from China, followed by South Korea, Hungary, Poland, Mexico and Canada.
- Large firms purchase their lamps from distributors of manufacturers' reps. Contractors provide the lighting systems for new construction.

Overall, there are extremely well developed distribution channels for lamps.

3. SPECIAL FUNCTIONS PERFORMED BY THE COMPANY'S SALES FORCE

- Continuing personal contact is maintained by the company's sales force, with frequency of contact based on size of customer and energy usage. Construction activities and types of users and specifiers also determine frequency of contact, including builders, contractors, architects and interior designers.

- When there is direct contact with large users, company sales reps invite major retail, manufacturing and government customers to General Electric's Demonstration Lighting Institute to learn about the latest, most efficient lighting systems.

4. FUTURE TRENDS IN DISTRIBUTION METHODS AND CHANNELS

- The trend for energy-saving lamps and longer-life products will signal a need for technically trained lighting experts who function as advisers at all levels of the supply chain.
- Distribution channel representatives will provide continuing monitoring of lighting systems in offices and manufacturing organizations for efficiency and energy savings.
- There will be greater use of demonstration centres through joint ventures of the company with manufacturers of lighting fixtures and bulbs at key locations.

D. Advertising and sales promotion

PLANNING GUIDELINES

- Analyze the advertising and sales promotion directed at each segment of the market by copy theme, expenditure and media.
- Indicate past and current advertising and sales promotion strategies by product and market segment.
- Describe publicity, educational and other non-advertising influences that have been used and with what effect.

Application

1. ADVERTISING AND SALES PROMOTION BY COPY THEME, EXPENDITURE AND MEDIA

- General Electric spends about $20 million for light bulb advertising and about 85 per cent of that is spent on network TV.
- Within the street lighting segment, there are no advertising or sales promotion efforts. Promotion is limited to inviting municipal officials to General Electric's outdoor lighting demonstrations.
- Within the OPL segment, there is no space advertising and only a limited amount of sales promotion, such as direct mail to commercial customers four times per year.

2. PAST AND CURRENT ADVERTISING AND SALES PROMOTION STRATEGIES

- Most company advertising is confined to corporate advertising directed at economic development within the company's trading area. Other advertising themes focus on serving the energy needs of the public and showing the company as a responsible corporate citizen. (Author's note: Advertising details may be included here or shown as exhibits in an appendix.)

3. PUBLICITY, EDUCATIONAL AND OTHER NON-ADVERTISING INFLUENCES

- Marketing research indicates that inviting customers and prospects to the demonstration facilities maintained by General Electric has a positive impact. Evidence is currently being compiled to show the direct sales impact on outdoor protective lighting and street lighting segments. (Author's note: Display quantitative information in an appendix, with a summary indicated in this section.)

Market background

PLANNING GUIDELINES

> Customer behaviour serves as a foundation for developing objectives and strategies.

This section extends the basic marketing situation. However, focus is on the behavioural aspects of customers and prospects in a changing and competitive environment. The information in this section is important because it serves as foundation material for developing the objectives and strategies that follow.

It also highlights gaps in knowledge about your markets and suggests the types of marketing research needed to make effective decisions. Compile the following information:

A. CUSTOMER PROFILE

What is the profile of potential customers? Classify by:

1. The markets served by distributors, dealers and other intermediaries, as well as from direct to end-user sales.
2. Overall sales by market segment and channel of sale.
3. Other classifications: describe profile of customers by type of product they use, level of sophistication, point of purchase and sensitivity.

B. FREQUENCY AND MAGNITUDE OF PRODUCT USAGE

1. How often do they purchase?
2. In what volumes?
3. Is there a seasonal effect?

C. GEOGRAPHIC ASPECTS OF PRODUCT USAGE

- Are most of the buyers in a region of the country? National? International?

D. CUSTOMER CHARACTERISTICS

1. Age? Level of education?
2. Degree of sophistication? Management practices? Time in the business?
3. Attitude towards the company, the products, the services, our quality image?
4. Economic factors?

E. DECISION MAKING

- Who makes the buying decisions? When and where are they made and by whom?

F. CUSTOMER MOTIVATIONS

1. Why do customers buy? (Quality? Performance? Image? Service? Convenience? Location? Friendliness?)
2. What motivates them to buy the product, to select one supplier/provider in preference to another?

G. CUSTOMER AWARENESS

What is the level of customers' awareness of the company's product? To what extent do they

1. Recognize a need?
2. Identify the brand/product/company?
3. Associate the brand/product/company with desirable features?

H. SEGMENT TRENDS

- What are the trends in the size and character of the various sub-markets? A sub-market or segment should be considered if it is accessible, measurable, or potentially profitable. Also identify segments that are emerging, neglected, or poorly served.

Application

A. CUSTOMER PROFILE

1. Markets served by distributors, dealers and other intermediaries

Independent building contractors serve new residential areas and renovations in established areas and small commercial businesses that represent 37 percent of lighting energy consumption.

Architects and lighting engineers serve manufacturing organizations as well as municipalities that represent 17.7 percent of energy consumption.

Interior designers serve all segments of the market.

2. Overall sales by market segment

(*Author's note*: It is not appropriate here to indicate names of individuals. However, in the actual version of this plan, names of builders, contractors, architects and interior designers were listed by category and by market segment along with sales, number of customers and amount of energy consumption.)

B. FREQUENCY AND MAGNITUDE OF PRODUCT USAGE

1. Frequency

A company survey of 375 large manufacturing firms indicates that about 12 per cent of their electric energy use is for lighting; for the 7,000 non-manufacturing firms surveyed, about 24 per cent of electric energy is used for lighting.

2. Magnitude

Within the outdoor protective lighting segment, the lighting is controlled by photocells. There is no reliable information on the extent of use of owner-installed floodlights for all-night protective purposes.

3. Seasonal effect

In the past three years, approximately 1,750 streetlights were added to the company's service area.

C. GEOGRAPHIC ASPECTS OF PRODUCT USAGE

A comparative listing of county saturation by outdoor protective lighting (OPL) and floodlighting follows.

County	OPL (%)	Floodlighting (%)
Nassau	2.10	26
Suffolk	0.30	19
Orange	0.54	22
Brock	1.11	24
Metro	2.72	27
Brighton	0.98	19

D. CUSTOMER CHARACTERISTICS

- Within the light bulb segment, demographic studies during the last 12 months indicate there are significant differences among the customer purchasers of the leading brands. For example, General Electric bulb buyers are older with high household incomes and college educated. (Additional market research revealed characteristics of customers from among business and government purchasers.)

1. ATTITUDES

The behavioural characteristics reveal a strong and growing concern for security by both businesses and residential customers.

2. ECONOMIC FACTORS

Street lighting represents three per cent to five per cent of communities' budgets. Nassau County requires street lighting in all new subdivisions, with the expense passed along through a special assessment tax.

E. DECISION MAKING

- Government officials make buying decisions, with strong influences from architects and lighting engineers. A decision takes place from eight to 12 months prior to the beginning of construction or renovation.

F. CUSTOMER MOTIVATIONS

- The motivational factors are based on national statistics such as 90 per cent of assaults and burglaries occur at night. (See other motivational factors related to crime and accidents identified in the 'Features and Benefits' section of this plan.)

G. CUSTOMER AWARENESS

1. *Recognize a need*

A sharp rise in lawsuits involving improperly lit streets and walkways is heightening awareness levels for more street lighting.

2. *Identify the brand*

There is greater responsiveness for lighting and efficiency in all market segments. All incandescent systems will be converted to high-pressure sodium in the next 18 months.

3. *Associate the brand with desirable features*

While our manufacturing customers associate the features of OPL for security purposes and relate those positive factors to our company, there is a negative attitude because of the eight week installation time, owing to inadequate company procedures in dealing with outside subcontractors.

H. SEGMENT TRENDS

- Within the street lighting segment of the market, the statistics cited earlier indicate a clear-cut trend towards concern for the use of additional lighting for safety, security, crime prevention and business growth.

Competitor analysis (process heating)[21]

List all major competitors showing their relative position.

Planning guidelines

MARKET SHARE

List all major competitors, in descending-size order, showing relative position. List enough additional competitors to show a total minimum list of five.

COMPETITIVE STRENGTHS AND WEAKNESSES

What are the weak and strong points in comparing competitors' financial resources, management leadership, human resources and other relevant data?

PRODUCT COMPARISON

How do the company's products compare with those of the competition with regard to:

1. Pricing, price lines and discounts.
2. Product features and quality.
3. Advertising volume and effectiveness.
4. Effectiveness of distribution and sales methods.
5. Packaging. Review comparisons with competitive brands on the basis of tests for performance and preference.
6. Attitudes of various classes of customers by quality, service, performance, and image.
7. Trends in competitors' share of market.

21 In this section, another market segment, process heating, is used to better explain competitor analysis.

Sales force effectiveness and market coverage

Application

A. MARKET SHARE

Total overall market share is about 4.6 per cent of consumption, as indicated in the following table.

Application	Total market size (millions kWh)	Our market share (%)	Our customer annual energy use (millions kWh)
Forging	142	45.0	164
Heat treating	2,685	9.5	260
Moulding plastics	217	100.0	217
Kilns	286	11.5	21
Melting > 1,000 F.	2,101	1.0	12
Melting < 1,000 F.	971	62.0	803
Ovens > 600 F.	9,088	1.0	85
Ovens < 600 F.	1,934	29.0	569
Die casting	161	75.0	46
Salt bath	139	91.0	36
Drying	1,436	1.0	24
Liquid heating	18,450	0.1	25
Plating	206	66.0	236
Total	**37,816**		**2,498**

B. COMPETITIVE STRENGTHS AND WEAKNESSES

Gas marketing engineers are generally more knowledgeable about customers' operations than are the company's industrial marketing engineers. The competitors also have greater financial resources to offer as incentives to customers.

C.PRODUCT COMPARISON

1. Pricing, price lines, discounts
   - The installed cost of an electric process heating system is typically two or three times the price of similar systems using natural gas.
   - Electric energy is about two times more expensive than gas at temperatures below 600 degrees Fahrenheit.
   - Electric energy is about equal with gas at processed temperatures in the 1,800 degree Fahrenheit range and is less expensive at the higher temperatures.
2. Product features and quality
   - Electric heat is much easier to incorporate into automated applications and assembly line applications. Higher production and demand for uniform product quality tend to favour electric heat. It is easily programmed for spot heating and automatic operation.
3. Advertising volume and effectiveness
   - Process heat is a very diverse and not a well-defined end-use application category. As a result, no advertising has been budgeted for this market segment. (Author's note: In other circumstances, comparative charts of advertising volume, media and effectiveness would be inserted.)
4. Effectiveness of distribution and sales methods
   - The sales forces of most equipment vendors are limited and target customers are not identified in an organized manner. Many process heating equipment manufacturers offer comparable electric and gas equipment.
5. Packaging
   - (*Author's note*: Not applicable in this example, but this category would be an important factor in consumer package goods and some business-to-business products.)
6. Attitudes of various classes of customers
   - Customers are particularly sensitive to the company's charges and are very concerned about rate increases. As rates escalate, there will be some shift to off-peak production.

7. Trends in competitors' share of market
   - Natural gas is expected to maintain its price advantage over electricity during the next five years. No supply shortages are forecast and local gas companies will continue to accelerate their aggressive approach to capture more market share.
8. Sales force effectiveness and market coverage
   - (*Author's note*: See item 4. In typical industrial or consumer goods firms, sales managers would provide the appropriate data.)

Marketing opportunities

> Consider all possibilities that can expand your coverage of existing markets.

Planning guidelines

In light of the facts presented in the previous two sections, now examine your strengths, weaknesses and options. Your opportunities will begin to emerge from this examination as you consider the variety of alternatives available.

Do not attempt to restrict your thinking at this time. Consider all possibilities that can expand your coverage of existing markets and lay the groundwork for entering new markets.

A. PRESENT MARKETS

What are the best opportunities for expanding present markets by cultivating new users, displacing competitors, increasing usage by present customers; redefining market segments; reconfiguring the product; finding new uses for the present product; repositioning the product; and identifying new market segments?

B. BUYERS

What are the best opportunities in such areas as improving or expanding channels of distribution, product pricing, product promotion, enhancing customer service, the Internet and trade buying practices?

C. GROWTH MARKETS

Identify the major product growth markets in key areas (indicate geographic location, if applicable). Which markets represent the greatest long-term potential?

D. PRODUCT AND SERVICE DEVELOPMENT AND INNOVATION

What are the immediate and long-range opportunities for product development and innovation in the following areas: addition of new products to the line; diversification into new or related products, product lines and/or new items or features; product modification; and packaging improvements? What new services should be offered or current services improved?

E. TARGETS OF OPPORTUNITY

List any areas outside of your current market segment or product line (and not included in your marketing plan) that you would like to explore.

Application (an abbreviated listing follows)

A. PRESENT MARKETS

- Residential security lighting (expansion)
- Non-residential interior lighting (increased usage)
- Induction melting (displace gas competitors)
- Dual fuel (new uses)
- Commercial cooking (reposition product)

B. BUYERS

- *Present distribution*: Provide special training to electrical contractors, sellers and installers of all forms of lighting applications and controls.
- *Pricing*: Provide a builder allowance for add-on outdoor lighting packages.
- *Promotion*: Expand current advertising and the Internet to mention the safety benefits of lighting.

C. GROWTH MARKETS

Process heat: Target specific lighting applications involving high-temperature and precise-temperature control.

D. PRODUCT AND SERVICE DEVELOPMENT AND INNOVATION

Evaluate current lighting equipment and change specifications to conform to new automated factories. Provide engineering assistance to manufacturing customers and expand specialized lighting operations.

Marketing objectives

> For goals to be realistic generate assumptions and projections about future conditions and trends.

Planning guidelines

Having reported relevant factual data in the Situation Analysis and interpreted their meaning and consequences to your product line in the Opportunities section, you now set the goals you want to achieve during the current planning period.

One part of this section focuses on your primary or quantitative objectives as they relate to sales, market share, profits and return on investment. Another part is a statement of your functional objectives, which concern both product- and non-product-related goals.

For those goals to be realistic and achievable, you must first generate assumptions and projections about future conditions and trends.

A. ASSUMPTIONS AND PROJECTIONS

List your major assumptions for the current planning period in relation to:

1. *Economic assumptions*: Gross national product, industrial production, plant and equipment expenditures, activities of competitors, costs and prices, local economics, consumer expenditures, tendencies and changes in customer needs.
2. *Technological assumptions*: Intensity of research and development effort, likelihood of technical breakthroughs, availability of raw materials and plant capacity.

3. *Socio-political assumptions*: Prospective legislation, probability of political tensions, tax picture, population patterns, education, consumer habits, and changes in customer needs.

B. PRIMARY OBJECTIVES

1. *Financial objectives*: State current and projected sales, units, profit margins, market share objectives, as well as any other financial measurements required by the organization.
2. *Entrepreneurial objectives*: Relate to non-measurable objectives for which you will not be accountable, but could be key success factors, for example, innovations in product, price, promotion and distribution. (These are optional, unless required by senior management.)

Application

A. FINANCIAL OBJECTIVES

Sales and market share objectives of the product:

Lighting segment	Sales ($M)	Units of kWh (M)	Market share (%)
Residential, outdoor	4.0	21	64
Outdoor protective lighting	1.7	3	29
Street lighting	1.4	3	29
Commercial	1.2	3	21
Commercial, outdoor	3.8	19	37
Total for market segment	12.1	49	

B. FUNCTIONAL OBJECTIVES

Functional objectives normally refer to an expanded list based on the marketing mix: product, pricing, distribution and promotion.

Planning guidelines

1. PRODUCT OBJECTIVES

- *Development*
- *Modification*
- *Differentiation*
- *Diversification*
- *Deletion*
- *Segmentation*
- *Pricing*
- *Promotion*
- *Supply chain*
- *Packaging*
- *Service*
- *Other*

2. NON-PRODUCT OBJECTIVES

- *Manufacturing*
- *Marketing research/competitor intelligence*
- *Credit*
- *Sales activities (educational/informational)*
- *R&D*
- *Training*
- *Human resource development*

Application (an abbreviated listing follows)

1. PRODUCT OBJECTIVES

- *Development*: Launch a new product line of directional outdoor residential lighting.
- *Modification*: Reduce installation time of new outdoor protective lighting products from six weeks to three weeks.
- *Supply chain*: Set up master contracts with 15 to 20 contractors covering each target area identified in the business redevelopment section of the company's trading area.

2. NON-PRODUCT OBJECTIVES

Human resource development:

- Set up a training program to train lighting specialists and service planners to design systems in cooperation with customers.
- Train a speaker corps made up of senior- and middle-level managers to present the benefits of street lighting to business and commercial groups.

Strategies and action plans

Planning guidelines

Strategy is the art of coordinating the means (money, human resources, materials) to achieve the end (profits, customer satisfaction, growth) as defined by company policy and objectives.

In this section, strategies have to be identified and put into action. Responsibilities have to be assigned, schedules set, budgets established and checkpoints determined. Make sure that the operations groups (sales, service, manufacturing and others) actively participate in this planning exercise, since they are the ones that have to implement it.

A. MARKETING STRATEGIES AND TACTICS

1. *Product strategy*: What changes are needed in product and packaging?
2. *Pricing strategy*: What changes are needed in pricing, discounts and long-term contracts?
3. *Advertising strategy*: What are the most effective benefits to feature and how should basic copy ideas and copy themes be presented to special groups?
4. *Media strategy*: What suggestions should be made to the advertising agency?
5. *Promotion strategies*: What suggestions should be made for private labelling; what programs should be introduced to dealers and other levels of distribution and the sales force?
6. *Other tactics*.

Application (an abbreviated listing follows)

A. MARKETING STRATEGIES AND TACTICS

1. Product strategy
   - Institute new installation procedures for outdoor protective lighting in north side of city where high-crime, high-accident areas exist (third quarter, Levine).
2. Pricing strategy
   - Rebate $500 per customer on conversions of manual lighting to automatic controls (first quarter, Brooks).
3. Advertising strategy
   - Select the most effective benefits to be featured and present basic copy ideas and copy themes to special groups. (Author's note: Advertising agency or department promotion plans would be attached to the plan.)
4. Promotion strategies
   - For OEM (original equipment manufacturer), private label dealer and/or distributors:
   - Display indoor/outdoor lighting at customer energy centre
   - Re-deploy sales force to high potential industrial parks now under construction, install salary/commission package and eliminate former salary-only compensation plan.
5. Other tactics
   - Compile, publish and distribute reports, case studies, magazine articles and press releases that describe successful installations (first quarter, Thompson).
   - Establish a corporate lighting group to plan marketing programs and serve as technical support for all lighting activities (second quarter, Whitman).

Summary statement of final strategy

Planning guidelines

Include the highlights of your basic strategies aimed at achieving your primary objectives. Show the market segments, characteristics, barriers and strategies.

You may also include alternative and contingency plans if situations occur whereby objectives cannot be reached. Make sure they relate to the overall marketing plan (not just product-line plans), as well as the corporate objectives.

Application

SUMMARY OF FINAL STRATEGY FOR LIGHTING PRODUCT

Market	Characteristics	Barriers	Strategies
Residential interior lighting	High growth; new energy-saving products available; represents 14% of electric energy consumed	Customer resistance to spending for high-efficiency lamps; resistance to increased costs of lighting energy	Use price incentives on usage of energy; introduce a new product line of energy-saving fixtures
Commercial/ industrial interior lighting	Represents 15% of electric energy; energy savings are big considerations; worker productivity is related to lighting	Initial cost of new lighting systems high; inadequate staff to provide consultation on energy savings	Create a special sales- force to reach new industrial parks; conduct lighting seminar featuring safety, improved merchandising results, aesthetics and productivity
Street lighting	High growth; 40-55% of service areas have no street lighting; safety, security, crime are strong motivational factors	Difficult for service areas to fund project; slow purchase decision, average two years	Help communities develop street lighting master plans; assign lighting specialist to speed-up purchase; institute new installation procedures by priority areas

Residential/ commercial outdoor protective lighting	High growth; 90% of assaults and burglaries occur at night; served by industrial contractors; high priority for residential and commercial customers	Long lead time for installation; lack of control over contractors	Conduct technical seminars for contractors; promote the value of outdoor lighting to business owners through general advertising, direct mail, the Internet and business meetings

Financial controls and budgets

Having completed the design phase of your marketing plan, you must decide how you will monitor its execution. Therefore, before implementing it, you have to develop procedures for both control (comparing actual and planned figures) and review (indicating corrective measures taken).[22]

Guidelines for planning

You have just reviewed an abbreviated version of an actual marketing plan for a utility company. While the terminology may differ from yours, the conditions are the same as for any other business, product, or service.

Meaning: There are sales goals to reach, a product to deliver, a service to provide, market segment opportunities to reach, competitor activities to monitor and environmental factors with which to deal. The plan has a logical progression: where you have been, where you want to go, how you want to get there and how you know when you have arrived.

Schedule for marketing planning

The purpose of a planning schedule is to demonstrate that effective planning is a participative process requiring input from all levels of management. While Figure 7.2, a calendar-type schedule, displays an optimum situation, the activities and units of responsibility may vary within each organization.

In practice, many organizations with formalized planning systems will take a six-month period to develop an operating plan. If a company is working on a calendar year, the process begins in July and is usually submitted to top

22 These budgeting and controlling aspects generally conform to the procedures established by the financial department.

management as early as October, with a final version in early December when expected sales become apparent.

Planning Activity	Unit Responsible	Week(s) No.
1. Marketing research conducts situation analysis and generates background data.	Marketing research	
2. Marketing research develops assumptions about future environmental and identifies current position	Marketing research	
3. Top management sets corporate objectives.	Top management	
4. Marketing vice-president interprets corporate objectives and derives marketing objectives with input of strategy team or product manager.	Vice-president marketing	
5. Sales and expense forecasts are established.	Marketing research controller	
6. Product managers develop optimum strategies for their assigned lines and review with marketing vice-president.	Product managers, vice-president marketing	
7. Product managers design detailed action programs and review with general sales manager.	Product managers, general sales manager	
8. Product managers write up their proposals and submit them to marketing vice-president.	Product manager	
9. Marketing reviews and co-ordinates individual product plans.	Vice-president marketing	
10. General sales manager assigns district volume directives.	General sales manager	
Planning Activity	**Unit Responsible**	**Week(s) No.**
11. District managers develop district sales plans in consultation with sales people.	District sales managers	
12. General sales manager reviews and integrates district sales plans.	General sales manager	
13. Product managers prepare financial summaries.	Product managers	
14. Controller prepares operating budget.	Controller	
15. Top marketing reviews and approves marketing plan.	Top management	

FIGURE 7.3 SCHEDULE OF MARKETING PLANNING

Getting started: Form a strategy team

One of the best approaches for gaining participation in the marketing plan and in the total strategic marketing plan, is to form a *strategy team* made up of individuals from different functions of the organization. As already discussed in previous chapters, include individuals from finance, product development, sales, promotion, manufacturing, distribution and research and development (or the equivalent).

The members of the team are not meant to take passive roles. Rather, they should participate totally in the development of the plan, from analyzing the opportunities to creating objectives and strategies. It is through this participation that new markets and new product opportunities are developed, which, in turn, help secure the future of the organization. Specific responsibilities of a planning team are presented in Chapter 13.

Evaluating a strategic marketing plan

You can use the following *qualitative guidelines* as a dependable checklist to evaluate the marketing plan – and the total strategic marketing plan, as well. This checklist is particularly useful in determining whether the plan is providing you with the action-oriented strategies that will serve you, your products or services and your organization as a whole.

1. Are there strategies for enlarging current markets?
2. Are there strategies for developing new markets?
3. Are there strategies for defining the product's position?
4. Are there strategies for protecting existing sales volume?
5. Are there strategies for launching new products?

For *quantitative measures* of overall planning performance, use the following:

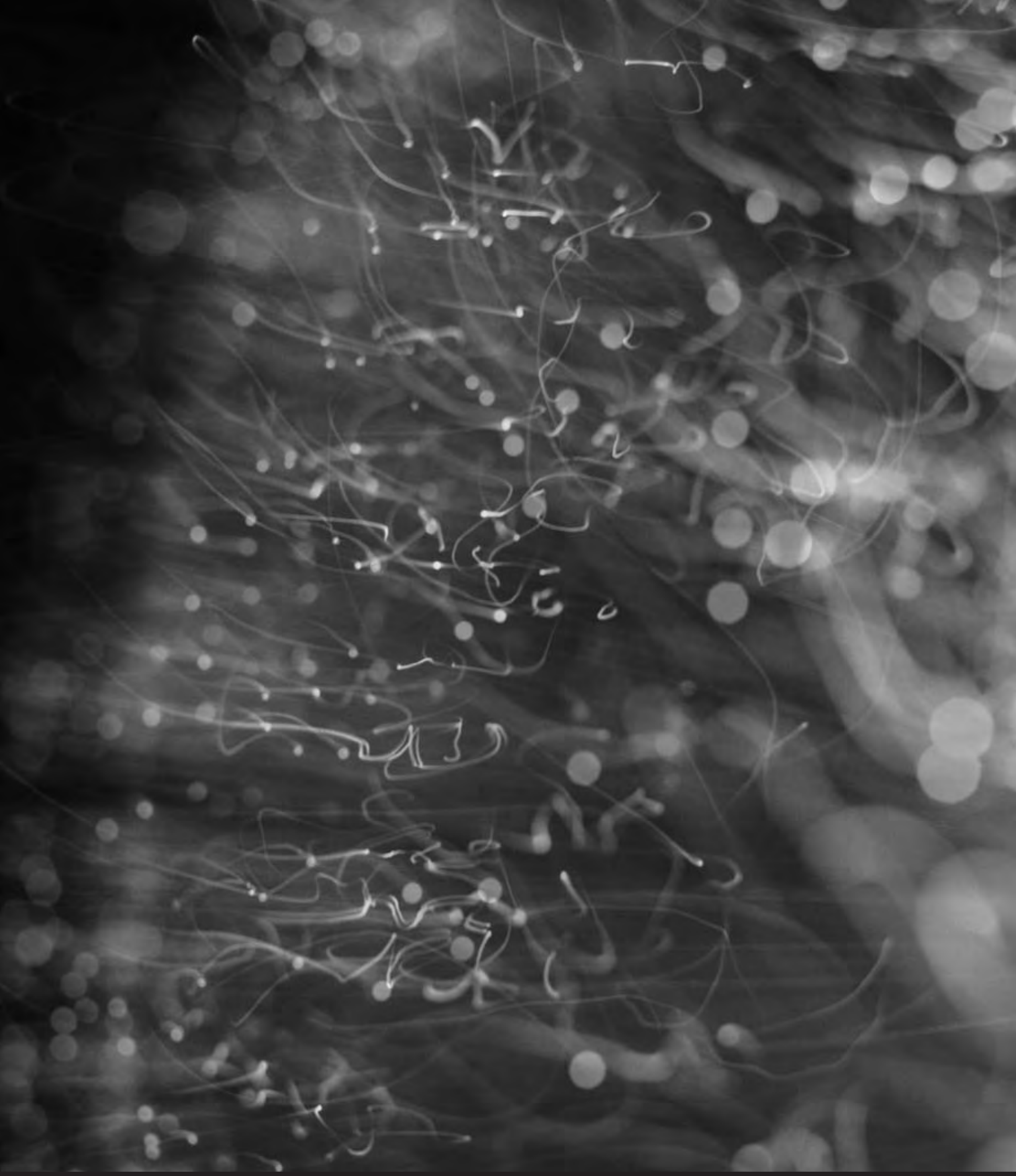
1. Total sales and profits: Compare with preceding years.
2. Market share: Measure performance relative to that of competitors.
3. Sales analysis: Compare sales variations from plans by breakdowns such as geography, sales people, customers and products.

4. Distribution cost analysis: Determine the relative profitability of present ways of doing business through various channels, including the Internet.
5. Measures of customer satisfaction: Use surveys, customer panels and other market feedback.

Developing your own strategic marketing plan

The planning format presented in this chapter and in Chapter 6 represents an application of the total strategic marketing planning process. It is practical and workable and is currently being used by well-known organizations with domestic and international operations.

With slight modification, you can use it for a specific product, for a service, for a division, or for your entire company. Tailor it by either increasing the detail in the sections or decreasing the content to suit the requirements of your business.



PART FOUR

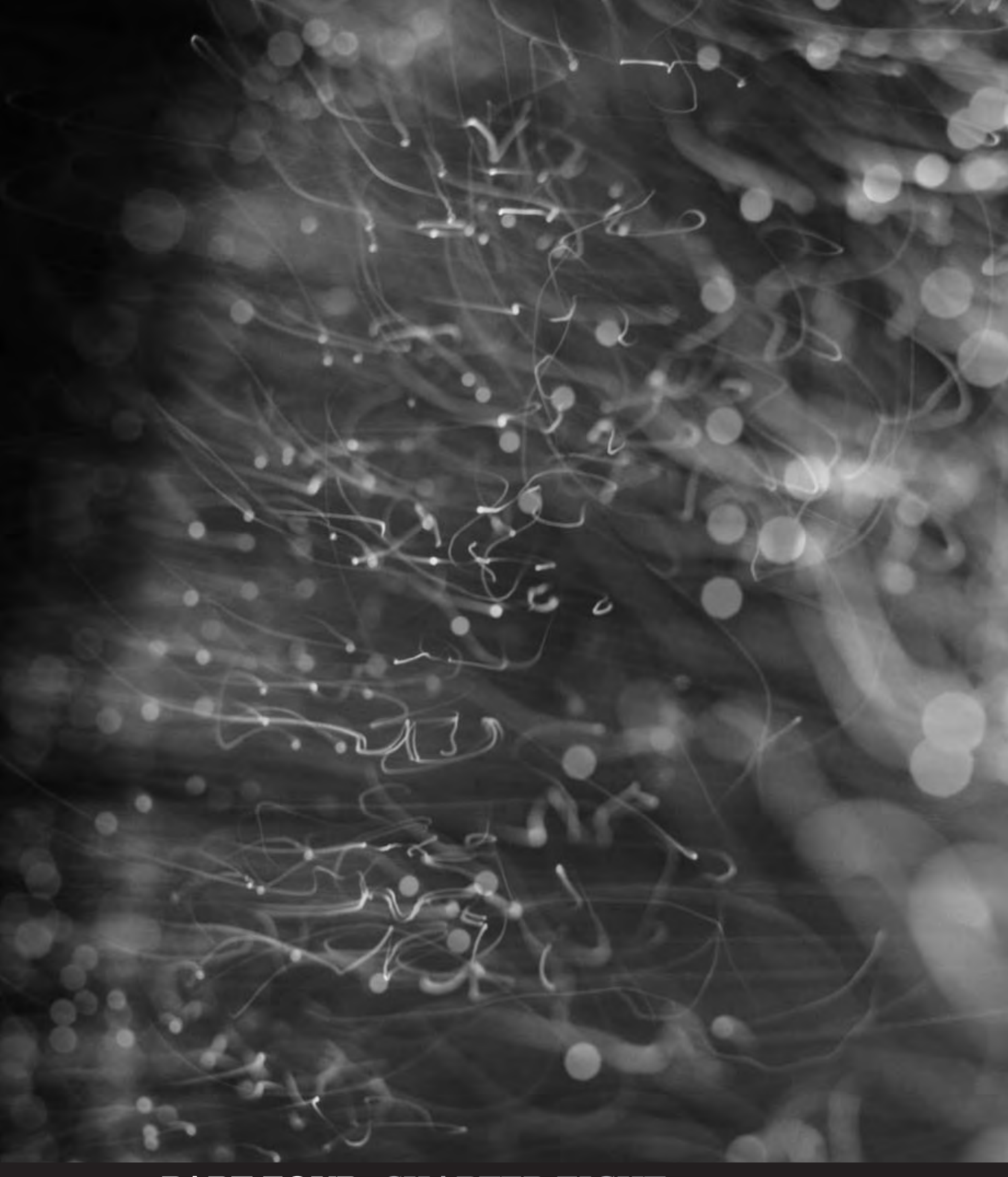
Specific competitive strategies

PART FOUR
Specific competitive strategies

This part will equip you with practical working guidelines to develop specific competitive strategies. Chapters 8 through 12 focus on the following:

- Strategy applications for market, product, pricing, promotion and distribution.
- Connection of the marketing mix to competitive analysis.
- Use of the marketing mix to isolate marketing problems and to develop marketing solutions.
- Business-building strategies along the product life cycle.

Chapter 13 provides duties and responsibilities of strategy teams.



PART FOUR CHAPTER EIGHT

Market strategies: Applying resources for maximum impact

EIGHT

Market strategies: Applying resources for maximum impact

Chapter Objectives

To enable you to:

1. Employ the five major areas related to developing a market strategy
2. Initiate the steps that convert market strategies into action.

Stand back and look at your market in its totality: first, consider the dimension of the market in which you want to operate, the types of segments that interest you and what market entry procedures you intend to use[23]. Also determine the amount of commitment (resources) you intend to make, the level of product demand and potential diversification opportunities.

Second, decide if you even want to participate in a particular market. If so, what share do you want? How much share are you willing to give up against excessively combative competitors? And how are you going to manage the market for long-term profitable growth? Let's consider all of these issues.

23 See Chapter 2 for extensive coverage of markets and methods for segmenting a market

Market dimension

> Avoid spreading out your marketing efforts if it makes you vulnerable to competitors.

Overview: Once you determine the dimension of the market you can handle efficiently against competition, then concentrate your marketing power in a form that offers the greatest chance of success. Expressed differently:

Avoid spreading your marketing effort so thin that it may result in becoming vulnerable to competitors. However, when growth opportunities do become available, then prepare to branch out to additional markets.

Strategy applications

- Segments (geographic, demographic, lifestyle)
- Single market
- Multimarket
- Total market
- Regional market
- National market

The following case illustrates how a company dealt with signs of erratic marketing efforts that resulted in a loss of momentum.

Case example

PPG Industries, Inc., a fabricated glass, sealants, protective coatings and speciality chemicals company, has operated successfully for more than 100 years. During one period, however, tell-tale signs indicated the company was faltering in some of its product development and marketing efforts. For example, after several years of intense work, PPG engineers developed a bluish windshield that would admit filtered sunlight, but block the heat.

The market: All automakers. Results: No interest. Automakers didn't like the colour or the price. Also, auto sales were relatively flat during that period.

That rejection propelled PPG management into action to treat a potential problem before it festered. The subsequent strategies included a number of actions, but the driving one was anchored to *market segmentation*.

PPG's strategies

- Managers moved into higher growth segments, such as Transitions sunglasses by using its unique technology to automatically lighten or darken lenses in response to light levels.
- They initiated programs to run auto paint operations for such companies as Chrysler, thereby snaring a larger share of the coatings and chemicals business.
- Marketing and sales established an insurance claims network to steer window-replacement business to PPG distributors.
- Working cooperatively, marketing and engineering penetrated new markets where PPG products could displace other materials. In one such segment, the company used glass instead of aluminium for computer hard disks.
- PPG pushed abroad into China and South America by setting up production facilities and initiating similar segmentation strategies to those used domestically.

Results: Within a relatively short period, PPG's earnings reached record levels and its stock rose 13 per cent. And the biggest tribute of all came from a Wall Street analyst who characterized PPG as, "one of the best managed companies in the industry."

Action strategy

> Segmentation strategies are different from those applied to marketing products as commodities.

What can you learn from the PPG case? As PPG executives began implementing segmentation strategies for their numerous product lines, they soon found out that the specialized skills needed were quite different from those honed after many years of treating their products as commodities.

Many firms, including yours, could easily face a parallel situation in which market skills need sharpening. Here's what you can do:

1. DEFINE SEGMENT SIZE AND GROWTH

Determine whether an existing segment is worth occupying. That is, does it promise enough growth potential to warrant a long-term commitment? (Refer to Chapter 5 for an extensive review of research sources.)

2. SURVEY MARKET CHARACTERISTICS

Determine market dimension by viewing your position within the network of suppliers, existing and emerging competitors, product and service offerings and various customer groups. Next, understand the make up of the supply chain. Is there room for your product in the existing channel or would you have to blaze a new trail to your customer?

3. EXAMINE BUYER BEHAVIOUR

Look at the flow of events that could reshape buyer behaviour. They include: intensifying global competition, increasing demands from customers, dazzling new technology and emerging organizations committed to product quality and oriented toward total customer satisfaction. Then ask: Market-by-market, segment-by-segment and based on changes in buyer behaviour, what fresh strategies would you initiate?

For starters, analyze your markets according to the following characteristics:

- *Responsiveness*. Often tied to just-in-time delivery, responsiveness also relates to the goal of zero inventory for customers or helping them avoid inventory build-up. Are you prepared to deliver on time and save the customer inventory costs?

- *Quality control*. You will achieve maximum cost savings if the buyer receives perfect products without the need for further inspection. Time is saved, complaints reduced and improved quality helps your customers achieve a higher level of satisfaction from *their* customers. Are there sufficient control systems in place to assure delivery of quality products?
- *Nearness to customer*. In situations where frequent service calls are required, proximity to customers and the need for a speedy response are factors in segment selection. How close are your service personnel to key customers?
- *Communications*. New technology constantly transforms ordering and fulfilment systems. Where do you rank, relative to your competitors, in utilizing the new and expanding forms of communications to meet customers' requirements?
- *Dependable production schedules*. As customers begin to make their sales forecasts and production schedules available, an opportunity arises to develop a stable production capability to meet customers' rigid schedules. What commitments are needed from your production people to satisfy such buyer behaviour?

In addition to the above guidelines, refer again to Chapter 2 for a detailed review on how to segment a market and how to apply segmentation criteria.

Market entry

Overview: The advantage of a first-in strategy is that it has the potential to identify you as the market leader. Often, follow-the-leader and last-in strategies must conform to the market leader.

In the latter situations, there are options to create a competitive advantage using product differentiation, price incentives, promotion originality, service add-ons, or distribution innovations to overcome the leader's advantages. Also there is the choice to target poorly served or emerging market segments left vacant by the first-in competitor.

> The advantage of a first-in strategy is to identify you as the market leader.

Strategy applications

- First-in strategy
- Follow-the-leader strategy
- Last-in strategy

The following case illustrates how one company handled the market-entry strategy when it introduced a new product.

Case example

Monsanto Co. is a market leader in agricultural products and solutions. For years, the chemical company poured millions into the much-touted genetically engineered seeds.

The promise: Improved farmers' yields in various crops and in pesticides that would reduce their costs and enhance crops – particularly for cotton, soybeans and potatoes. Finally, the time arrived to enter the market with their new biotech products.

Monsanto faced a number of key issues in this process, ones that you must consider when introducing a new product or technology. Four of those key issues include the following:

1. *Assess the market potential for the products*

   Monsanto estimated that the market for biotech seed products was $4 billion a year. Management reasoned that going for a lion's share of that market would sustain future growth.

   However, tapping that abundant potential and maintaining a leadership position meant supplying the market with a steady stream of new biotech products. To secure sources of new products, Monsanto began acquisitions to supplement its line.

2. *Monitor competitors' strategies*

Monsanto's managers evaluated their chief competitor's strategies and noted these contrasting approaches: Monsanto was developing products that would improve farmers' yields and lower production costs. On the other hand, DuPont focused on improving the nutritional value of corn and soybeans.

3. *Stay focused on product claims that satisfy customers' needs and wants*

One of Monsanto's major concerns was how to quell doubts among farmers about the pay-off promised from biotech products. It made extraordinary efforts to reaffirm that its products would improve their crop yields in cotton, tomatoes and potatoes that grow without pesticides, as well as protect wheat crops from disease.

4. *Interpret customer behaviour and the requirements for after-sales service*

Monsanto remained sensitive to the difficulty of persuading farmers to accept new technology claims. It already had the unhappy experience of previously introducing a product designed to boost milk production that farmers viewed as too difficult to use and required complicated training. A key issue, then, was to accurately assess how much training and hand holding was needed to ensure continuing product usage.

Action strategy

> Market entry decisions depend on your resources and ability to sustain a competitive edge.

What can you learn from the Monsanto case? One of the overriding issues from the Monsanto case deals with the strategy of *first-in, follow-the-leader,* or *last-in* to the market with a new product or technology.

- *First-in strategy*: The first-in strategy enjoys the advantage of locking up key distributors and customers and possibly gaining a reputation of market leader. To further support that notion, a McKinsey study showed that being first to introduce a new product, even if it is over budget, is better than coming in later, but on budget. The downside is that rushing to the market before the product is thoroughly debugged can result in a negative image.

- *Follow-the-leader strategy*: Here, a firm might time its entry with the competitor. Both companies would gain from the promotional impact of advertising the product category and they would share the overall promotional costs of the launching.
- *Late entry*: Delaying a product launch until a competitor has already entered has some clear-cut advantages: at the outset, the first-entry company will have borne the cost of educating the market. The late-entrant also can avoid product flaws and take the time to appraise the size of the market, profile the buyer and target viable segments that remain untapped (if any).

Commentary

To a great extent, your market entry strategies are pre-set at the time of product launch. By grasping the full significance of the first-in, follow-the-leader, or last-in strategy choice, you will gain additional insight as you make market decisions and develop and refine your strategic marketing plan.

Ultimately, then, the decision in market entry depends on your resources, your ability to sustain a competitive edge (particularly if you are first-in) and your long-term objectives as they relate to the amount of market share and your position in the market.

Market commitment

Overview: Company priorities and resources determine the degree of commitment to a market. Consider if a major involvement should spearhead your growth strategy, or if a limited involvement is the best course of action to protect your other market commitments.

Strategy applications

- Major commitment
- Average commitment
- Limited commitment

The following case provides a broader prospective for those factors related to market commitment.

Case example

H&R Block Inc., the tax preparation company, produces over $1.7 billion in annual revenues from its worldwide operation of about 9,000 outlets. Overall performance is exceptional, with record earnings in all but one of its almost 45 years.

This success has been attributed to H&R Block's marketing managers' knack for doing the right things. For instance, at the grass roots level keen observation identified market trends, marketing research documented those changes and management prudently selected specific trends that would shape strategies.

But all that success did not go unblemished. While expansion is a natural part of the company's culture, there were several additions to its core business. For instance, H&R Block acquired Path Management Industries, which offered one day management seminars, and Hyatt Legal Services that provided legal assistance from storefront locations. Some failures did result.

On the winning side, H&R Block acquired CompuServe Inc., a computer time-sharing company with database services and software products. CEO Henry Block had triggered the acquisitions. His actions were motivated by concern that the tax preparation business would flatten, which in turn would provoke industry in-fighting, usually associated with mature markets.

Later, however, instead of targeting diversification as the next move the company made a fundamental decision to give major commitment to its core business. The new ingredient for success was the move to electronic tax filing, known as the Rapid Refund service.

Rapid Refund permits taxpayers to receive a loan equal to the amount of their refund. The moneys come from participating banks within a few days after the tax returns are electronically filed.

Money-tight customers are happy with Rapid Refund. The government is delighted because of reduced handling costs and fewer errors. And H&R Block is elated with increased revenues, because the customer pays about $25 for the Rapid Refund service and participating banks pay the company about $29 to process the early returns.

Thus, the technology trend increases customer satisfaction and creates a competitive advantage. And the 'other customer', the government, encourages expanding electronic filing to achieve its efficiency objectives.

To exploit the trend, H&R Block extends electronic handling of tax returns to an additional market niche made up of delinquent taxpayers who must respond rapidly to urgent signals from the government. Electronic filings at H&R Block shot up 14 per cent, pushing earnings up 14 per cent, while locking in 65 per cent share of that segment.

Action strategy

> Competitive strategy requires that you use your strengths against the weaknesses of the competitor.

What can you learn from the H&R Block case? H&R Block learned how to merge market trends, customer needs and technology. Then it projected those forces into a major commitment to its core business.

What possibilities are open to you? What process can you use to link market commitment with strategies? First, begin by asking some key questions that are similar to the ones used to develop a strategic direction for your strategic marketing plan:

1. What customers are to be served over the next three to five years?
2. What customer functions are to be satisfied?
3. What technologies can be used to satisfy future customer or market needs?
4. What are the trends in market behaviour?

Next, determine how you can integrate meaningful trends to enhance internal systems or design a new product line that would strengthen your commitment to your core business. Connecting trends with internal capabilities includes a variety of possibilities:

- Create supplier-customer alliances by sharing technology to jointly develop customized products.
- Integrate customers' sales data with computerized inventory control systems.

- Install logistical systems to improve just-in-time delivery.
- Assemble competitor intelligence and customer behaviour profiles to strengthen your presence within emerging, neglected, or poorly served niches of your primary market.
- Weigh the advantages of elevating the quality of customer service and promoting your image as a responsible supplier.
- Promote an open management system that permits customer access to your key personnel for advice on technical and competitive problems.

By tying developing trends into your market strategy, you permit a more proactive approach to securing future outcomes on your terms.

Commentary

There are two dimensions to market commitment: yours and your competitors.

As discussed in Chapters 2 and 3, competitive strategy requires that you use your strengths against the weaknesses of the competitor.

Therefore, the commitment is determined through a side-by-side analysis of how much commitment will be given to key areas such as new product development, market share desired and willingness to sustain an aggressive promotional effort against competitors.

You also need to determine your competitors' patterns of behaviour and how they are likely to respond to your major or limited commitment. (Checklists in Chapter 2 are provided for this analysis.)

And, finally, you need to consider what you communicate to the market place (your customers and competitors) about the amount of commitment you will make – that is, major, average, or limited.

Market demand

Overview: Managing market demand is a key factor to successful performance. You need to know at what point to prune markets if demand slackens; when to concentrate on key markets when demand increases; and how soon to harvest profits should sales plateau and cash flow is needed.

Strategy application

- Pruning strategy
- Key-market strategy
- Harvesting strategy

The following case illustrates the application of a market demand strategy as it relates to reducing the risk of a new product introduction.

case

Case example

Kimberly-Clark Corp., producer of paper and paper products, is a powerful force in consumer products with such brands as Kleenex tissues, Kotex feminine products and Huggies diapers. But such power often encounters opposing forces.

For Kimberly, opposition came from such formidable competitors as Procter & Gamble Co. and Scott Paper Co. Then there were repercussions from maturing domestic markets and price wars that resulted in reduced profitability. Kimberly soon realized that it had to factor in market demand in its drive for new products to help increase market share and improve profitability.

Kimberly-Clark's strategies

First, management decided to pick up the slack in domestic markets by refocusing attention to expand into key European markets. Although the Dallas-based company operated in Europe for many years, sales represented only 20 per cent of revenues.

The shift in its market demand strategy seemed prudent. But Kimberly first had to overcome P&G, Scott Paper and James River Corp. Those competitors zealously guarded entry into their well-defended bastions in the European Common Market.

To deal with the entry obstacles, Kimberly reinforced its presence in selected common market countries by strengthening its sales force, beefing-up manufacturing, developing distribution networks and streamlining information systems. These actions sent messages to both customers and competitors that Kimberly-Clark was there to stay.

Second, product launches were backed by targeted promotions to specific country-markets in which it had product advantages. Results: In Germany and France, Kimberly's facial tissue, baby wipes and paper towels have strong leadership positions.

Third, Kimberly continued to act with speed. Using product development as the driving force of their strategy, Kimberly rapidly developed next generation Pull-Ups. The aim: Stay far ahead of the competition. Or, as one Kimberly executive states, "Pull-ups will be a moving target."

Speed is a vital element of strategy. But it is not without risk. For example, Kimberly committed Pull-Ups to full production immediately after favourable results came from lab tests. Although risky, they also pushed into full distribution, bypassing time-consuming market tests. Management was confident the product was excellent and well worth the risk in order to achieve the strategic value of speed.

Action strategy

> Dealing with market demand requires flexibility, good timing and extensive use of competitive analysis.

What can you learn from the Kimberly-Clark case? The following guidelines will help you align your product introductions with your market demand strategy:

1. *Selecting markets*. Whether domestic or international markets, be certain the markets you select align with a long-term demand strategy. Then determine your capabilities to sustain a steady product flow of new or enhanced products. In addition, determine the commitments of competitors to match or exceed your product introductions.
2. *Entering markets*. Study the markets for points of entry. That is, determine geographic locations of available distribution networks and their capacity to handle your products. Also evaluate what product advantages you can tout, such as lower price, more features, or some

other value-added benefits that are strong enough to displace competitors' products in favour of yours.

3. *Building market share*. Depending on your resources, explore the potential of a rolling strategy: (a) producing your product as a private brand; (b) followed by establishing your own brand name; (c) then continuing with product improvement, product upgrading and supporting services.
4. *Protecting market share*. This strategy assumes the best defence is an offence. Begin with continuous observation of competitors' products and strategies. Then monitor how customers' judge your products and observe their changing needs. Lastly, recognize that timing new product introductions are not isolated activities, but are integral parts of your total market demand strategy.

Commentary

Managing market demand requires flexibility, good timing and extensive use of competitive analysis. Also, the applications of market demand strategy connect directly to the strategies of concentration and segmentation as they relate to expanding or contracting your presence in a selected market.

Market diversification

Overview: You should be aware of opportunities to add new businesses that relate to existing production or supply chain capabilities (horizontal diversification). Or, you can add another stage of production or distribution to existing operations, one that either precedes or follows in the ultimate path to the consumer (vertical diversification.) You can also diversify into unrelated businesses using new technology and marketing strategies (lateral diversification).

There is still another form of diversification that comes from forming a variety of alliances, joint ventures and similar cooperative arrangements. Then, there is the pervasive use of mergers and acquisitions (M&A) over the last several years to shape diversification strategies.

Strategy application

- Horizontal diversification
- Vertical diversification
- Lateral diversification
- Alliances

The following case illustrates how one company used diversification to deal with its uncomfortable situation of being a lone survivor in an industry under steady attack by foreign competitors.

case

Case example

Applied Materials Inc., a worldwide supplier of products and services to the semiconductor industry, realized that to retain its global position in a hotly contested market it had to develop a diversification plan that incorporated three essentials:

- *Executive vision*. Executives took into account the long-term development of the core industry it would continue to serve, absorbed the practices of existing and emerging competitors they would have to confront and maintained ongoing intelligence about the changing needs and competitive environment of its customers.
- *Managerial skills*. They assessed the capabilities of personnel and evaluated their abilities to implement a successful global diversification plan. Yet, they were mindful of the critical need to employ a highly personalized service-oriented attitude toward customers.
- *Strategies and tactics*. Managers at all levels set in motion a finely-tuned plan required by a market-by-market entry. Also, they developed counter-measures that allowed for effectively manoeuvring against the threats of aggressive competitors.

Applied Materials' strategy

Management's vision for AM was the outcome of a two-directional approach:

First, managers looked backward to learn from the crushing defeats of several of its customer groups in the machine tools and consumer electronics industries as Japan emerged a major competitor during the 1970s and 1980s. Then, they looked forward to discover that in some sectors chip-making equipment was projected to slide and would negatively affect AM's market share.

On the basis of that sobering analysis, managers proceeded to apply their skills by organizing AM's strategic options. Initially, they ranked AM's market position against new global competitors. Then, they defined what position AM should have in a reshaped chip-making industry. Finally, they prioritized their opportunities.

Management's new strategies and tactics aimed at repositioning AM so that it could diversify into global markets, which was consistent with its long-term vision for growth. To that end, managers diligently examined those companies that succeeded and the ones that failed.

From the analysis, AM managers internalized the need to access local supply chains as the driving force behind their strategy. Next, they recognized the value of creating intimate, ongoing relationships with customers.

In particular, AM managers saw Japan as a growing but demanding market, one representing a prime opportunity. Managers looked closely at the sophisticated patterns of how Japanese producers partnered with their customers.

Accordingly, AM executives instructed their technical people to work with Japanese semiconductor makers to find ways to make AM's machines more functional. As relationships evolved, AM frequently customized products for specific customers.

However, the closeness to customers didn't end there. AM confronted service with a new vitality. If equipment broke down, a technician arrived at the customer's location within hours – not days.

> Don't distance yourself from customers, regardless of the types of alliances you form.

Action strategy

What can you learn from the Applied Materials case? When diversifying globally, or into another stage of business within regional markets, use the following guidelines:

1. Don't distance yourself from customers, regardless of the types of alliances you form. In global markets, where possible, set up indigenous operations staffed with the nationals of each country.
2. Don't permit distributors to shoulder the entire load of contacting prospects, selling your products and servicing the customer. Take the time to learn the intricacies of distributing to local markets.
3. Watch the actions of your competitors. Maintain an ongoing competitor intelligence activity and conduct customer satisfaction studies to feed your strategies.

Commentary

As illustrated in the Applied Materials case, market diversification presents many opportunities for you to exercise innovation and entrepreneurial thinking. Consider additional examples in the three categories of diversification:

Horizontal diversification

Procter & Gamble and **Borden** are experts in horizontal diversification. Originally a soap company, Procter & Gamble has long since expanded horizontally into such diverse products as cake mixes, potato chips, coffee, paper products, toothpastes, deodorants and detergents. Borden's product mix ranges from cheeses and reconstituted lemon juice to glue and adhesive tape.

What these companies have discovered is that great economies can be derived from using the same sales force to sell new product categories to the same retail outlets, simply by applying already developed marketing skills. Because it involves building on an existing strength, either in technology or in marketing, horizontal diversification is the most promising and least risky of the market diversification strategies.

Vertical diversification

Hart Schaffner & Marx, the manufacturer of such famous clothing brands as Hickey-Freeman and Christian Dior, acquired a chain of retail stores to add to its existing stores. Although this type of diversification is common, it does increase risk because the management of one level of business (retailing) may not have enough expertise at another level (manufacturing).

Lateral diversification

Lateral diversification is the most extreme form of diversification because it usually represents a complete departure from current operations by owning diverse businesses. The only connection is that the same parent owns diverse businesses. The resulting group is called a conglomerate and was made popular in the 1960s.

The current trend is more controlled with portfolios of businesses put together with a more cohesive strategic direction. (The frameworks for strategic direction and developing a business portfolio are discussed in Chapter 6.)

Action steps

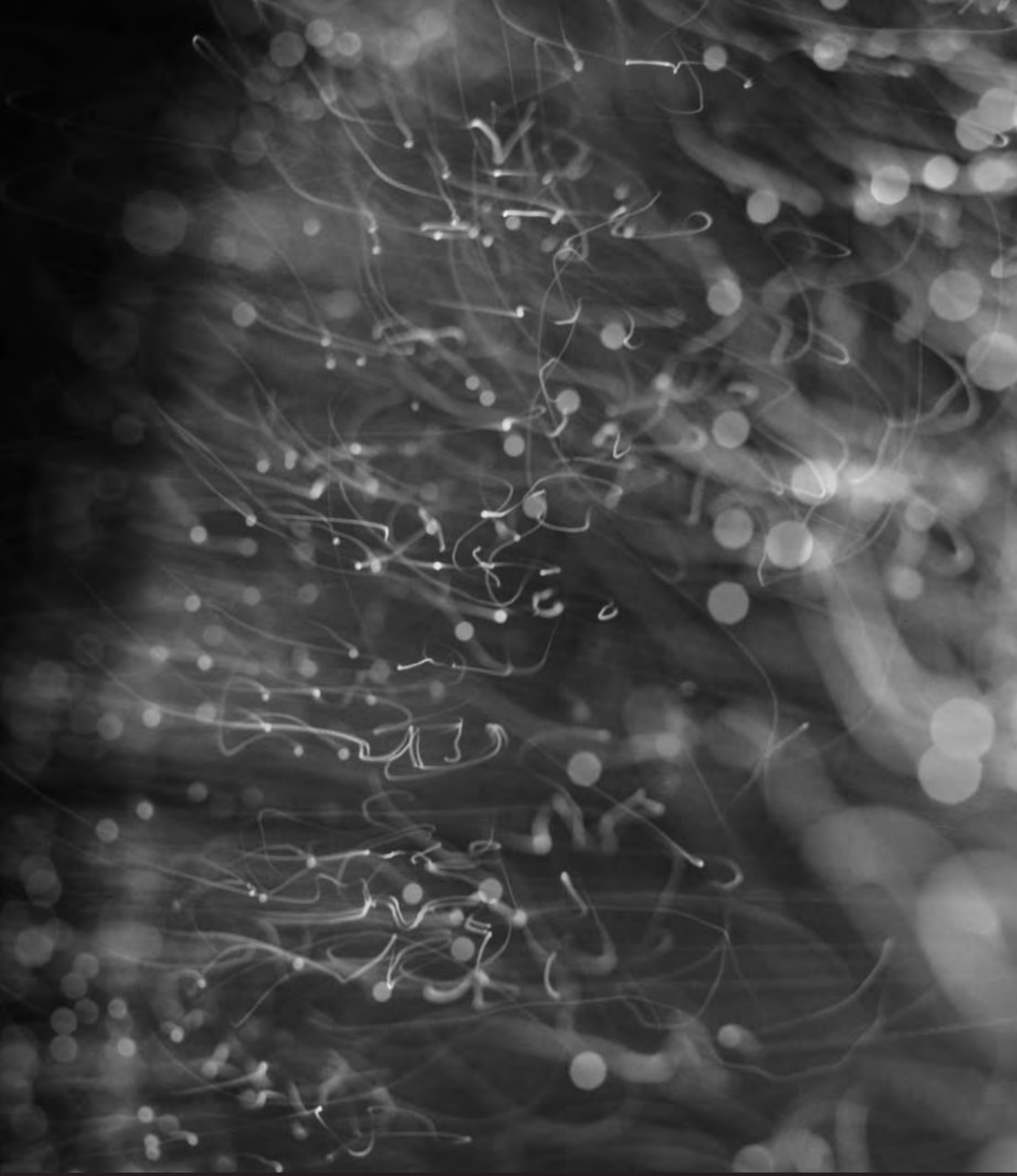
> If competitors throw obstacles in your way, assess their weaknesses and manoeuvre your strengths against them.

Market strategies must eventually be converted into actions. Keep in mind that you need to concentrate on a market that has long-term growth potential. If competitors throw obstacles in the way, assess their weaknesses and focus your strengths against them (review the indirect approach discussed in Chapter 1). Their vulnerabilities will usually be apparent in areas such as product, service, pricing, supply chain, sales force and promotion.

To identify strategies and initiate action:

1. List market segments representing your best opportunities.
2. Evaluate the strengths and weaknesses of the segments.
3. Identify the points of entry.
4. Consider the amount of commitment needed.

5. Monitor progress in entering and penetrating a market, or in defending existing market share.
6. List immediate strategies and tactics that can be implemented.
7. Utilize manoeuvre to conserve resources and avoid head-to-head confrontations with competitors.



PART FOUR CHAPTER NINE

Product/service strategies: Your lifeline to growth and competitive advantage

NINE

Product/service strategies: Your lifeline to growth and competitive advantage

Chapter Objectives

To enable you to:

1. Identify the framework for developing product strategies.
2. Develop a positioning strategy.
3. Use life cycle extension strategies to revitalize your own products.
4. Learn to use the product audit to sustain product profitability.
5. Convert product strategies into action.

Reviewing your products or services present a dual opportunity.[24] First, you become aware of the changing needs and wants of customers by which you base new product development. Second, you can decide how and when to remove losing and marginal products.

The seven major areas of product considerations – positioning, product life cycle, product competition, product mix, product design, new products and product audit – provide a systematic framework for reviewing your products and developing competitive strategies.

24 For the purpose of simplicity, the term product is also used to cover services. Today banks, insurance companies and communications organisations routinely refer to their offerings as services.

Positioning

Occupy an open position in the market and in the customer's mind.

Overview: Al Reis and Jack Trout popularized *positioning* during the 1980s as "Not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product to the mind of the prospect."

Professor Philip Kotler (Northwestern University) says, "Positioning is the act of designing the company offer and image so that it occupies a distinct and valued place in the target customers' minds."

What follows, then, is to find out how customers perceive your product by examining the image it projects and the needs it satisfies. Next, is to monitor those perceptions through observation and research. If they are undesirable, change them. Then, locate an open position in the market and in the customers' mind. Occupy that new position and protect it against competitive inroads.

Strategy application

1. Positioning a single brand
2. Positioning multiple brands
3. Repositioning older products

The following case shows how one company dealt with positioning to revitalize its product line and prevent it from becoming an also-ran in the industry.

case

Case example

Timex Corp., the well-known watchmaker, is an inspiring example for those managers who must position their product lines weakened by aggressive competition, management mistakes, or changing market behaviour.

Let's look at the conditions that hit Timex and then examine their positioning strategies. Management's errors were few but potent. In the early 1980s, a Swiss company asked Timex to handle worldwide marketing of its new line of watches. Management refused and Swatches went on to become one of that decade's immensely successful products.

When competitors, particularly Japanese makers, latched on to Texas Instrument's invention of the digital watch that swept the market during the 1970s and 1980s, Timex elected to stick with conventional, low-priced analogue watches.

At the same time, consumer behaviour was changing. Timepieces became fashion accessories, not just functional objects. Statistics revealed the average consumer owned five watches, compared with one-and-a-half 30 years earlier.

Aggressive competitors such as Seiko and Citizen spotted the trend and rushed in with a wide variety of styles in a growing price range. Again, Timex remained conservative, even while its market share nose-dived. So much for the errors. How did Timex management reposition itself, build its product line and salvage a valuable brand name?

Timex's strategies

- *Market orientation*. Recognizing its errors, management moved rapidly to obtain first hand market feedback to drive new product development. Fashion consultants from New York and Paris visited Timex's headquarters regularly to display new clothing styles and suggest trends that could influence watch styles. Another primary source of customer information was the Timex-owned stores in key cities, which also served as test markets for products and pricing.
- *Product expansion*. Timex acquired Guess and Monet Jewellers to provide access to upscale markets, thereby expanding its product line-up. A deal with Nautica Apparel introduced the first dress watch for men. Movie characters were licensed from Disney for a new product line. And Timex licensed its own name for a line of wall clocks and clock radios.
- *Product development*. Timex's biggest product coup occurred with the launch of its Indiglo line. Using a patented technology, energy comes from the watch batteries to excite electrons that light up the

watch face. Then, remembering the Swatch incident, Timex developed a plastic line called Watercolors to go up against their Swiss rival. Also, noticing the sports craze, Timex moved rapidly with the highly successful Ironman to capture a big share of that growth segment.

- *Organizational restructuring*. Management learned the hard way that becoming aware of market changes and responding quickly with products at the right time and place are the ingredients for successful repositioning. Accordingly, the company reorganized along product lines, creating business units for sport, fashion and its core Timex watches, giving each line full autonomy over product design and development.

Results: The product line-up increased to 1500 styles, up from 300, ranging in price from $25 to $300. In addition, market share increased several points to around 30 per cent.

Action strategy

> Find a technology, product design, distribution system, or service that differentiates you.

What can you learn from the Timex case? Timex's strategies are instructive as you consider the broader considerations of positioning. Use the following guidelines:

1. *Keep focused*. Position your products in those niches where there is an above average chance to rank among the leaders. Where possible, avoid the commodity segments. Find a technology, product design, distribution system, or service that differentiates you and leads to a favourable position compared to that of competitors.
2. *Establish flexible work teams*. To succeed, however, teams must have a clear definition of how the company wants to be positioned. To implement the action, the team must have the authority to make decisions. And team members should be properly trained in the techniques of developing strategic marketing plans with accompanying positioning strategies.

3. *Solve customers' problems*. The extent to which you are able to solve customers' problems and thereby make your customers more competitive, the greater chance you have for survival and long-term growth. Look for new product applications, value-added services and new market segments that were overlooked in the initial stages of product development.
4. *Look globally*. Trade barriers continue to crumble. Push your products and technologies wherever they apply in the world. That is, make sure you are positioned to offer speciality or customized products that will satisfy local needs and not use foreign markets as a means to unload a standardized product.

Commentary

A product's position in a customer's mind is the result of three groups of influences: The company's total effort, including its marketing mix; environmental issues, including competitive efforts; and the customer's own perceptual processes, including its internal culture.

> When moving a product to a new position, explain why your product is different from the original perception.

Use the following steps to develop a positioning strategy:

Step 1: Identifying your product's actual position invariably requires individual consumer interviews, generally in the form of a self-administered questionnaire.

(See Chapter 5 for marketing research techniques.)

Step 2: The easiest way to select an ideal position is to accept your brand's current position, particularly if it commands a strong position in its field. Or select a position that nobody else wants.

Step 3: In attempting to achieve an ideal product position, your firm has two principal options: first, move your product to a new position, with or without a change in the product itself. Second, introduce a separate, new product with the necessary characteristics for new positioning and leave the current product untouched or possibly withdraw it from the market.

If you take the option of moving an existing product to a new position, you face the intense challenge of explaining why your product is really different from the consumers' original perception of it. This formidable task can be achieved by promoting either new applications of an unchanged product or a modification of some significant product feature. Also, you may want to consider offering your product as an alternative to the leading brand in its category.

> When formulating positioning strategies, position your product as an alternative to the leading brand.

Step 4: After developing several alternative strategies for achieving your ideal product position and determining their likely consequences, you would select one of them to implement in the market place. In making your decision, be guided by your company's overall objectives, resources and capabilities, as well as by the specific objectives and conditions that apply to your particular brand.

Step 5: While tracking your competition, you also have to monitor the impact of your positioning on the customer's mind, where it counts most. Follow-up research should examine and compare your product's actual position with its desired ideal position.

Product life cycle

Overview: The various strategies that extend the sales life of products are the pillars for successful growth (Figure 9.1). These life cycle extenders are the safest and most economical strategies to follow. Identify the best extension opportunities and then gain the cooperation of product developers, manufacturing, finance, distribution, marketing and sales.

> Life cycle extenders are the safest and most economical strategies to follow.

Strategy application

- Promote more frequent usage
- Find new users
- Find more uses (applications) for the product
- Find new uses for the product's basic material

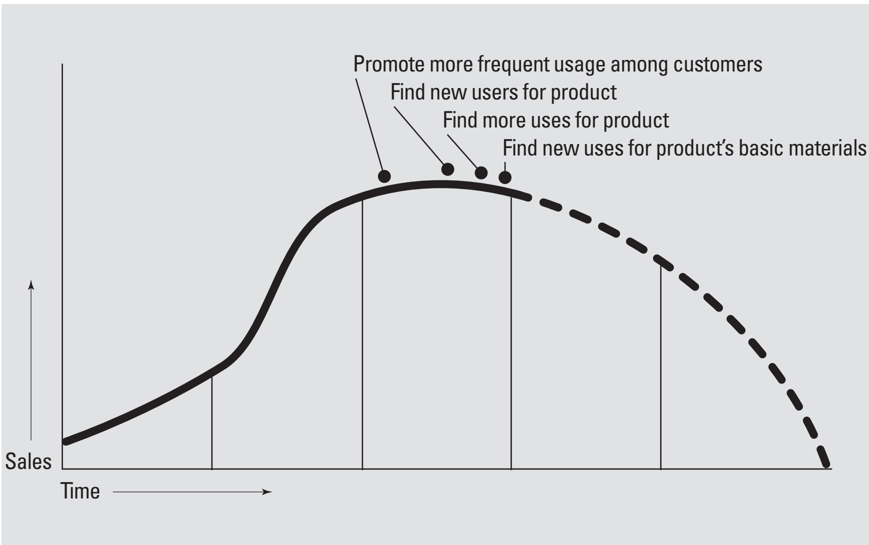


FIGURE 9.1 STRATEGY APPLICATION FOR EXTENDING A PRODUCT'S LIFE CYCLE

The following case illustrates the practical application of the product life cycle where a company's primary products and markets mature.

Case example

Motorola Inc., the electronics manufacturer, is one credible role model of how a beleaguered company fought market downturns and sales declines of some of its outmoded products.

Although its existence was in jeopardy as it avoided take-over by a Japanese competitor, Motorola rose to the challenge. Management's determination, dedication to product quality, fast turnaround, innovation and a market orientation all contributed to eliminating the threat – while propelling the company to a whole range of notable achievements.

Motorola skilfully focused its imposing technology to the thriving commercial electronics market. Contributing to Motorola's successes was attention to the product life cycle.

Used as a monitoring tool, the product life cycle delineated for managers how a product moved through various stages of its sales cycle: introduction, growth, maturity and decline.

In specific applications, Motorola saw the product life cycle as a device to (1) identify when a product entered the mature (or commodity) stage, (2) signal when to phase in new product applications, (3) recognize when to extend the learning curve from previous levels of technology to new stages of product innovations.

Motorola's strategies

Let's examine Motorola's use of the product life cycle and learning curve processes from two vantage points: product evolution and market development.

1. *Product evolution*: Motorola traces its roots as an early maker of (AM) car radios. The technology evolved to military application with two-way radios (U.S. Army Handie-Talkies of World War ll), followed by its commercial application in police cars. That technology became the springboard to today's cellular radios, paging devices and to an innovative new communications system that uses 66 satellites for worldwide communications.
2. *Market development*: Motorola management observed that markets also go through cycles. The moves are often erratic: some segments mature rapidly, others begin their growth stage driven by customers developing their own unique applications. In one market, Motorola found such a growth situation for its pagers in China where conventional telephone communication is still at a primitive level. Business owners discovered they could communicate with service people and customers by using pagers to send coded messages.

> Life cycle marketing focuses managers' attention on the evolving needs of customers.

Thus, viewing a product, technology and a market moving through stages of a life cycle had these advantages:

First, it helps prioritize which projects would impact a company's ability to compete actively, rather than to wait passively and be pushed into obsolescence by competitors and customers. Second, life cycle marketing focuses managers' attention on the evolving needs of customers.

Understanding that needs also have cycles, creates urgency for timing a response before competitors can act. Result: There is a continual rejuvenation of the market through new applications of products, systems and technologies. Motorola's unrelenting pace to extend the life cycles of its products and technologies is a dominant part of its success formula.

Action strategy

What can you learn from the Motorola case? The product life cycle offers a reliable perspective for observing a "living" product and market moving through dynamic stages, influenced by outside economic, social and environmental forces, as well as by inside policies, priorities and resources.

For many companies, monitoring the life cycle curve often prevents the severe consequences of allowing a product to reach a commodity status, where price is often the solitary weapon in the marketing arsenal. Consequently, the classic product life cycle model remains an effective framework for devising marketing strategies at various stages of the curve.

For example, the following three categories of strategies apply when a product reaches the difficult mature stage of the product life cycle, where management devotes much of its trouble-shooting time – and from which Motorola shaped its growth strategies:

1. Market modification
    - Expand the number of users by converting nonusers to your product, entering new market niches and converting competitors' customers to your company.

- Increase customers' usage of your product by showing them ways to use the product more frequently, in greater quantities and for more varied applications.

2. Product modification
   - Utilize quality improvement to increase the product's functional performance, such as through durability, reliability and speed.
   - Add feature improvements that expand the product's versatility, safety and convenience through size, materials, additives, or accessories.
   - Implement style improvements using shape, packaging, colour and other aesthetic and functional modifications.
3. Marketing-mix modification.
   - Examine the wide range of non-product strategies associated with price, sales, advertising, service and distribution.

EXAMPLES

Cases abound of organizations successfully extending the sales life of their products. The business classics include nylon, Jell-O brand gelatine desserts and Scotch brand tape. All have had average life cycles of more than 60 years and are still going strong.

DuPont nylon was used initially for parachutes in World War II. Then the social necessity for women to wear hosiery promoted the use of nylon. It was also introduced in a variety of textures and colours and its use extended to rugs, tyres, clothing and a variety of applications in the consumer and industrial markets.

Jell-O expanded its assortment of flavours, promoted the product for use in salads as well as desserts and focused on the weight-watching market. Scotch brand tape introduced tape dispensers to encourage more usage; developed coloured, patterned, waterproof and write-on tape; and designed new applications for the basic material with double-coated tapes that competed with liquid adhesives for industrial applications.

Product life cycles permit you to grasp a complete picture of competitive strategy.

Successful management of your product's life cycle requires careful planning and thorough understanding of its characteristics at the various points of the curve. Only then can you respond quickly and advantageously to new situations, leaving competitors in your wake.

Strategies throughout the life cycle

Different conditions characterize the stages of the product life cycle. This fact suggests continuous monitoring and appropriate changes in your strategic approach, if you are to optimize results. These changes include adjustments in your marketing mix – that is, the particular combination of marketing tools that you use at each stage (see Table 9.1).

MARKETING MIX ELEMENTS

Life cycle Stage	**Product**	**Pricing**	**Distribution**	**Promotion**
Introduction	Offer technically mature product; keep mix small	'Skim the cream' of price insensitive innovators through high introductory price	'Fill the pipeline' to the consumer; use indirect distribution through middlemen	Create primary demand for product category; spend generously on extensive and intensive 'flight' advertising; incorporate the Internet into the promotion mix
Growth	Improve product; keep mix limited	Adjust price as needed to meet competition	Increase product presence and market penetration	Spend substantially on expansion of sales volume

Maturity	Distinguish your product from competition; expand your product offering to satisfy different market segments	Capitalize on price-sensitive demand by further reducing prices	Take over wholesaling function yourself by establishing distribution centres and having your own sales force call on retailers	Differentiate your product in the minds of prospective buyers; emphasize brand appeal
Saturation	Proliferate your mix further; diversify into new market	Keep prices stable	Intensify your distribution to increase availability and exposure	Maintain the status quo; support your market position
Decline	Prune your mix radically	Carefully increase prices	Consolidate your distribution setup; establish minimum orders	Reduce advertising activity to reminder level

TABLE 9.1: STRATEGIES THROUGHOUT THE LIFE CYCLE

Introduction

Creating primary demand activates people's needs and focuses them on your product.

It is the task of the pioneer to create primary demand for the new **product**. Creating primary demand is an educational process that involves activating people's needs and focusing them on the product. It also means breaking old habits and forming new ones. After all, most new products don't fill a previously unfilled void, but often displace other products that have served the same or similar purposes.

Your **distribution** or supply chain decisions are crucial because they lock your firm into long-term commitments to a selected group of middlemen that cannot be changed easily, if at all. The degree to which you know how to secure maximum availability of your product in the right outlets can make or break your participation in the ongoing growth of a new market.

Also essential is the support given your product in the form of **promotion**. Anything less than generous funding and an all-out advertising effort, including an increasing use of the Internet, will reduce the product's chances for survival.

Since potential buyers are hardly in a position to develop their own ideas about **price**, you are relatively free to decide on your introductory price. You can set it fairly low – a strategy called penetration pricing – aimed at a mass market or discouraging competitive imitation through low unit profits and large investment requirements. Or you may consider a skimming strategy that starts out with a comparatively high price before competitive pressure erodes your temporary advantage.

Growth

In the growth stage, you will want to modify your basic **product** to take care of any problems discovered through initial consumer reactions. However, since the product category is selling so well, the product mix can remain small.

As for **distribution**, your goals will include persuading current channel members to buy more and to sign up new channel members. This drive is greatly aided by booming demand, which strains the industry's supply capability and has distributors scurrying for merchandise.

Your **promotion** emphasis is likely to shift somewhat from creating product awareness to expanding market volume. And **price** softens as price-cutting competitors enter the market.

Maturity

Competition now turns into a fight for market share. At this time, it pays to redesign your **product** to make it more distinctive and easier to differentiate from competitive offerings. Thus, it is advisable to adopt a strategy of market segmentation to satisfy the unique needs of these separate groups.

With regard to **distribution** strategy, you may find yourself reconsidering supply chain structure, cost and control. If you employed the services of middlemen in your introductory thrust, it may now be sensible to eliminate them in order to push your product harder and cut costs.

Your **promotion** has to communicate and enhance your drive to differentiate your product. It should put heavy emphasis on brand appeal to pre-sell the product, so that the prospect recognizes and prefers your product even in a competitive environment.

Promotion has to communicate your drive to differentiate your product.

Since actual differences between substitute products are very slight and **price** sensitivity is high, price variations between your firm's products and those of your competitors gain in importance, opening up the last sectors of market capacity. Prices will tend to drop further, but stabilize towards the end of the stage as a result of cost pressures.

Saturation

As your **product** enters the saturation stage of its life cycle, typically a no-holds-barred fight develops for market share. Because market volume has ceased to grow, the growth of individual firms' sales volume is achieved at the expense of competitors. In your product strategy, you will find yourself compelled to differentiate further by offering even more choice.

Your **distribution** strategy remains unaltered in the saturation phase. You should attempt to gain even more intensive distribution and, thereby, maximize availability and exposure. Toward this end, your sales people will have to make a well-planned, concerted effort to obtain more trade cooperation.

The primary function of **promotion** at this point is to maintain the status quo. Little new ground can be broken, so advertising of the reminder or reinforcement type is needed.

Decline

With consumer interest in the product waning, competitors drop out of the market in droves. You can trim your **product** line, vigorously weeding out weak products and concentrating on a few unchanged items.

Similarly, you will reduce **distribution** cost by consolidating warehouses and sales offices, as well as establishing minimum orders to discourage small shipments. Your sales effort will tend to be low-key, with an emphasis on retaining as much of your market as you can.

Promotion support will diminish to the low budget, infrequent-reminder type. And your **prices** will stay right about where they are.

Product competition

Overview: To gain a larger share of a total market, consider introducing additional products as competing lines or as private labels. The additional products provide a solid front against competitors. Overall, the strategy aims at generating higher revenue than does the use of only a single product.

Strategy application

- Competing brand
- Private label

> Apply a differentiation strategy so you don't cannibalize sales from one line to another.

The following case illustrates one application of product competition, where a company attempted to transform a commodity product into a brand name.

case

Case example

Thor-Lo Inc., a manufacturer of athletic socks, turned an unglamorous commodity into a remarkably successful branded item. There's a good deal of marketing savvy to be gleaned from this success story:

First, Thor-Lo's product developers would not consciously acknowledge that their product was a commodity. Instead, they talked about 'Preventive Foot Health' rather than producing athletic socks. (Here is another practical application of developing a functional strategic direction, as noted in Chapter 6.) This strategic direction was not a play on words, but a mindset and a visionary statement that converted into innovations.

Second, managers translated their vision into a tangible product. They observed that the sport sock market was served by organizations that used either a low-cost manufacturing strategy or attached a designer label to distinguish their socks. For the most part, however, the items were look-alikes – usually cotton, white and perhaps with a stripe or two.

Capitalizing on 'preventive foot health' as the idea-generator for the new product strategy, Thor-Lo's designers first developed a speciality sport sock with a roll-top terry cloth ridge that prevented the sock from drooping. With that success Thor-Lo developed a sock that could protect the foot against the pounding of hard athletics.

Designers packed as much terry cloth into the sport sock as they could, without making it too thick in the arch. That item triggered the major breakthrough to vault the privately held company over its rivals.

Third, with the exceptional success of the padded sock, managers then shifted to segmentation as their expansion strategy. Sport-specific socks were soon developed for tennis, cycling, hiking, aerobics and basketball.

The dense padding was skilfully placed in areas where the foot takes the most bruising. Beyond sports, Thor-Lo managers further segmented the market on demographic and life style criteria, providing speciality socks for senior citizens and those needing preventive health care for their feet.

Fourth, managers launched their differentiated sport socks as a Thor-Lo brand. The features that made the brand unique also provided the conditions for premium pricing. Prices were set at about double that of the existing brands. Retailers, enticed by the generous increase in actual dollars, quickly carried the line.

Fifth, promotion complemented the overall product strategy. Using the product's unique benefits as the dominant theme, promotions capitalized on endorsements from such prestigious personalities as tennis star Martina Navratilova and favourable reports published in medical journals. They also capitalized on the implied endorsement of the U.S. Postal Service, which approved Thor-Lo as an official sock supplier.

Finally, recognizing the inevitability of competitors introducing low-priced knockoffs, Thor-Lo invested almost 20 per cent of its revenue in R&D and new knitting machines.

The two-pronged strategy aimed at (1) extending the product's life through new designs to maintain a competitive edge and (2) fending off aggressive competitors by bolstering its cost-efficient manufacturing operation.

Action strategy

What can you learn from the Thor-Lo case? To develop competing products, be certain you apply a differentiation strategy so that you don't cannibalize sales from one line to another. Here are useful guidelines:

- *Features and benefits*: These are characteristics that complement the product's basic function. Start with your basic product. Then visualize adding unique features and services; ideally, ones based on users' expectations. (Thor-Lo visualized 'foot health.')
- *Performance*: This factor relates to the level at which the product operates – including quality. (Thor-Lo achieved high performance by inserting padding adjusted to the sport.)
- *Acceptance*: This characteristic measures how close the product comes to established standards or specifications. (Conforming to endorsers' standards proved a valuable strategy to Thor-Lo's market acceptance.)
- *Endurance*: This factor relates to the product's expected operating life. (Consumers perceived that in addition to comfort, thick socks would outlive ordinary ones and were worth the higher price.)
- *Dependability*: This attribute measures the probability of the product breaking or malfunctioning within a specified period. (Dependability is a criterion most often applicable to engineered products.)
- *Appearance*: This factor covers numerous considerations ranging from image, function, look, or feel. Different from performance, appearance integrates the product with all its differentiating components, including packaging.
- *Design*: This factor unites with the above differentiating components. While design encompasses the product's appearance, endurance, dependability, there is particular emphasis placed on ease of use and appropriateness to the function for which it was designed.

Commentary

Procter & Gamble, with its array of brands of detergents and other product categories, is the master at executing a product-competition strategy. Likewise, **Becton Dickinson**, the large health care firm, produces its famous brand of Ace bandages as the premium brand. It also makes a competing brand, the lower-priced line of Bauer & Black bandages.

You have to be careful with competing brands though, to be sure there is a minimal amount of cannibalizing sales from one product to another. The intent is to segment and position your product with as much precision as possible.

Another application of product competition – private labelling – is also prevalent, as shown by examples such as **The Coca-Cola Company** supplying Minute Maid orange juice to A&P supermarkets together with A&P's private brand.

Product mix

Overview: Evaluate the profit advantage of a single product concentrated in a specialized market. And, for growth and protection from competitors, consider a multiple-product strategy, which could include add-on products and services.

Strategy application

- Single product
- Multiple products
- Product system

> A product is new when the prospect or customer perceives it as new.

The following case illustrates how one company used a product mix strategy to transform the built-in value of a brand name into new and profitable products.

Case example

Berlitz International products come in all languages. It is a brand name known in virtually all parts of the world. Sales growth of the firm has soared due to jolting reactions from political events, as well as from deliberate cultivation of niche language markets.

For example, with the reunification of Germany, Berlitz anticipated that East Germany, as well as all of Eastern Europe, would be eager to learn English – the acknowledged international language of business. Through its German-based licensee, Berlitz initially sold 45,000 self-teaching English kits.

Aside from those impressive spurts in sales, for the most part the language training business was considered nearing a commodity status. Berlitz management recognized the problems of a commodity business, typically identified by look-alike products, flat sales or modest growth and hefty price competition.

Its strategy: Go on the offensive and expand operations.

Examining various growth options, management selected one expansion strategy: capitalize on the high consumer acceptance of the international brand image of Berlitz. (The name has been synonymous with language instruction since its founding in 1878 in Providence, Rhode Island by Maximilian Berlitz.)

Berlitz's strategy

Management decided on two guiding principles: first, it would cling to its corporate mission of relating all product offerings to languages. Second, it would build value through the Berlitz name, not only by internally developing new products and line extensions, but would also license it to selective outside products.

A stream of new products expanded its product mix:

- Language phrase books that sold in the millions.
- Palm-size electronic devices that translate typed-in words and phrases into five languages.

- A series of travel guides. (Rights acquired from Penguin Books.)
- Corporate translations of sales brochures, contracts and trade dispute documents. The market value of this segment is growing worldwide with the increasing globalization of business.
- 'Berlitz Jr.' which consists of sending Berlitz instructors into schools.
- Instructional language software for use with personal computers and compact discs.

> For growth and protection from competitors, consider a multiple-product strategy.

Action strategy

What can you learn from the Berlitz case? Not all companies have world-renowned names, such as Berlitz. However, your company's name or product line may have a reputation for quality, performance, after-sales service, or unique applications within an industry.

Given similar circumstances of mature markets or near commodity products faced by Berlitz, what process can you use to exploit your corporate or product name into developing your product mix?

First, keep in mind the definition of a new product. A product is new when the prospect or customer perceives it as new. Therefore, new products can cover a range of innovations – from minor change to new-to-the-world – if the changes are perceived as *new*. That means, for example, modifying products for specialized applications, developing new forms of packaging, or devising a system for convenience of storage and retrieval.

Further, by adding value through field technical assistance, computer-linked inventory systems and technical/advisory telephone hook-ups, you can give the impression of new. The following checklist can help you get started on developing your product mix by capitalizing on your company's name:

Step 1: Review your company's strategic direction or overall product line objectives. You thereby guard against venturing into line extensions that do not relate to your core business.

Step 2: Define your market by sales and profit volume, customer usage, purchasing patterns, anticipated market share and investment required.

Step 3: Determine product development requirements, such as using existing company technology, obtaining new technology, licensing finished products, or subcontracting an entire project.

Step 4: Evaluate competitive offerings. Determine how to differentiate your new product to avoid a direct confrontation with look-alike products.

Step 5: Determine the proposed product's position. Will it be positioned to *defend* a market niche or be placed on the *offensive* to secure additional market share? Will it be used as a *probe* to enter an emerging market or as a *pre-emptive* attack on competitors to discourage their entry?

Commentary

The product mix strategy overlaps with other considerations, such as those already discussed for market dimension, market entry and market commitment strategies. As always, orient your competitive thinking to your competitors' product mix and how you intend to position your product line to them.

Product design

Overview: The demands of the market place, the intensity of competition and the flexibility of your company will dictate whether a standard, customized, or modified product is the optimum strategy.

- Standard products
- Customized products
- Standard products, modified

The following case illustrates how one company, from humble beginnings, applied customer-driven marketing techniques to drive its product design strategies.

Case example

Nike Inc. in many ways illustrates all three components of product design for its athletic footwear: standard, customized and standard/modified. Beginning in 1964, co-founder Bill Bowerman developed its first sneaker with a tread inspired by his wife's waffle iron, a standard product still revered at Nike. The next great milestone came in 1985 when it introduced Air Jordan – the best-selling sports shoe of all time.

Nike continued to develop innovative shoes, such as its Nike Free, a shoe that makes runners feel as if they are barefoot. The barefoot runners of Kenya, who have proved that shoeless training builds strength and improves performance, inspired it.

Then there are the athletic shoes modified for special market applications, such as Nike's Total 90 III for Europe's soccer championships, a sleek shoe that draws inspiration from cars used in the Le Mans 24 hour road race. In turn, the shoe has become a fashion item off the soccer field.

Product design takes many paths at Nike, from sports-specific shoes to speciality ones designed for key events such as the Athens 2004 Olympic Games, which include an array of super fast sneakers for the Games, including the sleek track spike called Monsterfly for sprinsters and the Air Zoom Miler for distance runners.

Nike's product design strategies also include breaking the traditional boundaries between sport and fashion. Nike has built part of its empire by transforming the technology and design of its high performance sports gear into high fashion, vastly expanding its pool of potential customers.

Action strategy

> Explore customers' needs and problems in two broad categories: revenue-expansion and cost-reduction.

What can you learn from the Nike case? First, instil a mindset in yourself and those with whom you work that keeps your customers' needs in the forefront of product design. Sustaining such an attitude is one part of the success formula. The second and more critical part is to install a systematic approach that permits you to learn about your customers' business.

Here's one system that works:

Explore customers' needs and problems in two broad categories that would appeal to their self-interests: *revenue-expansion* and *cost-reduction* opportunities. This approach will chalk up positive results for your customers. In due course, it should also help you provide applicable products and services. To conduct the analysis, ask the following questions:

REVENUE EXPANSION OPPORTUNITIES:

- What approaches would reduce customer returns and complaints?
- What processes would speed up production and delivery to benefit your customer?
- How can you improve a customer's market position and image?
- How would adding a name brand impact your customers' revenues?
- What product or service benefits would enhance your customers' operation?
- How can you create differentiation that gives your customers' a competitive advantage?
- How would improving reordering procedures impact revenues?

COST REDUCTION OPPORTUNITIES:

- What procedures would cut customers' purchase costs?
- What processes would reduce customers' production costs?
- What systems would limit customers' production downtime?
- What approaches would slash customers' delivery costs?

- What methods would cut down customers' administrative overhead?
- What strategies would maximize customers' working capital?

Several of those areas reach beyond the traditional role of marketing. Therefore, involve product developers and other non-marketing managers to interpret findings and translate them into product design solutions.

Also, implementing the process is a sticky problem, particularly when it comes to involving non-marketing groups into actively thinking about such areas as customers' needs, market growth and competitive advantage.

For starters, enlist the assistance of the senior executives in your group or company. Have them brief those non-marketing personnel on the benefits of paying attention to market-driven issues for the welfare of the company, as well as for their personal career growth – and even survival. If that doesn't do the trick, try an orientation seminar to help instil the appropriate attitudes toward innovative thinking.

Commentary

Standard products are most appropriate for the large companies that can take advantage of the economies of scale. They are also suitable for those organizations where flexible manufacturing systems have been installed or in which low-cost labour has been found.

However, standard products, if easily duplicated by low-cost producers, can quickly fall into an undifferentiated or commodity category. For example, **Intel Corporation**, one of the leading microchip producers, once fell victim to low-cost, offshore competitors that turned its product into a commodity. Intel switched to a customized product strategy by creating differentiated chip designs, along with brand identification of 'Intel inside' that are more difficult to clone.

In another instance of product design application, **Vista Chemical Company** survived in a basic business of plastics and cleaning agents by moving away from dependence on high-volume, low-margin standard products to selling higher-margin customized or speciality products. For example, it shifted emphasis from polyvinyl chloride (vinyl) to higher-grade production, which required greater quality in chemical purity and temperature stability, for those customers willing to pay for such differentiation.

New products/services

Overview: Strategies related to product innovation, modification, line extension and diversification require changing the product either slightly or extensively.

However, don't overlook the opportunities for re-merchandising and market extension, strategies that don't alter the product but permit a perception of a 'new' product. Also use promotion, image, positioning and market segmentation as strategic tools to forge new impressions – and create differentiation.

Strategy application

- Innovation
- Modification
- Line extension
- Diversification
- Re-merchandising
- Market extension

The following case shows how one company tied its new product development with a branding strategy to deal with a slow-growth business condition.

Case example

Sherwin-Williams Co. exhibited an uncanny ability to grow when it faced a period of slow-growth. Where many of its competitors faced a loss in market share and where the entire industry grew at a paltry 2.5 per cent annual rate, Sherwin-Williams secured a disproportionately greater share of growth.

Revenues more than doubled and profits increased almost tenfold. In one segment alone, paints used in homes and offices, sales grew more than three times the industry rate.

To achieve those outstanding results, Sherwin-Williams focused on new product development, brand positioning, distribution, product quality and pricing as the driving forces behind their performance.

Let's look at the specifics of Sherwin-Williams' strategies:

- *Brand positioning*. With four leading brands, plus numerous private labels, correct positioning is a major factor in selecting distribution outlets and market segments. For example, the Sherwin-Williams brand is sold through 2,030 Sherwin-Williams stores. Dutch Boy sells exclusively through mass merchants. The Martin-Senour brand goes through independent paint and hardware stores. And discounters distribute Kem-Tone.
- *Distribution*. The key strategy for implementing Sherwin-Williams' brand positioning strategy is to use multi-level distribution to reach specific market segments with dedicated brands. It's done with such precision that there is minimal crossover among channels and rarely any conflict among the outlets.
- *Price*. Sherwin-Williams has a hard and fast rule that it will not buy market share through aggressive pricing at the expense of profits. For example, Sherwin-Williams was willing to cede part of Wal-Mart's business to Glidden and give up supplying Home Depot to a small competitor, rather than get into costly price battles. Instead, to replace the lost business, Sherwin-Williams' managers pursued new supply-chain agreements for both Dutch Boy and private labels with various chains.

Action strategy

A brand is defined by its attributes, benefits, values and culture.

What can you learn from the Sherwin-Williams case? It takes attention to detail, persistence and innovation to manage a brand's growth, particularly in a slow growth industry. Sherwin Williams' track record is exceptional and offers valuable lessons. To manage your brand, consider the following strategies:

1. **Protect the brand name**. Look at your brand as more than just a name associated with a product. It consists of a complex set of factors to satisfy an equally complex set of customer needs.

Where product attributes and benefits are often superficial and can be duplicated by competent competitors, a brand's deeper essence is defined by its attributes, benefits, values, culture and personality that have a longer-lasting effect. Thus, select from those factors one (or more) that are distinctive, long lasting and not easily duplicated by a competitor.

2. **Build brand equity**. Brands vary in the amount of power and value they have in the market place, which is determined by brand awareness, brand acceptability and brand preference. The sum of these factors is called *brand equity*.

   Your actions, then, should focus on specific strategies and tactics to build customer loyalty, name awareness, perceived quality and strong brand associations. Also, direct your attention to capitalize on such assets as patents, trademarks and supply chain relationships. (Building brand equity and precise brand positioning through selected channels contributed to Sherwin-Williams' success.)

3. **Strengthen your capabilities to develop brands**. As part of your new product development activity, look to increase your manoeuvring options to reach additional segments of the market.

   For example, concurrent with launching your own brand, you can market a distributor brand or private-label brand through additional distribution outlets. (This strategy was also used by Sherwin-Williams.)

4. **Develop short- and long-term brand strategies**. To strengthen your brand equity, take the following actions:

   - Recommend investing in new brands, features and continuous quality improvements. Sustain a concentrated promotional program to maintain high brand awareness.
   - Define the correct positioning for each brand in partnership with distributors. Your major objective is to avoid conflict among channel outlets – as was practiced by Sherwin-Williams.
   - Develop strong customer relationships that result in associating your brand with quality, performance and total customer satisfaction.

Finally, as a payoff for strong brand equity, you can expect a number of competitive advantages: first, reduced marketing costs because of the high level of consumer brand awareness and loyalty. Second, improved leverage in the supply chain. Third, a premium price (or at least a defence against excessive price reductions from weaker brands) because of perceived value.

Commentary

Since new products and services are the heart of any business that seek to sustain growth and competitive advantage, extensive coverage of this topic is required.

New products/services

The pace of new product introduction and obsolescence is so fast and rigorous that only one out of five innovations survive long enough in the market place to become a commercial success. When the stakes are so high, it pays to improve your odds by gaining a better understanding of the new product process in all its ramifications. Sensitivity and adaptability are prerequisites for success in a dynamic market place where needs are constantly changing.

Defining a new product

Before defining a new product, you must first understand what a product is. It may seem perfectly obvious, since you deal with many products every day: a product is an object, device, or substance.

But that definition hardly suffices in today's environment. It reduces the concept of product to a combination of physical and chemical attributes in line with the old product-oriented concept of marketing.

This emphasis on tangible characteristics neglects the fact that intangibles – such as quality, colour, prestige and technical/advisory services – make a significant difference to a prospective buyer.

A consumer perceives a product as a source of potential satisfaction and may buy your offering to satisfy a particular want or desire rather than for its functional value. Charles Revson, the late founder of Revlon, in his now classic statement put it succinctly when he said: *"In the factory we make cosmetics; in the store we sell hope."*

A new product is new from the customer's point of view.

As indicated earlier, a useful definition of a new product is where a customer perceives the offering as new. A product can be many things to many people. This definition places the emphasis on perception rather than on objective facts and leaves much room for interpretation.

There is a reverse side to this emphasis on perception, though. If you have a product that has never before been offered for sale but is perceived by customers as more of the same, then you really do not have a 'new' product from a marketing point of view.

If you can make a customer believe that you are offering a new product, it is new from the customer's point of view. But you cannot claim newness either indiscriminately or indefinitely.

In some industries and geographic regions, you may have to prove product reformulation, since practices or laws could prohibit use of the expression 'new' in packaging and promotion for a fixed period of time. Legal and industry limitations aside, it is really a question of convincing your target market that you have something different to sell.

Categories of new products

New products come in many different forms. This diversity can be reduced to varying degrees of technological and marketing newness. In terms of increasing degrees of technological change, you may want to distinguish among modification, line extension and diversification.

For increasing degrees of marketing newness, you can differentiate between re-merchandising and market extension. Table 9.2 presents the differences among these five categories of new products and points out the benefits of each.

Category	Definition	Nature	Benefit
Modification	Altering a product feature	Same number of product lines and products	Combining the new with the familiar
Line extension	Adding more variety	Same number of product lines, higher number of products	Segmenting the market by offering more choice
Diversification	Entering a new business	New product line, higher number of products	Spreading risk and capitalizing on opportunities
Re-merchandising	Marketing change to create a new impression	Same products, same markets	Generating excitement and stimulating sales
Market extension	Entering a new market	Same products, new markets	Broadening the base

TABLE 9.2 CATEGORIES OF NEW PRODUCTS

Combined approach for new product categories

Rarely will the five categories of new products presented here be used separately. They lend themselves to combined applications for maximum impact. Moreover, you will probably want to use a package approach to maintain steady growth in a rapidly changing environment.

For example, line extension is often used with re-merchandising or market extension. Diversification is often combined with market extension. The use of one category does not preclude the application of other approaches at the same time, possibly within the same market. What remains essential, though, is that the prospective customer perceives a difference worth considering.

Product audit

Overview: Knowing when to pull a product from the line is as important as knowing when to introduce a new one. Consider such internal requirements as profitability, available resources and new growth opportunities. Examine external factors of salesforce coverage, dealer commitment and customers' needs to determine if a comprehensive line is required.

Strategy application

- Line reduction
- Line elimination

Commentary

Efficient use of the product audit is one of the procedures for sustaining product profitability. The following examples illustrate the application.

Case example

Kraft, Colgate-Palmolive, General Motors, Nabisco, Procter & Gamble and other marketing-savvy organizations are pursuing a dominant trend. All are focusing on fresh approaches to improve the profitability of their product lines.

While many organizations have pursued product profitability over the past decade through downsizing, reengineering and similar high profile approaches, what's significant this time are the processes that are directly impacting their marketing efforts.

Increasingly, managers at these firms (and smaller companies) deal with product profitability by looking to such marketing-related activities as standardizing product packages, reducing trade promotions, pulling back on couponing, trimming product lines and trimming the number of new product launches.

For example, Nabisco cut its product line by 15 per cent and reduced new product launches by 20 per cent. Kraft initiated moves for the cereal-industry to stabilize list prices. Clorox simplified its trade promotions and sliced the number of items it sells. General Motors reduced the number of car models from 53 to 44.

P&G, in particular, illustrates the significant potential for profitability. It has reduced its product line-up by one third since 1990. In hair products alone, it cut the number of sizes, packages and formulas in half, while watching with satisfaction market share in hair care jump nearly five points to 36.5 per cent. In the shampoo line, P&G standardized product formulas and packages to just two basic packages in the U.S., saving an extraordinary $25 million a year.

What evidence supports this move toward a simplification of the marketing effort? First, an analysis of consumer goods sales by one consulting firm revealed the enlightening statistic that almost 25 per cent of the products in a typical supermarket sell less than one unit a month. What's more, just 7.6 per cent of all personal care and household products account for 84.5 per cent of sales.

These statistics validate the often-quoted '80/20 rule', whereby 80 per cent of sales (and anything else) come from 20 per cent of customers. But how does all this affect the ruling guide of market segmentation, whereby managers are counselled to target emerging, neglected and poorly served markets and then cater to each segment with customized products and services?

Does the trend now reverse the use of a segmentation strategy? Not at all. Segmentation, targeting and concentrating on customers are practical, workable and successful strategies.

Instead, the faults lie, in part, with the lack of attention given to synthesizing and interpreting the vast amount of data generated by today's sophisticated electronic feedback mechanisms.

When accurate market information pinpoints those market segments that would respond favourably to your marketing efforts, then implementing your aggressive strategies should improve your chances for increasing product line profitability.

Action strategy

What can you learn from these companies? One easy-to-install procedure with direct impact on profitability is the *product audit*. Just as regular physical examinations are essential to maintain the body's good health, likewise, products require regular examination to determine whether they are healthy, need re-promotion, or should be allowed to phase out.

> Products that are no longer earning their keep should be eliminated.

Begin your product audit by setting up a Product Audit Committee, (see details below). The product audit can assist you in accomplishing the following:

- Determine your product's long-term market potential.
- Assess the advantages and disadvantages of adding value to the product.
- Alter your product's market position compared to that of a competitor's comparable product.
- Evaluate the chances of your product being displaced by another product or technology.
- Calculate the product's contribution to your company's financial goals.
- Judge if the product line is filled out sufficiently to prevent your customers from shopping elsewhere.

In addition to the above criteria, consider such issues as availability of money and human resources, assessment of new product and market growth opportunities and even the effective use of other managers' time. Also, add such factors as your firm's willingness to sustain salesforce coverage, dealer commitment and ongoing eagerness to respond to changing customers' needs.

Finally, phasing out weak products or exiting a market requires careful consideration of your company's obligations. For instance, there may be significant costs related to labour agreements, maintaining capabilities for spare parts, contractual relationships with dealers and distributors, financial institutions and so on.

Establishing a product audit program

The first step in establishing a regular product evaluation program is to create a Product Audit Committee. This core group, comprised of the senior managers in the marketing, finance, engineering and other key departments, should control decision-making authority about the design of the company's product mix.

Depending upon the dimensions of the product mix and the significance of the products or developments involved, the committee should meet monthly and every product should have at least an annual review.

How does such a committee operate? To do justice to each product and to have an objective basis for product comparisons, a common rating form should be used. For products that appear dubious and thus demanding careful evaluation, you can use a product audit form similar to the one illustrated in Figure 9.2.

Using a simple one to five scoring system, you can assign values for each of the eight criteria. Some of these values will necessarily be subjective in nature, with one representing strong grounds for eliminating the product and a score of five suggesting retention.

In each case, the score reflects the majority opinion or consensus of the committee. For greater accuracy, each criterion can be given a degree of importance or weight. These weights are then multiplied by the appropriate score and totalled to form the specific product retention index.

	Low				*High*
Product/Service Criteria	**1**	**2**	**3**	**4**	**5**
1. What is the market potential for the product? Assign a score based on dollar value, unit volume, or other quantitative measures.					
2. What competitive advantage might be gained by adding value, modifying the product, or creating other differentiation features and benefits?					
3. What would be gained by positioning the product differently to customers and against competing products?					
4. How much resources (materials, equipment, people and funds) would be available by eliminating the product?					
5. How good are the opportunities to re-deploy resources to a new product, service, or business?					
6. Based on financial calculation of ROI, profits and other financial criteria, how much is the product contributing beyond its direct costs?					

Product/Service Criteria	1 *Low*	2	3	4	5 *High*
7. What value does the product have in supporting the sale of other company products?					
8. Is the product useful in defending a point of entry against competitors?					

FIGURE 9.2 PRODUCT RATING FORM

In sum, product audits represent regular, systematic assessments of the strengths, weaknesses and future prospects of a company's products, as well as their profit contributions. You can carry out meaningful audits only on a product-by-product basis, requiring a team effort where recommendations are made.

Products that are no longer earning their keep should be eliminated without delay or sentimentality, provided that such a move has no negative repercussions for the remaining members of the product family. Such pruning frees valuable resources that provide the basis for growth through new products.

Action steps to implement product/ market strategies

Remain alert and anticipate competitors' moves into your marketplace with a competing product or service. Recognize early on the potentials of new technology, particularly in those areas where competitors are not likely to challenge you.

Whenever possible, pre-empt competitors' actions with counter strategies to blunt their efforts to take market share from you.

Initiate action with the following steps:

- Identify the framework for developing product strategies for new and existing products.

- Develop a positioning strategy that provides you with a competitive advantage.
- Use life cycle extension strategies to revitalize your products.
- Learn to use the product audit to sustain product profitability.

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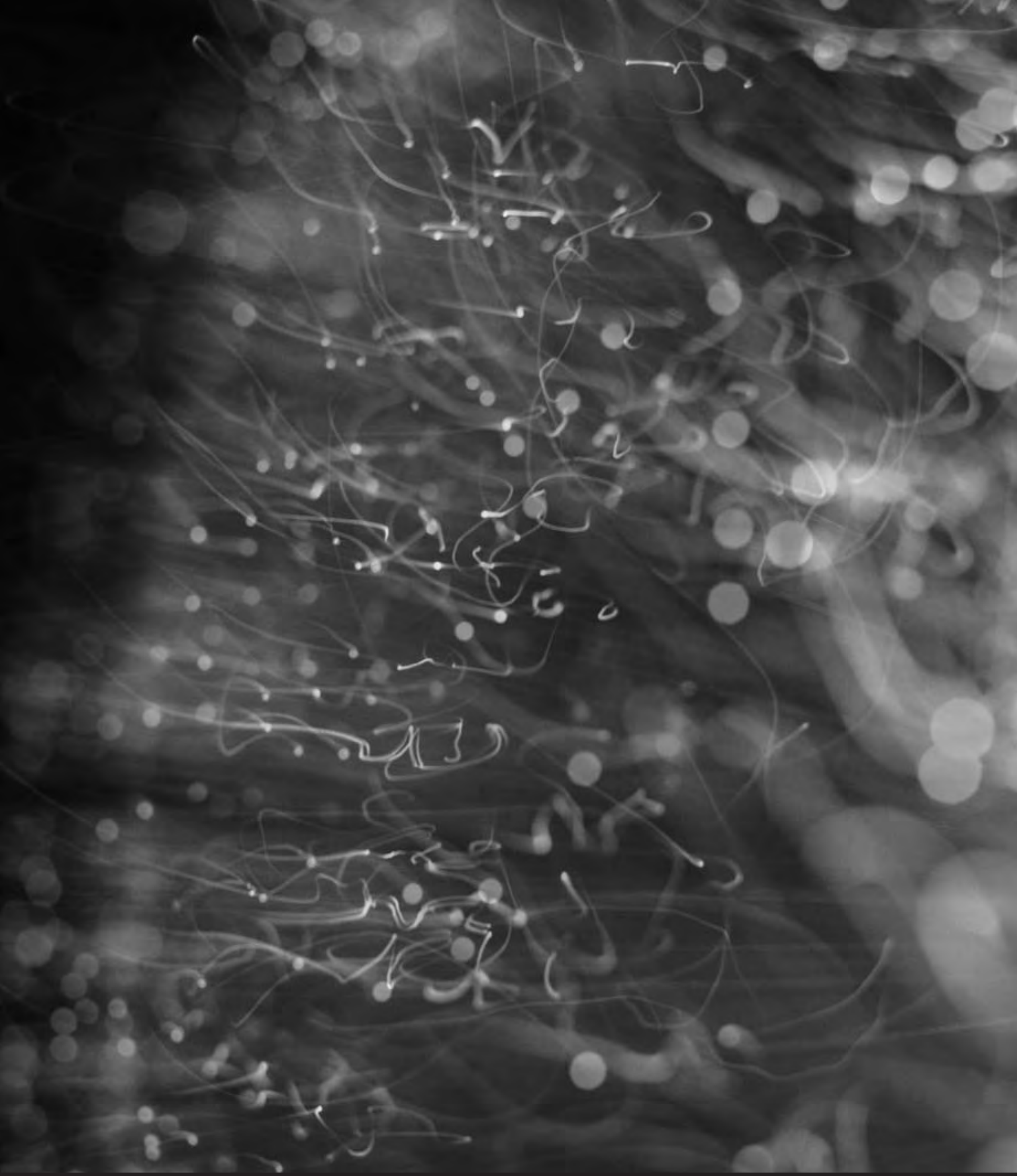

PART FOUR CHAPTER TEN

Pricing for profits: Strategies to maintain premium prices and higher margins

TEN

Pricing for profits: Strategies to maintain premium prices and higher margins

Chapter Objectives

To enable you to:

1. Relate pricing to the other components of the marketing mix.
2. Select from the five pricing strategy options for *new products*.
3. Select from the six pricing strategy options for *established products*.
4. Identify the steps to convert pricing strategies into *action*.

The third major component of the marketing mix is pricing. The primary principle for you to internalize: do not isolate pricing from other components of the marketing mix.

That is, consider your overall marketing goals, such as penetrating new markets with new products, or maintaining a higher market share with existing products compared to your closest competitors. Also, think about the product's life cycle stage – new, growing, mature, or ready for phase-out.

Above all, in tough pricing competition, examine all possible alternatives, such as product improvement, promotion and distribution strategies, before you get involved in pricing wars. Pricing must work in harmony with all of these strategies.

Pricing must work in harmony with all of the other components of the marketing mix.

The principle lesson is that pricing strategy has many facets to consider and you cannot successfully price your products or services in isolation. Pricing must develop within the framework of the marketing mix; and specifically through new product development and positioning, target marketing, effective management of the supply chain and creative promotions.

With the above framework of thinking about how to look at pricing, now let's look at pricing strategies for new products and established products.

New products

When launching new products, pricing strategies can range from skimming a market with high prices, penetrating with low prices, using odd or even prices, or following the market leader. Then there are other factors, such as your market share objectives, current competitive position and the image of your company and product among middlemen and end users.

Still other issues relate to your selection of a pricing strategy. These include: speed of market entry to gain a dominant position, the amount of time senior management gives you to recover the investment in product development and how far behind your competition is with a similar product entry.

Strategy applications

- Skim pricing
- Penetration pricing
- Psychological pricing
- Follow pricing
- Cost-plus pricing

To introduce you to the specifics of pricing strategies, consider the following case of a company that had to deal with offshore competitors selling into its market with prices 30 per cent to 40 per cent below overall market prices.

case

Case example

Cummins Engines Inc., the heavy-duty diesel engine manufacturer, has been fighting aggressively against two formidable Japanese competitors: Komatsu and Nissan. The first word of a problem came from Cummins' customers: Navistar and Freightliner. Both companies reported they were testing Japanese medium-size diesel truck engines.

Knowing the Japanese strategy of using an indirect approach into a market. Cummins saw the medium engine as a strategic threat. The entry could lead to the next step of penetrating Cummins' dominant share of the U. S. market for heavy-duty diesel truck engines.

Cummins managers saw the Japanese competitors' strategy evolve:

- They entered the market with prices 40 per cent below prevailing levels to buy market share fast.
- They found a poorly served and emerging market segment in medium-size engines in which to enter.
- They developed a quality product – and were prepared to expand their product lines.

Faced with the problem, Cummins managers took the following actions:

1. Launched into the medium-size truck engine market with four new engine modes. This timing, however, was coincidental. Cummins had been planning this market entry for five years through a joint venture with J.I. Case, a farm machinery producer that used medium-size diesel engines.
2. Cummins immediately cut prices of the engines to the Japanese level. As management observed, "If you don't give the Japanese a major price advantage, they can't get in."
3. Cummins cut costs by one third. This action was the toughest job in what was perceived as a bare-bones efficient manufacturing operation. Using more flexible machinery and cutting excess inventory from a 60 day supply to a four day supply reduced overhead.

4. Cummins managers gained participation from suppliers on suggestions about cost cutting. The result: lowering of material costs by 18 per cent. This impressive reduction was achieved by changing the traditional adversarial attitude toward suppliers to one of fostering cooperative relationships.

The strategy worked as an effective defence, particularly as it relates to Cummins' concern about its heavy-duty diesel business. After the initial encounter, Cummins held more than 50 per cent market share in North America and not a single Japanese engine powered a U.S. built tractor-trailer.

Action strategy

What can you learn from the Cummins case? A number of strategy lessons come out of the situation: first, there are options open to you against a price attack. You observed some of those actions above. But the action must begin with a mental attitude of 'fighting back' and not giving up valuable market share without a battle.

Second, consider innovative strategies in such areas as customer service, improved delivery time, extended warranties, sales terms, after-sales support, packaging and management training.

Or consider fresh strategies in such subtle areas as reliability, image, nice-to-do-business-with reputation, credibility, prestige, convenience, value, responsiveness to problems and access to key individuals in your firm.

> The market position you select has consequences for your product's image and its price.

Commentary

As already indicated, the primary lesson of the Cummins example is that pricing strategy is never derived in isolation of other components of the marketing mix. Another major consideration is how pricing affects the product's image in the customer's mind. Cummins built and maintained a solid market image through product quality, innovation and best-in-class service.

When pricing new products in your line, ask: can low price and high price be compatible? Do you create a conflict in the customer's mind? What perception or image do customers hold in their minds about your product?

In general, it is difficult to regain a premium price position for the same brand once it has been diluted by low price promotions through mass merchandising outlets. Therefore, as you shape a strategy for a new product entry, it is wise to maintain ongoing feedback about the market position you want. In turn, the market position you select ultimately has consequences for your product's image and its price.

Skim pricing

The first of the strategies that deal with new products is *skim pricing*. It involves pricing at a high level to hit the 'cream' of the buyers who are less sensitive to price. The conditions for weighing this strategy are as follows:

- Senior management requires that you recover R&D, equipment, technology and other start-up costs rapidly.
- The product or service is unique. It is new (or improved) and in the introductory stage of the product life cycle. Or, it serves a relatively small segment where price is not a major consideration.
- There is little danger of short-term competitive entry because of patent protection, high R&D entry costs, high promotion costs, or limitations on availability of raw materials, or because major distribution channels are filled.
- There is a need to control demand until production is geared up.

The electronics industry usually employs skim pricing at the introductory stage of the product life cycle to the point that consumers and industrial buyers expect the high introductory-pricing pattern.

Penetration pricing

Penetration pricing means pricing below the prevailing level to gain market entry or to increase market share. The conditions for considering this strategy are as follows:

- There is an opportunity to establish a quick foothold in a specific market.
- Existing competitors are not expected to react to your prices.

- The product or service is a 'me too' entry and you have achieved a low-cost producer capability.
- You hold to the theory that high market share equals high return on investment and management is willing to wait for the rewards.

> It is difficult to regain a premium price position for a brand once it has been diluted by low price promotions.

One of the most striking examples of penetration pricing occurred for computer printers during its early days of market growth. Japanese makers seized the initiative and targeted a vacant segment for low-price printers selling for less than half the going market price.

Such companies as **Ricoh, Okidata and Seiki** attacked the segment by offering printers at rock-bottom prices and short delivery times. From virtually no North American sales, the Japanese shipped 75 per cent of all lower-end units in just three years.

Psychological pricing

Psychological pricing means pricing at a level that is perceived to be much lower than it actually is: $99, $19.47 and $1.98. Psychological pricing is a viable strategy and you should experiment with it to determine its precise application for your product. The conditions for considering this strategy are as follows:

- A product is singled out for special promotion.
- A product is likely to be advertised, displayed, or quoted in writing.
- The selling price desired is close to a multiple of 10, 100, 1,000 and so on.

While psychological pricing is most likely to be applied to consumer products, there is an increasing use of the strategy for business-to-business products and services, as in the example of a machine priced at $24,837.00.

> Psychological pricing is a viable strategy and you should experiment with it.

Note in this example that the traditional '9' is not used. Tests by such organizations as Sears reveal that the '9' doesn't have the psychological impact it once had. In various combinations the '7' has come out on top.

Follow pricing

Pricing in relation to industry price leaders is termed follow pricing. The conditions for considering this strategy are as follows:

- Your organization may be a small or medium-size company in an industry dominated by one or two price leaders.
- Aggressive pricing fluctuations may result in damaging price wars.
- Most products offered don't have distinguishing features.

The most visible example of follow pricing is found in the computer market, where **IBM** held a strong worldwide position. IBM traditionally set the pricing standards by which its competitors priced their products. However, this situation turned out to be a two-edged sword.

The clones of IBM-compatible computers priced at 20 per cent to 40 per cent below IBM reached such high proportions that IBM was forced to reverse its role and use follow pricing against aggressive competitors as a means of protecting its share of the market.

When IBM initially entered China it used follow pricing as part of its broad strategy to gain a foothold in that developing market. The strategy also included delivering solution-based services and systems.

Cost-plus pricing

Cost-plus pricing entails basing price on product costs and then adding on components such as administration and profit. The conditions for using this strategy are as follows:

- The pricing procedure conforms to government, military, or construction regulations.
- There are unpredictable total costs owing to ongoing new product development and testing phases.
- A project (product) moves through a series of start-and-stop sequences.

Cost-plus pricing, unless mandated by government procedures, is product-based pricing. Such an approach contrasts with market-based pricing, which takes into consideration such internal and external factors as the following:

- Corporate or product-line objectives concerning profits, competitive inroads and market share.
- Target-market objectives dealing with market position, profile of customer segments, current demand for product and future potential of the market.
- Marketing mix strategy based on how pricing fits together with product, promotion and distribution components of the mix.

Established products

You can avoid or postpone price wars by locating untapped market segments and focusing on product improvements. You can also pre-empt and discourage new competitors by gradually sliding down prices, thereby making the market seem unprofitable. And you can always price according to the flexibility of demand and your production economies.

Strategy applications

- Slide-down pricing
- Segment pricing
- Flexible pricing
- Pre-emptive pricing
- Phase-out pricing
- Loss-leader pricing

The following case illustrates a pricing conflict with established products where manufacturers threaten to bypass middlemen and sell direct to the end user.

> You can avoid or postpone price wars by locating untapped market segments.

Case example

Cardinal Health Inc. and other wholesalers in the health care industry faced an intensifying product and pricing problems in recent years. As CEO Robert D. Walter puts it, "Every business becomes commoditized over time."

The once tiny drug wholesaler watched anxiously as 250 companies that served individual pharmacies, regional chains, nursing homes and hospitals dwindled to 45 over a 15 year period. Currently, a mere five firms enjoy 75 per cent of the $50 billion market.

To complicate the market situation further, hospitals continue to close while others merge. And all have to cope with the severe pressures to cut costs and adapt to a managed care environment. Yet, even with those dynamic changes, the drug and related health care industry is growing at a robust 20 per cent rate.

And the combative struggle persists as the remaining companies aim for dominant market positions, headed by such titans as McKesson Corp. and Bergen Brunswig Corp. Among those vying for a top spot is Cardinal.

Cardinal's strategies

To expand on CEO Walter's astute assessment of the market situation: first, all wholesalers would fall into a "commoditized" state as they offer similar products at lower prices. Second, the likelihood of reduced profit margins due to price-cutting would remain a continuing problem. Third, the remaining wholesalers would continue to manoeuvre for an advantageous competitive position.

To cope with these problems, Walter initiated the following strategies:

1. Accelerate marketing and sales efforts by chasing lucrative contracts with the goal of becoming a preferred supplier to large users. For instance, Cardinal nailed a five year contract to provide drugs for Kmart Corp.'s 1,500 in-store pharmacies – the largest deal of its kind.
2. Extend into higher-margin services. Cardinal moved into pharmacy management with the purchase of Houston-based Owen Healthcare

Inc., which operates pharmacies in 300 hospitals. With that move, Cardinal penetrated hospitals by controlling that key on-site function.

3. Expand into ancillary product lines. To that end, Cardinal acquired Pyxis Corp., which makes hospital drug dispensers that operate much like automatic teller machines.

The strategies worked. Cardinal is no longer a tiny company. The organization skyrocketed to become a formidable wholesaler. This growth was spearheaded by astute management of resources, a strategic focus in acquiring companies that were leaders in their particular niches and by offering a full range of value-added services.

Such was the prescription for relieving the effects of a commodity situation, with its related impact on pricing and profits. The result: "It's one of the best management teams that I've ever met, not only in the pharmaceutical business, but in any business," declared one industry analyst.

Action strategy

What can you learn from the Cardinal case? First, Cardinal illustrates the changing role of intermediaries in the supply chain. Operating in a channel between producer and consumer, the sometimes-squeezed wholesaler or distributor must satisfy two masters.

First, the manufacturer that requires the wholesaler to promote its products, carry sufficient inventories and fill customers' orders fast – even though the manufacturer often complains about the rising costs of the wholesaler's services.

Second, the end user who requires closer contact from knowledgeable sales reps, demands up-to-date market and technical information and wants wholesalers to carry a full-line of products and deliver related services.

Commentary

Price wars are always a danger for established products. While there are pricing strategies for use with such products, it is best to apply marketing creativity to avoid the possibility of pricing wars. Consider the following possibilities:

> Flexible pricing strategy is not a license to indiscriminately reduce prices to meet competitors' pricing.

Slide-down pricing

The first in this series is slide-down pricing, which moves prices down to tap successive layers of demand. The conditions for considering this strategy are the following:

- The product would appeal to progressively larger groups of users at lower prices in a price-elastic market.
- The organization has adopted a low-cost producer strategy by adhering to efficiencies, which impact economies of scale in manufacturing, distribution, promotion and sales.
- There is a need to discourage competitive entries.

Slide-down pricing is best utilized in a proactive management mode rather than as a reaction to competitors' pressures. If you anticipate the price movements and do sufficient segmentation analysis to identify price-sensitive groups, you can target those groups with specific promotions to pre-empt competitors' actions.

Skim pricing, as previously noted with the electronics industry, begins with high pricing and then evolves to slide-down pricing. The downward movement of price usually coincides with such events as new competitors entering to buy market share through low price and then waiting for economies of scale to take effect.

Segment pricing

Segment pricing involves pricing essentially the same products differently to various groups. The conditions for considering this strategy are as follows:

- The product is appropriate for several market segments.
- The product can be modified or packaged at minimal cost to fit the varying needs of customer groups.
- The consuming segments are non-competitive and do not violate legal constraints.

Examples of segment pricing abound. The most visible ones are airlines that offer essentially one product, an airplane seat between two locations. Yet this 'same' product may serve different segments, such as business people, clergy, students, military, senior citizens, each at different prices. Then, there is further segmentation according to time of day, day of week, or length of stay at one destination.

To best take advantage of this pricing strategy, search out poorly served, unserved, or emerging market segments.

Apply marketing creativity to avoid the possibility of pricing wars.

Flexible pricing

Pricing to meet competitive or market place conditions is known as flexible pricing. The conditions for considering this strategy are as follows:

- There is a competitive challenge from imports.
- Pricing variations are needed to create tactical surprise and break predictable patterns.
- There is a need for fast reaction against competitors' attacking your market with penetration pricing.

The previously cited case of **Cummins Engines** illustrates how that company used flexible pricing as part of its strategy to counterattack the Japanese manufacturers moving in on its diesel engine market. Cummins' management reduced prices rapidly to blunt the attempts at pricing penetration by the Japanese engine entries.

As organizations downsize and re-engineer to become more competitive, typically field managers who are closer to the dynamics of the market place are now handed greater pricing authority and accountability for their products. The intent is to allow for a flexible pricing strategy when appropriate.

Pre-emptive pricing

Pre-emptive pricing is used to discourage competitive market entry. The conditions for considering this strategy are as follows:

- You hold a strong position in a medium to small market.
- You have sufficient coverage of the market and sustained customer loyalty to cause competitors to view the market as unattractive.

Again referring to Cummins Engines, management used pre-emptive pricing to protect its dominant position in the diesel engine market as it cut prices to block competitive entry. Pre-emptive pricing, as with flexible pricing, requires close contact with the field.

That means, continuing your close attention to customers, competitors, market and economic conditions and any other factors that would influence pricing decisions. And customer intelligence and competitor intelligence systems are always critically important to the correct timing of this strategy.

Phase-out pricing

Phase-out pricing means pricing high to remove a product from the line. The conditions for considering this strategy are as follows:

- The product has entered the down side of the product life cycle, but it is still used by a few customers.
- Sudden removal of the product from the line would create severe problems for your customers and damage relationships.

Phase-out pricing does not mean dumping. Rather, it is intended for use with a select group of customers who are willing to pay a higher price for the convenience of a source of supply. For example, **Echlin Inc.**, the producer of auto and truck parts, stocks nearly 150,000 different parts for every auto from the Ford Model T to a Rolls Royce. Customers with old or rare auto models are only too pleased to pay the price for product availability.

Loss-leader pricing

Pricing a product low to attract buyers for other products is called loss-leader pricing. The conditions for considering this strategy are as follows:

- Complimentary products are available that can be sold in combination with the loss leader at normal price levels.
- The product is used to draw attention to a total product line and increase the customer following. The strategy is particularly useful in conjunction with impulse buying.
- Loss-leader is one of the most common forms of pricing strategy. It is prevalent in all ranges of businesses, from department stores to auto dealers to industrial product lines. You should remember, however, to consider the profitability of the total product line.

Auction pricing

With the onset of the Internet as a major marketing channel, a dominant pricing strategy has evolved for new and established products: *auction pricing*. While not entirely new to marketing and overall business practice, it has special application at more than 2,000 electronic market places that sell everything from services to industrial products, as well as to move surplus inventories and used merchandise.

> Auction pricing is used to market products over the Internet's numerous electronic market places.

The three major types of auctions include the following:

Ascending bid auctions. This is a common type of auction with typically one seller and numerous buyers. The seller offers a product and bidders raise the price until the maximum is reached. It is used most often for art, antiques, real estate and some types of agricultural products.

Descending bid auction. In this auction, there is either one seller and many prospective buyers, or one buyer and many sellers. In contrast with the above auction approach, descending bids begin with a high price and decrease until a bidder accepts the price. A variation of this bidding system occurs when a buyer announces his intention to buy and then potential sellers compete by offering the lowest price.

Sealed-bid auction. This is another common approach. Prospective suppliers submit a single bid and cannot know the price and details of the competing bids. It is often used in soliciting government contracts and with various categories of commodity products.

Fees

As companies feel squeezed by intense pricing pressures from low-cost competitors and the heightening resistance from defiant customers, there is a rapid movement to skirt raising prices and instead resort to disguising increases by adding-on a mountain of fees.

Consequently, to beat the brutal price wars, various organizations in retail, finance, travel, communications and sports have loaded fees on products and services that were once totally free. And the fees add up to staggering sums. Some projections indicate that AT&T could bring in as much as $475 million yearly by charging its long-distance customers its $1.00 monthly 'regulatory assessment fee.' Then, there are fees for services such as housekeeping that can generate $100 million for hotels.

> There is a rapid movement to skirt raising prices by adding-on a mountain of fees.

"It's much easier to raise a price through obscure fees and surcharges than it is to raise a sales price," says one analyst. But this stealth pricing strategy is beginning to show a growing backlash from consumers, including the creation of new vigilante organizations to pressure companies to roll back fees.

While fees would appear to fit into any of the above categories of pricing strategies, it is singled out here because of its escalating use. In choosing this approach, your decision has is to be tempered by possible negative reactions from customers in the form of direct complaints, legal actions and the possible shift of customers to 'friendlier' competitors.

Action steps

In summary, before converting your pricing strategies into action, remember: price wars are like fire. They ultimately consume those who persist at such actions.

To identify strategies and initiate action:

1. List pricing strategies that represent your best opportunities – and will avoid price wars.
2. Indicate what action you will take and who is assigned the task.
3. Relate feedback to the product's competitive market position.
4. Indicate future pricing strategies based on various scenarios that could impact your profitability and all-around competitiveness.

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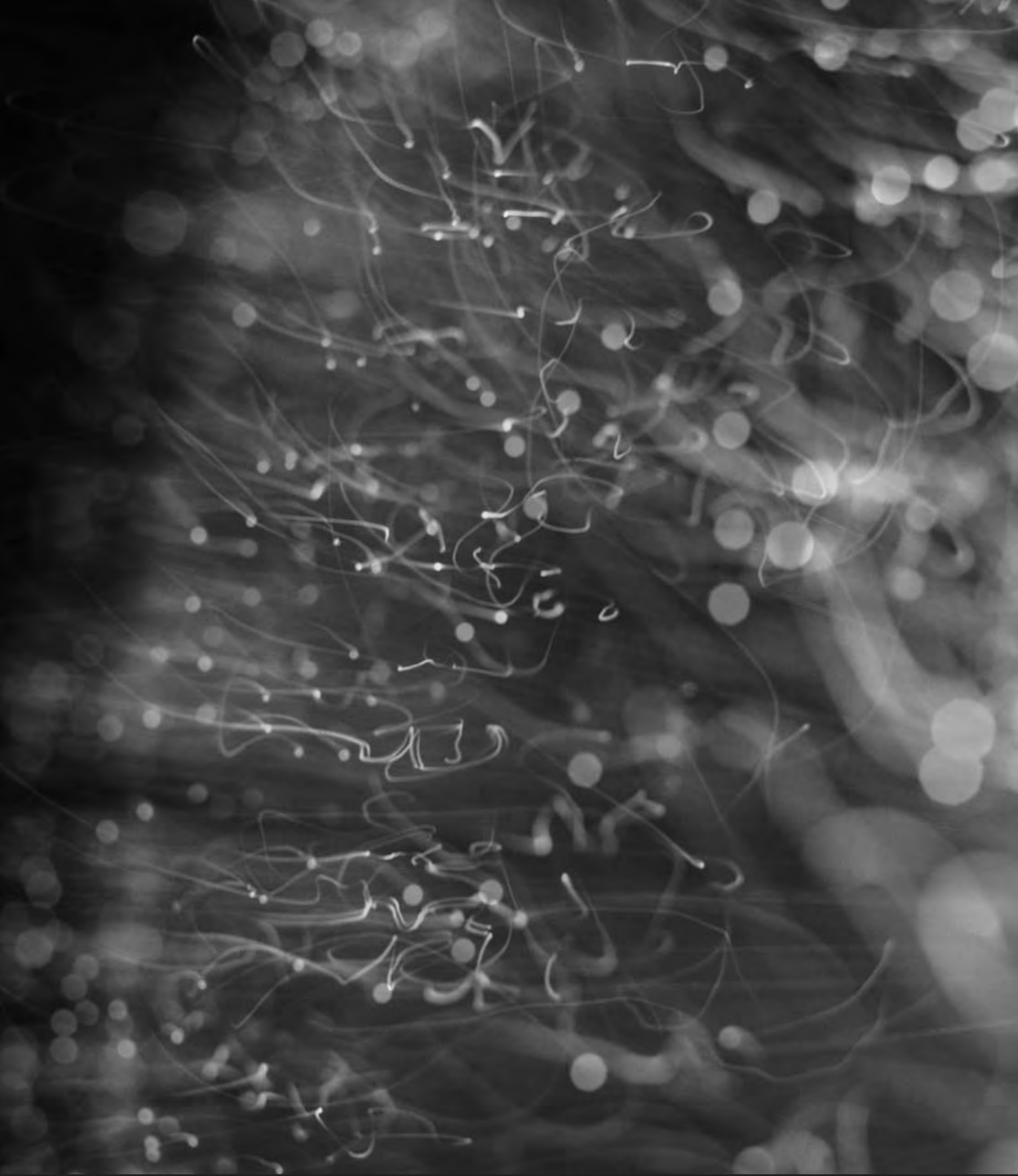


PART FOUR CHAPTER ELEVEN

Promotional strategies: Plan a total communications mix

ELEVEN

Promotional strategies: Plan a total communications mix

Chapter Objectives

To enable you to:

1. Plan an integrated marketing communications strategy
2. Develop a successful advertising campaign.
3. Use sales promotion, direct response marketing, public relations and personnel selling to support and generate sales.
4. Convert promotion strategies into action.

To develop an effective promotion strategy, shape your program to combine advertising, sales promotion, direct response and interactive marketing, public relations and personal selling into a totally integrated marketing communications mix. Otherwise, if you keep these activities separate you expend valuable resources in a wasteful and disjointed effort.

Table 11.1 shows the full breadth of the possibilities of the communications mix. Notice, too, the range of possibilities that you have at your disposal to create strategies to launch a new product or service, protect an existing market position, or respond to an aggressive competitive situation.

Advertising	Sales promotion	Public relations	Personal selling	Direct response
Print	Free samples	Press kits	Sales presentations	Direct mail
Broadcast	Free trial	Event sponsorships	Trade shows	Catalogues
Directories	Door-to-door couponing	Community relations		Telemarketing
Motion pictures	Direct-mail couponing	Seminars		TV shopping
Billboards	Newspaper couponing	Speeches		Fax
	Magazine/ supplement couponing			Internet shopping
	Money refund			
	In-or-near pack premiums			
	Self-liquidating premiums			
	Price pack			
	Contests/ sweepstakes			
	Trading stamps/ promotional games			
	Point-of-purchase displays			

TABLE 11.1 COMPONENTS OF THE MARKETING COMMUNICATIONS MIX

Let's begin with the most common form of communications, advertising and understand how to develop a successful advertising campaign.

Advertising

Advertising is but one part of promotion; promotion is but one part of the communications mix; the communications mix is one component of the marketing mix. Thus, advertising – as with all the other components – is never created in isolation.

Initially, you should know the job you want advertising to accomplish. For example, it can support personal selling; inform a target audience about the availability of your product; or persuade prospects to buy. Then, you can choose media and copy themes to match those objectives. As a result, your advertising becomes realistic, measurable and results-oriented.

Advertising is never created in isolation.

Strategy applications

- Advertising objectives
- Media selection
- Advertising copy
- Advertising appropriations

The following case shows the realistic application of promotion where a company introduces a new product into a new market dominated by strong competitors.

Case example

Microsoft Corp., an immensely successful software company, gained worldwide notoriety with its windows operating system. At one point in its campaign to expand market coverage, it targeted large corporations handling multi-level tasks in accounting, inventory management and transaction processing.

Microsoft launched into the corporate market with Windows NT. Designed for client-server networks, the software can handle a multitude of tasks through networks of desktop computers (clients) that obtain data and programs from hub machines (servers.)

The marketing problem for Microsoft: aggressive competitors such as IBM, Hewlett-Packard and Sun Microsystems anticipated the Windows NT launch and were unwilling to give up a single market share point or a customer to Microsoft without a fight.

Therefore, overcoming those eager competitors was only one part of Microsoft's launch strategy. The second part was convincing dubious corporate customers that it could handle their huge multi-tasking needs.

Microsoft was faced with additional obstacles as it attempted to wander outside its traditional niche. Understanding the characteristics of such barriers will help you to develop a successful product promotion.

For example, while Microsoft was firmly entrenched in one segment, customers in the corporate market perceived the company as inexperienced and without a track record. Also, some corporate customers were cautious about making a wholesale conversion to Microsoft's new product, mostly due to the costs associated with switching from one system to another.

Instead they opted for a minimal order, far short of Microsoft's sales estimates. Still another group of prospects, unwilling to be first to try a brand new system, indicated concern about a product that might not be fully debugged.

Finally, competitors were swift to learn of Microsoft's product launch and had time to develop a counter strategy. This condition resulted from the wide publicity and the prolonged waiting period for Microsoft to receive test results from customers.

The launch strategies

To overcome those obstacles, Microsoft launched its new software using the following strategies:

1. Microsoft introduced two versions of the program: a desktop edition and an advanced edition for more complex applications. Each was sharply discounted during the introductory period. The plan was to probe two user niches and find the best opportunities and the fewest obstacles. Also, by launching two editions Microsoft hoped to recover losses if one edition failed and the other scored.

2. Microsoft announced the product with great fanfare to maximize the effects of publicity and gain extra mileage from its advertising campaign.
3. It selected a group of customers with high visibility in their respective industries to test Windows NT. The intent was to obtain operating results and testimonials that the sales force could use to target additional prospects on an industry-by-industry roll-out.
4. Microsoft moved rapidly to sign up 65,000 application software developers, over 200 distributors, plus more than 20 computer makers. This strategy accelerated the launch into numerous geographic and industry-specific segments.
5. Microsoft monitored the market place with precision. For example, surveys of 200 big corporations revealed that 59 per cent said they would likely buy NT. That compared with such competitors as Unix scoring 39 per cent and IBM with 36 per cent.

Action strategy

Recognize the place of adopter groups in the buying process.

What can you learn from the Microsoft case? A useful component in promoting a product launch is to recognize the place of adopter groups in the buying process. Adoption is the decision-making path individuals and groups go through after first hearing of a new product or service.

Microsoft saw their relevance with the initial resistance to NT among specific groups of potential customers.

Adopter groups are characterized as:

- **Innovators**: Venturesome individuals and leading-edge companies that are first to try new ideas and are generally insensitive to price.
- **Early adopters**: Opinion leaders with high visibility who adopt new products early but only after careful scrutiny, since their reputations are on the line.
- **Early majority**: Individuals or companies that buy before the masses. However, they are rarely industry leaders.

- **Late majority**: Individuals who are sceptics and adopt after a significant number of people or companies have tried the product.
- **Laggards**: Tradition-bound groups that are cautious, price sensitive and last to buy.

By pinpointing the characteristics of these adopter groups, you can launch an intensive promotional effort targeted at innovators and early adopters, with emphasis on the latter group. If possible, try offering free trials of your product or service. You can use the test results to develop sales strategies for other adopter categories that are waiting and watching the purchasing patterns of the early adopters.

How to develop a successful advertising campaign

The Microsoft case illustrates the integration of promotion with company image, product development, positioning and distribution. Imagine, now, that you are responsible for developing an overall advertising strategy and implementing it through an advertising department or an outside advertising agency.

Table 11.2 details the steps involved in developing an advertising campaign. It shows clearly that continuous marketing research is the foundation of a sound campaign.

Campaign step	Advertising activities	Research activities
	Pre-campaign phase	
1. Market analysis		Study competitive products, positioning, media, distribution and usage patterns
2. Product research		Identify perceived product characteristics and benefits
3. Customer research		Conduct demographic and psychographic studies of prospective customers; investigate media, purchasing and consumption patterns

	Strategic decisions	
4. Set advertising objectives	Determine target markets Identify user profiles and set exposure goals	
5. Decide on level of appropriation	Determine total advertising spending necessary to support objectives	Investigate competitive spending levels and media cost necessary to reach objectives
6. Formulate advertising strategy	Develop creative approach and prepare 'shopping list' of appropriate media	Examine audience profiles, reach, frequency and costs of alternative media
7. Integrate advertising strategy with overall marketing strategy	Make sure that advertising supports and is supported by other elements of the marketing mix	
	Tactical execution	
8. Develop detailed advertising budget	Break down overall allocations for media categories and individual media	
9. Choose message content and mode of presentation	Develop alternative creative concepts, copy and layouts	Conduct concept and copy tests
10. Analyze legal ramifications	Review selected copy with legal staff	
11. Establish media plan	Determine media mix and schedule	Conduct media research, primarily from secondary sources
12. Review agency presentation	Evaluate the entire promotion campaign with a strategic perspective for approval	
	Campaign implementation	
13. Production and traffic	Finalize and reproduce advertisement(s), buy media time and space and deliver ads	
14. Insert advertisements	Actually run ads in selected media	Check whether ads appeared as agreed and directed

	Campaign follow-through	
15. Impact control		Obtain feedback on consumer and competitive reactions
16. Review and revision	Adjust advertising execution or spending levels to unfolding conditions	Check whether changes achieved desired results

TABLE 11.2 DEVELOPING AN ADVERTISING CAMPAIGN

Situation analysis in the pre-campaign phase

Sound planning techniques call for a careful assessment of overall market conditions before formulating an advertising campaign. In other words, you should conduct a market analysis that surveys the competitive field as part of a three-step approach.

1. Your initial analysis should examine the range of competitive offerings and related market trends, their positioning and media choices and their distribution and usage patterns. You will want to find out who competitors' customers are and when, where and for what purpose they make purchases. This background information will provide the necessary perspective for choosing appropriate promotion strategies.
2. Subsequent product research should focus more intensively on your own product. Its principal purpose is to find out from actual or potential users of the product which features they consider desirable and what benefits they associate with its use. Such information will help you make the right positioning decision and formulate effective appeals. In this context, study the usage patterns in depth.

> Encourage ongoing product innovations that target specific groups with targeted media.

3. The final step of the pre-campaign research concentrates on the customer. Here, you attempt to develop demographic and psychographic profiles of actual or prospective buyers. For instance, recognize who are the frequent and infrequent users of your product, how old they are, where they live, how much money they

have at their disposal, their educational backgrounds, their occupations, their marital status and family size and the cultural group they belong to.

You will also want to know how they think and act. To the extent that you have sufficient time and funds, you can tap individuals trained in the social sciences for useful insights. They run the gamut from behavioural psychologists, sociologists and even cultural anthropologists who are trained in techniques to provide in-depth profiles about groups and their habits.

For example, **Kodak** called in anthropologists and other social scientists who observed camera users in an effort to learn how taking and printing pictures fit into their daily lives. They also followed prospective camera buyers into stores to understand how they chose certain models from the crowded shelves. The research was part of Kodak's effort to reorganize its digital camera product line by transforming product design, manufacturing and marketing

Advertising objectives

Objectives are guidelines for action that spell out what you want to achieve. You could say that the basic objective of all advertising is to sell something – a product, service, idea, or company. To that end, advertising is effective communication, resulting in positive attitudes and behaviour on the part of the receivers of the message that results in increased sales.

However, the objective of increasing sales is too broad to be implemented effectively in an advertising program. Rather, you should formulate more specific and limited aims that you can nail down with greater precision and which you can measure with accuracy. For example:

- Support a personal selling program.
- Achieve a specific number of exposures to your target audience.
- Address prospects that are inaccessible to your sales people.
- Create a specified level of awareness, measurable through recall or recognition tests.
- Improve dealer relations.
- Improve consumer attitudes towards your product or company.

- Present a new product and generate demand for it.
- Build familiarity and easy recognition of your company, brand, package or trademark.

The list is truly endless and as varied as companies and situations. It illustrates some of the possibilities and pinpoints the need for precision to derive maximum guidance from objectives. As objectives imply accountability for results, they often lead to an evaluation of individual or agency performance.

Advertising appropriation

Having determined where you want to go, you must now decide how best to get there. Marketing executives can choose from a number of alternative approaches for setting the level of total advertising spending.

- *Affordable Method*: Ignores your objectives and is simply an expression of how much you think you can afford to spend. This viewpoint makes your level of appropriation subject to whim and may grossly over- or under-estimate the amount in relation to your needs.
- *Percentage of sales approach*: Probably the most widely used because of its simplicity. That is, it ties your advertising allowance to a specified percentage of current or expected future sales. This procedure, with its built-in fluctuations, not only discourages long-term advertising planning but also neglects current business needs and opportunity.
- *Competitive parity method*: Proposes that your company match competitive spending levels. This simplistic outlook is no more sophisticated or justifiable than the two preceding approaches.
- *Objective and task method*: Produces the most meaningful results. You proceed in three steps: (1) define your advertising objectives as specifically as possible; (2) identify the tasks that must be performed to achieve your objectives; and (3) estimate the costs of performing these tasks. The sum total of these costs represents your level of appropriation. While this approach does not examine or justify the objectives themselves, it nevertheless reflects a reliable assessment of your perceived needs and opportunities, which you can translate into a workable budget.

Making your advertising investment more productive

Consider advertising as a key element in your total communications mix. In terms of creating widespread awareness and exposure of your product, it certainly is your best buy.

Remember, however, no matter how competent your agency or advertising department is, you bear the ultimate responsibility for results. Therefore, it pays to be sceptical, to be more independent and not to be intimidated by the creators of your advertising.

> Innovate, don't imitate. Follow emerging trends.

Also, keep in mind that advertising can run into a significant sum of money in terms of total outlay, so you will want to make sure that your ads are working hard for you. You can work more intelligently and effectively with your advertising people and offer more precise guidance as to what they should stress, if you follow a few fundamental guidelines:

1. *Be aware of your product's positioning in the market place*. You may choose to make your offering an improved alternative to the competing product in the field, or emphasize a major customer benefit that is unique, meaningful and competitive and one that you can convincingly deliver with your product.
2. *Maintain a personality for your brand*. Use your advertising to make a positive contribution to the brand image. If you want your ads to command attention and produce results, try for a uniqueness that makes them stand out from the flood of competing messages. It is helpful to use a symbol, logo, or other repetitious element that will be remembered by customers.
3. *Don't bore your audience and don't be impersonal*. Innovate, don't imitate. Follow emerging trends. In some instances, the risks may be high if the trends are shallow and short lived. But if successful, the potential rewards are worth the commitment.
4. *Be factual*. In the business-to-business market, one powerful way to present factual material is with a problem-solving approach. Choose a problem that your customer can relate to and show solutions. However, if judiciously used and creatively presented, emotional themes can be effective in both consumer and business markets.

5. *Don't replace your advertisements before they have a chance to develop their full potential*. The most basic learning theories stress the importance of repetition in affecting behaviour. Repeat your winners until their effects start to wear off.

Sales promotion

Integrate sales promotion with your advertising and salesforce objectives and strategies. Also use sales promotion to encourage more product usage, induce dealer involvement and stimulate greater salesforce efforts.

Sales promotion is an incentive to buy, whereas advertising offers a reason to buy.

Strategy applications

- Support sales force
- Support dealers
- Stimulate consumer action

The following case illustrates how sales promotion can help rebuild a brand's image and win back customers who were once behind the product.

case

Case example

MCI Communications Corp., a global provider of business data, Internet and voice services was clobbered by rival AT&T during one of its growth periods. It occurred when AT&T blitzed long-distance users with an advertising campaign showing that MCI's rates were no bargain. What followed was a free-fall at MCI: market share dropped, 1,000 employees were laid-off and operations were consolidated.

Recovering from the assault, MCI rebounded smartly with what seemed like an ordinary sales promotion discount program called 'Friends & Family'. The program offered 20 per cent discounts to groups of MCI customers who phone one another.

The results were nothing short of amazing. In 18 months after launch, MCI signed its ten millionth 'Friends & Family' customer, made up of mostly friends and relatives of existing customers.

Its market share jumped. In contrast, AT&T's share slipped. Also, MCI revenues grew an estimated 11 per cent, twice the industry average.

Lessons from the MCI strategy

LONG-TERM VISION

Underlying the 'Friends & Family' promotion was a broader MCI objective of becoming a master marketer of long distance. Management viewed the industry as a battlefield being fought in three markets: toll-free telephone service, data communications and international calling – all expected to show double-digit growth over the long term.

TECHNOLOGY VS. MARKETING

A reality pervaded MCI's thinking that said a technology advantage had a short life cycle and competitors would soon match it. Consequently, MCI saw its pathway to success as gaining superiority in marketing skills.

ORGANIZATION

MCI defined marketing as achieving customer satisfaction, which it actively implemented throughout the organization using a variety of approaches. For example, its management created three national divisions – consumer, business and national accounts – to increase organizational flexibility and thereby localize the marketing effort by segments for maximum effect.

STRATEGIES AND TACTICS

One hallmark of a sound marketing strategy is the principle of concentration. MCI applied concentration by investing both money and manpower resources in one direction: to attack AT&T's weakness. For example, the reason AT&T could not respond easily to the 'Friends & Family' promotion is, at the time, it lacked the sophisticated national billing system needed to link the accounts of customers from all over the country. MCI had the necessary billing system.

MAXIMIZING OPPORTUNITIES

MCI recognized it had to maintain the marketing momentum or lose the advantage. Pressing on, it extended the application of 'Friends & Family' from the consumer sector to 'Friends of the Firm' aimed at the business market.

Action strategy

What can you learn from the MCI case? MCI's brilliant recovery began with a form of sales promotion, 'Friends & Family.' While it may be difficult to match that performance, you should know how to handle sales promotion as part of your total communications strategy.

Here are some characteristics of effective sales promotion: use sales promotion as an incentive to buy, whereas advertising offers a reason to buy. Also, while sales promotion is part of an overall marketing program, it involves a variety of company functions to make it work effectively. Sales promotion permits tremendous flexibility, creativity and application.

Consider the following applications:

- **Consumer promotions** consist of samples, coupons, cash refunds, premiums, free trials, warranties and demonstrations.
- **Trade promotions** include buying allowances, free goods, cooperative advertising, display allowances, push money (incentives), video conferencing and dealer sales contests.
- **Sales force promotions** employ bonuses, contests and sales rallies.

As indicated with advertising (and all other components of the marketing mix), sales promotion is not a stand-alone activity. Instead, make it a component of the tactical portion of your strategic marketing plan. Further, establish your sales promotion objectives to support the broader vision, or strategic direction – as MCI did.

Select from the following:

- Identify and attract new buyers.
- Encourage more frequent and varied usage of current products.
- Motivate trial and purchase of new products.
- Educate users and non-users about improved product features.
- Suggest purchases of multiple and/or larger units of your product.
- Win over buyers of competitive products.

- Reinforce brand loyalty and purchase continuity.
- Create customer enthusiasm and excitement leading to word-of-mouth recommendations and referrals.
- Diminish wide fluctuations in sales volume by encouraging off-season usage.
- Counter competitive raiding on your customers.
- Generate more traffic at your dealers' outlets.

How to use sales promotion to stimulate sales

> Sales promotion is a dynamic complement to advertising and personal selling.

Sales promotion can be an effective component of most any promotion mix, ranging from consumer goods to business-to-business products and services. It is a dynamic supplement and complement to the more sophisticated advertising and personal selling efforts.

What is sales promotion? It consists of all those promotional efforts of a firm that cannot be grouped under the heading of advertising, personal selling, publicity, or packaging. More precisely:

> *Sales promotion refers to activities or objects that attempt to encourage sales people, re-sellers and ultimate buyers to cooperate with a manufacturer's plans by temporarily offering more value for the money or providing some special incentive related to a specific product or service.*

While somewhat lengthy, this definition points up three essential features:

1. Sales promotion includes both *activities* – such as demonstrations and contests and *objects* – such as coupons, premiums and samples.
2. It may be directed at one or any combination of *three distinct audiences*: a company's own sales force; middlemen of all types and levels, such as wholesalers, retailers and other types of middlemen; and consumers or business-to-business buyers.

3. In contrast with the continuous, long-term nature of the other elements of the promotion mix (legendary advertising guru, David Ogilvy said "an advertisement is a long-term investment in the image of a brand"); whereas sales promotion campaigns are temporary measures that should be used with discretion.

However, unless used wisely, sales promotion can easily become self-defeating and counter-productive. While there are no hard and fast rules, a brand, for example, that is 'on deal' one third of the time or more is likely to suffer image problems.

In fact, if yours is a leading brand in a mature market, you should use sales promotion most sparingly because it is improbable that you will gain any lasting advantage from a more generous application.

It is important to remember that sales promotion is costly and should thus be judged from a cost/benefit point of view. So, don't overuse it – even if the temptation is great to yield to internal pressures or external competitive challenges.

To develop a planned approach to sales promotion over a haphazard one, you will find it profitable to follow a series of logical steps for maximum impact and efficiency. First, review the above listing to identify specific sales promotion objectives, which depend on the type of audience and the nature of your overall marketing strategies.

Also, once you have decided which market segments you want to address, you can select specific techniques for motivating the dealer, introducing new products and promoting existing products. For example:

- *Motivating the dealer.* With dealers (or any intermediary in the business-to-business, consumer and service sector), the most powerful language to speak is still money, that is, profit. Among many available techniques, sales promotion for motivating dealers can include buying allowances, cooperative advertising, dealer listings, sales contests, speciality advertising and exhibits at trade shows.
- *Introducing new products.* Another meaningful way to break down the variety of approaches is to group them according to their major application areas. Sales promotion techniques particularly well suited to the introduction of new products include free samples or trial offers, coupons, tie-in promotions with two or more brands or companies and money refunds.

- *Promoting existing products*. You may want to use one or more different tools when attempting to promote established brands, such as premiums, price packs, contests and sweepstakes, trading stamps, cross-promotions that use one brand to advertise another and demonstrations. These tools aim to attract competitors' customers and build market share, introduce new versions of established brands and reward buyer loyalty.

Table 11.3 will aid your selection process by presenting the pros and cons of major sales promotion techniques.

Technique	Advantages	Disadvantages
Free samples	Induce trial Attract new customers Speed up adoption	Expensive Lacks precision Cumbersome
Free trial	Overcomes market resistance	Costly to administer
Door-to-door couponing	Very selective High redemption rate	Time consuming Needs careful supervision Lead time needed
Direct-mail couponing	High targetability At-home coverage High redemption rate	Needed Costly Dependent upon list quality
Newspaper couponing	Quick and convenient Geographically targetable Low cost	Low redemption rate Retailers may complain Requires careful planning
Magazine/supplement couponing	Targeted audience Effective coverage Increases in readership	Can become expensive Consumers neglect to clip Slow redemption rate
Money refund	Generates new business Reinforces brand loyalty	Results can be slow Modest impact

In-or-near pack premiums	Increases product sales Modest distribution cost	Bonus to loyal buyers Pilferage problem
Self-liquidating premiums	Low cost Boosts brand image	Modest sales impact May be too popular
Price pack	Moves merchandise Keeps up visibility	Not selective May cheapen brand image
Contests/sweepstakes	No purchase required Increases brand awareness	Expensive Modest participation
Trading stamps and promotional games	No extra expense for consumer Creates store preference	Consumer boredom Expensive
Point-of-purchase displays	Effective stimulation	Requires dealer cooperation
Warranties	Effective in influencing a purchase decision	Expensive and labour intensive with a product problem

TABLE 11.3 ADVANTAGES AND DISADVANTAGES OF VARIOUS SALES PROMOTION TECHNIQUES

Develop your sales promotion program

Having selected the techniques most suitable for accomplishing your objectives for one or more of your prospective audiences – sales force, dealers and consumers – you must now work out the operational details of your campaign. This activity includes determining the budget for your program, which has to take into account three types of costs:

1. *The administrative cost*, covering creative aspects, production of the promotional material, mailing and advertising.
2. *The incentive cost*, which includes the cost of the premium, coupon, price pack and sales force or dealer incentive and reflects the likely rate of redemption – which can vary greatly, depending upon the method of delivery.

3. *The marginal product cost*, such as the cost of a different package or imprint, or expenditures due to the temporary increase in output.

Of necessity, the specific budget is tied to the size of the overall annual appropriation for sales promotion, which is usually a *percentage of a company's advertising budget* and may run anywhere from 20 per cent for business-to-business firms to 60 per cent for consumer goods.

When deciding on the length of your campaign, you will find yourself at a critical point. If the promotion is too short, neither you nor your target audience will derive sufficient benefit from it.

If it is too long, your brand's image is likely to be cheapened and your campaign's 'act now' urgency will be diluted. A related issue is frequency – that is, how often you should promote a given product. Generally, the rules are not too often, not too short and not too long.

Sales promotion is a short-term tool to support long-term goals.

Sales promotion is a short-term tool that can support long-term goals only in a supplementary capacity. It cannot build a consumer franchise. To the contrary, if it is used too often, it can destroy the image of a brand. Thus, it should be used not as a substitute for advertising, but rather as a complementary effort.

Direct and interactive marketing

As the term implies, direct marketing operates by circumventing middlemen and interacting directly with the buyer to sell goods and services. Further, direct marketing techniques serve other purposes, such as delivering product or warranty information, announcing forthcoming products and using a variety of direct approaches to maintain customer contact.

The contact methods include direct mail, catalogues, telemarketing, interactive TV, kiosks, websites and mobile devices to reach diverse buyer segments. For instance, you can introduce a larger selection of merchandise with specific product data, particularly with print and online catalogues.

Additionally, with the increasing sophistication of mailing lists, buyers can be defined to the smallest detail by income, location, gender, marital status and even stages within the life cycle.

With the Internet, in particular, buying behaviour can be recorded, analyzed and used to suggest related products to the customer with tailored advertising messages. (Charities and other special interest groups also use these same methods with great success.)

> Direct marketing circumvents middlemen and interacts directly with the buyer.

The following case example illustrates the magnitude of possibilities for direct marketing.

case

Case example

Eddie Bauer Inc., a maker of casual-apparel and furniture, confidently followed one of the dominant marketing trends by establishing a brand identity over the Internet. Yet the leadership of this 87 year old company saw the long-term geographic advantages for maintaining an infrastructure in brick-and-mortar stores to serve those customers attached to the touch-and-feel of a traditional retail experience.

At first, managers tried Internet banner ads to drive surfers to its website. But results indicated such advertising was expensive and conversions to sales were low. Then, learning that half the consumers who visited the Web site had never shopped at Eddie Bauer stores before, management had to be certain that the experience would go well beyond just duplicating a catalogue page on the screen.

Eddie Bauer's strategies

The solution came through the following creative applications:

- Develop an online virtual dressing room where shoppers can click on a sports jacket and drag a colourful sweater or striped pants to view the style effects.
- Offer online customers a reminder service that signals them by e-mail about forthcoming birthdays, anniversaries and holidays. The service also permits users to create an electronic shopping list of items they want relatives to buy for them.
- Identify groups and individuals by buying patterns. Then use tailored e-mails to communicate special savings on selected merchandise to match the buyers' fashion profile. Also, direct follow-up promotions to specific groups, such as working women or for seasonal events as back-to-school. The objective is 24/7 shopping, all anchored to brand name recognition.
- Apply a similar interactive experience for its furniture line. For instance, online shoppers can plug in the floor plans for their homes and see how Eddie Bauer furniture designs look room-by-room.

Taking the multi-faceted approach to building its brand and expanding into new market segments, Eddie Bauer managers integrated all forms of communications into the mix, such as its website, catalogues, advertising, sales promotion – as well as the geographic locations of its stores – to build a total brand strategy.

For instance, the Eddie Bauer catalogue promotes its website with all the interactive online services. In turn, the online services inform visitors about returning products to its brick-and-mortar stores, where ample cross-referencing is also made to the Eddie Bauer web address.

Table 11.4 describes the various forms of direct response marketing available to you.

Direct mail	Uses targeted mailing lists to send letters, brochures, audiotapes, videotapes and CDs to prospects and customers. Permits high levels of selectivity and personalization.
Catalogue marketing	Uses full-line merchandise catalogues, speciality consumer catalogues and business-to-business catalogues in various forms, including print, CDs, videos, or online distribution. (See Eddie Bauer case.) Needs good controls to monitor quality of mailing lists, duplicated names and bad debts. Online catalogues also provide excellent opportunities to reach global markets.
Telemarketing	Uses telephone and call centres to solicit prospects, sell to existing customers, obtain sales leads and handle customer problems. New innovations with videophones will likely increase telemarketing's effectiveness.
Kiosk marketing	Includes a variety of free-standing structures or carts where vendors sell a variety of products and services, from books, watches, jewellery, insurance and phone services. Computer-linked vending machines sell airline tickets at airports and dispense money from ATMs from almost anywhere.
E-marketing	A growing channel to conduct a wide variety of transactions from ordering industrial supplies, obtaining services, to buying food. The Internet is an omnipresent channel as an information source, a communication tool and transaction channel for an endless variety of goods and services.
Other media	Includes newspapers, magazines, radio and TV that offer books, clothing, jewellery, appliances, vacations and numerous services through toll-free numbers.

TABLE 11.4 DIRECT RESPONSE MARKETING CHANNELS

The Internet

With its remarkable versatility and still-evolving applications, the Internet is worth singling out as it continues to transform the way consumers buy and the methods by which companies conduct business. Its usage is as far-reaching as the World Wide Web itself, with applications as sweeping as trading stocks, obtaining information on autos, subscribing to book and music clubs, getting price quotes on mortgages and purchasing airline tickets.

> The Internet continues to transform the way consumers buy and companies conduct business.

Transactions can be as diverse as the following: **Aucnet** attracts wholesalers to a used-car auction and helps buyers judge the quality of the cars. **Narrowline** provides an electronic exchange that brings together media buyers with websites looking to sell available advertising space. **Eworldauction** holds monthly online auctions of old books, maps and medieval manuscripts.

Ford Motor Co. used the Internet to promote its F-150 truck. On the day of the launch, Ford placed bold banner ads for 24 hours on the three leading portals – AOL, Yahoo! and MSN. Some 50 million web surfers saw Ford's banner. And millions of them clicked on it, pouring onto Ford's website at a rate that reached 3,000 per second. The company reported that sales jumped six per cent over the first three months of the campaign.

The ability to utilize the Internet is not confined to large organizations, small companies with limited sales resources can establish a home page as a way to communicate a product message, offer special deals, announce a new service, or launch into foreign markets.

Once you establish an Internet presence, your next step is to market your online service and have customers and prospects visit your site. The following guidelines will assist you in gaining visibility:

- Promote your website in all advertising media, including sales promotion brochures, technical manuals, letterheads and business cards.
- Display your web address on packages, in-store displays and counter tops.

- Use your web address on press releases and any articles written about your firm.
- Develop dedicated promotions that 'sell' the recipient on the advantages of visiting your web site. This goes together with the guidelines of offering genuine information to the visitor.
- Register with web search engines, the means by which individuals locate sites that interest them. You can also buy a banner ad in a popular search engine in a particular section in which your company is classified.
- This exciting promotion channel is still in its infancy. And with the projected revenue growth into the 21st century projected to skyrocket into the billions, establishing a solid presence on the Internet will pay off in sales growth and market expansion.

The bottom line: Make the Internet an integral component of your promotion plan.

Public relations

Public relations managers have often separated their activities from marketing managers' influence, as each tended to avoid coordinating their respective functions. For the most part that separation is beginning to melt. Now there is *marketing public relations (MPR)* to directly support corporate or product promotion and image making.

Some specific functions of MPR include assisting in product launches, positioning or repositioning a product that has reached the mature stage in its life cycle and rebuilding interest in a brand.

Then, there are other specialized activities, such as influencing key target groups, dealing with products affected by negative image problems and promoting an overall favourable corporate persona. Table 11. 5 details some of the major tools used in public relations.

Publications	Influence target groups with published materials, such as annual reports, brochures, articles, company newsletters, magazines and audiovisual materials.
Special events	Use news conferences, seminars, outings, trade shows, exhibits, contests and anniversaries that can reach and influence selected groups.
Sponsorships	Promote a company or brand by sponsoring sporting events, association functions, or high profile public causes.
News stories	Develop newsworthy items for key media and provide favourable information about a company, product, or key executives.
Speeches	Obtain opportunities for company's senior executives and other individuals to give talks at sales meetings, association events and other functions whereby their appearances will enhance the company's image.
Public service activities	Involve company personnel in public-good activities, such as assisting charity fundraisers, helping disadvantaged students, teaching specialized subjects at local schools and a variety of other public service causes.
Lobbying	Influence legislators and government officials to endorse or defeat specific types of legislation.

TABLE 11.5 PUBLIC RELATIONS TOOLS

> Public relations directly supports corporate or product promotion and image-making.

As with any form of promotion within the communication mix, you must establish objectives of what you want to accomplish and convey that information to the individual(s) responsible for public relations. What you want to avoid is a disjointed effort where little or nothing is accomplished.

Personal selling

> Salespeople should be trained in strategic planning and the techniques of thinking like strategists.

The final component of the promotional mix to support and generate sales is personal selling. There are far-reaching implications associated with sales people.

In today's selling environment, they are expected to go beyond just writing the order. They should be equipped to gather market intelligence with special emphasis on interpreting competitors' activities.

The clear inference is that sales people should be grounded in the techniques of competitive strategies, as suggested in previous chapters. They should be able to recommend counter-strategies to senior management, which includes plans that coordinate other components of the communications mix.

And in a broader aspect, considerations should take into account the full marketing mix. These include pricing strategies, adding or deleting new or existing products, altering supply-chain strategies and customizing communications for market segments.

The rationale for the broader role for sales people is readily understood if you consider that they are at the forefront of the action. Individually, a sharp sales person should notice changes in buying behaviour and spot a competitor's surge in activity within his or her territory. As important, he should be able to make sense of local economic conditions and project their implications for the short- and long-term.

In sum, a sales person should behave as a general manager and act like a marketing director for a sales territory, with all the budgetary and decision-making responsibilities associated with those managerial titles.

Such was the approach used at a division of **Hoechst** where sales people were trained in strategic planning and in the techniques of thinking like strategists. Raising the skill levels is in-line with the general shrinking of corporate staffs over the last two decades, as more authority and responsibility filtered down to field sales and local managers.

> A sales person should behave as a general manager for a sales territory.

Territorial structure

Accepting the above framework that sales people should behave as general managers and think line strategists, it is in your best interest to provide sales people with an all-inclusive picture of your marketing strategies. Then you can legitimately ask for their active involvement.

Your objectives: Get the sales force on your side to actively support your overall marketing strategy. Specifically, encourage their input about tactical adjustments – as they view the market place from their perspectives. Overall, you want to motivate them to the vital task of providing ongoing intelligence about customers and competitors.

Beyond those essentials, try to understand how the sales force is deployed and the ways in which the territories are structured. Knowing the structure will help you decide on the types of strategies that will support your strategic marketing plan – and how you will allocate your marketing efforts. Territories are generally organized by *product, market,* or *multipart structures.*

PRODUCT

The sales force is structured along the lines of a major product or product line. Generally, the product is expensive, complex and requires sales people to have a good deal of product knowledge. In other situations, the product line is broad with many varieties from which to choose. This structure is also appropriate where consultative selling is required to solve a customer's operating problem or provide a technical solution. In many cases, sales people require additional technical support, as well as sophisticated selling aids.

MARKET

The sales force is organized by industry or customer group. The major advantage is that the sales force gains intimate knowledge of the industry and tunes-in to customer needs as they stay close to emerging or declining trends. Here, too, consultative selling is a key advantage in supporting your overall marketing strategy.

MULTIPART

This structure has a number of configurations. Where there are a wide variety of products dispersed over a wide geographical area which serve various customer groups, the sales force can be organized in a hybrid formation: territory/product, territory/market, or product/market.

> Get the sales force on your side to actively support your overall marketing strategy.

In addition, key accounts (also known as national accounts, global accounts, or major accounts) fit the multipart structure. These include important customers that warrant exclusive attention by a small group of dedicated sales people who provide specialized services. The customers may have several divisions or multiple locations and require the sales reps to virtually 'live' with them and handle all aspects of the relationship.

The key account structure is on the increase as more industries consolidate through mergers and acquisitions, which results in fewer and larger accounts that require comprehensive handling.

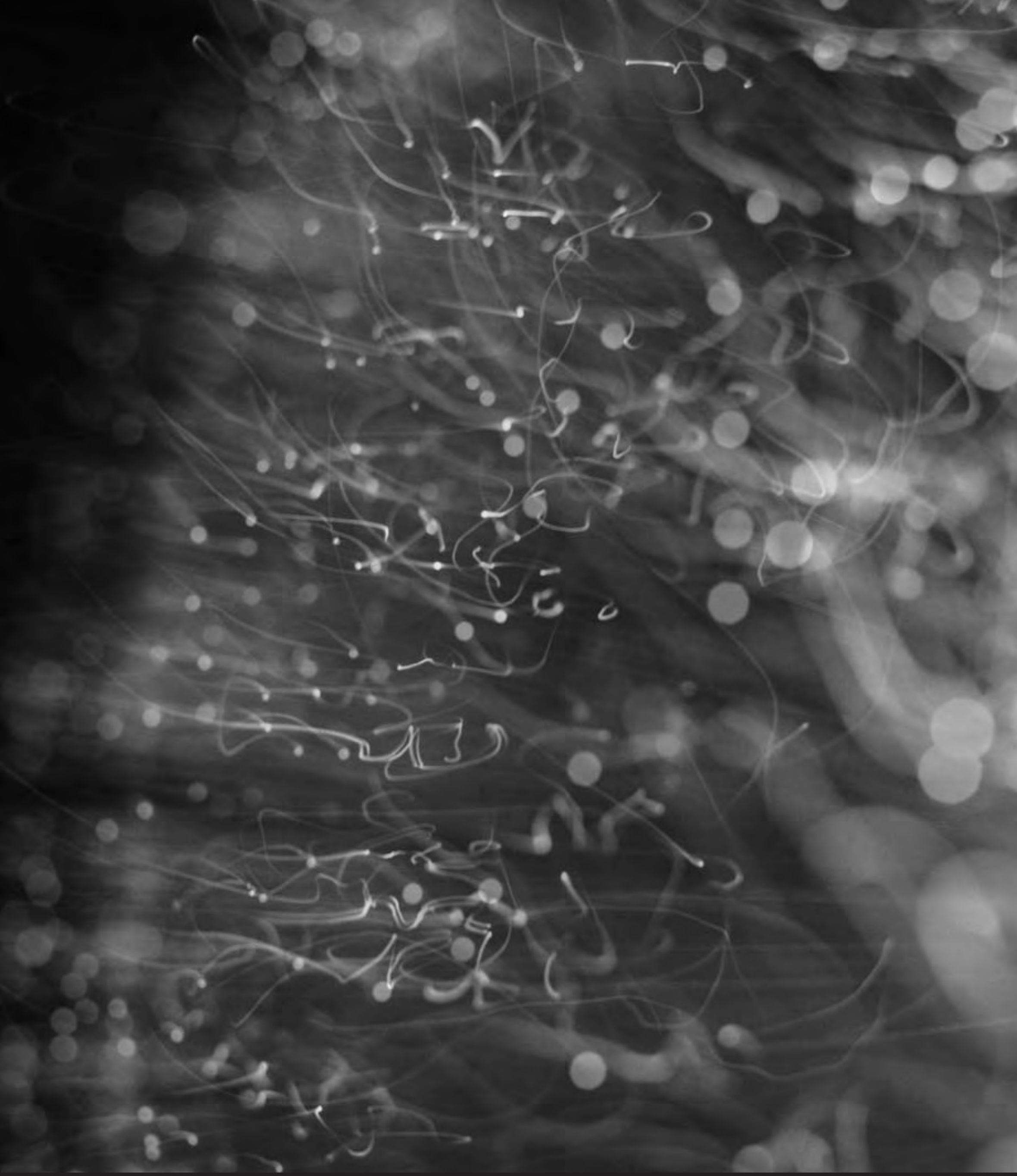
Summary and action steps

Consider the following points: speed is the essence of promotional success. There are few cases, if any, of a profitable campaign that was prolonged. A campaign may lack ingenuity, but it has a chance of success if delivered with extraordinary speed.

Further, effective use of promotion can force competitors to react to your moves on *your* terms. For example, the timing of your promotion can weaken competitors by making them use additional resources after they have completed a major sales promotion effort.

To identify strategies and initiate action:

1. List the promotions that represent your best opportunities.
2. Indicate what action is to take place and who is assigned the task.
3. Relate feedback to the planned objectives and related strategies.
4. List immediate plans and future courses of action to alter your communication mix strategies as fresh market opportunities appear.



PART FOUR CHAPTER TWELVE

Supply chain strategies: A demand-driven lifeline to your customers

TWELVE

Supply chain strategies: A demand-driven lifeline to your customers

Chapter Objectives

To enable you to:

1. Develop the primary strategies for *moving a product* to its intended market.
2. Learn the criteria for *choosing* channels of distribution.
3. Identify techniques to *evaluate* distributor performance.
4. Incorporate demand-driven, supply-chain strategies into your strategic marketing plan.

One of the hallmarks of competitive advantage and marketing strategy is a supply-chain network that incorporates speed, reliability and accuracy in the movement of goods to optimize customer satisfaction. Expressed differently: Provide the right product, at the right place, at the right time.

At the heart of the network is a demand-driven supply network (DDSN) that begins with the market place and links back from buyers through retail outlets, distribution centres, manufacturing plants, to suppliers.

The essence of the system is to better serve the customer. Two examples give pragmatic reality to the network:

Case example

Rexam, a London-based global consumer packaging giant, reacts to customer-demand signals from its supply chain. With customers such as Coca-Cola, Heineken, L'Oreal, Bacardi and Nestle, the company runs operations in more than 100 facilities, services five business sectors in more than 20 countries.

"We are developing different supply chain strategies to support different customer segments to add value to the customer," says Rexam's global supply chain director. To make the system work, Rexam entered into a strategic partnership with software maker SAP, based in Walldorf, Germany, to use tools that help the company integrate ongoing information upstream and downstream, from customers to suppliers.

UPS, foremost among the successful players in supply-chain logistics, handles vast quantities of shipments daily with incredible speed and accuracy. A live example of the system in action involves shoes from Birkenstock's factories in Germany to U.S. stores. A trip that once could take seven weeks (through the Panama Canal) now takes three. Here's how it works:

1. At plants in St. Katherin and Alsa, German Birkenstocks are packed in crates and bar-coded with their final U.S. destinations.
2. UPS transports the crates to Rotterdam where they go into cargo containers for the transatlantic voyage.
3. Shoes arrive in Newark, New Jersey. UPS clears them through customs and moves them to its nearby hub.
4. Minutes after arriving, the containers are opened, shoes sorted and UPS speeds them to any of 3,000 stores.

5. Along the way, UPS uses bar-code scanning to keep track of every shipment until the merchant signs off on it.

> Supply chains compete, not just companies.

What can you learn from the above case examples? With ongoing industry consolidations through mergers, you can create an area of differentiation and very likely a strong market advantage if you broaden your perspective and consider that supply chains compete, not just companies. That notion provides you with the added option of using the efficiency of your supply chain against that of a competing one.

As seen in the above examples, channels of distribution, logistics and the wider view of demand-driven supply chains focus on the geographic selection of markets and works backward through the several points to the sources of supply. That also includes the physical movement of products and the placement of services over long distances.

As a result, many of the anxieties about conducting transactions and tracking shipments over extended distances have dissolved with the global use of the Internet, bar-coding and other information technologies that provide real-time communications throughout the chain.

Also, managers' have shifted attention to accurately defining markets, with special emphasis on closing cultural and behavioural distances. (Topics that have been covered at length in previous chapters.)

> Attention has shifted in distribution to closing cultural and behavioural distances.

Your efforts, therefore, should focus on specific activities that relate to your market place, such as:

1. Evaluate strengths and weaknesses within the existing distribution channels, as well as your overall position on the supply chain.
2. Assess the ease or difficulty of maintaining adequate market coverage.
3. Look for changes in the positioning of competitors, in particular, niches where they may have penetrated your market.

4. Indicate your proximity to customers for providing timely back-up service.
5. Increase your knowledge of various customer groups, such as clues to changing buying practices.
6. Identify those few suppliers in your industry that tend to influence the flow of materials that, in turn, could result in the control of prices.

Further, you should keep an eye on such areas as the volume of orders from various segments, their frequency, how recent the orders are and seasonal influences on purchases. Overall, any monitoring you undertake should reflect your company's ability to fulfil market demand and satisfy customers' expectations, as measured by customer satisfaction ratings.

Ultimately, the success of your marketing strategy depends on moving your product to its intended market. Accordingly, take considerable care in making distribution decisions as you consider the far-reaching impact of supply chain strategies.

Such decisions will be based on (1) the long-term commitment to the distribution channel; (2) the amount of geographic coverage needed to maintain a competitive advantage; and (3) the possibility of competitive inroads.

Supply chain strategies

There are at least three reasons why the supply chain should rank high in importance to your firm – and, specifically, to how you develop a strategy:

1. *The supply chain involves long-term commitments to other firms.*

   Once chosen, distribution channels typically develop a great deal of resistance to change. Your choice of a channel defines your brand in the consumer's mind with a certain kind of store or outlet, thus creating an image that is difficult and costly, to alter.

   Signing up individual wholesalers or retailers often involves substantial up-front expenditures. This money is needed for training sales and service personnel, installing ordering and inventory-control systems, advertising and promotional support and fielding enough sales support. These and many other investments and commitments would be wasted if you decided to abandon these channel partners.

Remember, too, that it would hardly sit well with the trade if you walked away from your commitments. Your channel partners would also resent and resist any infringement on their franchise if you adopted a multiple-channel strategy for the same brand.

2. *The supply chain delineates the portion of the market that you can reach.*

Your selection of channel members restricts the kinds and numbers of ultimate buyers that can be reached through them. In effect, you could be cut off from that part of the market that does not patronize those outlets. Of course, your selection of outlets may coincide with your target market, in which case neglecting the remainder of the market is deliberate.

But what if you can't attract the kinds of stores or outlets that cater to the group of consumers you wish to reach? Then you have to settle for what you can get. To avoid this trap, your product, your price and your support must satisfy the intermediaries you want to win over.

3. *The supply chain affects all other marketing decisions.*

The interdependence of marketing mix decisions is most evident when choosing distribution channels. If you choose a pattern of exclusive distribution, your product often becomes a luxury item requiring high prices and high dealer margins. If, on the other hand, you go after intensive market coverage, you characterize your product as mass merchandise, which, in turn, most often necessitates a low-price policy.

Choice of advertising approaches, themes, messages and media will vary with your product's distribution channels. Also, product and packaging design must reflect the characteristics of your selected channels. That is, merchandise suited for self-service outlets have to be presented differently from goods requiring the advice and explanation of knowledgeable sales personnel.

Obviously, then, supply chain decisions cannot be made in a vacuum, since they have repercussions on every other marketing decision you make and thus affect your entire marketing effort.

This discussion comes alive when viewed by the following case in which one company chose a distribution channel as its competitive weapon and how the decision influenced its long-term commitments, market reach and internal operations.

Supply chain decisions cannot be made in a vacuum.

Case example

Dell Computer Corp. is a high-flying company racking up record revenues and profits by utilizing distribution as a major driving force behind its strategy. Dell defines its channel as the use of direct response marketing to penetrate the vast PC market.

The Dell case is instructive, largely because of the dismal but erroneous predications of industry analysts during the initial stages of Dell's growth. Early on, industry experts predicted that once Apple, IBM and others discovered buyers turning in droves to the toll-free telephone numbers and the Internet to order hardware, they would pounce on Dell and push it out of the selling channel. The leaders also thought their vast resources and powerful brand names would entice customers away from Dell. That never happened.

By the mid-1990s, Dell's sales hit over $4 billion. And if you calculate market share of Dell and the other major direct marketer, Gateway 2000 Inc., the combined total equals a substantial 47 per cent of the direct response business.

Let's look at the major factors contributing to Dell's success:

TARGET MARKETS

Initially, Dell made the strategic choice of focusing primarily on corporate customers while de-emphasizing consumers, where the industry leaders were aiming most of their marketing efforts.

TARGET CUSTOMERS

Dell's typical customer profile revealed its buyers as knowledgeable about computers, up-to-date on new systems and specific about the products they wanted. Also those customers did not need or want the hand-holding assistance provided at retail outlets.

INTERNAL OPERATIONS

To accommodate its customer profile, Dell developed flexible manufacturing techniques. These techniques enabled the company to build a customer's computer virtually to order. Using different components for each order phoned in, Dell could custom-configure computers as received.

COST CONTROL

Costs are kept in line because Dell carries less inventory – 35 days-worth compared with 110 days for rivals. Such flexibility allows Dell to use its direct response expertise to introduce new (and more expensive) models faster than it could through the longer chain of manufacturer-to-distributor-to-retailer-to-end user.

Thus, with Dell's operating costs at 5.4 per cent of revenues vs. 13 per cent as an industry average and eliminating the middleman mark-up, Dell enjoys greater opportunities to undercut the major brands after tapping other strategy options.

SUPPLY CHAIN INNOVATION

Dell marketers recognize that getting comfortable with their current direct channel approach could limit expansion, especially in global markets that lack the sophisticated communications and delivery systems of North America. Still exhibiting entrepreneurial flair, managers moved to interactive kiosks and marketing via the Internet.

Action strategy

What can you learn from the Dell case? Dell's success illustrates supply chain power. Defined as the ability to set channel standards and control performance, supply chain power can even influence other organizations' channel decisions. For Dell, applying the power had the marketing effect of preventing the industry giants from taking control of the direct channel.

Then, there is the power of the Internet. As a channel of distribution, doing business via the Internet shows cost savings in the range of five per cent to ten per cent of sales (an average based on the experience of a wide variety of companies). In more dramatic numbers, some companies have reported huge advantages from online business relationships.

In contrast to the Dell situation, there are a number of compelling reasons for using middlemen. The majority of manufacturers lack the financial wherewithal to perform effectively at both levels, production and distribution. They have to rely on middlemen to provide the financing for an aggressive, widespread selling effort.

Yet, even companies with adequate financial means might find investment in vertically integrated channels unattractive because of a relatively low return on investment. Thus, they might pursue higher yielding opportunities at the production end, leaving the distribution function to specialists.

Finally, producers going into the distribution business themselves often find that they must carry complementary products of other manufacturers to help defray the high cost of distribution and get maximum yield from their effort.

Supply chain control

Supply chain control considers four sets of circumstances that dictate the search for new distributors:

1. New marketing efforts, such as introducing a new product or entering a new market.
2. Desire to intensify market coverage.
3. Need to replace existing distributors.
4. Industry changes, which impacts on distribution strategies.

Strategy applications

- Identify prospective outlets
- Evaluate distributors
- Select the best distributors

The following case illustrates an innovative approach to channel control.

case

Case example

Wrangler jeans, faced the uncomfortable situation as it watched garment imports double and data showed competitors grabbing as much as 80 per cent of its market. To counter the threat, Wrangler executives forged a cooperative distribution relationship with Wal-Mart Stores, Inc.

For example, Wal-Mart used a computer hook-up through which it could get orders filled in one day, instead of the five weeks it previously took before computerization. Wrangler developed similar plans for its suppliers. According to both companies, those link-ups resulted in more efficient control of the distribution channel with huge cost savings.

Within the overall textile industry, other companies along the supply chain demonstrated that better control between makers of apparel and distributors or retailers are cutting lead time for new products to an average of 17 weeks from the normal time of over six months. By developing such cooperative relationships within the supply chain, some companies are developing a competitive advantage over imports.

Action strategy

What can you learn from the Wrangler case? Within the supply chain, the distributor can be one of the key success factors in a strategy. After you've developed a strategy that involves distributors, you need to know how to select and evaluate them. Use the following guidelines:

Selecting distributors

> Add more distributors in a territory based on population, sales, or buying potential.

Given the high degree of specialization found among distributors, you must decide how selective or comprehensive you want market coverage. Only with the appropriate distribution mix can you satisfactorily achieve your marketing goals.

Your middlemen will perform as you expect only if you carefully manage and constantly update your relationship with them. Therefore, develop and consistently apply well-thought-out criteria (Table 12.1) for selecting the right distribution partner in a given area.

As you introduce new products, you may find that your current distributors are ill- equipped to sell and service them, or that they already handle competitive products. Or you may be addressing a new kind of clientele not serviced by your supply chain. If you enter into new geographic markets, the need for appropriate representation may become self-evident.

To help determine how many and what kinds of distributors you need for a particular territory and to facilitate the selection process, you will want to conduct a market analysis to estimate its sales potential. Fortunately, however, you rarely have to choose a completely new set of distributors. Your own firm's present distributors can adequately handle most new product innovations.

As you review your share of the business in a given segment, you may conclude that your firm is under-represented. Or you may determine that your present outlets are not going after the business aggressively enough to satisfy you. As a result, you need to add more distributors in the territory, based on population, sales, buying potential, or other relevant considerations.

By far the most frequent reason for appointing new distributors is the turnover of existing outlets. These changes may be due to natural attrition, the death or retirement of principals, or the sale or collapse of a distributor. The recent trend towards more specialization or limited-line selling has also led many distributors to drop a certain manufacturer's line.

More often than through attrition, changes in your distributor mix come about by inadequate distributor performance that leaves the manufacturer, or even both sides, dissatisfied. Yet, such a move can prove painful and disruptive and should be undertaken only in extreme cases.

In some instances, you may try to rekindle an existing relationship, as long as there is a willingness to recognize the dynamic changes of the market place and consequently the changes required in strategy.

Table 12.1 highlights the selection criteria most often mentioned by some 200 leading manufacturers in a study on this subject. Notice how the criteria are classified and summarized into a limited number of categories that can apply to any distributor selection task, in any geographic location.

CRITERIA	IMPACT
Financial aspects	Only a distributor with solid financial strength and controls can assure you of adequate, continuous representation
Sales organization and performance	The sales strength and record of performance are essential to your long-term relationship
Number of sales people (in the field and on the inside)	The general rule: the more sales people, the more sales and the more effective the market coverage
Sales and technical competence	Sales people with inadequate technical and sales skills are a liability
Product lines carried	Pick your relationships carefully
Competitive products	Generally avoided; sometimes okay
Compatible products	Tend to be beneficial
Quality level	The higher, the better
Number of lines	Will your line get enough attention?
Reputation	You are judged by the company you keep and the image you want to spread
Market coverage	Exposure means sales
Geographic coverage	Avoid overlap and conflicts
Industry coverage	Major user groups must be covered
Intensity of coverage	Infrequent calls mean lost business
Inventory and warehousing	Ability to deliver products and services accurately and on-time are often decisive

Kind and size of inventory	You want the right mix and a willingness to maintain adequate stock
Warehousing facilities	Storage and order handling must be suitable to customers' requirements
Management	Effective leadership spells success
Ability	You want competent management
Continuity	Succession should be assured
Attitudes	Look for enthusiasm and a total customer orientation

TABLE 12.1 CRITERIA FOR SELECTING DISTRIBUTORS

Evaluating distributors

Once you have secured the services of a suitable candidate, you must then ensure that your association brings maximum benefit to both parties. You need to perform periodic evaluations designed to keep you continually informed about the relative performance of your various distributors.

Evaluations may be in the nature of current operating appraisals or may take on the form of overall performance reviews. If they are simple and limited in scope, you could conduct them monthly. Thorough analyses, however, should be undertaken only at infrequent intervals: annually or biannually.

> Perform periodic evaluations to keep informed about the performance of your distributors.

The following case summarizes how one company integrates its supply-chain strategies into a competitive advantage.

Case example

Owens & Minor Inc., a distributor of hospital supplies, typifies the role of the 21st Century middleman in the supply chain. Combining technology and customer service as the centrepiece of its strategy, the distributor has taken control of its channel. (Maintaining a control position in that industry traditionally belonged to manufacturers.)

Owens & Minor's strategies breakdown into four categories:

INVENTORY

Owens & Minor's employees take a daily inventory at its customers' hospitals using hand-held electronic devices linked to the hospitals' computers. The computers then transmit orders directly to Owens & Minor's regional distribution centres where daily deliveries are scheduled.

In one hospital, where this managed inventory system was installed, inventory that included everything from catheters to garbage bags, once valued at $250,000 was reduced to around $50,000. With cash-strapped hospitals seeking relief, the managed-inventory system satisfies the customer, strengthens the distributor-buyer relationship and gives Owens & Minor's marketing and sales strategy a commanding edge.

MANAGEMENT EFFICIENCY

With inventory control and just-in-time delivery, hospitals benefit further by less paperwork, fewer employees, less stockroom maintenance and reduced spoilage from such basic products as baby formulas. One medical centre estimated it saved $9 million in three years using the system.

CONSULTATION

Besides reducing inventories, Owens & Minor advises its customers on ways to reduce waste. In one instance, its personnel observed that a hospital was spending $600 on products for each open-heart operation, compared with $420 spent by other customers for the same procedure. Altering the contents of one sterilized package saved that hospital the difference.

GROWTH

With an efficient distribution system in place, Owens & Minor managers capitalize on their dominance by adding products to their line. This generates more profitable sales volume with only incremental costs, while satisfying customers with one-stop-shopping.

Action strategy

What can you learn from the Owens & Minor case – whether you are a distributor or manufacturer?

If you are a distributor: Take control of the distribution channel by becoming more than just a conduit for supplying products from manufacturer to customer. Utilize technology to manage customers′ inventories, improve delivery times, solve customers′ problems related to waste and reduce costs in order processing and shipping.

If you are a manufacturer: Recognize that if you decide to bypass the middleman, you will have to deliver the above services. With distributors taking the initiative, it may be a prudent alternative to select a distributor and provide maximum support, even to the extent of supplying capital to purchase or update the distributor's technology. Such an alliance accepts the middlemen not as a weak link in the supply chain, but as a powerful coupling to activate a marketing strategy.

Regardless of your position on the supply chain, there are key functions you have to deal with in shaping your overall strategy:

- *Information:* Collect, analyze and disseminate market intelligence about potential and current customers, competitors and other forces affecting the market.
- *Communication:* Combine various forms of communication including Internet, literature, videos and workshops to attract and retain customers.
- *Negotiation:* Seek agreement on price, terms of delivery and other value-added services as they relate to a preferred-customer status and long-term relationships.
- *Ordering:* Set-up systems for the efficient transmission of ordering information, e.g. using the Internet.
- *Financing:* Develop the means to fund a managed inventory system, similar to that of Owens & Minor.

- *Risk taking:* Assume the responsibility for risks associated with the expanded role and activities of a middleman.
- *Physical possession:* Develop a suitable capability to warehouse additional varieties of products for customers and manage increases in inventory turnover.
- *Payment:* Design an effective procedure for payment, including the selective financing of inventories for the buyer.
- *Title:* Develop a system to pinpoint the transfer of ownership from seller to buyer. In some situations, inventory is held at the buyer's location and title changes only when usage occurs.

With the backward and forward flow of activities throughout the supply chain, different participants in the channel assume distinct functions. Therefore, when forming a relationship, whether manufacturer or distributor, clearly define the role of each channel member.

Innovations in supply-chain strategies

As you look at your overall marketing strategies, with application to supply-chain strategies, your aim is to circumvent strong points of competitive resistance and concentrate in those markets that represent advantages built around long-term customer relationships.

The following cases describe innovations using inline systems and online technologies as part of their supply chain strategies.

case

Case examples

United Technologies Corp. is a diversified manufacturer of such well-known name products as Otis Elevator, Sikorsky helicopters, Carrier Air conditioners and Pratt & Whitney engines.

The company has more than quadrupled earnings in a decade and outperformed even the celebrated General Electric Co. in returns to investors. Also, operating margins have expanded from six per cent to an impressive 14 per cent.

The results are even more striking if you consider that UTC management has essentially taken commodity products such as elevators and air conditioners and, thanks to constant innovation and superior technology, turned them into high-profit businesses.

Much of the exceptional profit growth has come from internal systems, such as product quality, production improvements and systems modernization.

In particular, it is in the streamlining if the supply chain in virtually every area of the business, from critical machine parts to office supplies and travel that have contributed to market place pricing advantages and profitability.

"We can come to market three times faster, with one third the inventory and at least 20 per cent less cost", reports a UTC supply management vice-president.

McAfee Associates, a software maker, sets a brilliant example of how to employ an online distribution strategy to reach its customers, while successfully preventing competitive encroachment. The company operates in an aggressive, fast-moving industry where new products flow daily from both established organizations and enterprising start-ups.

Here's how managers executed their strategy. Note, too, the multi-faceted approach to its implementation.

McAfee's strategy

- McAfee licensed its computer network security and management software for two years at a time. In contrast, most competitors followed the traditional industry approach of selling their software. Result: McAfee reduced its customers' upfront distribution costs and positioned itself advantageously for the long-term.
- The industry's product cycle averaged about 18 months and upgrades were typically sold to customers. Instead, McAfee issued upgrades as needed and gave them to customers free of charge. These frequent upgrades positioned the company with a favourable image among its customers. Result: Customer loyalty translated to a remarkable renewal rate of over 85 per cent.
- McAfee used technology advances to speedily send product upgrades to customers over the Internet. Results: McAfee benefited from low-cost distribution and applied the cost saving to under-price competitors by as much as 50 per cent, thereby gaining market share.
- As McAfee increased market share, however, its managers soon recognized that the company's limited product line of anti-viral programs was a distinct weakness and made it vulnerable to competitive inroads. To strengthen its hard-won market advantage, McAfee responded by launching product acquisitions of network security and management programs that created barriers of entry against competitors.

Results: In the reporting year after implementing the strategies, even with sizable expenditures in product line expansion, McAfee generated a striking gross margin of 95 per cent.

Nestlé's CEO Peter Brabeck-Letmathe perceived an opportunity to use the Internet to create an online virtual supermarket. It was in early 1992, well before the onset of the e-revolution, that he envisioned his food company could create interactive communications with customers.

He ordered a market test in a regional area within Nestlé's home country of Switzerland. It was there that Brabeck-Letmathe and other executives learned a great deal that would lead to geographically wider marketing successes.

First, within the test area, shopping for the most part was difficult. Many shops closed at 6 p.m., making it unreasonably difficult for working couples to go shopping. Second, many of the younger people preferred to go skiing rather than travelling to a supermarket.

Nestlé executives also observed that the question of logistics was conveniently answered by the Swiss Post Office that served as a highly reliable distribution network. Further, the post office functioned as a bank for collecting payments.

Nestlé executives were quick to observe that e-tailing would not displace the conventional brick-and-mortar supermarkets. It did, however, add another channel of distribution and permitted the use of market segmentation techniques to target specific groups based on demographic and behavioural factors.

The electronic interaction with customers would also provide Nestlé with an added opportunity and potentially a competitive edge, to tailor product and service offerings to emerging, neglected, or poorly served market niches. All this opportunistic thinking and innovative activity took place well in advance of counter actions by Nestlé's competitors.

Action steps

Before converting your supply-chain strategies into action, remember that excessive distance and time between your product and its availability to customers adds a burden to an operation. Therefore, shorten the supply chain and reduce communication time between the customer and the home office to assure profitable market conditions.

To identify strategies and initiate action:

1. List those strategies that represent the best opportunities to enter a market, establish a viable position, maintain solid relationships with customers and prevent aggressive competitors from dislodging you from the market.
2. Indicate what action is to take place and who is assigned the task. Your strategic marketing plan is the best vehicle to incorporate this information.
3. Relate market feedback to determine if the objectives have been achieved, or if innovative strategies are needed. (See above cases.)
4. Develop future courses of action to deal with changes in customers' needs, competitive activities and market conditions that would affect your supply chain.

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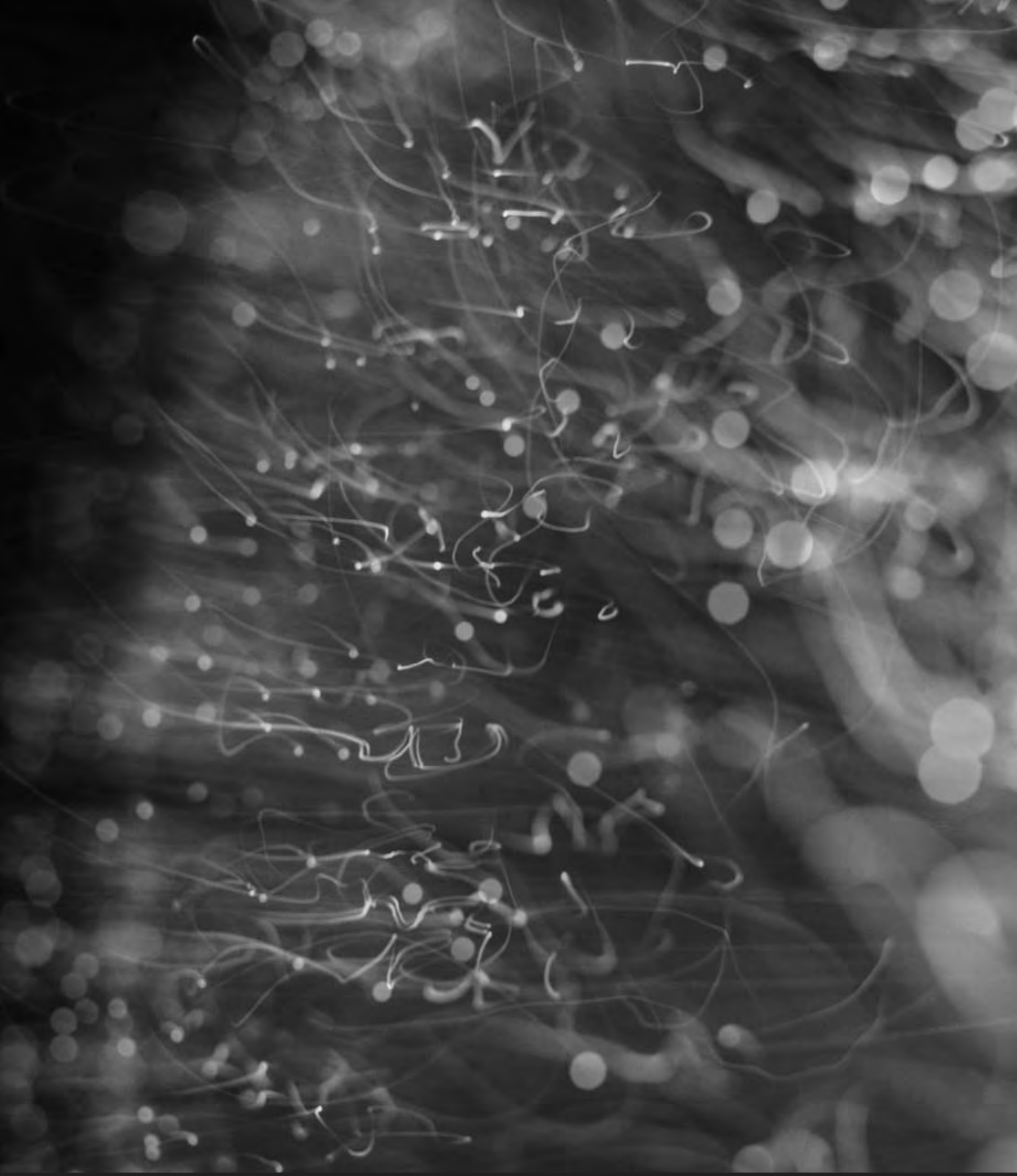


PART FOUR CHAPTER THIRTEEN

Maintaining a global perspective: Thinking like a strategist

THIRTEEN

Maintaining a global perspective: Thinking like a strategist

Chapter Objectives

To enable you to:

1. Identify five entry strategies for expanding into global markets.
2. Coordinate individual talents into a cohesive team that can develop competitive strategies.
3. Define the duties and responsibilities of a strategy team.
4. Identify the six guidelines for creating marketing opportunities.

Defining a global perspective

A global marketing perspective means reaching beyond geographic boundaries to find new frontiers for growth. It also mandates that you acquire the mind of a strategist, which is the foundation theme of this book.

That means you first look opportunistically for markets that are emerging and in a growth stage; and you treat each as a unique entity with tailored strategies developed according to customers' expressed needs and distinctive cultures.

Second, you take into account your competitive situation, recognizing that rivals are not just the traditional companies in your industry; increasingly they surface as a new breed of gutsy, highly-imaginative upstarts that are ready to take on the world leaders in their own home territories. And they are equally fearless to move beyond their local borders into developed markets.

Consequently, global thinking takes a two-pronged approach, which is expressed in targeting markets, developing tailored products, devising culturally-sensitive product-launch strategies and establishing a firm foothold in the market, all the while keeping an active and determined check on competitors.

> Treat each market with tailored strategies to customers' needs and distinctive cultures.

The following examples provide an overview of what global marketing means for the 21st century executive.

Led by such developing nations as China, India, Russia and Brazil, emerging markets are exploding in growth. What makes those markets so appealing, particularly in China and India, is not just the vast numbers of poor living in remote areas that are becoming consumers, it is the bursting segments of middle class consumers.

In the latter group, as of 2005, there were 60 million in China and 200 million in India and their numbers are growing at double-digit levels. These newly rich consumers are savouring the same well-known brands available to those in Great Britain, U.S. and Japan.

Reaching those tantalizing new markets is far from a simple marketing effort. A process is already in place built around a structure of *product design, innovation, pricing, business development* and *competition*.

Product design

In developing countries, products for the most part have to be uncomplicated and sturdy. For instance, an Indian computer printer maker is marketing devices for India's 1.2 million small shops. The product is an all-in-one computer, cash register and inventory-management system. With many of the clerks illiterate, the units are designed to be operated with icons.

Innovation

Companies marketing in developing countries have to innovate to match the distinguishable characteristics of those markets. For example, in areas where electricity is unpredictable or non-existent, **Hewlett-Packard** designed a small solar panel to charge digital printers for itinerant photographers in India. In South Africa, HP is working with a solar fabric that is cheaper and less fragile as a power source for such equipment.

Beyond product considerations, there is the necessity to understand the behaviours of individuals in their local surroundings. Intel, for instance, used a team of ten anthropologists travelling the world to find out how to redesign existing products or come up with new ones that fit different cultures or demographic groups.

Pricing

With increasing pressure on pricing, instead of selling the products outright, HP is renting the equipment or experimenting with similar pay-as-you-go plans. Thus, product design, pricing and product availability are considered in the marketing mix.

Business development

With standard 'Western' business models outmoded in many emerging markets, companies entering those markets are developing fresh approaches. IBM supplies technology to local Chinese companies that, in turn, create inexpensive and simple-to-use products for the country's hard-to-reach rural populations.

Competition

Increasingly, bold new challengers are rising up against the leaders arriving from the developed world, such as **Cisco, Dell and Microsoft**. Employing ingenuity, low costs and intimate knowledge of their markets, the local companies are troubling many of those leaders. In some instances, enlivened with success, upstarts leave their shores and make inroads in the developed countries.

A global perspective on market possibilities

> Global markets open through the increasing use of the Internet and with improved supply chains.

There is no denying that global markets, in particular emerging ones, offer attractive potential. For many organizations it is the only approach for growth as existing markets mature with few chances for profitable opportunities.

As global markets open through the increasing use of the Internet and with improved supply chains, it is likely that there are many untapped segments around the world that would open to your company, regardless of the industry.

More and more, the world is becoming an available global market place. To stop marketing activities at your borders is not only arbitrary, but also short-sighted.

In developed countries it is somewhat easier to enter because they usually have fully developed communications, distribution and transportation systems, to name but a few facilitating factors.

In contrast, developing countries, as pointed our in the above examples, require a more flexible approach, since they tend to be more jealous of their national prerogatives and less advanced in their infrastructure. But their sales potential is, nevertheless, quite substantial. It can be tapped successfully, if you are willing to adapt.

Evolution of global business

The following examples illustrate how international businesses have evolved by stages. In the first stage, companies operate in one country and sell into others. In the second stage, multinationals set up foreign subsidiaries to handle one country's sales. The third stage involves operating an entire line of business in another country. The fourth and current stage, goes much further with a new breed of companies known as transnationals that appear stateless and aim to transcend nationality altogether.

Transnationals operate as an integrated global network of operations. To deal with the gaps between time zones and cultures, these far-flung companies operate like virtual computer networks. Thanks to the Internet, they can communicate in real time via e-mail, instant messenger, or web video conferencing.

For example, a group of tech industry companies are taking transnational to extremes – spreading key headquarters functions around the world – in an effort to be more competitive. The following is a sampling:

- **Trend Micro**. With its computer virus response centre in low-cost Manila and six smaller virus response labs scattered around the globe, the Taiwanese/American/Japanese company can guarantee delivery of inoculations against major viruses in less than two hours. No rival virus company has such international reach.
- **Logitech International**. With dual headquarters in Switzerland and Silicon Valley, Logitech holds its own against mighty Microsoft in computer peripherals. One key advantage: the top manufacturing executive is located in low-cost Taiwan. That helps Logitech make quick decisions about whether to manufacture products at its Chinese factories or farm them out.
- **Wipro**. One company's executive is situated in the U.S. so he can consult with clients in the largest market for its technology services. But most of its engineers and consultants are in India, where annual cost per employee is less than one fifth that of Silicon Valley.
- **Cognos**. The Canadian/American company's international orientation has changed the way it makes software. In the past, it released different versions for each country. It now ships business software designed for multinational customers, which includes all of the major languages, plus data on local currencies and tax regulations.

> The current stage of global marketing transcends nationality through a new breed of company: transnationals.

Action strategy

What can you learn from these examples? Regardless of your stage of entry, there are several universals that apply to most global businesses. These include:

1. Products have to be tailored for local markets. Setting up such a strategy requires coordination at many levels. Sometimes termed 'mass customization,' local marketing involves full cooperation from product developers, producers and local users in finding applications and solutions to customers' problems. (See earlier examples.)
2. Employ country nationals in key positions. Cultural differences, language and local market barriers are more likely to be overcome by the sensitive responses of management familiar with the nuances of the market.
3. Participate with well-positioned distributors that have the know-how to create effective linkages with specific customer groups.
4. Monitor the image your company and product line project. Once done, the next step is to determine what changes are needed in product quality, performance, or service to improve the image.

The entry strategies that follow show the choices available to your firm. While representing alternative possibilities, look to them as an orderly process for increasing market penetration.

Entry strategies for global markets

Strategies for entering foreign markets are conveniently classified into five basic categories: *exporting, licensing, joint venture, wholly owned subsidiaries and management contract*.

Table 13.1 presents these approaches in a systematic form for comparison. These alternatives differ from one another in intensity of commitment, amount of investment, extent of control and degree of profitability. Making a choice is often dictated by circumstances such as insufficient funds, inadequate knowledge of a foreign environment and host country restrictions on ownership.

The following is an overview of the benefits and drawbacks of each category. Then, you can make more intelligent and informed decisions when considering the possibilities open to you on the global scene.

Strategy	**Definition**	**Intensity of commitment**	**Amount of investment**	**Extent of control**	**Degree of profitability**
Exporting	Marketing in one country goods produced in another	Typically very limited	Possible investment in inventory	Rather limited, except in the case of exclusive distribution	Moderate, due to transportation cost, import duties, middlemen costs
Licensing	Licensor grants licensee right to use patent, know-how, etc.	Own marketing effort precluded until expiration of license	Virtually none	Very restricted; spelled out in license agreement	Fixed royalties dependent on licensee effort
Joint venture	Sharing ownership and control of foreign operation with at least one partner	Generally provide know-how and equity capital portion	Dependent on equity share	Dependent on ownership ratio and power play	Varies according to circumstances
Wholly owned subsidiary	Firm abroad 100% owned by company	Strong commitment to all kinds of resources	Substantial investment in plant and systems	Complete control over all phases of operation	Can be highly profitable
Management contract	Managing a foreign facility under contract	Only human resources	Facility not owned by managing firm	Restricted by contract; typically quite limited	Moderate, due to its fee character

TABLE 13.1 COMPARISON OF ENTRY STRATEGIES FOR GLOBAL MARKETS

You can feel out a chosen market through exporting. If you are successful, the need may arise for local production. If you are not ready for direct investment, licensing provides a reasonable substitute.

In order not to have to go it alone from the financial and marketing angles, you may instead choose a joint venture arrangement. Where permitted, wholly owned subsidiaries put you fully in charge.

On the other hand, management contracts offer a solution when a host country seeks your company's expertise, without allowing it to acquire ownership of the managed properties.

Whichever entry strategy your firm chooses to penetrate a foreign market, going global will increase your potential for growth and profit.

The team approach – thinking like a strategist

This section relates to the mind of the manager as a strategist and the interaction of people in a common cause. These human factors intensify whenever there is a conflict of human wills, whenever there is an effort to grow, expand, or achieve an objective.

The purpose of this section, therefore, is to show how the diverse talents of individuals can be coordinated into a cohesive force for developing competitive strategies. The focus will be on (1) the role of strategy teams in developing competitive strategies; (2) broadening the perspective of teams to look at new developments that can be incorporated into competitive strategies and (3) guidelines to thinking like strategists.

The roles and responsibilities of strategy teams

> The strategy team is one of the most successful formats for delivering innovative and entrepreneurial thinking.

As indicated in Chapter 1, the mind of the manager, the human factors, the people interactions are all key ingredients in utilizing market and competitive analyses to organize a strategic marketing plan.

Joined to that idea is the marketing concept, defined as a *total system of interacting business activities designed to plan, price, promote and distribute want-satisfying products and services to household and organizational users at a profit in a competitive environment.*

Thus, you can effectively blend all the human factors with the marketing concept through strategy teams consisting of individuals representing all the key functional areas of the organization: manufacturing, product development, R&D, finance, distribution and sales/marketing.

These functions may vary in some organizations. But the key idea is that representation from the major interacting activities must be present for a strategy team to fulfil the broader aims of the business and the day-to-day marketing objectives within a competitive environment.

One of the most notable users of strategy teams is **Dow Chemical Co.** It has employed an organizational structure for over 25 years that permits strategy teams to operate for individual products, markets and industries throughout its worldwide operations. At any given time there may be as many as 40 strategy teams at work within Dow.

These teams have the various designations, such as Product Management Team (PMT), operating at a product manager level for a product line; Business Management Team (BMT) at the next higher level, dealing with a business unit or major market; and Industry Management Team (IMT), operating on a still broader dimension.

Using the PMT as an example, the team is usually chaired by a product/marketing manager and staffed by individuals representing such functional activities as manufacturing, finance, technical management and marketing/sales.

This arrangement not only allows for the dynamics of team members working together, it also tends to defuse traditional adversarial relationships, for example, between marketing and manufacturing.

Team members may change from time to time and the frequency of meetings may vary with teams, but the key element is that the permanency of the team as part of the organizational structure exists and can be called into action at any time.

The strategy team, business management team, or product management team, whichever designation you select, is one of the most successful organizational formats for conceiving and delivering innovative and entrepreneurial thinking to the organization.

Such a team should be initiated at every operational level by adopting role and responsibility guidelines. For our purposes, let's designate the team as a Business Management Team.

Roles

The Business Management Team serves as a significant functional contributor to the strategic marketing planning process with leadership roles in:

- Defining the business or product strategic direction.
- Analyzing the environmental, industry, customer and competitor situations.
- Developing long- and short-term objectives and strategies.
- Defining product, market, supply chain and quality plans to implement competitive strategies.

Responsibilities include:

- Creating and recommending new or additional products.
- Approving all alterations or modifications of a major nature.
- Acting as a formal communications channel for field product needs.
- Planning and implementing strategies throughout the product life cycle.
- Developing programs to improve market position and profitability.
- Identifying market or product opportunities in light of changing consumer demands.
- Coordinating efforts with various functions to achieve short- and long-term objectives.
- Coordinating efforts for the interdivisional exchanges of new market or product opportunities.
- Developing a strategic marketing plan.

> Empower team members with duties and responsibilities that culminate in a strategic marketing plan.

If you decide to establish a cross-functional strategy team or attempt to increase the output of an ongoing one, empower the team members with specific duties and responsibilities that culminate in a strategic marketing plan.

Identifying opportunities

A team can be created rapidly and provided with clear-cut mandates to create marketing opportunities and tackle competitive threats. More specifically, the team should actively look for opportunities to create action. The following opportunities are presented as examples.

Opportunity 1

Search for opportunities in unserved, poorly served, or emerging market segments.

ACTIONS

a) penetrate and expand niches;

b) improve products and services;

c) stretch product lines;

d) position products to the needs of customers and against competitors.

Opportunity 2

Identify ways to create new opportunities.

ACTIONS

a) seek new product or market niches;

b) participate in new technology, innovations and manufacturing;

c) pioneer something new or unique.

Opportunity 3

Look for opportunities through marketing creativity.

ACTIONS

a) promote the company or product image through quality, performance and training; and

b) promote creativity in sales promotion, advertising, personal selling and the Internet.

Opportunity 4

Monitor changing behavioural patterns and preferences.

ACTIONS

a) practice segmenting markets according to cultural and behavioural patterns;

b) identify clusters of customers who might buy or utilize different services for different reasons.

Opportunity 5

Learn from competitors and adapt strategies from other industries.

ACTION: UNDERSTAND COMPETITORS:

- How they conduct business.
- What products they sell.
- What strategies they pursue.
- How they manufacture, distribute, promote and price.
- What are their weaknesses, limitations and possible vulnerabilities?

Summary

There doesn't appear to be limitations to developing opportunities. What's needed is a keen ability to diagnose a customer's problem and show that you grasp his business and competitive problems.

Then, you prescribe a workable solution and prove that the value-added products and services warrant the price. The customer should perceive the offering not so much as a cost as an investment.

You can help your organization develop opportunities by following these guidelines:

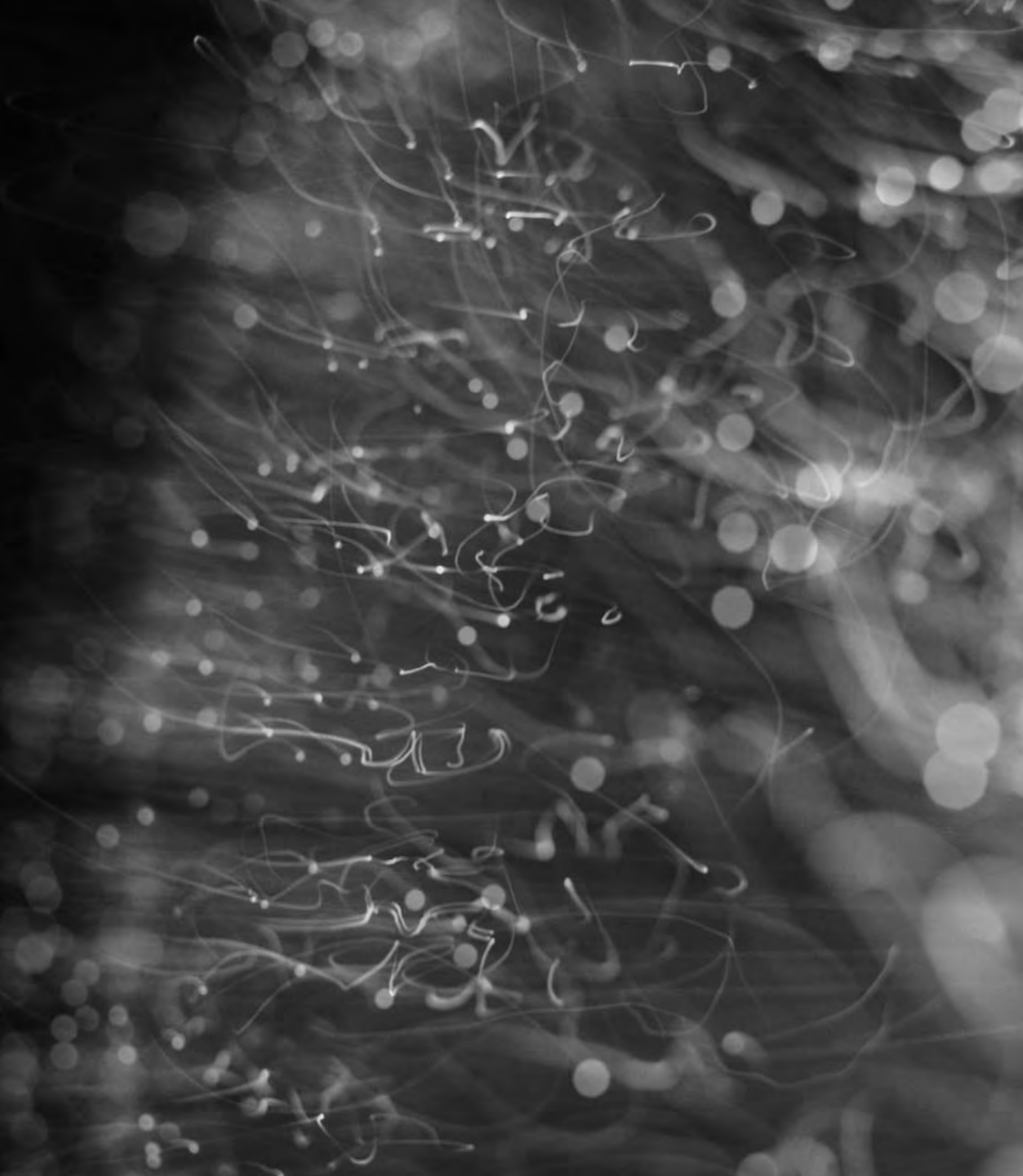
1. Show customers revenue expansion opportunities:
   - Reduce returns and complaints from the end user.
   - Speed-up production and delivery.
   - Improve the customer's market position and image.

- Add brand-name value for the customer (where appropriate).
- Add customer benefits through additional services.
- Create areas of differentiation that gives a customer a competitive advantage.
- Improve a customer's reordering procedures.

2. Show cost-reduction opportunities:
   - Cut the customer's purchase costs.
   - Reduce the customer's production costs.
   - Absorb all or part of a customer's product development function.
   - Reduce the customer's delivery costs.
   - Lessen the customer's administrative overhead.
   - Maximize the customer's working capital.

Regardless of the terms you use, you are in 'virtual' territory when your actions converge on the customer and form a strong and bonding relationship.

Internalize these guidelines and you will master the essence of competitive marketing strategies.



APPENDIX

Checklists for developing competitive strategies

APPENDIX

Checklists for developing competitive strategies

The potential for you to strategize, innovate and act with entrepreneurial skill is truly in your hands, regardless of your position in the organization. To round out your exposure to the principles for developing competitive strategies, here is a final example of those principles at work.

Case examples

Microsoft, Intel, IBM, Eastman Kodak, as well as smaller companies that rely on new products and technologies to stay ahead of competition face the problems of rapid price deterioration and shorter product life cycles.

Marketing wisdom developed during the harsh competitive years of the 2000-02 counselled that to avoid the intense price competition from low-cost competitors, develop new and differentiated products and add value to existing ones. For the most part that strategy worked, particularly among high-tech firms.

Here's the paradox: new products often mean extensive R&D, retooling of equipment and processes, commitment to high quality and long-term capital investment before payout. Yet, as the pace of technology increases and production costs decrease, competitors respond rapidly with cloned products causing product life cycles to shorten and prices to tumble. The pattern then repeats itself for another round.

Faced with the dilemma, companies anchored to new product development continued to respond with creative strategies to replace some of the traditional, ironclad marketing techniques. For example:

Computer Associates Inc. gave away a large quantity of a new software program as part of one of its product introductions. Whereas, conventional pricing practices to launch a new product generally followed one of two strategies: skim (high) price or penetration (low) price.

Teleport Communications Inc. offered to upgrade their customers' systems with enhanced fibre optics technology at no cost. However, for the most part, the traditional approach called for selling the new technology at a premium price, particularly if first-in to the market.

What's the thinking behind such non-traditional actions? First, some managers believe the value of favourable word-of-mouth publicity outweighs the cost of the initial give-aways and results in faster acceptance of product innovations to potentially large numbers of new customers.

Second, other managers reason that locking-in a customer with new technology secures the customer for successive cycles of new technology and keeps out competitors. They also figure on making money by selling additional services and peripherals.

By accepting that principle in an era of unprecedented innovations, as the power of technology goes up and prices go down with increasing frequency, the marginal cost of upgrading is offset by the benefits of long-term customer-supplier relationships.

Third, still other managers find that the traditional pattern of paced pricing for each stage of the product life cycle is becoming outdated. Reason: mass markets with standardized products are giving way to mass customization where specialized products are sold to solve specific customer problems. Thus, pricing strategy is aimed at redefining value and tying into the long-term relationships with customers, as illustrated above by the give-aways and free upgrades.

> Mass markets with standardized products are giving way to mass customization.

Action strategy

What can you learn from these examples? In practice, new strategies are still evolving to fit the myriad of products and industries, from tools, to services, to autos. Here are some factors to consider as the new paradigms unfold:

1. Retain the strategies that still work for you. However, that doesn't mean sticking to the old saw, "If it isn't broke, don't fix it." Instead, recognize that strategies have life cycles. As with products, in time they will mature and decline. Therefore, watch the evolving patterns of other industries (as illustrated above) and look for creative adaptations to your own use.

   You may want to experiment with give-aways with some products, or free services with other offerings if, of course, you can clearly recognize a future payout. And don't overlook revisiting the classic strategies, such as Gillette's timeless give-way-the-razor-and-sell-the-blades approach.

2. The conventional wisdom about preventing products from reaching a mature or commodity stage in the life cycle bears rethinking. Take a fresh look at that notion too. Evidence suggests that room exists in the market for standard, reliable, no-frills products. However, you may want to tweak the strategy by enhancing your products with a competitive advantage, such as technical back-up, rapid delivery, or extra guarantees.

   The effort may reward you with an optimum position, somewhere between an enhanced commodity and a differentiated product. Above all, however, the big prize goes to managers who discover new applications for their products.

3. Finally, there is one organizational concept that began in the 1980s and is being embraced by an increasing number of firms, large and small: the cross-functional team, which was discussed in Chapter 13. Where utilized for product development, marketing planning and strategy implementation, teamwork mobilizes internal thinking and generally produces exceptional results.

And where a team actively incorporates the thinking of customers, the collaboration has proven enormously effective in solving competitive problems.

> The big prize goes to managers who discover new applications for their products

Checklists and forms

You, too, can gain competitive advantage by developing your own competitive strategies. Use the forms that follow, along with what you've learned from the various chapters, to become a successful strategist. To benefit most from the checklists, you may wish to customize them to include the specialized vocabulary of your company and industry.

Also, if you have a cross-functional team, have each member of the team fill out the forms privately. Then reconvene the team and discuss each person's rating. To obtain a maximum effect, continue with this approach until you have a consensus.

Part 1: Competitive advantage analysis

(by market or product 1-10, 10 = best)

PRODUCT

Product:	Your firm/ product	Competitor A	Competitor B	Competitor C	List advantage and define strategy
Quality					
Features					
Options					
Style					
Brand name					
Packaging					
Sizes					
Services					
Warranties					

Product:	Your firm/ product	Competitor A	Competitor B	Competitor C	List advantage and define strategy
Returns					
Versatility					
Uniqueness					
Utility					
Reliability					
Durability					
Patent protection					
Guarantees					

PRICE AND SUPPLY CHAIN

Price:	Your firm/ product	Competitor A	Competitor B	Competitor C	List advantage and define strategy
List price					
Discounts					
Allowances					
Payment period					
Credit terms					
Supply chain:					
Direct sales force					
Distributors					
Dealers					
Market coverage					
Warehouse locations					
Inventory control systems					
Physical transport					

PROMOTION

Promotion:	Your firm/ product	Competitor A	Competitor B	Competitor C	List advantage and define strategy
Advertising:					
Customer					
Trade					
Personal selling: Incentives					
Sales aids					
Samples					
Training					
Sales promotion: Demon-strations					
Contests					
Premiums					
Coupons					
Manuals					
Tele-marketing					
Internet					
Publicity					

Part 2: Competitors' strategies analysis

(by market, 1-10 rating. 10 = best)

MARKET SEGMENTS BY SIZE, LOCATION, OR PRODUCT APPLICATIONS

1. Market dimension:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
(List segments)					
Total					

B. Market entry: How do competitors usually enter a market? Is there a market leader among the competitors? Who are the followers? Identify by:					
First-in strategy	Price Product Promotion Distribution				

B. Market entry:	**Competitor A**	**Competitor B**	**Competitor C**	**Total current revenue**	**Total potential revenue**
Follow-the-leader strategy	Price Product Promotion Distribution				
Last-in strategy	Price Product Promotion Distribution				
C. Market commitment: How much commitment do competitors give to a specific market in terms of people, funds, research, depth of product line?					
D. Market demand: How flexible are competitors in changing strategies for different market situations?					

D. Market demand:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
Prune markets when demand slackens					
Concentrate on key markets when demand increases					
Harvest profit when sales plateau					
E. Market diversification: How have competitors responded to diversification opportunities?					
Applied specialized resources by segment					
Added another stage of distribution					
F. Product positioning: How efficient are competitors in monitoring customer perceptions and identifying customer niches as related to:					
Positioning a single brand					
Positioning a multiple brand					
Repositioning and older product					

G. Product life-cycle:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
How efficient are competitors in extending the life cycle of their products as related to:					
Promoting more frequent usage					
Finding new users					
Finding more uses for products					
H. Product competition: To what extent do competitors attempt to gain a larger share of a market by introducing:					
Packaging					
Competing brand					
Private label					
Generic product					
I. Product mix: Where do competitors stand as related to width and depth of product lines?					
Single product					
Multiple product					
Product system					

J. Product application:	**Competitor A**	**Competitor B**	**Competitor C**	**Total current revenue**	**Total potential revenue**
How much manufacturing and application flexibility do competitors display as related to:					
Standard products					
Private label products					
Standard product, modified					
K. New products: What has been the pattern of competitors related to the following areas of new product development?					
Innovation					
Modification					
Line extension					
Diversification					
Re-merchandising or reformulating existing products					
Market extending (existing products)					

L. Product audit:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
How flexible have competitors been in managing their product lines as displayed by:					
Line reduction					
Line elimination					

PRICE

A. New Products:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
What has been the pattern of competitors in pricing new products? Do they tend to use:					
Skim (high) pricing					
Penetration (low) pricing					
Follow-the leader pricing					
Cost-plus pricing					

B. Established Products:	Competitor A	Competitor B	Competitor C	Total current revenue	Total potential revenue
What has been the pattern of competitors in pricing established products? Do they tend to use:					
Slide-down (gradual reduction) pricing					
Segment pricing					
Flexible pricing					
Pre-emptive (reacting to competitors') pricing					
Loss-leader pricing					

PROMOTION

A. Advertising: To what extent do competitors use advertising to do the following:					
Support personal selling					
Inform target audience about availability of product					
Persuade prospects to buy directly from advertising					

B. Sales force:	**Competitor A**	**Competitor B**	**Competitor C**	**Total current revenue**	**Total potential revenue**
What is the profile of competitors' sales forces related to:					
Sales force size					
Sales force territorial design					
Compensation systems					
Training					
Technical or service back-up					
C. Sales Promotion: How well do competitors integrate sales promotion with their advertising and sales force strategies? Is sales promotion used to:					
Encourage more product usage					
Induce distributor and dealer involvement					
Stimulate greater sales force efforts					

SUPPLY CHAIN

A. Channel structure:	**Competitor A**	**Competitor B**	**Competitor C**	**Total current revenue**	**Total potential revenue**
What has been the competitors'					
strategy for reaching customer markets?					
Direct distribution to the end user					
Indirect distribution through intermediaries (distributors, dealers)					
Direct sale to end user					
B. Channel dimension:					
Are competitors displaying any strategies that could alter their distribution methods? Are they looking at:					
Exclusive (restricted) distribution					
Intensive (wide-spread) distribution					

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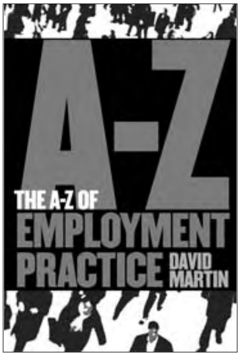

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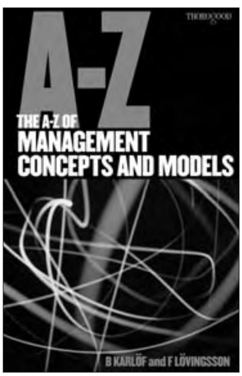

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