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# Strategic Marketing

## Market-Oriented Corporate and Business Unit Planning

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Torsten Tomczak · Sven Reinecke · Alfred Kuss

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# Preface to the English edition of "Marketing Planning"

Eighteen years after the publication of the first edition, the seventh edition of our introductory textbook on marketing planning is now available in English.

The basic concept of the book, which appears to be well received among students, remains unchanged. Our aim is to present the key elements of the marketing planning process, as well as their relationships, in a way that is concise and easy to understand. The focus tends to lie on integrating approaches from strategic management and marketing rather than on a detailed examination of special points. Numerous aspects of marketing planning have undergone enormous changes in both theory and practice, which has been taken into account throughout the previous editions of this textbook. Reverting back to the book's basic concept, the seventh edition has been updated and streamlined to achieve greater clarity of presentation.

In preparing the English edition, the authors were actively supported by Verena Facundo, Carmen Maier and Annabelle Scharvey who updated the references. The whole book was translated into English by Michael Dollman, with support from the authors as well as Lam Ngo, Gerhard Pikali, Ingrid Schmid and Selina Wilke. Renata Schilling did an excellent job in optimizing and polishing the final translation. Barbara Roscher from Springer-Verlag encouraged and supported the authors in her very own way.

The three authors prepared this edition in a spirit of friendly cooperation and, of course, take responsibility for any remaining errors and imperfections.

April 2017

Torsten Tomczak (University of St. Gallen)
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# 1 Introduction

## 1.1 The Marketing Concept

What is meant today by the term "marketing concept" and what are the special features of strategic marketing? These questions will be answered in Sect. 1.1, while Sect. 1.2 will give a short overview of the concepts dealt with in detail in the subsequent chapters.

### 1.1.1 From Production Orientation to Marketing Orientation

In the following, the development from the traditional sales concept to today's marketing concept will be outlined on the basis of and as the result of changes in market conditions. The spotlight will be placed, in a somewhat redundant manner, on what is generally understood today as marketing, so as to render the basic idea as clearly as possible.

Based on an article by Keith (1960), it is possible – though in a highly simplified way – to identify certain phases in the development of the sales sector. Although this classification has received considerable attention in the (textbook) literature due to its clarity and plausibility, there is still some doubt concerning its historic accuracy (Fullerton 1988). According to this hypothesis, at the beginning there were periods in which the suppliers of goods held a strong position due to high demand and scarce supply (sellers' markets). The start of industrial mass production at the end of the nineteenth century and post-war Germany come to mind. Under the conditions prevailing at the time, entrepreneurial activity mainly concentrated on the development ("rationalization") of production and procurement, and less on sales, which hardly presented difficulties under these market conditions. This may also be described as a phase of *production orientation*. Very little effort was made with regard to the relationships with potential customers. The scientific study of sales-related matters tended to concentrate on problems affecting the distribution of goods rather than on instruments for a comprehensive sales policy.

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In contrast, the more recent development of the sales sector is determined by a situation characterised as a buyers' market: Buyers with a large share of disposable income are faced with a very large and varied supply of goods from which they can choose with a relatively high degree of freedom. So the providers are in a weaker position, as they have to compete with numerous other companies and have to adapt to and attempt to influence the wishes of the purchasers who are not just concerned with the satisfaction of elementary needs any more. This is the situation that has characterised the Federal Republic of Germany and Switzerland since the 1960s and 1970s. In a situation in which sales had become a bottleneck, many companies drew the logical conclusion and orientated their entire activities towards the requirements of the market. Such a policy, which will be examined more closely in the following, is known as marketing orientation. This refers to a situation in which companies are simultaneously adapting to market conditions and actively influencing them.

**Formulation of the Key Idea of Marketing Back in 1954 by the Leading Management Theorist Peter Drucker**

"Actually, marketing is so basic that it is not enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialized activity at all. It is the whole business seen from the point of view of its final results, that is, from the customer's point of view." (Drucker 1954, p. 38)

In the past, numerous critical contributions on marketing dealt with the question to which extent customers/consumers can be actively influenced or "manipulated". However, the perspectives regarding this question have expanded in relation with the development of strategies. Do providers have to act in a "market driven" way (Day 1999) by *adapting* to pre-defined wishes/preferences that are kind of "given" or can they potentially influence or even determine these preferences themselves? Carpenter et al. (1997) desribe this latter approach as "market driving strategies". The basic idea of this approach consists of not taking customer preferences as given, but trying to influence them. In this context, especially companies that enter a new market early on ("pioneers") can shape the customers' assessment criteria for their own benefit.

The differences between production and marketing orientation become especially clear by comparing traditional and contemporary views on the sales sector. Traditionally, sales was the last phase of the operational process in which selling products or services generates revenue to secure the existence of the company and enable the continuation of production. Somewhat simplified, this point of view means that sales has the main purpose of serving to continue production.

In contrast, marketing is characterised by a systematic "decision-making process that ensures that customer needs are considered in all corporate activities directed towards the

market in order to achieve the corporate goals" (Meffert et al. 2012, p. 10). Many representatives of marketing practice describe this perspective as "marketing as a management philosophy". This means that the entire company – including the decision on the range of goods and services is focussed towards the market.

The market orientation of companies therefore typifies marketing. Nevertheless, this key aspect has only been investigated in detail since around 1990. The work of Kohli and Jaworski (1990) and Narver and Slater (1990) had a major impact in this context, with the two research groups assuming different perspectives, which Homburg and Pflesser (2000) refers to as the behavioural and cultural perspective, respectively (in the sense that market orientation is a feature of a company's culture). Kohli and Jaworski (1990) consider the acquisition of market-related information, the distribution of market-related information within the company, and the focussing of the company on market-related information as the essential indicators of market orientation. On the other hand, the cultural perspective is defined by Narver and Slater (1990, p. 21) as follows: "Market orientation is the organizational culture (i. e. culture, climate etc.) that most effectively and efficiently creates the behaviors which ensure superior value for the customers and, thus, continuous superior performance of the business". Irrespective of the various conceptualisations, several studies (Narver and Slater 1990; Jaworski and Kohli 1993; Homburg and Pflesser 2000) have shown that market orientation is an essential influencing factor for the success of a company. Hunt (2002) provides an extensive overview of a large number of further empirical studies that largely confirm this positive relationship.

So market orientation is a crucial aspect of corporate culture. This is the point of departure for Gary Gebhardt (2012) who characterises the values, assumptions and behavioural norms typical of market orientation. The most important of these are presented in Fig. 1.1 following Gebhardt (2012, p. 30).

The presentation of the phases outlined so far would be incomplete without the *sales orientation* phase which occurs between production orientation and market orientation.

| Value | Assumptions | Behavioural norm |
|---|---|---|
| Market success as the main objective of the company | The company exists to serve a market and to benefit the owners and employees. | For every decision and measure the impacts they have on the market have to be considered. |
| Cooperation within the company | Success on the market is achieved faster and better through the cooperation of various areas. | Work is carried out in interdepartmental teams. |
| Commitments are honoured | All participants have to contribute their share to success. | All individuals are responsible for their own contribution. |
| Openness | Propagation and exchange of market-related information facilitates cooperation. | Active and correct communication of information to other departments. |

**Fig. 1.1** Values, assumptions and behavioural norms of market-oriented firms (Excerpt from Gebhardt 2012, p. 30)

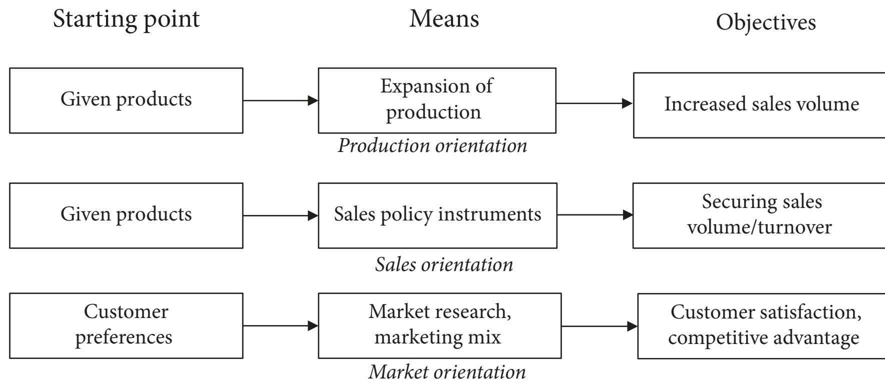


**Fig. 1.2** Various company orientations

The idea behind this is that in many (sellers') markets the position of the provider is weakened over time due to saturation phenomena and substitution competition and special efforts are necessary to promote sales (e.g., intensified deployment of sales people, advertising). The range of goods and services is not yet defined by sales-related considerations; instead, the company tries to "market" a given offering as advantageously as possible. Figure 1.2 illustrates the various approaches.

In this context, some explanatory remarks might be appropriate:

- Of course, the development presented here depends on industry- or company-specific characteristics. While some companies, for instance due to market-specific particularities, have to act in a market-oriented way, product orientation may still (or again) be expedient for others. In practice, it has been observed that market orientation emerged most rapidly and became most widespread among branded products manufacturers in the consumer goods markets.
- Of course, the terms "production orientation", "sales orientation" and "market orientation" do not imply that the other corporate functions are unimportant. They simply identify certain areas of priority.

### 1.1.2 Definitions of the Marketing Concept

The following overview presents various definitions of the modern marketing concept which illustrate the concept from different positions and address various relevant aspects. It is not intended to offer the "ideal" marketing definition, but rather to present the different facets of the marketing concept. The two definitions by the American Marketing Association (AMA) from 1985 to 2008 are of particular interest here. While the definition from 1985 still presents the "classical" view of marketing (focussing on the marketing mix and exchange relationships), in 2008 the AMA definition emphasises the creation of

values for the customer and the development of customer relationships. Since 2008, the social responsibility of marketing has also become anchored in the definition.

> *American Marketing Association 1985:* "Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."
>
> *American Marketing Association 2008:* "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."
>
> *Backhaus and Voeth (2010, p. 12, source text in German):* "[…] marketing has the task of aligning the functions of a company to market (sales) requirements in a product-specific way, so as to be perceived by the customers as being superior to relevant competitor offerings. In this sense, marketing takes on a *coordinating role*."
>
> *Esch et al. (2013, p. 4, source text in German):* "Marketing in the sense of market-oriented corporate management characterises the alignment of all the relevant corporate activities and processes to the requirements and needs of the stakeholder groups."
>
> *Homburg (2012, p. 10, source text in German):* "Marketing involves facets both inside and outside of the company. Outside the company, marketing encompasses the conception and implementation of market-related activities […]. These market-related activities include the systematic acquisition of information on market conditions, as well as shaping the product range, pricing, communication and distribution. Within the company, marketing means creating the prerequisites for the effective and efficient implementation of these market-related activities. […] Both the external as well as the internal entry points of marketing aim towards the optimal shaping of customer relationships in line with the corporate goals."
>
> *Kotler and Keller (2012, p. 27):* "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."

Some of the above definitions emphasise that marketing is essentially about the development and promotion of advantageous exchange relationships. These may be related to an exchange of "goods against money", but may also relate to an exchange of "political achievements against votes" or "donation against social recognition". Kotler (1972) speaks in this context of a "Generic Concept of Marketing", which refers to the transfer of marketing ideas and techniques to areas that go beyond the sale of goods (Kuß and Kleinaltenkamp 2013, p. 22 ff.).

**Exchange Relationships Outside the Commercial Domain**

One example (among many) for exchange relationships – in this case in the cultural field – is the organisation of the "Patrons of the Deutsche Oper, Berlin", a sponsorship association supporting this opera house. In an advertising brochure from 2013, the following advantages are offered in return for various annual contributions and donations:

- "The sponsors will be mentioned by name in the annual season preview and on the website."

- "The sponsors will be named on the partner panel in the foyer."
- "An opera evening in the artistic director's box with your guests and a reception accompanied by a member of the opera management."
- "Invitation to the exclusive receptions of the Board of Trustees."

### 1.1.3 Features of Marketing

Looking at marketing in various industries and situations, some typical features recur. These will be outlined in the following in order to deepen and round off the understanding of the fundamental ideas of marketing. Figure 1.3 provides an initial overview of eight features.

Orientation towards customer wishes is of key importance for marketing. This means a profound understanding of the needs of potential buyers, which, in many cases, is expressed by considering the products offered or to be offered in terms of their suitability for solving the customers' problems.

The following statement is attributed to a leading marketing manager of a US machine tool manufacturer: "The customer does not need one-inch drills, but rather one-inch holes."

Above, we referred in a somewhat undifferentiated way to the sales market. However, when examining the different markets in highly developed industrial societies, homogeneous demand is rarely to be found. Typically there is a more or less large number of *customer groups* with diverse requirements. For example, you do not encounter "the car buyer", but different kinds of car buyers who may place importance on sportiness or economy or safety. So the fundamental orientation on the market requirements generally needs to be differentiated. Usually it is necessary to divide the potential buyers

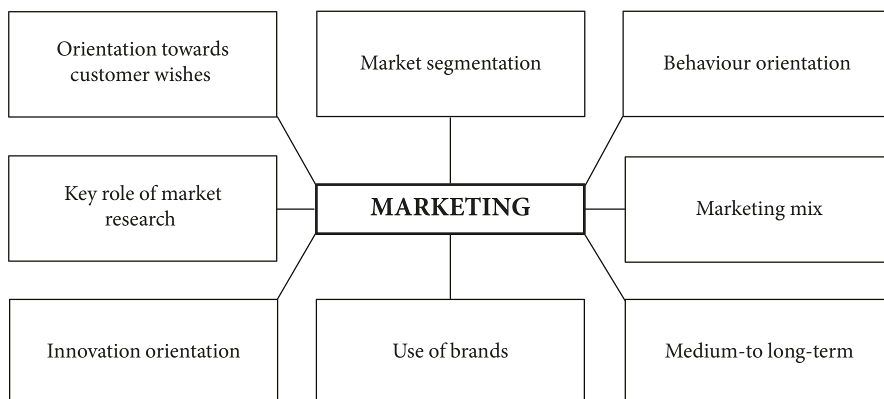


**Fig. 1.3** Features of marketing

into groups that are as homogeneous as possible with respect to the relevant features, yet are sufficiently large to allow for efficient operating in these sub-markets. This categorization into various customer groups is intended to allow for an adaptation to their specific needs – in contrast to competitors wherever possible – and to develop "tailored" influencing strategies. This approach, which is characteristic of marketing, is known as *market segmentation*. This important aspect will be examined in more detail in Chap. 4 of this book.

The aspect of orientation towards certain customer groups which is associated with market segmentation leads directly to the *behaviour orientation of marketing*. Quite often the use of economic attributes (consumer income, turnover of companies, etc.) is not sufficient for defining these groups. Regarding consumer behaviour it is plain to see that economic, psychological and sociological variables are relevant in many purchasing decisions. Taking the market segments for outer apparel as an example, gender, age, social relationships etc. have also to be taken into account, not just the consumers' purchasing power. Today, insights from behavioural science are even indispensable in business-to-business marketing. We need only think about the study of negotiation processes. Such issues have led to the huge significance of behavioural science insights for theory and practice in the marketing field.

All the aspects of market orientation presented above require a comprehensive and powerful system for collecting and processing *market information*. In general, continuous market observation (market growth, market share etc.) is combined with sporadic, targeted studies (buyer typologies, preference research, advertising effectiveness tests etc.). A broad range of methods is now available in market research. In this context, it is worth emphasising that market research not only lays the foundations for adapting the company to market conditions but also plays a key role in the endeavour of influencing and testing the market conditions. Hence, one can speak of a *key role of market research* for many areas of marketing (see Sect. 2.4 of this book).

With regard to marketing activities many companies usually deploy several individual measures in parallel. In sales promotion, for instance, there is often a price reduction (special price) for a limited period in conjunction with a special placement in retail and communication (advertisements, flyers). The launch of a new product is often accompanied by advertising and a focus on field sales efforts.

These examples correspond to the well-established empirical knowledge that marketing often depends on the effective interaction of individual measures/instruments. Accordingly, the coordination of individual measures (and the appropriate organisation of the marketing department as a prerequisite) is a crucial success factor. The importance of the *marketing-mix concept* (introduced by Borden in 1964), which takes the interaction of various measures into account, becomes apparent when looking at the following examples: a new, high-quality product for everyday use, which, while heavily promoted and offered at an attractive price, is not made available to retailers in time, or a machine tool which may be superior to the competition in terms of quality and price, but for which no suitable service can be assured.

A further feature of marketing is its *innovation orientation*. If a company orients its range of goods and services to the more or less rapidly changing customer wishes, this means that new products have to be launched or new (sub) markets developed at frequent intervals. What is more, innovations regarding products, product features, advertising etc. are central tools for differentiating the product from the competition and offering advantages to potential buyers which lead to the desired purchasing decisions.

Some marketing instruments can only be deployed if the products can be clearly identified by the customer (e.g. as *brands*). This is especially true in the area of communication policy, which ranges from linking certain emotions with certain products through advertising to the objective communication of technical data. Without being able to allocate these messages to certain products with the aid of brand or company names, such efforts will be in vain. An essential aim of marketing measures is often to make a product known in the first place and then to raise its profile. In practice, this is described (rather exuberantly) as "building product personalities". Branded items in the consumer goods sector offer the most numerous and clear-cut examples of this aspect.

The last feature worth mentioning is the *planning perspective* of marketing, especially in the *medium-term*. In contrast to a company with a sales orientation, in which a short-term rise in sales often takes priority, a company with a marketing orientation usually requires longer periods for planning and realising measures. At the beginning there is a thorough analysis of the sales markets, followed by the development of suitable products, culminating in the market launch. Many years may pass between the idea for a new product and its successful market penetration. The typical goal of marketing is therefore rather to permanently safeguard old, or to open up new, sales markets through medium-term and long-term measures (such as product development, implementation of an effective sales organisation, advertising etc.) than to raise turnover in the short term.

### 1.1.4 Strategic Marketing

In the meantime, the core of the marketing concept as outlined above has been augmented by a new perspective, which is characterised as "*strategic marketing*". This important addition will be briefly described here.

Just as the three phases described above reflect the response of companies to fundamental changes in sales markets, strategic marketing also originated from an essential change in market conditions. Some of the decisive influencing factors are:

- rapid technical advancement and, resulting from this, a shortening of product lifecycles (as, e.g., in the field of electronics and digitalisation),
- the internationalization and globalisation) of markets and the accompanying intensification of competition,
- oversupply and saturation tendencies in numerous markets,
- scarcity of resources and consideration of environmental issues (e.g., in the fields of energy, chemicals, automobiles),

- a blurring of the (former) borders between markets (as in computers, consumer electronics and telecommunications).

Given these changes in economic and social conditions, the marketing concept presented above appears too narrow and shortsighted. Sales market orientation is no longer sufficient; *long-term developments* in the framework conditions for corporate activities (politics, overall economy, competition etc.) must be integrated into corporate planning to a greater extent. While companies traditionally attempted to improve their position in all markets operated in, now, under more difficult conditions, they are forced to invest their resources (finances, expertise, field sales capacity) in a more focussed way. *Concentration of resources* means, however, that stagnation or declining trends in individual markets are accepted in order to be successful in more attractive markets.

Varadarajan (2012, p. 13) characterizes strategic marketing decisions in the following way: “Strategic marketing decisions refer to an organization’s marketing decisions that are potentially of major consequence from the standpoint of its long-term performance.”

One of the decisive aspects of marketing is that the company’s range of goods and services has to be subjected to market-oriented planning. Thus, for example, an automobile manufacturer may have to define and continuously ascertain which market segments its range of models (compact car, mid-range, people carriers, estate cars, transporters, trucks etc.) should be geared to. Only rarely will the question arise whether the company wants to remain in the automobile industry. But the inherently long-term fundamental decision on the nature of the business activity is at the core of strategic planning.

**Examples for Fundamental Decisions on the Nature of the Business Activity**
Examples from the recent past show that major companies pursue a proactive policy: Large banks, for instance, have attempted to expand their business activity to the insurance sector. Chemical companies have focussed their activity on certain areas (e.g pharmaceuticals) and have abandoned other areas (e.g. fertilisers or crop protection). Daimler AG first expanded its corporation through specific diversifications (AEG, Dasa, MBB) and now once again concentrates on vehicles and the associated financial services. Everyone knows the example of Apple, which, up until a few years ago, was mainly oriented towards the IT sector and now has further focal points in other markets with its iPod, iPhone and iPad. Siemens was active in the mobile phone business for around 20 years before it withdrew from this market in 2005 and sold the entire division to the Taiwanese company BenQ.

Three questions are paramount in strategic marketing:

- *Where*, i. e., in *which markets,* is one to remain/become active (e.g. entry into new markets, withdrawal from previous markets)?
- *How* are competitive advantages to be achieved (e.g. price advantage or performance advantage)?
- *When* does one become active in a market (e.g. early or late market entry)?

These three questions are examined in more detail in the following chapters, particularly in Chap. 3.

The nature of the decisions to be made in strategic marketing implies that these decisions are typically geared towards a long period of time and are made on a high management level (often on the executive level). Another significant factor is the *close interlinking of marketing with other corporate functions*, such as Finance or R&D, which is associated with the concentration of company resources and is in contrast to the previous assumption that all areas have to be subordinated to marketing requirements (which occasionally led to an overemphasis of the importance of marketing).

Another typical aspect of strategic marketing is a pronounced *orientation on the competition with other providers* which are relevant for the purchasing decisions of the respective target groups. Gaining and defending competitive advantages is at the heart of decision-making in strategic marketing. *Two types of competitive advantages* are generally distinguished:

- Goods and services which, *in the eyes of the customers*, are better than those of the competitors (e.g. brand image, improved service, longer service life, closer alignment to customer wishes) and offered at a comparable price or
- Comparable goods and services offered at *significantly lower prices*.

After this brief outline of the basic ideas of marketing and the associated strategic considerations, the following chapters will present in detail how to develop the relevant strategies and measures for *gaining and defending competitive advantages*, including the pertinent analyses. First, a brief overview of the process of marketing planning will be presented in the following section.

## 1.2 The Process of Marketing Planning – An Overview

This section characterises and defines the key components of marketing planning, market-oriented corporate and business unit planning, as well as planning of the marketing mix. This links in with the discussion of strategic marketing on the previous pages.

Most authors make similar distinctions, although different terms are used in this context. Kotler and Keller (2012, p. 58 f.) speak of the strategic and tactical part of marketing

planning; Assael (1993) distinguishes between marketing strategies and the development of the marketing mix, with the latter referring to the specification of marketing instruments for a certain product. Schreyögg and Koch (2007, p. 73) differentiate between the overall corporate strategy, which determines the combination of business units or fields, and the business unit or field strategy, which defines the approach taken by a certain business area.

Figure 1.4 provides a basic overview on the process and the interdependencies of marketing planning with its three main areas:

*Market-oriented corporate planning* is based on the general aims and basic principles of the company, as well as information on the company's environment, related industries, individual markets and the position of the company in this constellation. This planning phase results in decisions regarding the various business units (e.g. market entry, targeted growth, withdrawal from the market), the strategic focus (e.g. positioning as a "technically leading provider" or an "inexpensive mass provider") and temporal aspects (e.g. market entry as a pioneer). The questions "Where?", "How?" and "When?" can then be answered for the elements of an (envisaged) business units mix.

Here's an example of such a planning process for a business unit: A brewery wishes to become the market leader in the German brewing market (Where?) in the segment of premium beers (How?) within five years (When?). It becomes apparent that at this point the aims are specified on which the next part of the planning process is orientated.

*Market-oriented business unit planning* is not concerned with the entirety of the business units (mix), but takes place separately for each business unit. The respective aims are determined in detail, the growth strategy (see Sect. 4.2) and the marketing strategy (i. e. the positioning, the core task profile and possible networks or cooperations; see Sects. 4.3, 4.4 and 4.5) are defined and guidelines for the use of marketing instruments are determined. This outlines the framework for the timely, flexible planning of individual measures, their coordination and interaction (marketing mix).

Accordingly, *planning of the marketing mix* involves developing measures, investigating and/or testing alternatives (e.g. selection of advertising messages and media), and dealing with the complex problem of combining various individual measures to form a single marketing mix.

After the planning steps have proceeded from relatively general aims to specific measures, these will be implemented, with the appropriate feedback loops to the individual steps of the planning process (controlling). Implementation and controlling will be only briefly outlined within this book which is specifically on "Marketing Planning".

Some important differences between these three main areas of marketing planning are summarised in Fig. 1.5.

### 1.2.1 The Marketing Mix

Within the context of planning the marketing mix, the most common marketing instruments will be briefly characterised.

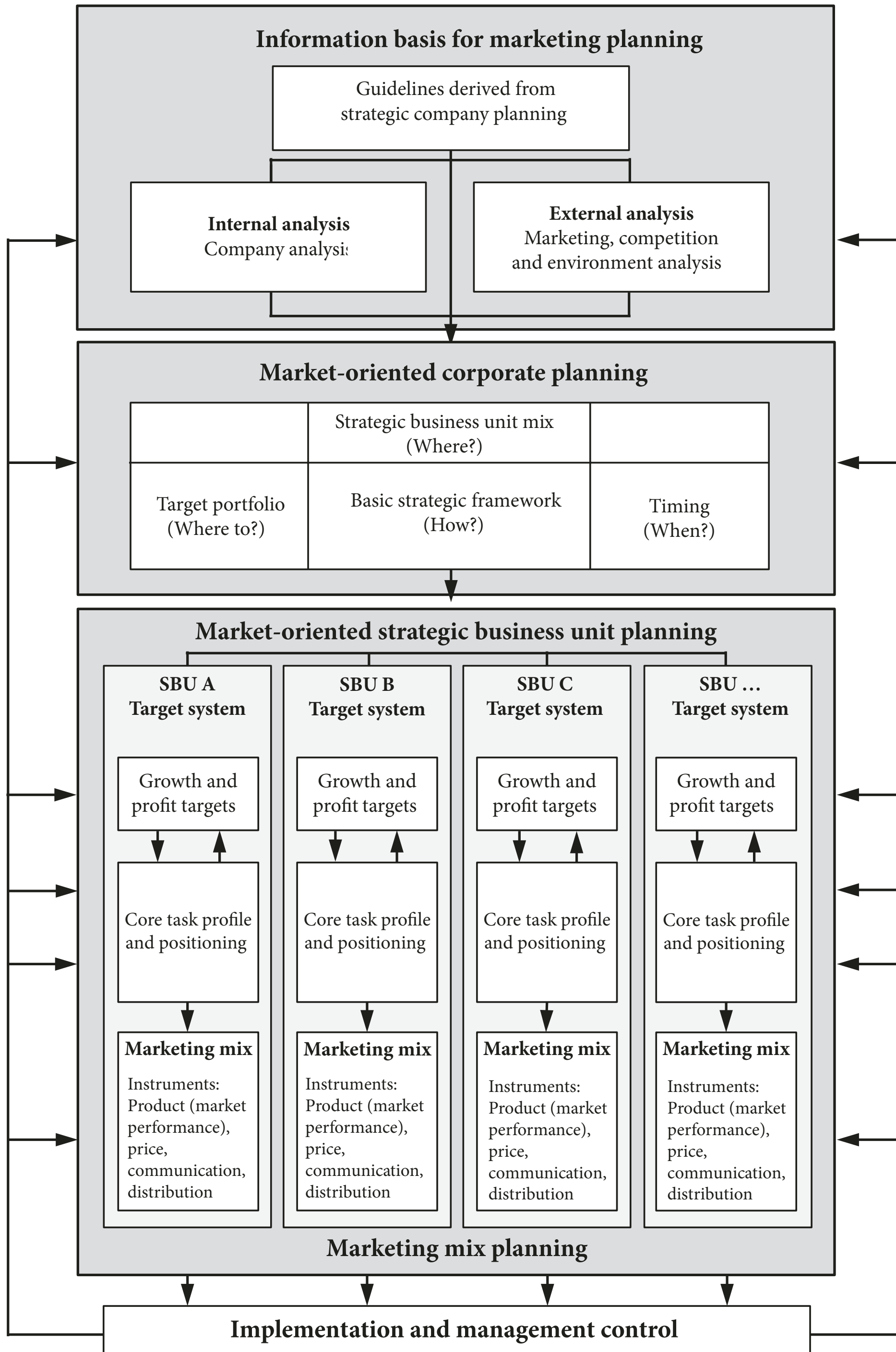


**Fig. 1.4** The process of marketing planning at a glance

| | **Market-oriented corporate planning** | **Market-oriented business unit planning** | **Marketing mix planning** |
|---|---|---|---|
| **Planning unit** | Strategic business unit mix (→ entire company) | Individual strategic business unit | Individual product(s), brand, customer group |
| **Market** | Free selection of markets | Selection of segments/ target groups | Considered as given |
| **Objectives, success criteria** | Profit, shareholder value, business growth | Cash flow and sales development of strategic business units | Contribution margin of individual products and customer groups, market share |
| **Competition** | Competition through the use of all the company's resources and capabilities | Performance or cost advantages over competitors and setting apart from the competition | Better perceived satisfaction of customer wishes through the marketing mix |
| **Planning horizon** | Long-term (5–10 years) | Medium-term (3–5 years) | Short-to medium-term (0.5–3 years) |

**Fig. 1.5** Three main areas of marketing planning

In science and practice, marketing instruments have long been categorized into four groups, with only minor variations between the various authors regarding the designation of the four areas and the allocation of some instruments to these areas. This textbook refers to the following four marketing instruments:

1. Product
2. Price
3. Communication
4. Distribution

These designations have become generally established and characterize the core areas of the various marketing instruments.

In marketing, the designation "product" has become an all-encompassing term that includes material goods, services, rights, and combinations thereof. Thus, *product* includes all measures that are closely related with the product, e.g. packaging, services, guarantees, and, additionally, all measures concerning the product range, i. e. decisions on the nature and number of products offered.

*Pricing* mainly involves the planning and implementation of prices obtainable for the respective products, but also include the aspects of conditions (discounts, payment conditions) and sales financing which are closely related to the definition of prices.

The term *communication* may be a bit confusing for the uninformed because marketing is not primarily concerned with an exchange of information, opinions etc., but mainly with the unilateral attempt of the providers to influence the consumers. Only recently, with the

advent of the Internet, have the possibilities of interaction in marketing communication expanded considerably. Advertising, sales promotion and, in part, public relations are considered to be the most important communication policy instruments.

*Distribution* covers all the decisions that affect the path of a product from the provider to the final customer. This refers to the corporate sales organisation and the involved intermediaries on the one hand, and the physical path of the product to the customer (including warehousing, transport, choice of location), also known as "marketing logistics", on the other hand.

**Key Functions of the Marketing Instruments**

van Waterschoot and van den Bulte (1992, p. 89) characterize the key functions of the four marketing instruments as follows:

- **Product policy:** "Configuring something valued by the prospective exchange party."
- **Price policy:** "Determining the compensation and the sacrifices the prospective exchange party must make in exchange for the offer."
- **Communication policy:** "Bringing the offer to the attention of the prospective exchange party, keeping its attention on the offer, and influencing – normally in a positive way – its feelings and preferences about the offer. This is communicating the offer."
- **Distribution policy:** "Placing the offer at the disposal of the prospective exchange party."

The four basic instruments of marketing will be examined in more detail in Chap. 5 of this book.

Suffice it to say here that the characterization of the four instruments as stated above underlines the shift outlined in Sect. 1.1. When companies were still production-oriented, the decision on products and product ranges was not a subject of sales-related considerations. Instead, the crucial action variable of sales policy was the price. With the sales orientation came along the communication policy and efforts in distribution to support the sales of the companies' predefined range of goods and services. Only with the advent of a buyers' market, which led many companies to adopting a marketing orientation, have the four areas (product, price, communication, distribution) become more or less equally important instruments of marketing.

### 1.2.2 The Role of Brands

The significance of brands has increased enormously over the past 30 years or so, at least in the consumer goods sector. In many sub-markets (e.g. in services), brands have expanded and taken on a dominant position; in numerous markets for fast-moving or

durable consumer goods (e.g. consumer electronics, cars), unbranded products play only a minor role or no longer any role at all. The relevance of strong brands is becoming increasingly apparent in business-to-business marketing, too (e.g. Hilti). According to the central idea of marketing – orientation towards markets – this development has had an effect on the marketing practice of numerous companies and has also attracted attention in marketing research.

Generally a *brand* is understood to be a name, a shape or design, a logo or another feature of a product or service, usually a combination of several of these elements, which, as a protected trademark, is uniquely attributable to a certain provider and is clearly distinguishable. Beyond this rather functional and legal definition of a brand, an impact-related perspective of brands is crucial for brand management. Esch (2012, p. 22) expresses this succinctly as follows: "Brands are mental images in the heads of the stakeholder groups that take on an identification and differentiation function and shape choice behaviour."

Besides setting a product apart from comparable competing products (ideally putting it in a unique position), there are further important functions of (successful or "strong") brands that make the growing importance of brands easy to understand (see e.g. Esch 2012, p. 24; Kuß and Kleinaltenkamp 2013, p. 208 f.):

- Strong brands help to achieve brand loyalty and customer retention and thus they open up price flexibility for the provider.
- Established brands can be expanded by additional variants of the same product line (line extensions) or transferred to another product group (brand extensions).
- Sufficiently well-known brands have communication effects, both on the supply side with a view to developing a brand image, and regarding the communication among customers (word of mouth).
- With the help of different brands, a company can configure its strategies in various sub-markets or market segments relatively independently (e.g. Volkswagen AG with the brands VW, Audi, Skoda, Bentley etc.), as the customers tend to perceive the brands rather than the company behind them.

So the individual brand as well as the entire brand portfolio has an essential function in differentiating a company from other providers in the market and thus has major relevance for all aspects of marketing planning. With regard to the market-oriented planning process, brand management has major implications for the development of growth strategies (see Chap. 4 for the core question: in which markets or sub-markets can a brand open up new opportunities or exploit existing potential?) or competitive advantages (see Chap. 3 for the core question: which strategies can help a brand assert itself against the competition?). The long-term definition of the key characteristics of a brand and its differentiation from other brands is the subject of "positioning", which will be discussed in detail in Sect. 4.6. The target parameter which is occasionally used as a yardstick for the success of a brand strategy is called the "brand value" (see Chap. 6 on marketing management control).

In conclusion, it is apparent that some aspects of brand management overlap with several of the phases of marketing planning outlined above. At the same time, brands and brand management affect a second dimension of marketing planning, that of the coordinated planning of the deployment of the different instruments of the marketing mix. In this sense, the different marketing measures have to be in line with the overall brand positioning and also have to show a certain continuity over the course of time to achieve stability and to increase brand value.

### 1.2.3 The Process of Marketing Planning and the Structure of this Textbook

Planning processes in marketing are typically characterised by great complexity. A huge amount of diverse information has to be processed, creative and analytical activities have to be linked and diverse feedback mechanisms and cross-connections superpose the planning process. Nevertheless, some basic steps of marketing planning and their logical sequence can be identified.

Figure 1.6 serves to further enhance the understanding of this process. It shows the stepwise development and clarification of a marketing strategy and the responsibilities at the various management levels. Decisions on the development of business units are derived from the underlying long-term corporate strategy (e.g. growth in the existing areas, maintaining viability through diversification). The result of this part of marketing planning is a business mix strategy. In the subsequent steps there follows the definition of marketing objectives, positioning, and the marketing strategy. On this basis, a marketing mix is developed which allows the realisation of the objectives for products and business units set up in the previous steps. The last step is to deploy the marketing mix in the sales market (implementation). The reactions of the market form the starting point for operative

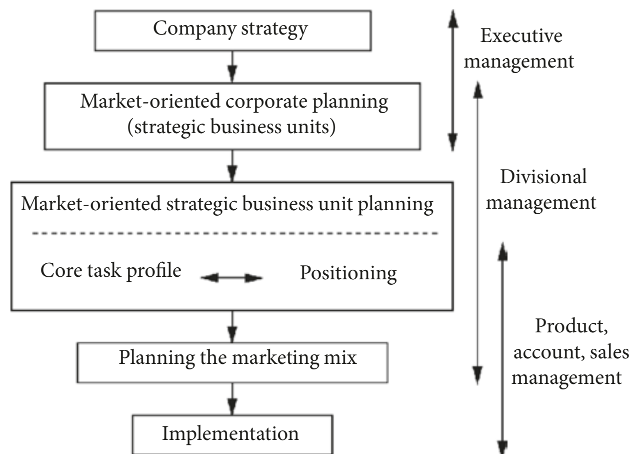


**Fig. 1.6** Planning phases and management levels

control; strategic control relates to the attainment of objectives with the various products and business units.

Figure 1.6 also shows that corporate strategy and market-oriented corporate planning have largely to be defined by the top management. The development and realisation of the marketing mix, on the other hand, is mainly in the hands of the product and sales management. The connection between these two areas is provided by the middle management – here called divisional management – which is responsible for certain business units.

This textbook is based on a structure of marketing planning as outlined here: Chap. 2 deals with the baseline conditions, such as the environmental and competitive forces. Based on this, the key definitions are made by answering the three basic questions of market-oriented corporate planning (Where? How? When? in Chap. 3). The result of these considerations is reflected in the marketing objectives and the positioning of the various products and business units (Chap. 4). Subsequently, the marketing mix is developed (Chap. 5). Chapter 6 discusses the implementation and control of marketing.

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# 2 The Information Basis of Marketing Planning

This chapter provides an overview of the important information basis for marketing planning. The wealth and variety of the relevant sources, the "laws" and methods are clarified in the following outline, which is also reflected by the structure of this chapter:

- Information of a general nature (i. e. not specific to a certain industry or company) that is of relevance to marketing planning (e.g. product lifecycle, experience curve effect);
- Information relevant to the respective industry and the development of the corporate environment (e.g. competitive conditions in the industry, foreign competitors due to the dismantling of trade barriers);
- Information regarding the competitive position of the respective company (e.g. strengths and weaknesses of the company);
- Information about individual product markets and instruments of marketing (e.g. sales forecast for new products, results of advertising pretests).

## 2.1 General Information Basis of Marketing Planning

### 2.1.1 The Product Lifecycle

Naturally, the product lifecycle is important in terms of product policy, but it also has a strong influence on strategic marketing planning considerations. The term "product lifecycle" contains a crucial aspect: it involves a *dynamic perspective*. So the emphasis is not on analysing the situation of a product at a certain time (e.g. market share), but rather the analysis of changes over the course of time (e.g. growth of the market share).

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The various definitions of the product lifecycle in the literature usually make the following assumptions (Day 1986, p. 59):

- The existence of products on the market is limited to a certain period.
- The development of sales figures has an S-shaped profile, with the attainment of a certain saturation point and a subsequent decline.
- Certain distinctive points of the lifecycle curve (e.g. turning points) are often used to identify and delimit certain phases: usually the phases of introduction, growth, maturity and decline can be distinguished.
- The contribution margins attributable to a product increase in the early phases of the product lifecycle and decrease again later on.

Of course, the lifecycle does not predetermine the course of a product's sales performance. Otherwise, marketing measures such as communication or advertising would be superfluous or useless. Many representations therefore take the possibility of prolonging the product lifecycle with different marketing measures explicitly into account. A simple representation of a product lifecycle with four phases is shown in Fig. 2.1.

**Phases of the Product Lifecycle**

Relatively low sales volumes have to be anticipated during the *launch phase* of a product, as the product is not sufficiently known and sales are still developing. In addition, high costs are accrued for advertising and sales, as well as relatively high production costs. Combined with low sales, this results in negative contribution margins.

The speed of market penetration of a new product and thus the duration of the launch phase depend, among other things, on:

- the advantage perceived by customers as compared with existing products;
- the uncertainty of the potential buyers whether the new product will fulfill its function (perceived risk);

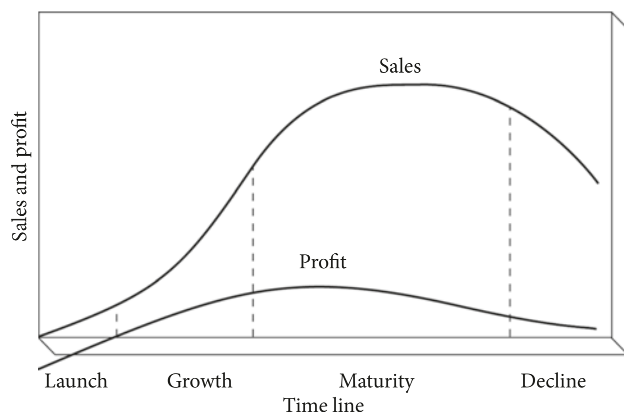


**Fig. 2.1** Lifecycle of sales and profitability (Adapted Kotler- and Keller 2012, p. 332)

- the ties the customers have formed to existing products or their providers;
- the information status of the potential customers with regard to the new product and its advantages;
- the availability of the new product (degree of distribution).

These aspects provide starting points for successfully designing the introductory phase and reducing its duration.

In the *growth phase* the marketing measures start to take effect, sales are increasing and the contribution margins soon enter the positive zone. Competition usually only intensifies towards the end of the growth phase.

When new technologies start to penetrate the market, the emergence of standards often plays an important role, such as certain operating systems for computers or mobile phones. While in the introductory phase of a technology the different hardware and operating systems and the uncertain future of small, innovative providers create uncertainty among the potential users, the establishment of a standard changes the situation fundamentally. Product standardisation of this nature is often accompanied by a provider shake-out, i. e. the withdrawal of some providers. Product standardisation leads to more economical manufacturing. But even more important is the reduction in purchasing obstacles that can be achieved by lowering the uncertainty of customers, which naturally adds impetus to sales.

The *maturity phase* is characterised by stagnating or declining sales and contribution margins. The causes for this are saturation effects in the sales market, on the one hand, and intensified competition among a larger number of providers that launch improved products in the market, on the other hand.

Fluctuations in the position of a provider and declining revenues during the maturity phase may also be explained by the following aspects:

- With increasing product familiarity and the accompanying decline in uncertainty among customers, the ties to (established) suppliers are weakening and switching to providers with lower prices becomes more likely.
- During the transition from the growth phase to the maturity phase, overcapacities can arise that lead to intensified competition.
- In a stagnating market, providers can only achieve growth and gain market share at the expense of the competitors, which can lead to competitive pressure.

Sales will drop significantly during the *decline phase*, because new products or changes in customer wishes lead to reduced demand. Significantly reduced demand and consistently fierce competition, sometimes reflected in price wars, lead to a further decline in contribution margins.

At the end of the decline phase the product will be eliminated. This decision comes easier if a company has taken the key message of the product lifecycle into account and has introduced a new product, which has become a new source of revenue at the appropriate time (before a product has reached the decline phase). This also shows the

| Phase of the product lifecycle | Product / Product group |
| --- | --- |
| Launch | Electric cars |
| Growth | Smart phones |
| Maturity | Washing machines |
| Decline | Daily newspapers |

**Fig. 2.2** Examples of products in various phases of the product lifecycle

deeper meaning of the term "lifecycle": a new product has taken the place of an old, eliminated product.

Figure 2.2 illustrates the phases of the product lifecycle on the basis of some examples as of 2016.

The *benefit of the product lifecycle concept* is especially apparent within the context of strategic marketing planning. Here it is less a matter of precise sales forecasts, but rather of understanding strategic situations and developing the appropriate strategies and measures. In this context, the rather limited empirical confirmation of the details of the product lifecycle does not impair its basic validity. Given the extremely simplified structure of the lifecycle as compared with reality, it is not surprising that the concept has long since been called into question (e.g. Gardner 1987). Yet the usefulness of the product lifecycle concept is due, above all, to the fact that (idealised) changes in demand and in competition and their causes are presented in a summarized form over the course of time. This allows the providers to derive starting points for their actions and reactions, such as the typical market-related objectives that Homburg (2012, p. 448) formulates for the different phases:

- Launch phase: "establishing a product on the market";
- Growth phase: "market penetration";
- Maturity phase: "assertion of the market position";
- Decline phase: "exploiting the market position".

Two of the most common implications of the product lifecycle concept are the following: New products that are intended to safeguard the company's profitability in later periods should definitely be developed at an early stage and promoted on the market before the lifecycle of the previous products comes to an end. The second point is that companies can more easily gain a strong market position during the early phases of market development. This is mainly due to increasing demand from new buyers and thus less intense competition from rivals.

### 2.1.2 The Experience Curve

The *experience curve* has received considerable attention in the field of strategic planning, particularly due to empirical studies by the *Boston Consulting Group*. As the term implies, the unit costs for a product are assumed to decrease in line with increasing experience in manufacture and marketing. "The experience curve has its roots in a commonly observed phenomenon called the learning curve. In simple terms the learning curve states that as people repeat a task they learn how to do it better and faster. […] The studies on what came to be termed the experience curve showed that the total unit costs in real terms (constant dollars) of a product can be reduced by a constant and predictable percentage with each doubling of cumulative production. That percentage decline in costs typically ranges from 10 % (termed a 90 % curve) to 30 % (a 70 % curve), although greater and lesser declines are observed" (Czepiel 1992, p. 149).

Figure 2.3 shows the relationship between the development of unit costs and the increasing experience with manufacturing and marketing a product, as operationalised through the parameter of "cumulated production volume". It has to be emphasized that the cumulated volume refers to the total period of time since the product in question has been included in the company's range of goods and services, as opposed to the "economies of scale" which concentrates on the quantity produced per unit of time (e.g. per year) (see Sect. 2.1.3). In this context, the unit costs only refer to the part of the total unit costs arising from value creation in the company, i. e. not to the costs for purchased material, components, services etc.

Furthermore, the cost parameters have to be adjusted for inflation. Figure 2.3 shows an example of an experience curve based on the hypothesis of Henderson (1984), whereby doubling the cumulated production volume reduces the unit costs by 20–30 %.

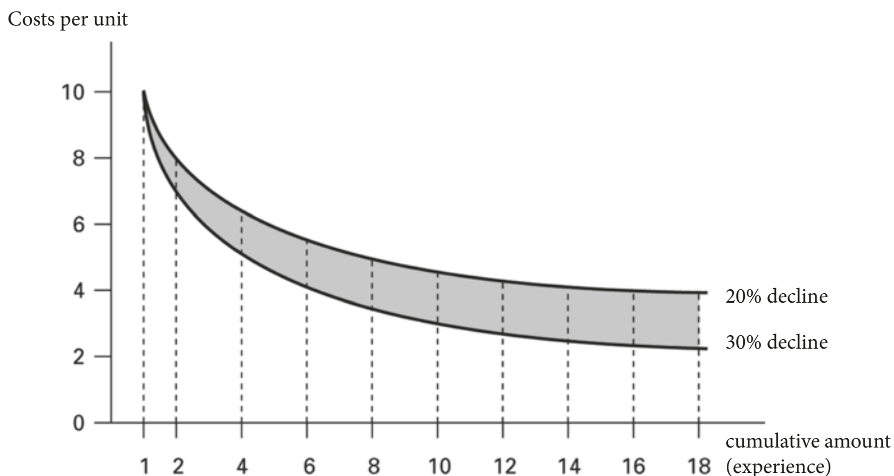


**Fig. 2.3** Example of an experience curve with linearly spaced coordinates (Adapted from Becker 2013, p. 423)

So what are the potential causes for the experience curve effect? The most important sources for such an effect are:

- *Learning effects*
  Learning effects are understood as the diverse processes through which efficiency increases with the frequent repetition of the same activity, because the activity can be carried out faster, errors can be avoided, workflows improved and specialisation is possible. These aspects are particularly easy to understand in relation to manufacturing processes, but they are also effective in other areas, such as in research and development or in the launch of new products. Besanko et al. (2007, p. 95) point out that learning effects may not only affect costs, but also product quality.

**Learning Effects in Production**
"Over time, firms find ways of operating production equipment and facilities that can significantly increase the output of that equipment beyond that for which it was designed. Exxon Chemicals, for example, recently reported that it consistently had been able to operate a facility at 130 % of its designed nameplate within three years of its start-up." (Czepiel 1992, p. 158)

- *New production technologies*
  New production technologies, for example in the form of automation, have led to dramatically declining costs in many industries. In the semiconductor industry, the development of new production techniques (in conjunction with learning effects that have led to a significant reduction in reject rates) has caused the prices for components to fall to a fraction of the introductory prices within just a few years.

**New Production Technologies for Potato Chips**
An American manufacturer of potato chips succeeded in drying the potato chips during production in a continuous process and no longer in lots. This achieved considerable cost reductions in the heating process and in quality control. (Day 1986, p. 31)

- *Changes regarding the product*
  Often it is possible to reduce unit costs by replacing materials with cheaper ones, by reducing the number of components or by simplifying the assembly of the product, for example by replacing screw connectors with plug connectors.

**Cost Reductions Through Product Changes at Sony**

"Sony's Walkman line of personal tape players has benefited greatly from such design improvements. The first Walkman had 232 parts; by 1989 that number had halved to 118 as had the time it took to assemble a unit. In addition, Sony has created a design that allows it to add preferred features easily and without total redesign." (Czepiel 1992, p. 159)

Several aspects can be identified from the experience curve, which may be relevant for defining marketing strategies (provided the experience curve is valid in the particular case; see below). Companies with the highest market share will achieve the greatest cumulated production volume – at least after a certain time – and therefore the lowest unit costs, leading in turn to the highest earnings per level, which can then be used to secure the market position through investments and/or price reductions (which still cover the costs). The efforts of some companies to expand their markets and to increase the volumes produced/sold (e.g. in the context of international marketing) can also be understood in the context of the experience curve effect. Finally, strategic decisions (e.g. the long-term price policy) can be influenced by the (rough) predictions of long-term cost development on the basis of the experience curve, and, according to the experience curve effect, early market entry should lead to advantages as providers that follow later have higher initial unit costs (due to their lower cumulated volume/experience).

In conclusion, it should be mentioned that there are also some points of *criticism of the experience curve concept* and limitations regarding the possible interpretation. In practice, considerable measurement problems exist. One important question is what actually constitutes a "product". Does it refer to a certain product that is offered completely unchanged over a certain period of time or to a series of individual products that change over the course of time (modernised, improved)? The problems of compiling and allocating costs also must not be ignored. And the hypothesis that experience only comes from cumulated production volume is also questionable. Experience can be substituted by many types of information transfer, for example by taking on staff from other companies. Finally, it should be mentioned that the experience curve only refers to a cost saving *potential*; its realisation may still require special efforts in the company.

### 2.1.3 Economies of Scale and Economies of Scope

*Economies of scale* and *economies of scope* have to be distinguished from the experience curve effect. Economies of scale are concerned with the reduction of unit costs which becomes possible through higher output volumes. Economies of scope also refer to cost advantages, however, those which arise through the joint use of resources (e.g. brands, distribution channels, expertise) in various industries. While the experience curve refers to

the reduction of unit costs with growing cumulative production volumes, here it is a matter of cost reduction with higher production volumes per time unit or with a larger number of products for which the same resources are used.

Perhaps the most obvious cause for **economies of scale** is the distribution of fixed costs, i. e. of costs whose level is independent of the output volume. A typical example are the development costs of a product which are accrued independently of the number of units subsequently produced (and sold). Thus, with growing production volumes, the amount of this cost component per unit will drop. This factor may be considerable, especially in industries with very high research and development costs (e.g. automobiles, aircraft, pharmaceuticals). Another example is the telecommunications industry which has to establish and maintain networks whose costs are practically independent of the intensity of their usage. With regard to marketing, economies of scale can, above all, arise in the sales system and the communication policy, where a certain volume is necessary in order to operate successfully in the market.

Further causes for economies of scale may be advancing specialization and/or automation. Advantages of specialization are to be expected if the division of labour increases with higher production volumes and the individual jobs are carried out more efficiently. Automation is usually connected with investment of capital, which is only economical, leading to lower unit costs, if sufficiently high production volumes are attained. These two aspects can be identified most clearly in the comparison of manual and industrial production methods.

A more technical factor explaining *economies of scale* is that the relationship between the costs of production plants and their capacity is often not linear. Thus, when comparing two plants, the one with the double capacity is not necessarily associated with the double set-up and operating costs. A good example in this regard would be an oilpipeline.

**Examples of the Relationship Between Costs and Capacity**

"The capital investment required for a plant (or a piece of production equipment) does not double as its size (as measured in terms of output) doubles. In process industries such as chemicals and petroleum (and, increasingly, semiconductors), for example, the rule of thumb is that investment costs increase by $2^a$ where $a$ varies between 0.6 and 0.8. At a value of 0.6 for $a$, the cost of a facility double in size would be only 1.52 times the cost of the smaller one. The investment per unit of output therefore would be approximately 25 % less than with the smaller facility (1.52 / 2 = 0.76 vs. 1 / 1 = 1). Such a facility could generate an adequate return on its investment at a lower price than a smaller facility. In extreme cases in the process industries, such facilities can sometimes be operated with no more direct operating labor in the larger than in the smaller, in effect reducing the labor cost component per unit by half." (Czepiel 1992, p. 156)

In the above numerical example, Czepiel assumes full capacity utilisation.

Finally, attention should be drawn to the fact that companies with high output volumes often have a stronger negotiating position towards suppliers and customers, which may lead to relatively low purchasing prices and relatively high selling prices. This aspect will be addressed again in Sect. 2.2.2.

The cost advantages of larger providers may also be offset by certain disadvantages ("*diseconomies of scale*", see Besanko et al. 2007, p. 91 ff.). Besanko et al. (2007) cite (besides other aspects) the problems of bureaucratisation and sluggishness, which may arise in large companies, as well as a possible scarcity of special resources (e.g. expertise in research and development, personnel development, management capacity), which may arise due to the scale of the corporate activity.

***Economies of Scope***, in contrast, describe the cost advantages through the use of resources for various business fields or products. Two typical types of economies of scope are:

- The distribution of development costs over a large number of units produced has already been mentioned within the context of economies of scale. In economies of scope the focus is on the aspect that a certain expertise in product development can be used for different types of products. For instance, Canon applies its skills in the areas of optics, electronics and mechanics to diverse products such as cameras, laser printers and copiers. Within this context, core competences play an important role which will be examined in more detail in Sect. 3.1.3.
- The use of established brands for different (often new) products is also common. Thus, the expenditure and risk of launching new products can be avoided and the new product can profit from the reputation and image of an existing, successful product. This is also called "brand stretching" (Esch 2012, p. 14 f.) or "brand transfer" (Baumgarth 2008, p. 157 ff.). Classical examples are Nivea and Melitta. The former brand was originally used for a cream only and has now been transferred to a large number of related products. The example of Melitta, however, also illustrates the limitations of this approach. Starting with coffee filters, more and more products were offered under this brand name (coffee, tableware, household foils etc.). Quite understandably, the addition of bin liners to the product range raised problems with regard to Melitta's originally more pleasure-oriented image. For this reason, separate brands have been launched for the various product groups (e.g. Swirl, Toppits).

**Example for the Use of Competences for Different Products**

"NEC reasoned that the computing, communications, and component businesses would so overlap that it would be very hard to distinguish among them, and that there would be enormous opportunities for any company that had built the competencies needed to serve all three markets.

NEC top management determined that semiconductors would be the company's 'core product'. It entered into myriad strategic alliances – over 100 as of 1987 – aimed at building competencies rapidly and at low cost." (Prahalad and Hamel 1990, p. 80)

### 2.1.4 Success Factors

Since the 1970s attempts have been underway to identify and quantify the factors influencing the success of companies. Data has been gathered from numerous companies (across various industries) on success parameters and their possible influencing factors, and the relevant correlations have been qualitatively or quantitatively analysed. The objective was to draw general conclusions on the impact of these factors. An early (and prominent) example of such a study comes from Peters and Waterman (1982). Their study "In Search of Excellence" was of a predominantly qualitative nature and led to the result that customer focus is an essential success factor for many companies.

A large-scale (and more quantitative) empirical study has significantly influenced the development of strategic marketing planning – the *PIMS project* (**P**rofit **I**mpact of **M**arket **S**trategies), conducted by the Strategic Planning Institute (SPI) (www.pimsonline.com). During a period of several years, data were collected from over 3000 strategic business fields in 450 US and European companies from various industries. The collection of data was stopped in 1999 due to declining support from the companies' side. Using common statistical analysis methods (mainly regression analysis) the attempt was made to investigate, among other things, the influence of different variables – the success factors – on market success (Buzzell and Gale 1989).

Within the context of this book, especially those objectives and results are of particular interest that are of a general nature, i. e. not directed towards specific details from individual companies. The relevant research objectives can be summarised with the following questions.

- Which features of the market conditions influence the relationship between corporate activities and the attainment of corporate goals (e.g. ROI, cash flow)?
- Which factors explain the differences in the profitability of companies and business areas; in other words, which are the strategic success factors?
- How strongly is the economic success influenced by strategies and market conditions?

For the PIMS project, a large number of variables (over 100) was surveyed for each business unit of the participating companies with the aid of a standardised questionnaire. The focus was on the market conditions, the competitive position of the business unit, the

**Market conditions**
Long-term market growth, price development, number of customers, ordering frequency and volume

**Competitive position and strategy of the business unit**
Market share, market share in comparison with the biggest competitors («relative market share»), product quality, price and marketing expenditure in comparison with competitors, market segmentation, innovation rate

**Features of the production process**
Capital intensity, degree of vertical integration, capacity utilisation, productivity

**Budget allocation**
Research and development budget, budget for advertising and sales promotion, expenditure for personal sales

**Strategy pursued**
Types of changes in the above variables, insofar as they can be determined by the enterprise

**Results**
Profitability, cash flow growth

**Fig. 2.4** A selection of the variables surveyed for the PIMS study

strategy pursued, and the results achieved. Figure 2.4 lists the most important variables according to Buzzell and Gale (1989, p. 219 ff.) and Kerin et al. (1990, p. 145).

The data analysis of the PIMS project essentially concentrated on the application of the linear model and its variants (especially regression analysis) on the data collected. In most cases, one of the measures of economical success was used as the dependent variable, which was to be explained by one or more of the other (independent) variables. Regression analysis then allows conclusions to be drawn as to whether an independent variable has any (significant) influence on the respective response parameter and how strong this influence is, on its own and in comparison with other independent variables.

Here are two *results of the PIMS study* especially rlevant for marketing. A key observation was the positive correlation between market position (measured by market share or relative market share = market share as compared with the competitors' market shares) and the profitability of the business field, which was confirmed by various substudies (Buzzell and Gale 1989). An average ROI of over 30 % is achieved in business fields in which market leadership has been attained. In contrast, the ROI of areas that have just the fifth position in the market only just exceeds 10 %. Possible reasons for this relationship are (Buzzell and Gale 1989):

- Greater efficiency in production and sales among larger providers (economies of scale, see Sect. 2.1.3).
- Customers' risk avoidance causes them to buy from leading providers that can thus command higher prices.
- Position of power held by larger providers thus allowing them to enforce higher prices.

- Under certain circumstances, the relationship may also be explained by one factor (e.g. quality of management) influencing both variables (market position and profitability) (i. e. illusory correlation, see e.g. Homburg 2012, p. 433).

A second important (and uncontroversial) result of the PIMS project relates to the effects of product quality on economic success. Relative product quality (e.g. performance, service life, reliability in comparison with the features of competitor products) was assessed by the staff of the company in question in relation to leading competitor products. A significant positive correlation was apparent between relative product quality and profitability. There are also theoretical reasons for this result and/or reasons based on practical experience. According to Buzzell and Gale (1989, p. 94), the following advantages of superior product quality play a role here:

- greater customer loyalty,
- more repeat purchases,
- less vulnerability in price wars,
- enforceability of higher prices without loss of market share,
- gains in market share,

Of course, there has also been *criticism of the approach of the PIMS study* as well as some heated debate on the merits of success factor research (see Nicolai and Kieser 2002; Bauer and Sauer 2004; Fritz 2004; Homburg and Krohmer 2004). The results have also been subjected to critical discussion with regard to the research methodology and its validity (see Hildebrandt 2003, p. 215 ff.; Homburg 2012 p. 434 f.). Some of the relevant aspects are the following:

- Problems of the database: subjective evaluation of different variables, over-representation of successful business fields, inadequate consideration of industry and company-specific particularities.
- Problems of data analysis: missing consideration of the interdependencies between the independent variables, analysis limited to the direct impact of independent variables.
- Problems of explanatory power: examination of average values that do not fully take the individual case into account; strictly speaking no conclusions can be drawn about causal relationships; too narrow view in concentrating on ROI as a success parameter.

## 2.2 Environmental and Industry Analysis

The previous section examined the general information basis for marketing planning, independent of the specifics of individual products or industries. Now we will deal with the framework conditions of market success referring ever more specifically to a product or business area.

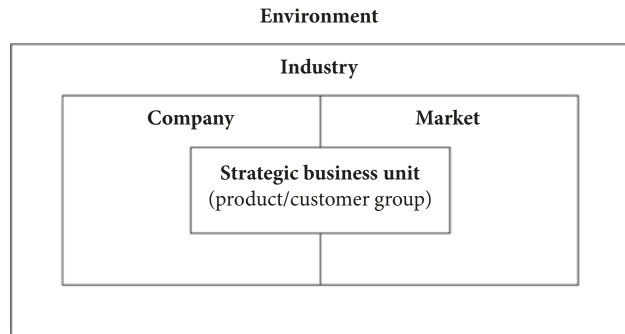


**Fig. 2.5** Various framework conditions for market success

Figure 2.5 illustrates this approach. The "outer layer" of Fig. 2.5 represents the *environmental conditions* as generally influencing factors for market success. These include, above all, the governmental, legal, macroeconomic and technological characteristics of the company environment. A more specific factor is the industry (entirety of relevant providers) to which a company belongs. Here the focus lies on the analysis of the competitive forces in an industry, i. e. the strength of buyers and suppliers, the intensity of competition among companies at the same stage of the economic process and on the threat to existing providers from new competitors or substitute products. An even more direct influence on the market success of a product or business field is exerted by the company's skills and resources, strengths and weaknesses on the one hand, and the market conditions (e.g. customer requirements, market growth) on the other hand. These factors will be analysed in Sect. 2.3 and 2.4.

### 2.2.1 Environmental Analysis

Regarding the analysis of the (global) environment, the following framework conditions have to be addressed:

- technological,
- political-legal,
- macroeconomic,
- demographic.

**Technological Framework Conditions**

The emergence and propagation of new technologies can provide opportunities for the development of new business areas, but also threaten a company's existing areas of activity. Thus, the development of microelectronics opened up a broad spectrum of completely new products in the office and communication sector, e.g. computers, laser printers, smartphones, databases, satellite connections. On the other hand, traditional manufacturers of high quality (mechanical) watches were faced with an existential crisis due to

microelectronics and the associated means of manufacturing very inexpensive and precise watches. In this context, Kotler and Keller (2012, p. 105 f.) refer to the following current developments:

- acceleration of technological progress (shorter product life cycles),
- seemingly limitless innovation opportunities (fundamental innovations with far-reaching potential),
- regulation of technical advances (for environmental and ethical reasons).

**Political/Legal Framework Conditions**

Especially since the 1990s, it has become apparent how political changes may influence the scope of action for businesses. Thus, the political changes in Eastern Europe and China have opened up enormous new markets. Other examples are the expansion of international trade through GATT (General Agreement on Tariffs and Trade) and the introduction of the European market and a common "Euro" (€) currency. Political influence on marketing decisions is usually exerted through legal provisions (e.g. advertising bans, regulations for consumer or environmental protection). In connection with the fact that brands are becoming more and more important, the legal means for their protection are also of increasing relevance (see e.g. Esch 2012, p. 271 ff.).

**Macroeconomic Framework Conditions**

Both capital goods and consumer goods marketing are directly and/or indirectly influenced by macroeconomic factors. Decisions on the procurement of investment goods depend to a high degree on the (anticipated) economic growth, on inflation rates, interest rates, etc. Additionally, fluctuations in consumer demand will lead to changes in the demand for machines, raw materials etc. The financial and economic crisis in 2008/2009 reflects the relevance of the macroeconomic framework conditions.

On the consumer goods markets, falling or rising real household incomes will have an immediate and obvious effect, with markets for non-essentials (e.g. tourism, leisure, luxury consumption) being influenced more strongly, while markets for basic consumer needs (e.g. food) are affected to a lesser extent. In this context, the development of consumer confidence, which is influenced by macroeconomic factors, also has direct effects on large expenditures (e.g. the purchase of cars or houses).

**Demographic Framework Conditions**

To a certain extent, demographic developments form the "basis" for the development of some markets. For example, the demand for baby food or denture cleansers is mostly dependent on the age structure of the population. The growth and shrinkage of markets is essentially determined by the population development. Thus, the demographic trends in Germany and Switzerland have an influence on various markets:

- Long-term falling birth rate: lower demand for toys and children's clothes; more leisure activities for childless married couples.

- Growing proportion of elderly people: steady increase in the demand for medicines and diet products.
- Increasing number of single-person households: higher demand for (small) apartments, furniture, ready-made meals, food in small packages.

Due to the serious and long-term effects of various environmental factors on companies and markets, an interest in business intelligence tools has emerged along with the development of strategic planning. Homburg (2012, p. 463) describes the nature and function of business intelligence: "The key goal of an early warning system/business intelligence system is the early identification of essential changes in the environment of the company. This should put the company in a position to take these changes into consideration at the earliest possible stage when determining the marketing strategy."

Strategic business intelligence systems encompass highly diverse tools such as trend analyses, expert interviews regarding discontinuities in the development of the environment and scenario analyses.

### 2.2.2 Industry Analysis

The instruments of industry analysis, or more precisely the analysis of the competitive conditions in an industry, were introduced by Porter (1980, p. 3) and have become widely accepted: According to Porter, five competitive forces are crucial:

- the strength/power position of the customers (end customers and intermediaries),
- the strength/power position of the suppliers,
- the rivalry between the companies active in the industry,
- the threats arising from the market entry of new competitors,
- the threat of new products making the existing range of products in the industry superfluous or unattractive.

These five competitive forces are summarised in Fig. 2.6.

Now we will deal with the individual competitive forces in detail.

**Bargaining Power of Buyers**

The effects of buyer power on the economic situation of an industry can be easily illustrated with many examples (car parts suppliers, food retail etc.). The realizable prices are relatively low and the buyers can demand products and properties geared towards their special needs or particular delivery conditions (e.g. just in time). According to Porter (1980, p. 24 ff.), these are the main aspects which give customers bargaining power and make them use it:

- Only a few buyers account for a large proportion of the providers' turnover.
- High price sensitivity among buyers, as the products make up a large share of the costs they incur.

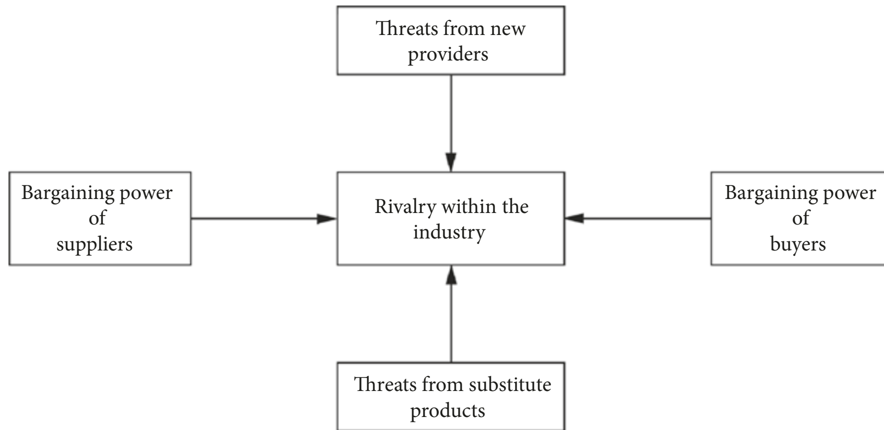


**Fig. 2.6** Factors of industry-wide competition (According to Porter 1980, p. 4)

- Standardisation or interchangeability of the products (e.g. raw materials) and low switching costs weaken the ties to particular suppliers.
- Weak economic situation of the buyers makes them very price sensitive and increases the tendency to change suppliers.
- The buyers can potentially manufacture the products themselves ("backward integration"), thus replacing the supplier.
- The buyers are well informed about alternative providers, the suppliers' cost situation etc. and willing to exploit this in their negotiations.

**Bargaining Power of Suppliers**

To some extent, supplier power is directly opposed to buyer power. Strong providers can enforce high prices and largely determine the product properties in the interests of the economic structuring of their own production and sales system. According to Porter (1980, p. 27 ff.) and Besanko et al. (2007, p. 317 f.), the relevant factors influencing the bargaining power of suppliers are the following:

- Only a few providers serve a large number of fragmented and therefore economically insignificant buyers.
- Weak competition between the various potential suppliers.
- There are hardly any equivalent substitute products for the product offered.
- The industry is not one of the supplier's important customers.
- The buyers cannot easily switch suppliers due to high switching costs or low standardisation of the products sourced.
- Providers could potentially become their previous customers' competitors through forward integration.

**Rivalry Within an Industry**

The behaviour of competitors differs from industry to industry. In some markets the participating companies act cautiously and shifts in market shares remain small. Other markets feature fierce price wars and aggressive advertising leading to significant changes in market share. Price wars will directly affect the profitability of companies. For this reason, the degree of rivalry within an industry is of importance for characterising the competitive conditions prevailing there. So what are the factors that tend to enhance such rivalry?

- Firstly, the number of competitors has to be considered. With a large number of providers in an industry some of them may attempt to strengthen their position through aggressive market behaviour.
- In stagnating, shrinking or only slowly growing markets, companies trying to expand their turnover can gain additional market shares only at the expense of competitors.
- A high share of fixed costs often leads to the utilisation of existing capacities to the maximum even though this may lower the realisable prices.
- Significant cost differences can cause the companies with low costs to enter a price war so as to force competitors with much higher costs to leave the market.
- Little product differentiation within the industry, i. e. a certain interchangeability of the products, leads to an intensified price competition, because the price becomes the essential criterion for the customer.
- Finally, high market exit barriers, i. e. obstacles to withdrawing from an industry will lead, despite lower earnings, to attempts to utilise existing capacities and to maintain an existing market position. Possible exit barriers include political pressure with regard to keeping jobs or a connection between the business area in question with the company's other activities.

**Threats from New Providers**

Competitors newly entering a market raise the competitive pressure as they are naturally motivated to take away market shares from existing providers. Often they introduce special expertise or considerable financial strength that may threaten the position of existing providers. The probability of new competitors entering the market depends on the extent to which they anticipate defensive measures from the established providers. Market entry barriers also play an important role. This refers to aspects that impede or prevent the attainment of a competitive position by a new provider. According to Besanko et al. (2007, p. 289), "barriers to entry are those factors that allow incumbent firms to earn positive economic profits, while making it unprofitable for newcomers to enter the industry". Porter (1980, p. 7 ff.) and Besanko et al. (2007, p. 289 ff.) enumerate the following types of entry barriers:

- *Economies of scale*

  If economies of scale (see Sect. 2.1.3) play a role in an industry, then a new provider is forced to either enter the market with a high production volume (with all the associated

problems and risks) or to accept considerable cost disadvantages as an initially small provider.

- *Experience curve effect*
  The experience curve effect (see Sect. 2.1.2) also means that new providers have cost disadvantages because they have relatively little experience.
- *Brand strength/Buyer loyalty*
  If the buyers in the market have strong ties to the available products, e.g. because the brands are respected, then a new provider has to undertake considerable efforts in advertising, service etc. in order to reach a comparable position (regarding brand awareness and image).
- *Capital requirements*
  In many industries (e.g. automobiles, aircraft, telecommunications) it is necessary to invest so much capital in research and development, production plants, sales and service systems or the establishment of brands that only very few and very large companies qualify as new providers.
- *Switching costs for buyers*
  If a change of supplier is associated with high costs for the buyer (e.g. due to the need for new software, retraining employees etc.), the chances of new providers acquiring customers are reduced.
- *Access to distribution channels*
  If the capacity of the distribution channels is limited (e.g. in retail), new providers either have to squeeze out the existing ones or establish new sales channels.
- *Governmental regulations*
  Especially on international markets, there are various ways of protecting domestic companies against new foreign providers. Thus, the access to markets for public services (e.g. postal service, railway traffic) is still highly restricted in some European countries.

**Threats from Substitute Products**

In this case, the entire industry is threatened by potential substitute products. These substitutes may even come from industries seemingly "far removed". For instance, recently the extent to which the "fastfood restaurant" industry was under threat from the propagation of microwave ovens and ready-made meals was discussed in the USA. Another example is the threat to service providers for business travellers (airports, hotels etc.) through improved means of electronic communication.

Besanko et al. (2007, p. 316 f.) mention three aspects that determine the degree of threat from substitution products:

- availability of comparable high-performance products,
- price differences between the products of an industry and possible substitution products,
- a high price elasticity of demand, which will make more customers switch to substitution products with rising prices.

### 2.2.3 Competitive Analysis

While in the previous section the overall competitive situation in an industry was considered, now the focus is on the *analysis of selected competitors*. The first question is which competitors have to be considered.Then, the competitive analysis has to be carried out.

So the first step is the *identification of relevant competitors*. Here there are two quite distinct approaches: On the one hand, the purchasing decisions of the company's own customers can be analysed with regard to the questions which identical or similar products from other providers they may choose from. On the other hand, one can attempt to identify companies that pursue a similar strategy to one's own company. This is called a "strategic group" (see Porter 1980, p. 132 ff.).

Positioning analyses (see Chap. 4 for details) are used to identify competitors whose *product ranges are similar from the customer's perspective* and are therefore largely interchangeable. Positioning analyses determine how similarly competing products are perceived by the customers in terms of essential features. The greater the similarity of products in the customers' perception, the greater the risk that they will switch from the previously purchased product to the competitor's product. There are many well-known examples in various industries, such as Vittel and Evian for mineral water, Toyota and Mazda for cars, Toshiba and Pioneer for consumer electronics, etc.

It is a lot harder to identify competitors that offer substitute products. In this context, these are products that, although (technically) different, will satisfy the relevant customer needs. Thus, different kinds of food, such as ready-made meals, sausages, burgers, snacks etc. can be in a competitive relationship, because they all meet a need for fast food. Another example is the competition between airlines, railway companies (with high-speed trains) and telecommunications providers (offering video conferences) in the business travel market (need: communication with business partners). There are almost no standardised methods to identify competing providers which satisfy the same needs.. Therefore, explorative investigations (see Sect. 2.4.2) with qualitative methods such as the means-end chain approach (see Kuß and Tomczak 2007, p. 67 ff.) are the method of choice in this context. For a means-end chain analysis, a special interview technique is used to determine connections between specific product properties and general values and needs.

Strategic groups play a key role for the "*provider-oriented" identification of competitors*: "A strategic group is the group of firms in an industry that follows the same or a similar strategy … " Similar strategies are often due to the similarity of the providers with regard to size, resources, goals, etc. (Aaker 2009, p. 59 ff.).

Kleinaltenkamp (2002b, p. 89 f.), for example, reports on an investigation in which, based on the criteria "problem-solving capacity" (from "fully standardised products" through to "problem solutions for very special processing problems") and "complexity of the products" (from "low" to "high"), a total of eight strategic groups were identified

within the German machine tool industry. “Mobility barriers” (Porter 1999, p. 187 ff.) are very often associated with the existence of strategic groups, which renders switching from one strategic group to another difficult or impossible. In the example cited above, it is practically impossible for the provider of standardised machine tools of low complexity to penetrate into the group of complex special machines, as the expertise and capacity in the field of R&D are lacking. On the other hand, the special provider also has difficulties penetrating into the field of standard providers, because the means of series production and the relevant sales organisation are not in place. Some of the market entry barriers presented in Sect. 2.2.2 apply analogously.

In addition, there are potential competitors that are not yet active in the same market, but have the necessary resources to enter the market (i. e. posing a threat from new providers, as detailed in the previous section) (Czepiel and Kerin 2012, p. 42). An example in case is the PIN AG (in which the big German newspaper publishers held major shares), which became a competitor of Deutsche Post in the German market for postal delivery, because the publishers could exploit their resources and experience in the extensive distribution of print products.

So far we have outlined how to identify competitors from the demand-side and provider perspectives. Now we will briefly describe the *objects of competition analysis*. Here, too, the basic concept originates from Michael Porter (1999, p. 86 ff.). He distinguishes four elements of a competitive analysis that lead to a “reaction profile” of the competitors.

- assessment of the objectives pursued by the competitors (e.g. gaining the market leader position or safeguarding the existing position, emphasis on growth or on profit);
- identification of the basic principles of the competitors’ strategies (e.g. concerning customer loyalty or the quality of their products as perceived by the customers);
- analysis of the strategies pursued by competitors in the past and present (e.g. brand management with intensive advertising and widespread distribution in the case of the cigarette, beer and food brands of Philip Morris);
- assessment of the competitors’ skills (strengths and weaknesses) (e.g. patents, sales organisation, flexibility of the production plants) and possible future activities.

These four aspects of the competitive analysis are meant to allow the competitors’ assessment with regard to their future actions and reactions (e.g. anticipating imminent steps from the competitors’ side or passivity due to satisfaction with their situation).

The *sources of information for the competitive analysis* are extremely diverse. Here are just some examples: trade fairs, business reports, sales representatives, internet sources (competitors’ homepages, databases), patent applications, entries in the commercial register, market research studies (in which competitive products are included), “reverse engineering” (technical analysis of competitor products), conversations with the competitors’ employees (at conferences etc.).

## 2.3 Corporate Analysis

### 2.3.1 Strengths and Weaknesses

In the previous sections, we discussed the general principles relevant for strategic marketing planning and criteria for the analysis of the respective industry and the more global company environment. This section will look at the specifics of the respective company with regard to competitive advantages and disadvantages. An analysis of strengths and weaknesses is conducted to characterise the competitive position and to identify starting points for marketing strategies. Here, the focus is on the assessment of the capability of a company in terms of aspects that determine the position of this company with regard to the market conditions and the competitive situation, i. e. in relation to the comparable features of the competitors, in order to define its "strengths" and "weaknesses". Some leading authors connect the analysis of strengths and weaknesses with that of the opportunities and risks determined by factors outside the company, calling both together *SWOT analysis* (strengths, weaknesses, opportunities, threats).

For an analysis of strengths and weaknesses, first the competitors have to be identified (see Sect. 2.2.3), then the factors the analysis refers to.

In strategic marketing, a large number of highly diverse factors – not only from marketing in the narrow sense – may be of relevance for gaining competitive advantages (see Sect. 3.5). Thus, the spectrum of features typically included in an analysis of strengths and weaknesses may be very broad. Here are some examples (see e.g. Hax and Majluf 1996, p. 132 ff.):

- type and quality of the products,
- modernity and capacity of the production areas,
- number, qualification and motivation of the distribution agents,
- cost situation of products, sales and administration,
- productivity of the various business units,
- logistics and distribution system,
- financial potential,
- performance capability of the R&D unit,
- proximity to the market and infrastructure of the production site,
- patents,
- image of the brands and the overall company.

A common way of presenting strengths and weaknesses is in the form of profiles which graphically illustrate the results of the analysis. Profiling the strengths and weaknesses of the most important competitors allows to quickly and easily define the position of one's own company in the competitive environment.

Benchmarking, which is highly regarded in practice, can be viewed as a special form of analysing strengths and weaknesses. Benchmarking does not just compare different aspects of one's own capability with competitors in general, but with the best company in the own or even some other industry. For example, a software provider can be compared in terms of its customer service efficiency with a provider of telephone systems considered outstanding in this regard. A comparison of this kind can provide starting points for changes relevant for gaining competitive advantages.

**Benchmarking at General Electric and Xerox**
"The US electronics corporation General Electric, for example, identified the US retailer Wal-Mart as a business leader in service quality and analysed their business in order to obtain possible ideas for improvements. Xerox Corporation, a pioneer in benchmarking, compares its invoicing with that of American Express, and its logistics with that of the US mail order company L. L. Bean." (Backhaus and Voeth 2010, p. 137)

### 2.3.2 Value Chain Analysis

While for the analysis of strengths and weaknesses the emphasis is on the comparison of business potentials with those of the competitors, the analysis of value chains is geared to processes and process differences. The value chain analysis also differs from an analysis of the strengths and weaknesses by virtue of its somewhat more systematic approach that is based on checklists which may be more or less complete or appropriate.

The basic idea of the value chain analysis (see Porter 2000, p. 63 ff.) is to consider the process of value creation in a company, with its "primary" and "supporting" activities, and to compare it with the corresponding processes in competing companies. The creation and sale (including after-sale services) of products (goods or services) are considered primary activities. Supporting activities create the prerequisites for the primary activities by providing the necessary input material, expertise, infrastructure etc.

Specifically, Porter distinguishes the following *primary activities* (see Fig 2.7):

- *Inbound logistics*
  Receipt, storage and allocation of materials/components
- *Operations*
  Creation of goods and services (production) including assembly, quality control, packaging etc.
- *Marketing and sales*
  Deployment of marketing instruments

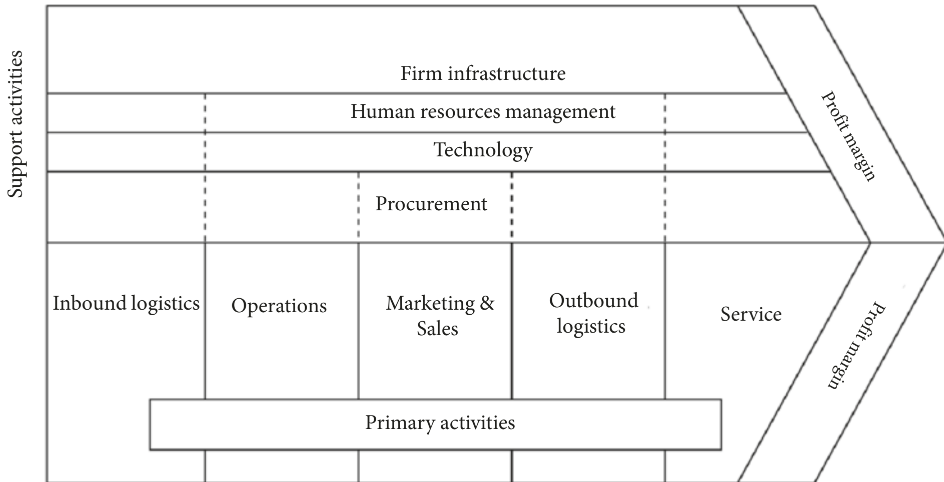


**Fig. 2.7** Value chain (According to Porter 2000, p. 66)

- *Outbound logistics*
  Delivery of the products to customers, including transportation, warehousing, order processing etc.
- *Customer service*
  Support in the use of the products sold to customers (e.g. maintenance)

*Supporting activities* are:

- *Procurement*
  Purchasing activities that involve not only the provision of material and components (inbound logistics), but also the input for all primary activities (e.g. outfitting the various areas, providing services)
- *Development of technology*
  Development of the knowhow necessary for fulfilling all the tasks in the various areas (e.g. product development, market research)
- *Human resources management*
  Acquiring and developing the personnel for the company's various activities (e.g. staff selection, training and planning)
- *Company infrastructure*
  Activities that are not attributable to individual products, but mainly relate to the management of the company overall (e.g. executive management, accounting, legal department)

The comparison of one's own processes, illustrated as a value chain, with those of competitors indicates the direction which will play a key role in subsequent considerations

– how to gain competitive advantages. Czepiel (2012) summarises the basic concept in this way: "Competitive advantage comes from being able to create value for customers that others cannot. This means that the business performs some activity better, at lower cost, or simply different than competitors. The value chain is a methodology for identifying those activities."

So a value chain analysis is not just a matter of analysing one's own company, but also for subsequently deciding on how to *shape the value creation process*. Especially relating the costs incurred by the particular value activities to their relevance for the customer benefit will provide starting points for relevant changes. A well-known example of this is offered by the Swedish furniture provider IKEA, which largely eliminated all activities connected with the assembly and delivery of furniture (or transferred them to the customer), thus achieving considerable cost reductions that in turn led to price advantages for the customer. The value chain is variable in that individual value activities may be organised differently (e.g. reduction, greater efficiency) or transferred to the supplier or customer. A current example is found in retail, where the checking out of the purchased goods is starting to be transferred to the customers with the aid of self-checkout machines.

## 2.4 Market Research and Aspects of Buyer Behaviour

The information basis for marketing planning relates to individual markets (e.g. their size and growth, buyer requirements etc.), the behaviour of customers and customer groups in these markets and the effects of certain marketing instruments. Market research addresses such questions with a well established bundle of methods. The functions of market research will be briefly outlined in this section; regarding the various methods the reader is referred to the extensive specialised literature.

The American Marketing Association (2004) attempts to define the activities of market research in a relatively precise and comprehensive way: "Marketing research is the function that links the consumer, customer, and public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."

This definition mainly refers to the commercial use of market research, but includes – at least to some extent – basic research ("improve understanding of marketing as a process") and methodological research ("designs the method for collecting information"). Out of all the definitions used in the literature it reflects most precisely what is understood by market research in science and practice.

The functions of market research as stated in the AMA definition will in the following be illustrated by some examples, so as to provide a vivid picture of the its diverse goals and activities:

- *Identification and definition of marketing opportunities and problems*: characterisation and delimitation of market segments, competitive analysis, analysis of new consumer needs, investigation of potentially new markets, prognosis of market volume.
- *Design and evaluation of marketing activities:* advertising pretests, product tests, advertising effectiveness measurements.
- *Monitoring marketing performance:* observation of market share development, image analysis, measurement of customer satisfaction.

The second part of the AMA definition includes the typical procedures of market research, from the definition of the problem to data analysis and the interpretation of results.

In practice it can be observed that market research is typically a standard part of marketing planning. This is evident, for example, in the long-term market research budget or in investigations (e.g. panels) conducted by specialised institutes on a regular or ongoing basis. The widespread acceptance of market research is also demonstrated by the presence of large market research institutes (e.g. GfK, Nielsen, forsa in Germany). At universities, market research has generally become a key component of marketing education.

In market research, the following three types of investigations are mainly used (for details see Kuß 2012, 35 ff.):

- *Explorative investigations*
  As the name suggests, it is a matter of "discovering" causes for problems or connections between variables. This way, for example, difficulties with the handling of a product or hitherto undiscovered customer needs can be identified. Explorative investigations are often conducted at the beginning of a bigger project and then serve to prepare for the subsequent investigations. Generally, so-called "soft" methods of data collection and analysis are applied (e.g. in-depth interviews, group discussions), with only small sample sizes. Accordingly, the results provide more of an impression than a definition.
- *Descriptive investigations*
  This type of investigation is probably most widespread in practice. The questions raised are, for example: How big is the market? What are the socio-demographic features of heavy users of the product? What are the media used by the members of the core target group of a product? Panels are a very widespread form of descriptive (longitudinal) investigations and are used to analyse ongoing changes in market shares, level of distribution etc. The established methods of sampling, questionnaire design, inference statistics etc. are used to be able to extrapolate the results to the overall population.

- *Causal investigations*
  With regard to the methods applied, causal investigations are the most demanding of the three types of marketing research. Here the aim is not only to determine, for instance, how the core target group of a product can be described, but also what reasons (causes) there are for a certain behaviour, certain preferences etc. This is not only significant from a scientific perspective, but also opens up the possibility of recognising starting points for measures with which certain effects can be achieved. Often more complex methods are necessary than for descriptive investigations, e.g. experiments.

The majority of market research is ultimately oriented towards the analysis of purchaser behaviour, e.g. on questions such as the following:

- Which product features have greater or lesser significance for potential customers?
- How do customers respond to certain types of communication?
- Have satisfaction and hence customer retention increased over the last year?

From the viewpoint of marketing, the relevance of such questions and the corresponding information is not surprising. Ultimately, the success of every marketing strategy depends on a sufficiently large number of customers choosing a certain offering – repeatedly if possible. So here is a quick look at some aspects of purchasing behaviour that will be discussed in more detail in the following chapters. The analysis of buyer behaviour has developed over the past decades and has gained importance far beyond marketing. Extensive literature exists on this subject (e.g. Hoyer et al. 2013). A very selective and sketchy representation of some elementary points may suffice here, with an emphasis on cognitive processes; the role of emotions and activation (see Kroeber-Riel et al. 2009) or the latest trends of neuroeconomics (see Bruhn and Köhler 2010) are certainly beyond the scope of this book.

Figure 2.8 presents some aspects of buyer behaviour that are important for marketing planning. This especially concerns decisions and processes directly related to concepts of marketing planning that will be covered in the following chapters of this book. As mentioned before, this overview is very simplified. Nevertheless, the observations apply to a great extent both to B2 C and B2B markets.

Figure 2.8 refers to a market segment “XY” (see Sect. 3.3) with customers with similar requirements regarding the relevant features and a (typically limited) number of providers that are oriented toward this segment. Not coincidentally, the upper part of the figure is similar to the “strategic triangle” (see Sect. 3.5), a very common concept which illustrates that customers will assess the offers of different companies according to their subjective perceptions and evaluations, and in comparison with competing offerings.

The offerings – here from two providers, A and B, only – are mainly characterised by their positioning (see Sect. 4.5) and the design of the marketing mix (see Chap. 5). “Positioning” encompasses the analyses and decisions regarding the advantages of an offering from the perspective of the potential customer and in comparison to the offerings of

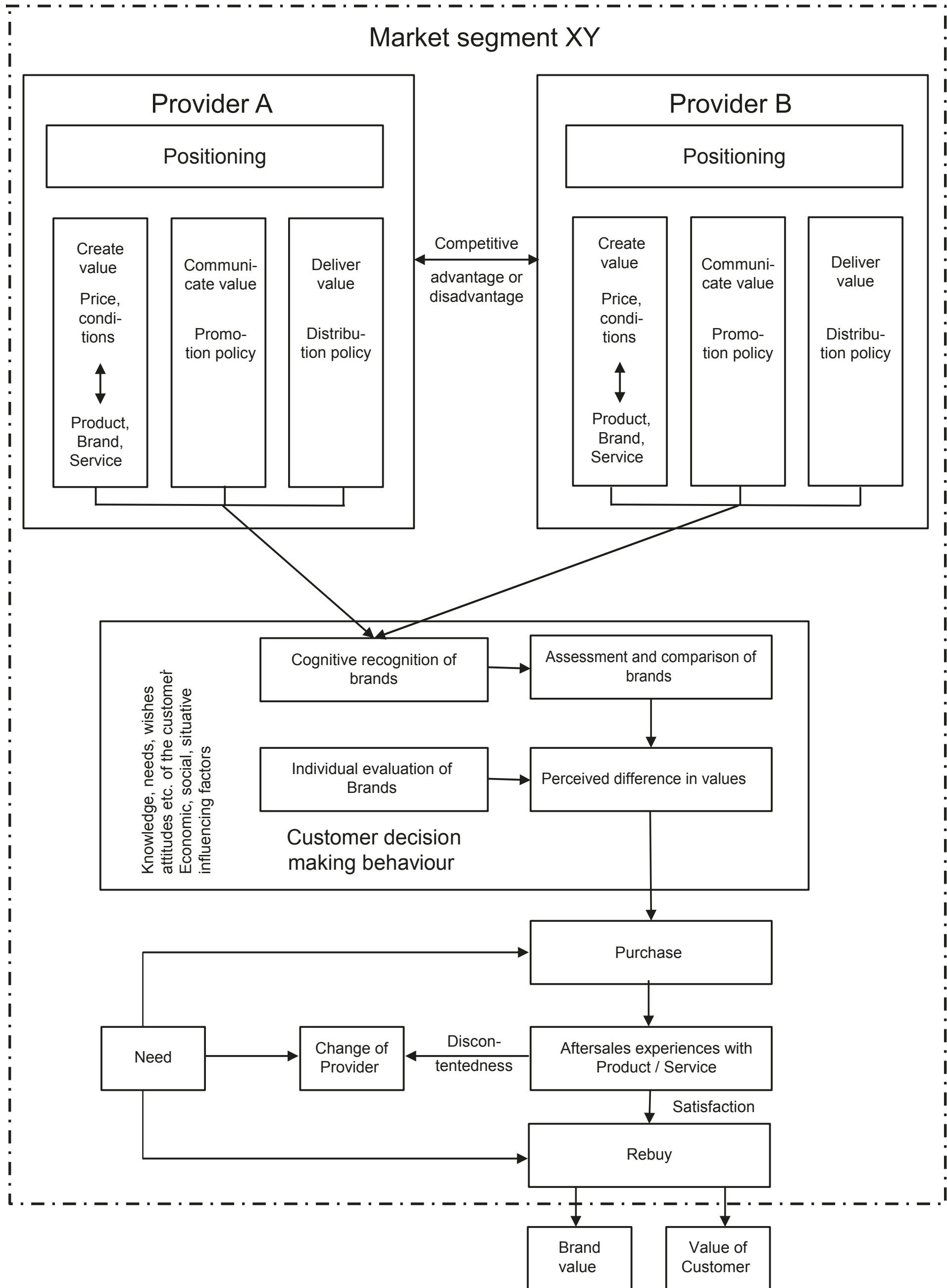


**Fig. 2.8** The relevance of buyer behaviour for marketing planning

competitors in the respective market. This kind of positioning is required for designing the marketing mix which is to influence the perception and evaluation of an offering. Regarding the marketing mix we will follow an approach by Chernev (2009, p. 121 f.). The starting point is the question how an offering will create value for the customers. This means that the design of the market performance (product features, brand, service, see Sect. 5.2) that determines the customer benefit is compared with the reciprocation by the customer (usually the price to be paid, including the payment conditions, see Sect. 5.3). It is not surprising that a large mismatch in favour of the customer enhances the attractiveness of the offering, such as a product that corresponds to the competing offerings but is offered at far lower prices or a product of superior quality offered at comparable prices (see Sect. 3.5). If a company is in a position to make such advantageous offers to the customer, it has a competitive advantage (see Fig. 2.8). For a better offering to be successful in the market, it is necessary that the customer is informed about its value (see communication policy in Sect. 5.4). Ultimately, an offer also has to be made accessible to the customer (see distribution policy in Sect. 5.5). Of course, superiority or inferiority in communication and distribution may also lead to competitive advantages or disadvantages.

Now we will consider the reaction of the potential customers to the various offerings on a market. Firstly it has to be assumed that these offerings are not directed to "unprepared" customers. Both consumers and organisational buyers have prior knowledge, more or less specific wishes and needs or attitudes towards different brands etc. In addition, the decision-making behaviour of customers is influenced by economical (e.g. budgets, interest rates), social (e.g. norms, corporate culture) and situative (e.g. urgency of the need, time pressure in decision-making) factors. These factors form the background for a purchasing decision (see the box in the middle of Fig. 2.8).

A precondition for the inclusion of offerings in the customer's decision-making process is knowledge concerning the offering. If the communication policy does not succeed in making the brand known, e.g. through advertising or trade fair participation, then it will have no chance of being selected. Also, the information about product properties has to reach, and be understood by, the customers, which is not necessarily self-evident for some sort of technical information (e.g. technical data of Hi-Fi devices). All these factors determine the customer's "cognitive perception of the brand" which in turn influences the (overall) assessment (e.g. product X is especially powerful and durable) and comparison of the offerings (e.g. product Y has the best service on the market). In this context, the key role of brands (see Sect. 3.7) has to be emphasised, both with regard to familiarity and concerning the association with certain properties (e.g. durability, superior service, innovative technology). Analogous to the formation of attitudes (see, e.g., Kuß and Tomczak 2007, p. 49 ff.), cognitive and affective components (the perception and the evaluation of offerings) will lead to an assessment of the individually perceived value differences. This means the perceived properties of the offerings have to be evaluated according to the individual demands (needs, wishes, benefits). Thus, a product that offers only standard performance, but is especially low-priced, can offer great value to a customer with a low budget and modest demands. For another customer, a product with top performance and

very high durability (e.g. Miele household appliances), which has a slightly above-average price, may offer the highest value. Usually it is assumed that the product with the highest value in this sense will be chosen in a purchasing situation.

Apart from the evaluation of an offering, another precondition for a purchase is a corresponding demand. A demand is based on a need, characterised by Balderjahn (1995, p. 180) as “the feeling associated with striving for eliminating a shortage”. If a need is oriented towards products on the market and if the financial conditions are given for acquiring these products, this results in a demand. In this sense, the existing demand and the (greatest) perceived value of a product together lead to its purchase.

After the (first) purchase of a certain product, its use will lead to satisfaction or dissatisfaction. This is generally understood as either the fulfilment or over-fulfilment of the expectations existing prior to purchase, or their non-fulfilment. Due to its importance for repeat purchases and the development of long-term business relationships, the analysis of customer satisfaction has become the object of strong interest in science and practice (see e.g. Homburg 2008). In the positive case, repeat purchases (in accordance with further needs) and satisfaction lead to lasting customer retention, which today is often supported by customer relationship management (see Sect. 3.5.2). In many markets, the establishment of brands (see Sect. 3.7) is a key requirement for repeat purchases, in that it allows for the identification of products and thus facilitates brand loyalty. In the negative case, i. e. in the case of dissatisfaction, this will lead to the switching of providers if the need arises again.

As an outlook, we would like to make short mention of the concepts of *customer value* and *brand value*. Customer value mainly refers to the long-term sales volume and profit contribution attainable through a customer. In this perspective, the customer value determines the efforts and “investments” aimed at a customer (Kumar and Rajan 2012). Here, the time dimension is paramount. In regard to brand value the focus is on future sales and profits from *all* customers (see Sect. 3.7). This means that a brand helps attain high and stable sales volumes over a long period (→ repeat purchases). In many cases (this is especially true for strong brands) it is even possible to achieve an increased profitability per unit sold as a result of the customers’ willingness to pay higher prices.

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# Market-Oriented Corporate Planning

# 3

## 3.1 Competition and Competitive Advantages

### 3.1.1 Basic Principles

In Chap. 2 we considered external conditions which play a key role for the success of a company or a business area – the influences of the company's environment, the competitive situation and the situation in the respective industry. Beginning with this chapter we will concentrate on the strategies and measures of an individual company in the respective environment on different implementation levels, from market-oriented corporate planning through to planning the marketing mix.

This chapter will deal with *competition* and *competitive advantages*. Generally, effective competition between providers of goods and services is considered a key element in a market economy. If several providers strive to enter into a mutually advantageous exchange relationship with a potential customer and the customer is free to select the most favourable offering, then those firms tend to be successful that (in the customer's perception) offer the best deal. The providers' success may be due to the fact that they conclude a larger number of (profitable) sales transactions than their competitors or that they can command higher prices for their (superior) products. From the customer's point of view, the two main reasons for choosing a certain offering are, on the one hand, that the quality is not inferior to that of other offerings, but the price is more favourable, or, on the other hand, a better product or one that better meets the customer's needs is offered for a comparable price. Against this background, competition should lead to firms being forced to either improve their products (through innovation, service, quality assurance etc.) or adapt them to the customers' requirements or to achieve cost reductions which allow them to offer their products at lower prices.

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This indicates that competition is a process in which different providers are trying to gain advantages with regard to exchange relationships with potential customers. By achieving a larger number of sales transactions or more profitable sales transactions, greater financial success will be achieved as compared to competitors. Otherwise an economic setback looms, which may even threaten the existence of the company. Hunt and Morgan (1997, p. 78) characterise the nature and purpose of economic competition correspondingly: "The competitive process is viewed as the constant struggle among firms for a competitive advantage in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance."

**The Role of Marketing in Competition**

" …. Marketing is the art and science of creating change (disequilibrum) in markets in such a way that the change benefits the firm (or an alliance of firms) and, consequently, comparatively '*dis*advantages' rivals." (Dickson 1996, p. 102)

The definition by Hunt /Morgan addresses two concepts that will be briefly examined in this and the following section: competitive advantages and resources. The term "*competitive advantage*" refers to the capability of a company to deliver performance that is more valuable for customers than that of competing providers, or to deliver a comparable performance at lower costs. In this context, Hunt (2002, p. 254) refers to effectiveness or efficiency advantages. As already mentioned above these advantages result in higher sales volumes and/or higher operating margins, thus leading to greater financial success compared to competitors. Some authors regard greater financial success as the essential indicator for competitive advantage. For example, Besanko et al. (2007, p. 584) define competitive advantage as "the ability of a firm to outperform its industry, that is, to earn a higher rate of profit than the industry norm."

**Porter's Characterisation of Competitive Advantages**

"Competitive advantages essentially arise from the value that a company can create for its buyers, provided this exceeds the costs of value creation. Value is what buyers are prepared to pay, and a higher value results from the offering in prices for the equivalent products that are below those of the competitors or arise from unique products that more than compensate the higher price." (Porter 2000, p. 26)

Thus it is not surprising that questions regarding the causes and origins of competitive advantages meet with great interest in theory and practice, because the answers not only serve to understand the process, but will also provide starting points for relevant measures.

A particularly important influencing factor is considered to be the *resources* available to a firm (Bresser 1998, p. 305 ff.). This aspect will be examined in more detail in the following section.

### 3.1.2 Characteristics of Markets and Resources as the Basis for the Success of a Firm

Section 2.2.2 on "Industry analysis" presented different factors that influence the attractiveness of markets – the bargaining power of buyers and suppliers, rivalry within the industry, threats from new providers or substitute products. A provider with a favourable position in a market with regard to these aspects will, of course, have good opportunities for above-average success because there is little price pressure from customers and suppliers, the battle for market share is not very intense etc. For some authors, not the least for Michael Porter, the different competitive pressures in different markets are the key reason for more or less success and greater or lesser profitability attainable in these markets. In fact, one can observe, for example, that the profitability is generally higher in the pharmaceutical industry than in the airline business (Besanko et al. 2007, p. 346). But decisions on entering markets or withdrawing from markets are certainly not commonplace and usually cannot be made at short notice. Such decisions are at the heart of market-oriented corporate planning (see Sect. 1.2) and also arise in the context of international markets, which will be addressed in several sections of this chapter. Sect. 3.4 will discuss in more detail the relevant questions of "Where?" and "In which direction?". Normally one has to start with the given markets, at least in the medium term, and develop promising strategies within these markets. Besides differences in profitability *between* the various industries, there are obviously also more or less distinct differences *within* these industries that cannot be explained by market conditions alone, but rather depend on the different resource endowments of the participating companies. This background is important for the "resource-based approach".

In this context, the term "resources" is broadly defined. Both material (e.g. plants, sites) and immaterial resources (e.g. patents, brands) are included. It is immediately apparent that superior resources can directly lead to competitive advantages. For instance, efficient production plants or cost-effective sites (e.g. as a result of low wages or energy costs) can lead to cost advantages and strong brands or special patents may lead to outstanding products.

Hunt (2000, p. 138) defines *resources* as "the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s)". Hunt distinguishes the following types of resources:

- financial resources (e.g. available financial means, access to financial markets),
- physical resources (e.g. production plants),
- legal resources (e.g. brand rights, patents),

- human resources (e.g. skills, experience and knowledge of the employees),
- organisational resources (e.g. routines, corporate culture),
- information resources (e.g. knowledge about customers, market segments, competitors and technologies),
- relationship resources (e.g. relationships with suppliers and customers).

These resources may also become effective in combination. So the value of a brand consists of the combination of legal resources (brand rights) and relationship resources that are founded on the customers' trust and preference towards this brand.

**The Basic Concept of the Resource-Based Approach ("Resource-based view of the firm")**
"Two fundamental assumptions of the resource-based approach are […] resource heterogeneity and resource immobility […]. The assumption of resource heterogeneity implies that companies are characterised by an asymmetric resource endowment, because a large part of a company's resources is of a specific nature. The assumption of resource immobility implies that the company's important, especially immaterial resources cannot be traded and are therefore immobile." (Bresser 1998, p. 306)

However, resources only lead to a lasting competitive advantage if, according to Barney (1991, 1995), certain *prerequisites* are fulfilled:

- Resources have to be *value generating* in the sense that they make a contribution to increasing the efficiency and/or effectiveness of a company.
- Resources must be *scarce* because otherwise every competitor could access them and no competitive advantage could arise.
- Resources must *not be fully imitable*, because otherwise competitors could easily compensate their disadvantage. In this sense, a long-established corporate culture or brand reputation are not readily imitable.
- Resources must *not be substitutable* (e.g. cost advantages from low labour costs due to higher productivity), because otherwise competitors could quickly compensate the disadvantage.

In the context of the resource-based view the term "resources" is understood as those input factors that are actually "company specific", i. e. hard or impossible to imitate. Such resources are unique, hard to trade and therefore cannot be used by any other company (or only by accepting prohibitive transaction and transfer costs). In other words, firm specific resources usually cannot be purchased (at least not independently of the respective company), but need to be developed, sometimes in an extremely laborious process.

Typically this often involves soft assets, such as values, cultures and tacit knowledge. These company specific resources often represent the main source of competitive advantage. “Heterogeneity is the most basic condition. It is the sine-qua-non of competitive advantage … ” (Peteraf 1993, p. 185).

The orientation towards (core) competences (capabilities) associated with the resource-based approach received particular attention from Prahalad andHamel (1990). Since most resources cannot be used productively in and by themselves, several resources are usually necessary to execute a task or activity. A “capability” or competence thus represents the ability to bundle resources in such a way that they can be deployed successfully. “A capability is the capacity for a team of resources to perform some task or activity” (Grant 1991, p. 119). “Strategic capabilities” (Grant 1991) are defined as abilities that are the source for the long-term success of a company and are usually characterised by the integration of several functional capabilities. For example, the fast-food chain McDonald’s has a series of outstanding capabilities in the area of product development, market research, personnel management, financial controlling and process management. But what is ultimately responsible for the many decades of corporate success is the strategic capability of integrating these functional capabilities in such a way that products and services can be offered worldwide in thousands of restaurants with a high level of consistency at a defined and dependable quality level. Prahalad and Hamel (1990) regard such strategic capabilities as “core competences”.

However, in order to be in a position to establish and expand competitive advantages in an increasingly dynamic and complex environment, it is not sufficient to exploit existing core competences. Instead, firms have to have specific capabilities in order to be able to establish and advance (core) competences. Teece et al. (1997) speak in this context of “dynamic capabilities”. To face the challenges of a changing environment, firms must, above all, be in a position to integrate, to adapt and reconfigure (newly develop) internal and external (core) competences.

When comparing the two approaches – the view that the success of a firm mainly depends on the market conditions and the resource-based approach – the questions arise as to which of these approaches better explains the success of a company and whether market conditions or the resources and activities of the individual company are of greater significance. A series of empirical studies is now available whose most important results will be outlined here (see the overviews from Besanko et al. 2007, p. 348 ff. and; Hunt 2000, p. 153 ff.). These studies (Rumelt, 1991; Roquebert et al. 1996; Mauri and Michaels 1998) consistently show that the specifics of the individual companies have a far greater influence on their profitability than the market situation of the respective industry. These studies revealed that 19–44 % of the variance of the dependent variable “return on investment” (or a similar parameter) could be explained by firm-specific factors, while only 4–19 % were industry-specific. Even Michael Porter, who usually emphasises the importance of the industry situation for the success of companies, found in his own study with over 7,000 companies (McGahan and Porter 1997) that 36 % of the variance of profitability could be explained by company specifics, whereas only around 19 % could be attributed

to the respective industry. Obviously, the specific strategies and measures of firms have a considerable influence on their financial success. Otherwise, creativity, innovation efforts, cost-reduction, marketing concepts etc. would be largely superfluous. Of course, nobody in theory (see e.g. Besanko et al. 2007, p. 346 ff.) or practice would consider decisions regarding the selection of markets (see Sect. 3.4) as unimportant. But one can reasonably assume that, while different levels of profitability can be attained in different markets, the variation in profitability within an industry is determined by the companies' resources as well as the strategies regarding their deployment and development.

The two approaches lead to different perspectives for the development of strategies – the *outside–in* and the *inside–out perspective*. Based on different starting points, the outside–in and the inside–out perspectives focus on the same task: how to establish and expand competitive advantages. Both perspectives provide valuable insights into the origin and consolidation of competitive advantages, but are also subject to a certain one-sidedness in their argumentation. In simplified terms, the outside–in perspective recommends to search for an attractive market and to use or create the required resources to achieve competitive advantages in this market. In contrast, the inside–out perspective recommends to identify your core competences and choose the markets in which your resources can be exploited most effectively. The two perspectives essentially differ in their prioritisation: either the attractiveness of the market or the specificity of the resources are the key for achieving competitive advantages. Wernerfelt, one of the most prominent proponents of the resource-based view, even states (Wernerfelt 1995, p. 173): "Strategies which are not resource-based are unlikely to succeed (…). This is so obvious that I suspect that we soon will drop the compulsion to note that an argument is "resource-based". Basing strategies on the differences between firms should be automatic, rather than noteworthy."

From an outside–in perspective, however, the same logic can be used to formulate that strategies which are not market-based will most likely not be successful either. In addition, firms also need a sense of direction if they want to, or have to (due to changes in the environment), establish or advance their core competences in the sense of the dynamic capabilities approach, orienting themselves towards attractive industries or markets.

### 3.1.3 Development and Effects of Competitive Advantages

*Resource-advantage theory (R-A theory)* by Shelby Hunt – highly regarded in marketing – is used to illustrate the interesting processes of the development (and advancement) of competitive advantages and their impacts. This theory was initially outlined in an article by Hunt and Morgan (1995) and then further developed and discussed in a large number of subsequent publications. Especially noteworthy are an extensive book publication by Hunt (2000) and a summary of the current status of the discussion (Hunt 2010, p. 359 ff.). The following brief overview on the key aspects of R-A theory is mainly based on these sources.

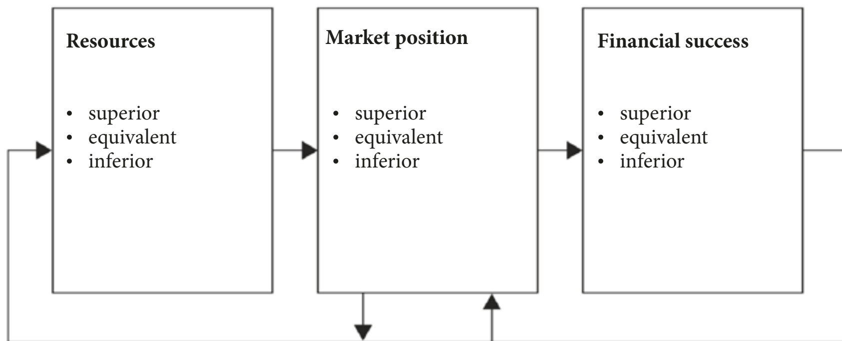



**Fig. 3.1** Elements of the resource-advantage theory at a glance (According to Hunt 2000, p. 136)

R-A theory has some characteristic features that distinguish it from other theories explaining competition and make it useful for practical application: (a) it is a dynamic theory, as the focus is on the competition *process*; (b) insights from various branches of economic sciences (including behavioural science) are integrated; (c) it provides starting points for the development of strategies; (d) the underlying assumptions are more realistic than those of more macroeconomically oriented theoretical approaches to competition and its results. These assumptions are beyond the scope of this textbook and may be found in the relevant publications by Hunt (2000, p. 105 ff., 2002, p. 252).

The central message of R-A theory is illustrated by Fig. 3.1, which presents the three key elements – resources, market position and financial success – as well as their relationships. Resources represent the starting point for all considerations.

When considering companies, R-A theory (as its name implies) concentrates on the aspect that companies represent a collection or combination of resources (see Sect. 3.1.2). Their resource endowment enables firms to fabricate certain products more cost-effectively (*efficiency advantage*) or to make products that are superior in the customers' perception (*effectiveness advantage*). Thus, large providers with efficient production plants may produce (standard) products at well below average costs (economies of scale), while other companies have special know-how and strong brands (e.g. Apple, Porsche) and can offer outstanding, maybe even unique, products.

**Definitions of Effectiveness and Efficiency**

"*Effectiveness* is an external performance standard that denotes the extent to which a company meets its customers' expectations and demands. *Efficiency* is an internal performance standard that denotes the ratio of output to input." (Plinke 2000, p. 86, source text in German)

| | | Value of the product | | |
|---|---|---|---|---|
| | | lesser | around the same | greater |
| Costs | lower | **1** Competitive position undefined | **2** Competitive advantage | **3** Competitive advantage |
| | around the same | **4** Competitive disadvantage | **5** Neither advantage nor disadvantage | **6** Competitive advantage |
| | higher | **7** Competitive disadvantage | **8** Competitive disadvantage | **9** Competitive position undefined |

**Fig. 3.2** Different competitive positions (According to Hunt 2000, p. 137)

The various combinations of costs and value of the products offered (as compared to those of the competitors) are summarized in Fig. 3.2. It becomes apparant that an advantage in one of the dimensions which is not cancelled by a disadvantage in another dimension leads to a competitive advantage (fields 2, 3 and 6) and vice versa (fields 4, 7 and 8). In field 5 there is neither an advantage nor a disadvantage. In fields 1 and 9 the situation is undefined, because it remains open how great the differences in both dimensions are, for example, whether in field 1 a slightly lower value of the product is more than compensated by a high cost advantage. The meaningfulness of such a representation is limited to an individual market segment, of course, because otherwise it would hardly be possible to compare the value of different products for the customer. Various of these representations have to be merged when considering an extensive business area or an entire company.

Through the mechanism already addressed in Sect. 3.1 (competitive advantages (or disadvantages) lead to higher (or lower) quantities sold and/or higher (or lower) operating margins), a superior, equivalent or inferior financial success (right column in Fig. 3.1) will arise for the respective sub-markets. This generates the drive for the management to improve or consolidate the competitive position by changing the resource endowment. Important means for achieving this include innovations, promising new strategies and the use of existing financial resources or resources arising through financial success. Typical examples of this include:

- expansion of legal resources by purchasing patents or brand rights,
- expansion of human resources through staff training,
- expansion of the sales system, knowhow etc. through purchasing other companies.

This process is easy to illustrate with the example of brands. The existence of a strong brand (resource) directly leads to a higher market share (and the resulting sales figures)

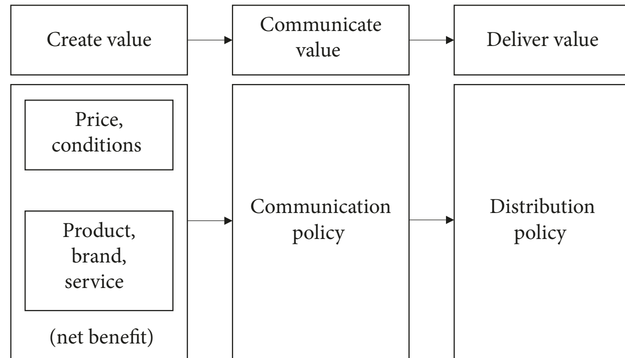



**Fig. 3.3** Creating, communicating and delivering value with the marketing mix (According to Chernev 2009, p. 121)

and/or the willingness of customers to pay a higher price for the product (as compared with no-name products). Both (sales quantity and willingness to pay) have a direct impact on financial success, which in turn allows the brand to be strengthened further, e.g. through intensive communication or further product development.

Learning processes (e.g. with regard to knowledge about customers or distributors) based on the feedback mechanisms illustrated in Fig. 3.1 (see Hunt 2000, p. 145 ff.) also play a role. It is clear that instability is a typical feature of this concept of competition, because every company will attempt to gain further competitive advantages by developing resources or will react to the competitors' advantages in some way.

Of course, resources alone cannot determine the market position of a company. This requires appropriate measures, above all regarding the selection of markets (Where?) and the type of advantages offered to the customer (How?). Decisions on the markets to be served and differences between one's own products and the competitors' offerings lead to a certain positioning (→ market-oriented business unit planning). This in turn provides the background for the development of the marketing mix (see Chap. 5) which creates a value for the customer (product performance – costs), communicates this value and makes it accessible through a suitable distribution system. Figure 3.3 illustrates these steps.

## 3.2 Guidelines Derived from Strategic Corporate Planning

This section draws from that part of corporate planning which involves the selection of markets and fundamental considerations regarding market development and may be characterised as "market-oriented corporate planning". This is considered in the context of marketing planning because here the guidelines for the next steps of marketing planning are defined and because market-oriented analyses and considerations play a key role in these strategic decisions.

*Corporate goals* (e.g. growth or stabilisation) and general *principles* (e.g. mission statement and ethical principles) are typically superordinate to market-oriented planning. Both goals and principles are shaped by the company owners and the employees, by the

tradition of the company and its culture, by the given possibilities (resources and skills) and not least by the economic and societal framework conditions. Normally, corporate goals do not only refer to one aspect (e.g. exclusively profit or growth), but to a selection of several aspects with greater or lesser weighting. The following aspects are of widespread importance (see e.g. Walker et al. 1999, p. 44):

- *profitability targets*(earnings, return on sales, ROI, etc.),
- *goals regarding size and growth* (sales volume or growth, market leadership, etc.),
- *financial goals*(liquidity, level of self-financing, etc.),
- *social goals*(safeguarding jobs, employee satisfaction and motivation, etc.).
- *power goals*(securing the company's independence, economic and social influence, etc.).
- *visions* (long-term general goals).

The corporate goals are usually dominated by general principles of corporate policy such as the *business mission* which usually refers to a problem the company solves, i. e. a customer benefit.

*Ethical principles* have received increasing attention over recent years. In this context, the health compatibility of products and environmental protection have attained particular prominence. With regard to ethical accountability, companies have to decide whether they should withdraw from markets for harmful (e.g. cigarettes) or ecologically damaging products (e.g. pesticides).

The relevance of these aspects for marketing planning is obvious. Business mission and ethical limitations of corporate activities provide a framework for the question to be discussed subsequently: In which markets are we, as a company, active/do we want to be active ("Where?")? Specific examples of these aspects are provided by companies that concentrate on certain fields of activity (e.g. Daimler AG as a "mobility group"), commit themselves to certain performance standards (e.g. Apple as a provider of innovative products with excellent design and easy operability) or do not serve certain markets for ethical reasons (e.g. no technology export to militarily aggressive countries). The retail company "Body Shop" (body care and cosmetics) represents a very well known example for the implementation of corporate principles in the marketing of products (How?). In this company, "naturalness", environmental protection and social responsibility determine the types of products, presentation and packaging, as well as the design of the shops: "Our Enrich Not Exploit Commitment includes 14 targets for The Body Shop to achieve by 2020. The targets are the clearest manifestation of who we are and what we stand for as we take the first step towards achieving our aim of being the most ethical and truly sustainable global business. They will drive our performance in key areas and our overall progress towards our ultimate aim of being the world's most ethical and truly sustainable global business." (www.thebodyshop.com)

The corporate goals addressed at the beginning of this section have somewhat more differentiated implications, even though the connection to the question "Where?" is

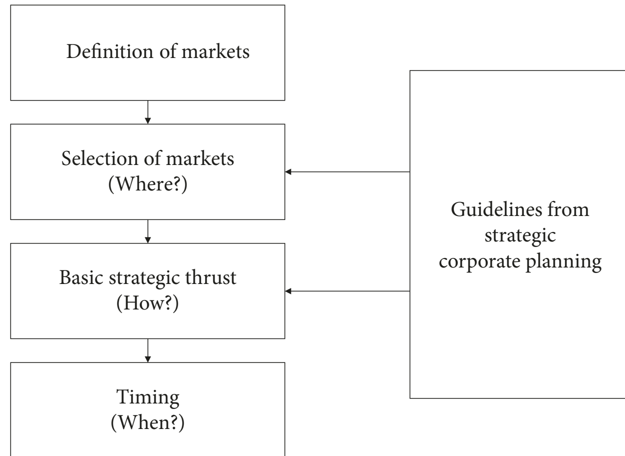



**Fig. 3.4** Influence of strategic corporate planning on market-oriented corporate planning

clearly obvious. Thus, different weightings for growth, profitability, stability etc. will result in differing criteria for evaluating the attractiveness of markets. Companies that wish to become market leaders and strive to gain a dominant position must not overly limit their field of activity, such as a finance holding that pursues certain targets and only engages in industries that fulfil these targets. The goals also influence the question "How?", i. e. the question how firms can gain competitive advantage. Thus, a short-term nature of profit goals has implications for the willingness to invest in the development of new products and markets; market leadership as a goal often implies that mass markets have to be developed through cost leadership. Figure 3.4 illustrates these relationships.

Now that some guidelines from corporate planning have been outlined, the subsequent sections will discuss the fundamental decisions in market-oriented corporate planning.

## 3.3 Definition of Business and Market Activities

### 3.3.1 Relevant Markets, Market Areas and Market Segments

The following question may seem simple but is actually one of the hardest and most important questions a company can ask itself: *In which market are we active or do we wish to become active?*

Superficial and quick answers to this question can threaten the long-term success and even the existence of companies. A well known example of this is provided by the US railway companies that assumed at the time that they were operating in the railway industry and not in the transportation industry. The result was that they did not react to the growing demand for transportation services and new providers that used trucks started to serve the market.

The question here is one of the relevant market. "The *relevant market* is defined as that section of the total market which is relevant to the competitive strategy, i. e. that market field which the marketing instruments are directed to in the sense of a *served market*" (Müller 1995, p. 767).

How can the relevant market be characterised more closely? The most essential factors are its product-related and geographical delimitations. For the product-related delimitation, the degree of substitution possibilities between different products is crucial. In terms of substitutability, Besanko et al. (2007, p. 193) emphasise the following aspects:

- same or similar performance of the products (for many customers, cars of the BMW 3 Series and the Mercedes C Class are largely substitutable, the Smart and the VW Passat Estate less so);
- same or similar occasions for using the products (e.g. hamburgers and hot dogs are used in similar situations for a quick meal, whereas soft drinks (like cola) and wine are likely to be used very differently).

Another condition for substitutability according to Besanko et al. (2007, p. 193) is the availability in the same geographical market. A market characterised by geographical features is called a "market area". The term "*market area*" refers to a *regional delimitation* of sales markets. Many boundaries of sales markets that appeared to be fixed have recently become relativised through new developments in transportation and storage, the dismantling of trade barriers, improvements in communication, the levelling-out of cultural differences etc. Thus, many fresh products that tended to be marketed regionally due to transportation costs and time constraints are now found in far larger market areas, e.g. fruit, vegetables and flowers from Israel or South America. The answer to the question in which area a product should be offered is no longer obvious, but is subject to strategic considerations.

Following Becker (2013, p. 303) and Jain (2000, p. 601 ff.) we can differentiate:

- local market development,
- regional market development,
- national market development,
- international market development.

A limitation to *local markets* (home market in the company's direct catchment area) is rarely to be found any more in today's industrial sector, with the exceptions of the construction industry (due to its special production conditions) and parts of the publishing and printing sector (on account of its frequently local connections). In contrast, a concentration on local market development is still common for many companies in retail, traditional crafts and various services (e.g. laundries).

A *regional strategy* may, for example in Germany, involve one or more federal states. Often the restriction to regional markets is due to special logistic requirements or an

orientation towards regional preferences in taste. Examples include the beverage industry (e.g. breweries), retail chain stores and the food industry (e.g. large bakeries and dairies).

In many industries there is an orientation towards *national markets*. This applies to the majority of branded consumer products, large service companies (e.g. many banks and railway companies) or big publishing houses. This orientation reflects the cultural, social, economical and political unity of national markets. In the consumer goods sector, the following factors have contributed to the development of national markets:

- Important advertising media (TV, newspapers) serve national markets as a whole and can only be deployed efficiently for products with a national orientation.
- Availability throughout the national market is considered a precondition for establishing major brands.
- Retail companies active in the overall national market prefer to have widely known brands in their product range.

The growing significance of *international markets* may be attributed to both macroeconomic and microeconomic aspects. Among the former are the increasingly international division of labour and the liberalisation of global trade. From a microeconomic perspective, cost aspects (savings through economies of scale, the experience curve effect, exploitation of cost advantages abroad), the size and growth of markets, as well as the necessity of reacting to international competitors and the wishes of international customers tend to encourage further internationalisation.

In many cases, the division and delimitation of markets according to the criteria briefly outlined above is not enough to allow a precise orientation of offerings towards certain customer groups. This is due to the fact that in many markets the demand situation has become increasingly differentiated. Even for a product like electricity there are now approaches towards differentiated marketing (e.g. “green” electricity, Yello-Strom). Thus, *market segmentation* is set to play a significant role on the various levels of marketing planning with its diverse degrees of implementation. This means that a relatively heterogeneous market is divided into homogeneous customer groups with the aim of specifically addressing one or more of them.

### 3.3.2 Abell’s Approach for Defining Markets

The *definition of sales markets* in which a company is/wants to be active has, according to Day (1984), three essential *functions*:

- The management’s attention is drawn to the aspects important for the company’s long-term market success. These usually are the needs underlying demand and/or the company’s essential competences (e.g. in technology or service).

- The boundaries of a company's activity are delimited and, at the same time, growth perspectives are opened up. If, for example, Lufthansa defines itself as a transport service provider, then this allows activities in the areas of air taxis, suburban trains, airport shuttles etc., but excludes activities as a package tour operator.
- The basis for analysing a firm's situation is established by defining its sales market and identifying its competitors.

**On the Importance of Defining Markets**

"In the strategic view, the question of market definition arises – at least implicitly – if a new product is launched by management, an old product is eliminated, an existing product is marketed to new customer groups, the company's activity is diversified by acquisitions or part of the company is relinquished by sale." (Abell 1980, p. 6)

To help define a company's sales markets, a multidimensional approach was introduced by Abell (1980), which has since attracted considerable attention. With an addition by Day (1984), the four dimensions of

- function,
- technology,
- market segment,
- economic level

are used, as briefly explained in the following.

*Function* describes the characteristic features of products offered, i. e. the product usage options (of goods and services). Let's take publishers as an example: the functions of their products could involve entertainment, information, education, training etc.

*Technology* refers to different processes or materials which are used to fulfil certain functions for the customer. For example, in publishing we can differentiate between books, ebooks, newspapers, audio books and internet offerings. Of course, not every technology is suitable for fulfilling all functions to the same extent.

The division of an entire market into *market segments* has long been established as a fundamental principle in marketing. This means forming customer groups that are as homogeneous as possible regarding their needs and characteristics. With regard to publishers, these segments could be private individuals, school children and students, companies, and libraries.

The fourth dimension of the approach for defining sales markets outlined here is the *economic level* on which a company operates. This refers to the various phases of the creation of goods and services, from the extraction of raw materials through to the delivery

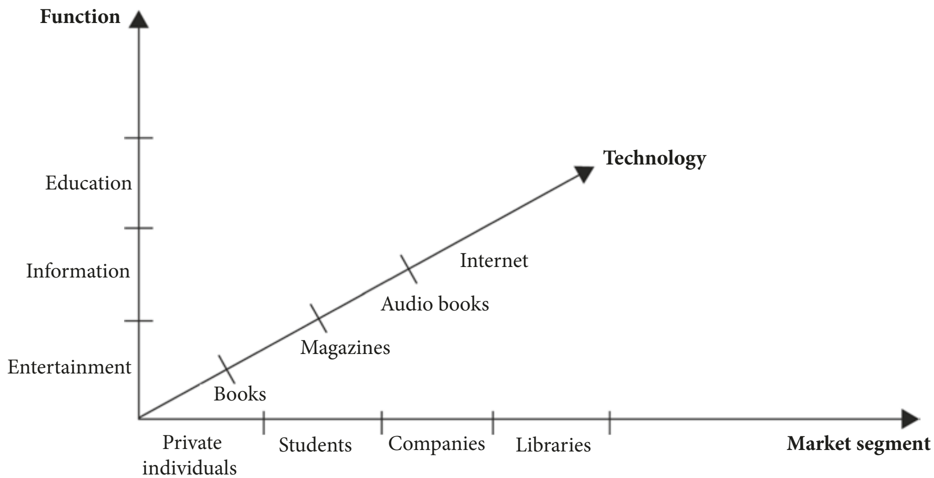



**Fig. 3.5** Example for the definition of sales markets for publishers

of the finished product to the end customer. Regarding publishers, it is conceivable that a company operates its own printing plant and another does not distribute to the end customer through retail, but directly (e.g. Bertelsmann book club). Such aspects of vertical market delimitation will be addressed in more detail in Sect. 3.3.4.

Occasionally, a firm's options are visualised as graphic representations with the different dimensions outlined along various axes. Figure 3.5 illustrates the example of publishers as cited above, where the first three dimensions are considered.

### 3.3.3 Strategic Business Units

Sections 3.3.1 and 3.3.2 introduced several starting points for characterising and delimiting markets which may be used as a foundation for decisions in marketing planning. Now we will take a further step, which also takes the competitive conditions and the company's strategy in defining units for market planning into consideration. So this step is about defining so-called *strategic business units* (SBUs). A strategic business unit comprises

- an identifiable strategy,
- a certain group of customers (market segment),
- an identifiable circle of competitors.

This means that the orientation towards certain markets is associated with having to consider different competitive conditions in various (sub)markets, resulting in different strategies for these (sub)markets.

**On the Main Purpose of Strategic Business Units**

"As companies are generally multiple product firms which – expressed in strategic categories – realise several product/market combinations simultaneously, it is a matter of defining […] worthwhile business fields (strategic business units). For each of these areas, the two components of success (i. e. company and environment) are identified in order to derive (standard) strategies based on these analyses." (Becker 2013, p. 419, source text in German)

Strategic business units, which are sometimes characterised as *product–market combinations* are units within a company for which separate strategies can be developed. "A strategic business unit (…) is an organisational unit in the company with its own market task and a certain scope for strategic decision-making" (Homburg 2012, p. 425). Note that a business unit may encompass several products, but a product may also appear in several business units (see Fig. 3.6). For instance, a manufacturer of consumer electronics may combine products such as receivers, loudspeakers, CD players etc. into a business unit termed "HiFi devices". On the other hand, a product (such as coffee) may be offered to different customer groups such as final consumers and bulk consumers (e.g. canteens) using different strategies. Here an identical product is assigned to two different strategic business units.

With regard to the number of strategic business units to be defined, a conflict arises due to the following two aspects:

- *High aggregation* (few SBUs with a relatively high number of individual activities) will give good transparency for planning, but at the expense of a low differentiation between the strategies pursued.

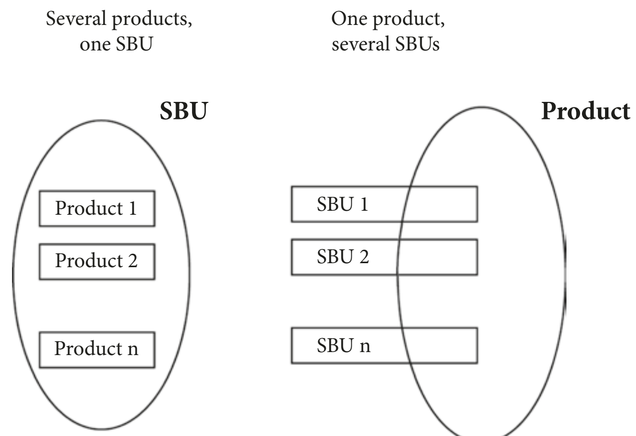



**Fig. 3.6** Products and strategic business units (SBUs)

- *Low aggregation* (many "small" SBUs) provides more scope for a differentiated approach in the various areas, but less transparency for management.

Referring back to the considerations presented in Sect. 1.2, we can say that market-oriented corporate planning focuses on the basic decisions regarding the development of strategic business units. These decisions relate to:

- new business units,
- the growth, decline or preservation of the position of existing business units,
- relinquishing existing business units.

Due to the increasing importance of brands over the past decades, strategic business units and brands have started to overlap in many cases. There are cases in which a large number of products are combined under one brand (e.g. "family brands", see Sect. 3.7) and other cases in which almost identical or at least similar products are offered under different brand names in different sub-markets (e.g. different car types of VW).

Thus, market-oriented business unit planning (see Chap. 4) and planning the marketing mix (see Chap. 5) serve to select measures suitable for actually realising the targeted developments in the respective business units as defined in corporate planning.

### 3.3.4 Limits to the Vertical Integration of Companies

In the context of Abell's approach (1980) (see Sect. 3.3.2), the question was addressed on which economic level (from raw material extraction through to the sale to end customers) a firm is active and how many of these levels the company's activities cover. The term *vertical integration* is used for expanding the activities to upstream or downstream economic levels. This ties in with the classical business management question, i. e. whether to buy or to make primary products. An expansion to upstream economic levels is known as backward integration; an expansion in the other direction (e.g. additionally offering sales or services) is termed forward integration. An example of forward integration is provided by the computer manufacturer DELL that established its own direct selling system at an early stage.

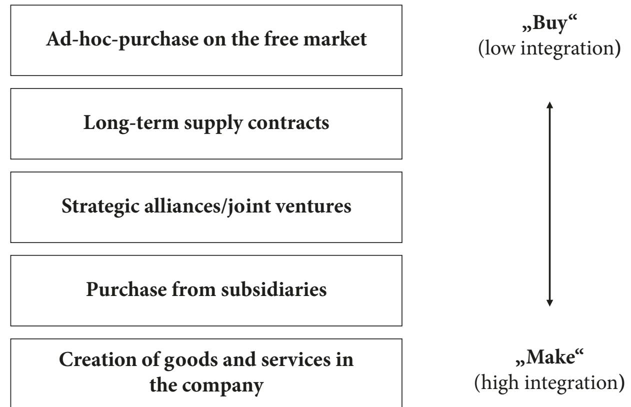
The "make-or-buy" decision, however, does not just refer to these two alternatives; rather, different degrees of integration may be observed. Besanko et al. (2007, p. 106) therefore speak of a "make-or-buy" continuum. Figure 3.7 shows different options along this continuum.

In the following, we will present some typical and essential aspects (pro and contra) of make-or-buy decisions as an overview (see Besanko et al. 2007, p. 113 ff.).

First, we will consider all aspects that speak *in favour* of buying from suppliers ("*Buy*"):

- Providers of primary components that supply several buyers with a certain product produce larger quantities and thus can achieve cost advantages through economies of scale and the experience curve effect (see Sect. 2.1).

**Fig. 3.7** The "Make-or-buy" continuum (according to Besanko et al. 2007, p. 106)




- Providers on markets with a lot of competition are often more efficient and innovative than comparable production areas within large companies that are faced with less competition.
- Specialised suppliers often have special expertise (patents etc.) at their disposal that is not available elsewhere (e.g. Bosch, Intel).

The following aspects speak *against* buying from suppliers (i. e. for "*Make*"):

- Buying leads to dependence on the capability (quality assurance, reliability etc.) and motivation of the suppliers.
- Purchasing is often connected with the disclosure of confidential internal information (e.g. with regard to new products).
- Transaction costs are incurred for preparing and processing the purchase (e.g. preparation and closure of contracts, quality controls).

Besanko et al. (2007, p. 140) also discuss the factors that determine the degree of optimal vertical integration. Firstly, there are the aspects of economies of scale and economies of scope. If high investments are required, while a large market for the products already exists outside the company, then it typically makes sense to take advantage of products from special providers. Examples of this are standard components produced by specialist providers for large markets or distribution services by retailers.

The market position (e.g. market leader or niche provider) also plays a role. Large or leading providers – as is easy to imagine – have more opportunities of gaining size advantages when producing products internally; compare, for example, Sony and Bang & Olufsen in the consumer electronics market.

A final aspect is the specificity of plants and skills. The more pronounced this is, the more likely it is that vertical integration will yield advantages. Regarding backward integration, a very specific component that requires particular expertise comes to mind. Providing services for complex machines would be an example of forward integration in this context.

## 3.4 Market Selection and Target Portfolio (Where and in Which Direction?)

### 3.4.1 From the Current to the Target Portfolio

Once the current sales markets have been defined and potential new markets have been identified, criteria have to be defined which may serve as a basis for decisions regarding the targeted growth in individual markets, or the entry into, or exit from, certain markets. For this purpose, scientific literature suggests the portfolio approach, which is very common and frequently applied.

The basic concept of the *portfolio models* is to present the various (sometimes numerous) business units of a company as a two-dimensional matrix. The two axes represent the market opportunities (attractiveness, growth etc.) and the capability of one's own company to utilise these opportunities (company resources, present market position etc.). By integrating different business areas into this matrix, it becomes possible to compare them and to develop specific strategies. The use of the portfolio method concentrates on three areas. "One group of companies uses portfolio matrices simply as *diagnostic aids* that can be used to synthesize prior strategic judgments, focus issues, and evaluate the current or prospective position of the business unit. A second group of companies uses portfolio models as the basis for a *system of management*, encompassing the assignment of investment strategies to businesses, the allocation of resources, and the evaluation of performance. There is a third, intermediate pattern of usage, in which the portfolio model serves as a *framework* to facilitate the generation of strategic options that recognize the financial interrelationships among businesses and products, but does not prescribe the choice of option." (Day 1984, p. 120 f.).

The portfolio matrix presented in Fig. 3.8 already includes references to "*standard strategies*". A brief discussion of these standard strategies will follow in Sect. 3.4.2.

The example presented in Fig. 3.9 illustrates the way in which market-oriented corporate planning can be used as a starting point and basis for planning the business units and the marketing mix. The figure uses the well known market share/market growth matrix developed by the Boston Consulting Group, in which the market opportunities are operationalised through market growth and the internal capability of using opportunities through the relative market share (own market share compared to that of the biggest

**Fig. 3.8** A generic portfolio matrix (According to Assael 1993, p. 721)

| | | **Position of the company** | |
|---|---|---|---|
| | | strong | weak |
| **Market opportunities** | high | Take the opportunity | Build up or abandon |
| | low | Maintain a profitable position | Harvest or abandon |

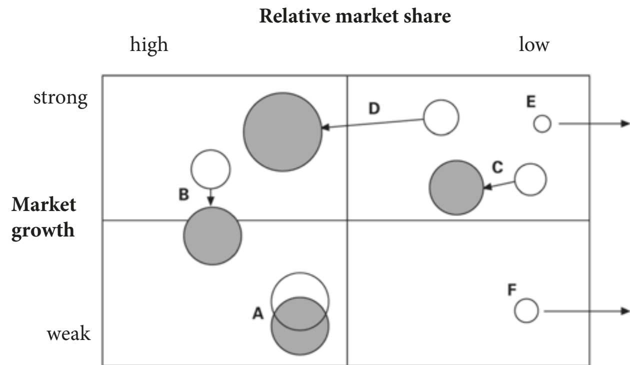



**Fig. 3.9** Example of an actual and a target portfolio (Day 1977, p. 34)

competitor). The white circles represent the present positions, the dark circles the aspired positions of the individual business fields in the portfolio. The size of the circles reflects the sales share of the products. For example, it is apparent that the market position of product D needs to be considerably improved, whereas for product B the market position should just be held (no movement on the market share axis). This largely sets the course for further planning steps.

Figure 3.9 clearly illustrates what is to be understood by the terms actual and target portfolio. The *actual portfolio* represents the current position of the various business units of a company in the selected grid. In contrast, the *target portfolio* specifies how the business units are expected to develop (due to one's own strategies) over a certain period of time.

Here, the key question is: In which business units should efforts be made or reduced, which business units should be relinquished and which should be newly developed? In this context, we should go back to the considerations associated with Fig. 3.8. First it has to be clarified which factors influence the market opportunities and the company's capability to make use of market opportunities.

Although it is somewhat difficult to make generalised statements about factors whose importance is very much determined by the corporate goals and the specifics of each industry, some factors can be cited that are very often relevant in this context. With a view to the *market opportunities* that arise for a strategic business unit, these factors are:

- market size,
- market growth,
- industry profitability,
- competitive intensity,
- market entry barriers,
- level of capital investment,
- revisability of capital investment,

- number and structure of buyers,
- dependence on raw materials and energy,
- dependence on economic trends,
- dependence on political framework conditions.

Often market growth is of prominent importance, not least in relation to the market share/market growth matrix developed by the Boston Consulting Group. Strongly growing markets are considered to be particularly attractive, because

- providers in these markets can grow with the market to some extent;
- gains in market share are often easier to achieve than in stagnating markets, as the resistance from competitors is less pronounced, since their sales may keep constant or even grow despite a decreasing market share due to the overall market growth;
- the price pressure is relatively low, due to strong demand (growth!) and no overcapacities.

With regard to assessing the attractiveness of a (potential) market, reference is made to the discussion of competitive forces according to Porter in Sect. 2.2.2. There it was explained that the factors strength of customers and suppliers, rivalry in the industry, as well as threats from new competitors and new products essentially determine the present and future competitive conditions in an industry and therefore its attractiveness.

The aspects that influence the ability of a company to make use of market opportunities are primarily:

- current market share,
- current relative market share (in relation to major competitors),
- market share development,
- size of the company,
- financial strength of the company,
- image of the company,
- existing customer relationships,
- operating margin,
- expertise (research and development, production, marketing),
- cost situation (economies of scale, experience curve etc.),
- management quality.

The basic idea behind the decision whether or not and how intensively to develop individual strategic business units is quite easy – despite all problems that might spring up during the implementation. Obviously those business units are recommended for market entry or for stepping up efforts, for which both the market opportunities and the company's capabilities are assessed positively (see Fig. 3.10).

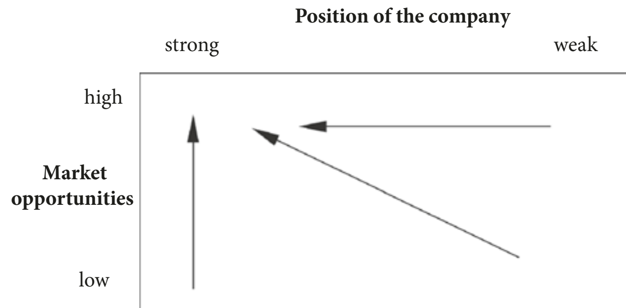



**Fig. 3.10** Selection of strategic business units

Other constellations of market opportunities and capabilities throw up further questions that are briefly enumerated in the following:

### Poor Market Opportunities, Strong Position

Can the position be maintained with a decreased investment of resources (improvement in profitability)?

### Good Market Opportunities, Weak Position

Can the position be improved, for example by investing one's own resources, buying in expertise, cooperating with other companies?

### Poor Market Opportunities, Weak Position

Is it still possible to cream off profits for a limited period? Is withdrawal from the business unit possible and appropriate?

### Diversification Versus Concentration

So far, the attractiveness of business units and the resulting decisions have been discussed. But the total number of business units and the heterogeneity or homogeneity of these business units also have to be considered. The question of so-called "diversification" has for many years played an important role in theory and practice. Some large firms have deliberately expanded their activity to completely new business fields. Nowadays, an increased concentration on (relatively few) areas in which the company has clear advantages over other competitors can be observed. This is usually called the "*concentration on core competences*".

In the following, the concept of diversification will be briefly outlined and some advantages and disadvantages of diversification and concentration will be contrasted.

Let us first *characterise the concept of diversification*. The well known and frequently cited Ansoff matrix (see Fig. 3.11) identifies essential growth options for companies on the basis of the criteria "old/new markets" and "old/new products". Accordingly, diversification is understood as offering new products on new markets. A classical example of diversification is Apple, with the expansion of its activity from IT to consumer electronics. Other examples of strongly diversified companies are Siemens and General Electric.

|  | Current products | New products |
|---|---|---|
| Current markets | Market penetration | Product development |
| New markets | Market development | Diversification |

**Fig. 3.11** Diversification as a growth strategy (According to Ansoff 1957)

|  | Own R&D and market launch | License acquisition | Purchase of merchandise for resale | Company acquisition |
|---|---|---|---|---|
| **Time factor** | slow | fast | fast | quite fast |
| **Organisational problems** | few | none | none | many |
| **Risk** | low | low | low | quite high |

**Fig. 3.12** Advantages and disadvantages of various ways of diversification (According to Becker 2013, p. 172)

**Some Further Definitions of Diversification**

Becker (2013, p. 164, source text in German): "Diversification means that firms applying this strategy 'break out' of the framework of their traditional industry (market) and enter into neighbouring or even far removed fields of activity."

Besanko et al. (2007, p. 163): "Many well-known firms are diversified – that is, they produce for numerous markets."

Common ways of diversification are for a company to develop the relevant products and launch them on the market, to produce and offer completely new products with the aid of licenses, to purchase the relevant products on a market and to sell and service them, or to acquire companies that are already active in the markets which the company wishes to enter. Becker (2013) discusses these alternatives and summarises the essential arguments in an overview, an extract of which is presented as Fig. 3.12.

Typical types of diversification – well known in theory and practice – include:

- *Vertical diversification*: Inclusion of products from upstream or downstream economic levels. This form of diversification has briefly been discussed in Sect. 3.3.4 (vertical integration).

- *Horizontal diversification*: Inclusion of additional products on the same economic level that are related (e.g. technology, sales) to the existing range of goods and services.
- *Lateral diversification*: Inclusion of additional products having no connection with the existing range of goods and services.

So what are the arguments for and against diversification or for and against concentration? A crucial aspect, namely *diversification as an opportunity for growth* in additional – perhaps extremely high-growth – markets has already been emphasised in Fig. 3.11. This is certainly of particular relevance for companies whose existing markets are stagnating or shrinking. An example is provided by the company Philip Morris International, formerly only a manufacturer of cigarettes (Marlboro etc.), which diversified into the food sector (Miller Breweries, Jacobs Suchard, Kraft etc.) due to long-term problems with the cigarette market.

Other aspects from Besanko et al. (2007, p. 166 ff.) are briefly outlined below; first the arguments *in favour of diversification*:

- Risk spreading by operating in a large number of different markets that enable a balance between different market conditions (growth, competitive pressure, cyclic fluctuations etc.).
- Especially in the case of horizontal diversification, economies of scale and/or economies of scope (see Sect. 2.1.3) can be used to a greater extent.
- Competition for resources among the various areas within a company (e.g. capital investment, R&D capacity) and, resulting from that, increasing efficiency.
- Use of liquid assets for establishing new corporate areas instead of investment on the capital market, because the first option typically leads to higher returns.

These aspects are countered by weighty *problems of diversification*:

- Steering different business units requires complex information, control and incentive systems.
- Different corporate cultures in the various areas of a firm (e.g. investment banking and private customer business in a bank) can cause compatibility problems.
- Management competence may be insufficient for highly heterogeneous fields of operation.

### 3.4.2 Portfolio Standard Strategies

The basic concept of portfolio models was outlined in the previous section. There the question was which markets to develop and in which markets to intensify efforts. In the following, additional conclusions from the portfolio approach will be briefly outlined with regard to the further course of action taken by firms. The term “*standard strategies*” used

in the title of this section indicates that generalised or standardised strategy recommendations are given, depending on the position of a business field in the portfolio.

The interest in standard strategies – now no longer pursued with the same intensity as earlier on – is best understood against the backdrop of the origin of the portfolio approach. During the 1970s the decades of continued economic growth suddenly ended in many markets, and the question arose as to how management, especially in large companies, can keep track of the various business areas and decide on the priorities and the resources to be invested in these areas. The portfolio matrix developed by the Boston Consulting Group (BCG) gained particular popularity, because it is very simple and clear. The portfolio matrix operationalises the parameters "strengths and weaknesses" (capabilities) and "opportunities and risks of the environmental conditions" characteristically used in portfolio models with the (rather simple) measurement parameters "relative market share" and "market growth". The various strategy recommendations are based mainly on the lifecycle and experience curve concepts and the results of the PIMS project mentioned in Sect. 2.1.

The *product lifecycle concept* suggests that a certain product mix should be strived for. According to this concept, a firm requires some products in the maturity phase, i. e. products which no longer require major investments, but can finance other activities. Since these products will progress to the degeneration phase sooner or later, others will have to move up from the growth phase to the maturity phase. And other products from the introductory phase have to follow in turn. The path through the four fields of the portfolio mix as shown in Fig. 3.13 from the top right to the bottom right quadrant proceeds largely analogous to the lifecycle.

From the PIMS project and the experience curve concept it was derived that it is essential to attain a leading position in the markets in order to be able to utilize the influence of the market position on profitability and the cost advantages associated with the experience curve effect.

The terms "stars", "cash cows", "question marks" and "poor dogs" in the four quadrants of the portfolio matrix in Fig. 3.13 characterise the position of the respective business fields and aspects of the standard strategies to be pursued.

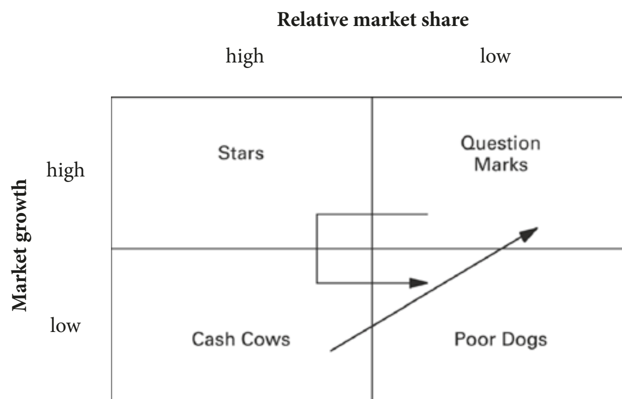



**Fig. 3.13** Market share/market growth matrix (Boston Consulting Group 2017)

Ideally, the position as *question mark* is at the beginning of the development of a business field, with an (initially) weak position (low relative market share) in a strongly growing market. The term “question mark” is derived from the fact that management is confronted with the question whether growth and thus utilisation of the available market opportunities may be attained by investing resources in this area or whether – in view of the limited resources – they should rather invest in other areas and withdraw from this market. If the business unit grows strongly, a *star* may result, i. e. a business field with a relatively large market share. Although high earnings are attainable in a market growing at an above-average pace (Buzzell and Gale 1989, p. 48 ff.), measures for safeguarding and continuing growth will still require considerable investment of resources. In business areas that have attained a strong market position over the course of these two phases, at some point the market growth will decline and stagnation will occur (lifecycle). In this situation, a relatively high earnings potential (based on the strong position) is accompanied by a low investment of resources (in view of the unfavourable market conditions). Ideally, the resulting surplus is used to develop selected question marks. The term *cash cow* arose from this constellation (strong market position, outflow of resources to other areas).

By far the most unattractive business units are the *poor dogs*. They are characterised by a weak position of one’s own offering in a stagnating or even declining market. This makes for low earnings, and even injecting additional resources has little prospect. Withdrawal from these areas is therefore recommended. The arrows in Fig. 3.13 characterise the development of individual business fields and the distribution of resources as outlined above.

Meanwhile, standard portfolio strategies have been very much called into question. The *criticism* particularly relates to:

- the over-simplification of the problems of strategy development by taking only two aspects (market growth and relative market share) into account,
- the problem of delimiting the fields of the portfolio matrix (e.g. where does low market growth begin and where does it end?) and the definition of the business units,
- the over-simplification and limited generalisability of standard strategies.

For this reason, the strategy recommendations derived from the BCG matrix are no longer viewed as strategies that can be generally and directly applied to an individual market situation.

This does not diminish the usefulness of the basic concept of portfolio approaches, which helps to compare the attractiveness of markets and the opportunities for success in these markets and to draw conclusions regarding the development of business units and the investment of resources. Decisions of this nature have to be made within the framework of marketing planning and are hardly conceivable today without the help of a structured portfolio. However, the schematic application of standard strategies has probably become obsolete.

**Assessment of Portfolio Models**

"Regarding the evaluation of the portfolio concept, it is clear that it provides a significant contribution towards systematic decision-making in terms of the key question of marketing strategy (the question of market-related resource allocation). Against this background, it is not surprising that the method still plays an important role in corporate practice in formulating corporate and marketing strategies. In our opinion, an essential didactic benefit of the concept is to emphasise the importance of a balanced portfolio structure (especially with regard to markets with differing growth rates)." (Homburg 2012, p. 529, source text in German)

## 3.5 Fundamental Market Strategy Options (How?)

### 3.5.1 Overview

Before we start to consider marketing strategies in the following sections, we will introduce a simple concept which characterises the basic types of competitive advantages and has become widely recognised as the "*strategic triangle*" (see Fig. 3.14). The strategic triangle focusses on the key aspects of strategic marketing and competitive orientation (see Sect. 1.1). Essentially, this involves looking at the range of products and services offered by companies from the perspective of the (frequently subjective) perceptions of potential customers, on the one hand, and in comparison with the relevant products and services offered by competing companies, on the other hand.

For the analysis of strategic options, it is crucial to adopt the customer's perspective (see Sect. 2.4). On the market for the kind of products he is looking for, the customer is usually faced with a large number of offerings that may vary more or less from each other with

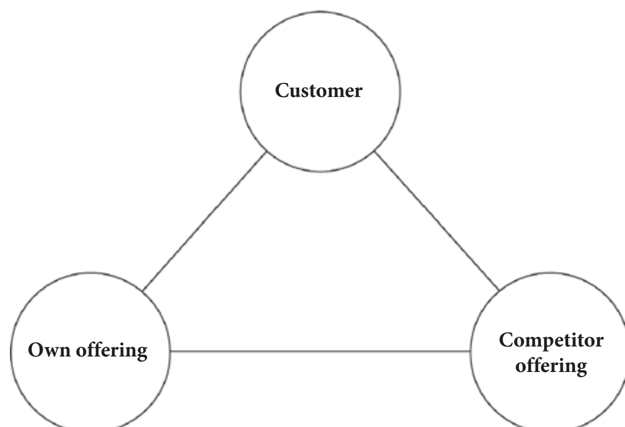



**Fig. 3.14** Strategic triangle

regard to different performance features and/or prices. What is essential for the customer's purchasing decision is, firstly, the question whether certain differences can be perceived at all and whether these differences are relevant for the customer. Two paths are open for a company to gain advantages in the potential customer's perception and to bring about purchasing decisions in favour of their own product:

- Either the product offer has to be superior to that of the competitors with regard to relevant features. If this product advantage exceeds a possible disadvantage due to a higher price level, then the value for money is favourable and a large proportion of customers will opt for this product.
- Or the price demanded has to be significantly below that of the competitors. If this price advantage is not offset by significant qualitative disadvantages, then the value for money is also favourable and a – possibly different – large proportion of customers will decide in favour of this product.

In both cases, the offering has a clear advantage over competing offerings: superior product performance at a comparable price level or a significantly lower price for a comparable performance. The situation of a provider is problematic if the product cannot be distinguished from those of the competitors either through higher quality or through price advantages. Adopting the customer's point of view, it is easy to understand that for an equivalent (i. e. interchangeable) product offer, the price (or relatively small price differences) will become crucial for purchasing decisions. The result may be that a company with an equivalent product offer may not be able to achieve a "standard price level", but will be caught up in price wars.

So, regarding the basic orientation of the marketing strategy, there are two potential directions: either the customer is offered a benefit that exceeds that of other offerings or an equivalent offering is produced at significantly lower costs and is offered at lower prices.

Porter added another perspective to this basic concept, which has received much attention in theory and practice. Again, the strategic advantage is considered and this is compared with a strategic target range. With regard to the strategic advantage, the following positionings are distinguished:

- unique position from the customer's perspective,
- cost advantage,

Concerning the strategic target range,

- the entire industry or
- only isolated segments

may be part of the sales market to be developed. The related problems of defining and selecting markets and delimiting the operating activities have already been discussed in

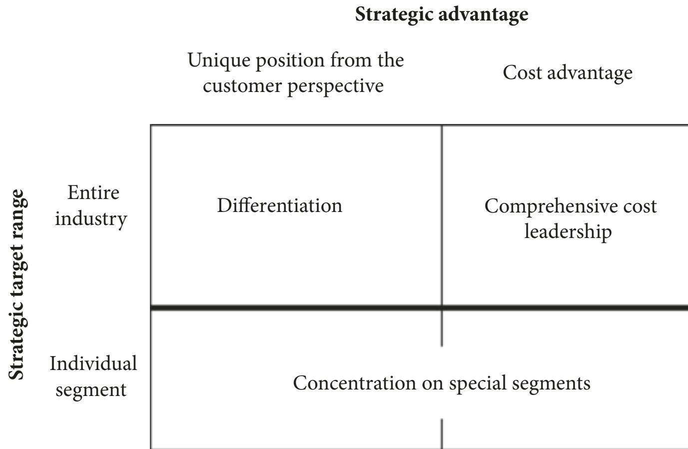



**Fig. 3.15** Strategy types (According to Porter 1999, p. 75)

the previous sections. Depending on the nature of the advantage and of the target range, certain strategy types will result, which are illustrated in Fig. 3.15 and will be discussed in the following sections.

### 3.5.2 Differentiation

*Differentiation* involves achieving advantages over competitors in terms of product features which are of interest to customers. The constraint is that there has to be an approximate cost parity as compared with the competitors, as otherwise (given significantly higher costs and prices) there would be no competitive advantage. The connection with the concept of competitive advantage in R-A theory (see Sect. 3.1.3) is obvious here. The situation characterised by field 6 in Fig. 3.2 clearly corresponds to the differentiation advantages proposed by Porter. The potential means of differentiation may vary greatly, depending on the industry, the company, customer needs etc. and will be outlined in the following.

*Service Life and Reliability of Products* Reliability can be a relevant aspect in differentiation strategies, especially if the failure of devices is associated with high costs for the user. The lifespan of products influences their value for money, of course, provided they do not change quickly due to rapid technical advancement or are subject to fashion. An example of a company that stands out from the competition due to the overall service life and reliability of its products is Miele (a provider of a wide range of household appliances).

*Design* The design is not only important for products that are affected by fashion trends or for which aesthetic criteria are a critical factor in purchasing decisions; design features

often also communicate substantial "key information" that is used for assessing the general product quality. Companies that differentiate themselves from competitors through the design of their products are Apple as well as Bang and Olufsen.

*Customer Service* Analogous to the considerations regarding the importance of product reliability, customer service and the associated reductions in implementation and downtimes may also be an important differentiating feature. A classical example of this aspect is offered by the US construction machinery manufacturer Caterpillar, which is in a position to make spare parts and technicians available worldwide within a few days. This reduces the risk of prolonged downtimes of individual machines or even complete construction sites.

*Technology* Product innovation – especially combined with technical advancement protected by patents – as well as technological leadership gained through innovative, superior products can put products in a unique position and also shape the development of a company's image. Examples are to be found in many industries, not least in the computer industry. For example, Intel has often held a technologically leading position in processors.

*Distribution System* The selection and design of sales channels has an impact on a series of factors through which a product offer can stand out from competitors, e.g., regarding product availability and user training. A well known example of a company that stands out from competitors through a special sales system is the cosmetics provider Avon, which has established direct selling of its product to consumers. And Coca-Cola has succeeded in making its products available at the most diverse points of sale (food industry, kiosks, canteens, restaurants) – practically everywhere.

*Brands* Potential customers often associate certain expectations regarding the performance with certain product or company brands. The automobile brand Mercedes, for example, is associated with reliability, longevity, safety and prestige, thus affording it competitive advantages. Even with respect to relatively unimportant everyday products (low involvement products), purchasers often make their decisions not on the basis of a careful consideration of product properties, but tend to select familiar and trusted brands (see Sects. 2.4 and 3.7). In many cases a differentiation strategy does not work without a brand, because this allows to communicate the special advantages of a product and to induce repeat purchases.

*Customer Relationships* Since the 1990s, the development of customer relationships (customer relationship management) has attracted strong attention in theory and practice. The basic concept is to achieve differentiation "in competition by establishing long-term and stable customer relationships" (Homburg 2012, p. 503). For this strategy, customer

relationship programmes, personal relationships with customers and systematic efforts to analyse and satisfy individual customer wishes play an essential role.

*Conclusions* From the literature on strategic marketing planning and numerous real-life examples, it appears that differentiation strategies are often preferred over gaining cost and price advantages. This is probably due to the following reasons: Differentiation strategies can be applied in such a way that a provider gains competitive advantages in several dimensions relevant to decision-making. This allows competitive advantages to be secured more effectively, on the one hand, and different advantages meeting different buyer needs (in case of different target groups) to be reconciled, on the other hand. In addition, differentiation will result in advantages that are hard to imitate, such as an improved customer service or a certain product image. Ultimately, differentiation strategies help to avoid price wars which would have a negative impact on the earnings situation of the entire industry.

### 3.5.3 Comprehensive Cost Leadership

The *strategy of comprehensive cost leadership* involves becoming the most cost-effective provider in the industry. This opens up the possibility of offering one's own product at lower prices than competitors or generating higher profit contributions with prices on a par with competitors, which in turn can be used to consolidate and strengthen the competitive position. Here there is the constraint that a cost advantage is only effective if customer acceptance of the relevant product is comparable with that of competing products. For instance, if the product has a clear qualitative disadvantage, then lower costs and prices are not a competitive advantage, but at best compensate for the poorer quality. Here, too, the relationship with R-A theory (see Sect. 3.1.3) is immediately apparent. The strategy of comprehensive cost leadership comes closest to the situation in field 2 of Fig. 3.2. The starting points for gaining cost advantages may be very diverse. Some common alternatives are briefly addressed in the following.

*Quantity-Related Cost Degression* The cost advantages accrued by large production quantities per unit of time have already been ex amined in Sect. 2.1.3 (*economies of scale*). Also, large-scale production automation or favourable prices for raw materials, components etc. due to the large purchase volumes can lead to considerable cost advantages. Also, fixed costs can be distributed over a larger number of units produced. Such cost advantages may be achieved by increasing sales volume and market share due to intensified marketing efforts or by expanding the sales territory (-> international marketing).

*Technological Lead, Know-How and Expertise* Discussions on economic policy often mention cost advantages arising from superior expertise and access to new technologies. Thus, lower unit costs in some Japanese companies have long been attributed to more efficient production processes, lower inventory levels (just-in-time) and advanced production technologies. The relationship between experience (concerning production processes) and unit costs has already been discussed in Sect. 2.1.2 ("experience curve").

*Access to Cost-Effective Production Factors* Potential cost advantages at other production sites is often a motive for the internationalisation of corporate activity. This may concern lower wage costs, lower energy costs, lower property prices or lower tax burdens. The current debate on globalisation provides relevant examples almost on a daily basis.

*Cost-Effective Product Design* The development and design of products offers two different starting points for gaining cost advantages. Firstly, the product can be simplified by shedding non-essential performance features. In this way, some low-cost airlines are successful by offering the core product (comparable with regard to safety, punctuality, route network) at considerably lower prices than other airlines by drastically reducing service, personnel costs, stopovers etc. Secondly, it is standard procedure today to exploit the potential for cost savings in production through standardised components, reduced assembly costs etc.

### 3.5.4 Concentration on Special Segments

In the previous sections we described approaches which aim to achieve competitive advantages through differentiation or cost leadership in an entire industry (or at least in large parts of it). "*Concentration on special segments*" refers to the selection of a limited field of competition in an industry with the aim of achieving advantages through a specific orientation. This orientation may be achieved by offering superior products (*differentiation priority*) or by gaining cost advantages in a narrowly defined area (*cost priority*).

A wealth of real-life examples exists for both types of concentration. Numerous high-class brands and luxury goods serve to illustrate the concentration on differentiation in the consumer goods sector. Companies and brands such as Ferrari, Rolex or Armani could hardly assert their market position if they were providers of mass-produced articles. Hauni-Maschinenbau AG, the worldwide market leader in the narrow market segment of machines for the tobacco industry, is a suitable example in the capital goods industry. A concentration on costs is often encountered in retail, where individual providers (e.g. discounters) concentrate on low-cost segments and, by aligning their entire business operations towards them, are able to offer their products at far lower prices than the competitors.

Similarly, in the car repair industry there are companies that have specialised on repairing exhaust systems etc. and provide this service so efficiently that they can offer distinct price advantages.

### 3.5.5 Outpacing Strategies

So-called *outpacing strategies* (Gilbert and Strebel 1987; Kleinaltenkamp 2002) represent an extension of Porter's basic concepts regarding the design of marketing strategies, with the term "outpacing" characterising the key aspect, which is to switch between differentiation and cost leadership over the course of time with the aim of achieving a substantial and durable lead over competitors.

Once a firm has achieved differentiation advantages, it has to anticipate that at some stage other providers will attain a corresponding level of performance. For an outpacing strategy, it is therefore recommended to change the strategy in time, i. e. to aim for cost reduction in order to be able to combine the differentiation advantage with price advantages over competitors.

An analogous approach is recommended for companies with cost advantages. Before other competitors achieve a comparable cost position, they should aim for a (qualitative) differentiation. In both cases, the result of the process is a product offer that clearly stands out from its competitors both in terms of quality and price. Figure 3.16 illustrates the approach for companies following an outpacing strategy. Here, too, a direct connection

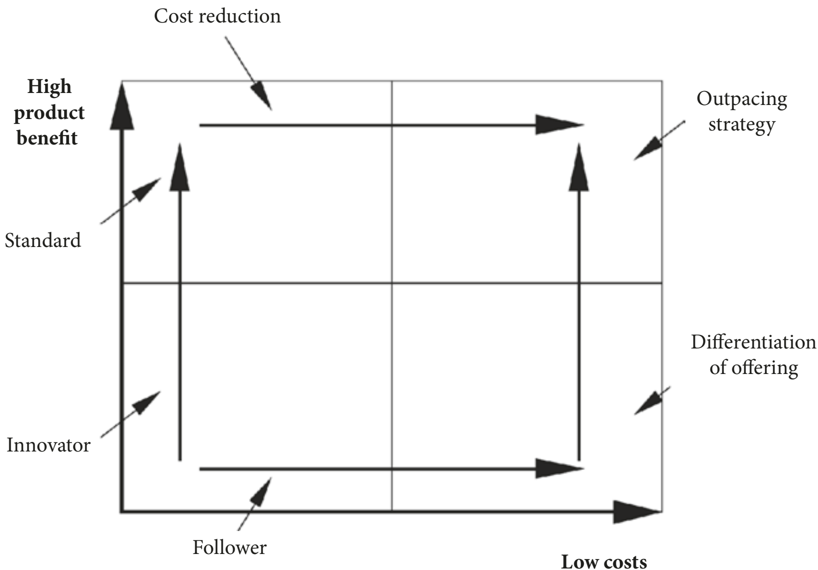



**Fig. 3.16** Outpacing strategy (According to Gilbert and Strebel 1987, p. 32)

can be established with R-A theory (see Sect. 3.1.3): If an outpacing strategy has been successfully implemented, the company in question will attain the (comfortable) position characterised by field 3.

**Outpacing Strategy in the Automobile Sector**

"For many years, the US and European automobile industry mainly concentrated on the customer benefits of its products. They attempted to continually increase these benefits through ongoing product differentiation, model changes etc. In the process, they overlooked the Japanese competition, which, although initially of inferior quality, entered the market with extremely low-cost and favourably priced products. Thanks to the high price level maintained by the US and European providers, they managed to improve the quality of their products, at consistently low costs, thus turning into a serious threat to the formerly unassailable competition." (Kleinaltenkamp 2002, p. 169, source text in German)

## 3.6 Timing Aspects of Marketing (When?)

### 3.6.1 Early or Late Market Entry

The question of *when* certain strategic measures should be adopted has received less attention in theory and practice than the aspects discussed so far. As far as strategic questions are concerned, the studies available mainly concentrate on the question of a favourable time for market entry. Even the corresponding problem of the best time for market exit has received little attention in the literature. However, the question of whether an early or late market entry tends to hold out the best prospect of success has been the subject of some theoretical considerations and empirical studies (see e.g. Lieberman and Montgomery 2012; Shankar and Carpenter 2012).

Let us first consider the theoretical aspects that speak in favour of early market entry as the first provider in a product category ("*pioneer strategy*" or "*first mover strategy*"):

- Pioneers, of course, can relatively freely select the *most attractive market segment* without regard to competitors or existing customer loyalties.
- Pioneers that have developed a novel *technology* can attempt to protect this, primarily through patents, thus making it harder for other providers to enter the market. This will work for many industrial products. For services or fashion-dependent products the means of protection are significantly diminished, however.
- *Customer switching costs*represent an advantage for the pioneer in that customers cannot easily switch to other competitors appearing later, as such a switch may be associated with adaptation difficulties (e.g. training of employees, different software) and

the resulting costs incurred. So providers following later have to offer commensurate advantages. In this context, the risk associated with switching from a previously used (pioneer) product to a (follow-on) product offered later on may also play a role.

- *Network effects* are of a similar nature."In situations where customers seek a common standard or the ability to interact with other users, the pioneering firm has the first opportunity to develop "network effects " (Lieberman and Montgomery 2012, p. 345). These effects are often found in IT and communication technology, particularly when it comes to the adaptation to standards and orientation towards leading providers. A famous – now historic – example is the prevalence of the VHS standard over the Betamax standard for video recorders due to the early market leadership of VHS and the associated orientation of the providers of feature films etc. to this standard.
- In a newly emerging market, in which little experience and defined preferences exist among buyers, the pioneer often lays down the *benchmarks, standards and* "*rules of the game*" which will apply for this market over the long term. Providers following later have to orientate themselves on these (Carpenter and Nakamoto 1989).
- In many cases the pioneer has an advantage with regard to *accessing scarce resources*. This implies special raw materials and components, but also skilled specialists, access to distribution channels (with limited capacity) and to attractive locations.
- Due to the *experience curve* (see Sect. 2.1.2), the first provider in a new market will be able to create stable cost advantages for a certain period of time. Cost reduction will be especially high during the early phases of market development, as the cumulative production volume will be doubled at relatively low production quantities, which should be connected with cost-reducing potential. So a pioneer will gain a significant cost advantage over subsequent providers within a relatively short period of time.

However, there are also considerable *risks* and special challenges facing a pioneer, which tend to favour later market entry ("*follower strategy*"):

- Some of these risks involve the uncertainty inherent in the technical *feasibility of development projects*, the assessment of market development in such an early phase, as well as related questions regarding the profitability of investments in technology and the market. Here the follower can orientate itself on the experience available later on.
- Furthermore, a pioneer typically brings an innovative product onto the market particularly quickly, which implies the danger of long-lasting image damage due to insufficiently matured products.
- The first provider will have relatively high development costs, whereas competitors appearing later ("*free riders*") can orientate themselves on availabale technical solutions (as long as they are not patent-protected).
- Ultimately, pioneers also have to bear the burden of communicating *relevant information* about completely new products to the customers, of demonstrating the benefit of these products and of establishing preferences among customers while followers can build on the pioneers' efforts.

The large number of partly contradictory aspects regarding the advantages of a pioneer or follower strategy has led to a lot of empirical research. For example, the *PIMS study* (see Sect. 2.1.4) led to some results indicating that early market entry is often advantageous (Buzzell and Gale 1989). For instance, 70 % of market leaders reported that they had entered the market as "pioneers". A larger proportion of "pioneers" (47 %) than "followers" (36 %) profit from patents related to the product or the manufacturing process. The products offered by "pioneers" often have qualitative advantages – possibly as a result of the more extensive experience available – over competing products. However, there are weighty objections against some of the assumptions based on PIMS data. The definition of pioneers underlying the PIMS study is considered to be imprecise (52 % of all business units are viewed as pioneers) (Fischer et al. 2007, p. 543). Moreover, the PIMS data only include "surviving" pioneers, i. e. the providers who mastered the risks during the introductory phase and successfully defended their lead against the "early followers". Thus, the specific risks of pioneers are not adequately reflected in the PIMS data.

Golder and Tellis (1993) took a completely different approach. Their historic analysis of product innovations extending way back into the 19th century (!) and also covering products that have since disappeared from the market, shows a far weaker advantage for pioneers. Some important results are summarised in Fig. 3.17. Especially interesting is the comparison of pioneers with so-called early market leaders, defined by Golder and Tellis (1993, p. 167) as those providers that were market leaders at the start of the growth phase of the product lifecycle. It becomes apparent that the group of early market leaders bears a lower risk (→ flop rate) on the one hand, and achieved better market success (→ current market share, proportion of current market leaders) on the other hand. Similar results were also found by Fischer et al. (2007) who determined the advantages for early followers in the pharmaceutical industry.

Backhaus and Schneider (2009, p. 156) used a relatively broad-based definition of early followers: "Providers that appear on the market with a solution to a problem just after the pioneers, whereby it remains open whether this is a technological improvement or not". Backhaus and Schneider (2009, p. 156 ff.) and Fischer et al. (2007) discuss different advantages of early followers over pioneers and late followers, some of which are summarised here:

- Early followers have more information on the market and thus carry less risk than pioneers (reduced market uncertainty).

**Fig. 3.17** Success and failure indicators for pioneers and early market leaders (According to Golder and Tellis 1993)

| | Flop rate | Mean current market share | Share of current market leaders | Number of cases |
|---|---|---|---|---|
| Pioneers | 47 % | 10 % | 11 % | 36 |
| Early market leaders | 8 % | 28 % | 53 % | 36 |

- Early followers can benefit from the advance performance of the pioneer regarding technical and market development.
- Early followers can orientate themselves towards the slightly later phases of technical advancement, which in the beginning is very rapid.
- For early followers, development of the market with regard to standards and the providers' market positions has not yet consolidated.
- In contrast to late followers, early followers can still assume a relatively long duration on the market (→ product lifecycle, Sect. 2.1.1)

**Typical Pioneer Advantages and Disadvantages in the Area of Pay TV in Germany**

The first provider in this market was free to select its market segment and could decide on the relatively undemanding mass market. The access to scarce resources, especially to broadcasting or transmission rights in sports, was still good. Furthermore, a provider that entered the market early on and had acquired a certain number of customers could better distribute its fixed costs (which are considerable for pay TV) than a provider following later. On the other hand, a pioneer – as the example of the media entrepreneur Leo Kirch showed – has to bear the risk of the uncertain acceptance of such an innovative offering, which is extremely hard to assess. In addition, he also has to make clear to potential customers what advantages such an offering provides.

Overall, the numerous studies on the existence and extent of pioneer advantages (overviews are presented, among others, by Kerin et al. 1992; Szymanski et al. 1995; Lieberman and Montgomery 2012) provide rather mixed results. Therefore it may be assumed that pioneer advantages are not generic, but are effective in conjunction with, or dependent upon, other factors influencing market success (selected strategy, technological skills, market situation etc.). Against this background, Shankar and Carpenter (2012, p. 368) characterised some of these influencing factors and formulated recommendations with regard to early or late market entry, some of which are summarised in Fig. 3.18.

*Entry in International Markets* In the context of international marketing, another question arises with regard to the time of market entry: should a company enter all markets simultaneously or gradually over a certain period of time? According to Backhaus et al. (2005, p. 110 ff.) the waterfall and sprinkler strategies are distinguished.

With the *waterfall strategy* the provider expands the circle of international markets served step by step. Once experience is available from the domestic market, first markets are added that are very similar (e.g. first Germany, then Austria). In the "flow" of time (hence the term "waterfall strategy") the differences between the new markets and the home market will increase. A strategy of this kind enables the provider to gradually gain experience with

| Question | Answer | Recommendation |
|---|---|---|
| How long will this product category continue to exist on the market? | Long | Late entry |
| | Short | Pioneer |
| How high are the anticipated switching costs in this market? | High | Pioneer |
| | Low | Late entry |
| How great is the importance of the brand in purchasing decisions? | High | Pioneer |
| | Low | Late entry |
| How high are the costs of informing the market about the new product? | High | Late entry |
| | Low | Pioneer |
| Is there a network effect on this market? | Yes | Pioneer |
| | No | Late entry |

**Fig. 3.18** Factors influencing the decision for early or late market entry (According to Shankar and Carpenter 2012, p. 368)

regard to the requirements of foreign markets and keeps the risk connected with market entry relatively low, but leads to a rather slow process of international market penetration.

As the name suggests, the *sprinkler strategy* involves entering various international markets at the same time or within a brief period (1–2 years). Despite the risks, an essential advantage of this strategy is that high sales volumes can be generated relatively quickly and the payback for research, development and market launch also proceeds swiftly. In this context it is important to realise that in view of the very short product lifecycles in many industries (e.g. electronics, software) today, hardly any scope exists for a stepwise, slow penetration of international markets (also see the advantages and disadvantages of early versus late market entry outlined above).

### 3.6.2 Strategic Windows

The term "strategic window" was coined by Derek Abell. He defines strategic windows as "limited periods during which the "fit" between the key requirements of a market and the particular competencies of a firm competing in that market is at an optimum" (Abell 1978, p. 21). Here it is no longer a matter of early or late market entry, but of waiting for the optimum time over the course of the development of markets.

Three types of discontinuities of market development that can lead to strategic windows may be distinguished:

*Innovative Demand* This is about completely new customer groups, whose needs differ fundamentally from those of existing customers in an industry. For example, the group of

potential customers for PCs developed from computer nerds and amateurs in the initial phase to commercial users (companies, authorities etc.) in the second phase to private households today, each with new opportunities for providers.

*Essential Changes of Customer References and Product Properties* This refers to a change in customer wishes and the matching products, which loosens the ties to existing providers and thus offers opportunities for new competitors. An example for this is the market for TV program guides, in which magazines structured according to the time of day and not the programme providers (ARD, ZDF, Arte etc. in Germany) became ever more prevalent as the number of receivable TV channels grew.

*Fundamentally New Technologies* A technological discontinuity that allows customer needs to be satisfied in new ways offers companies that master this new technology the opportunity of breaking up rigid market structures. Thus, the transition from mechanical to electronic watches allowed completely new providers like Seiko or Citizen to gain a dominant position.

**Strategic Windows in the Computer Industry**
For many years the computer industry was shaped by the dominance of large computers from a few manufactures and hardly offered opportunities for new providers. Two fundamental changes ("discontinuities") of the market opened it up for new providers. The transition to PCs offered small companies the chance to enter this rapidly growing market with innovative products. Growing propagation and standardisation of PCs a few years later then favoured providers such as *IBM* that were in a position to produce and market mature products efficiently. For the innovative companies of the "first hour", a strategic window closed, another opened for a large number of Asian companies that could produce imitations of the PC shaped by *IBM* at low costs and offer them far cheaper. (Czepiel 2012)

## 3.7 Corporate Brand Management

### 3.7.1 Basic Principles

In the following, some of the basic principles of brand management will be addressed that are directly related to the procedure previously explained in the context of market-oriented corporate planning.

Generally a *brand* is understood as a "name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers" (*American Marketing Association,* www.ama.org,, *2015)*. Besides this rather functional and legal

definition of a brand, it is advisable to also adopt an effects-based perspective that can explain the impact of brands on the consumer. Esch (2012, p. 22) expresses this succinctly as: "Brands are mental images in the heads of the stakeholder groups that take on an identification and differentiation function and shape choice behaviour."

So, from the provider's perspective, the individual brand and the entire brand portfolio serve to differentiate a product offer from those of other providers in the market and are of major relevance for all aspects of strategic corporate planning. With a view to the market-oriented planning process, the development of growth strategies (core question: in which markets or sub-markets can a brand open up new opportunities or exploit existing potential?) and of competitive advantages (core question: which strategies can help a brand assert itself in competition?) are important aspects of brand management.

The ongoing planning and implementation of growth and positioning strategies in a company will often lead to brands with different orientations. The result is a large brand portfolio with increased coordination requirements and management complexity. Therefore, consistent maximisation of the value of each individual brand and precise monitoring of the cost and revenue development of the entire portfolio are growing ever more important.

The increasing demand for greater transparency in the relationship between resource deployment and company value, as well as the necessity of greater value orientation in marketing (Reinecke 2006, p. 5) have led to the relatively new parameter of *brand value*. According to Kotler and Keller (2012, p. 265), this involves the present and future value enhancements for the consumer and the company caused by branding a product. Determination of the brand value always aims at an economic evaluation of a brand in the form of a monetary equivalent, and it should be considered an essential component of a company's intangible assets.

In this context, brand value and brand strength have to be clearly distinguished (Reinecke and Janz 2007, p. 403). The latter is the psychological potential of a brand in the form of positive associations that will lead to a long-term advantageous perception of the brand among customers or business partners in comparison with competitors (Srivastava and Shocker 1991, p. 7). The strength and positive quality of customers' associations with a brand in turn lead to an increased willingness to buy the product for the first time or to make repeat purchases (see Sect. 2.4), to pay a higher price for the product, to recommend the brand and to purchase other products of the same brand. Consequently, changes in customer behaviour due to a brand's prominence, positive associations or buying preferences have a direct or indirect influence on the economic success of a company. If the brand associations can be transferred to other performance areas, then the value of this brand increases additionally, as this opens up new market potential for the firm (see brand extension in Sect. 3.7.4).

### 3.7.2 Brand Portfolio Management

A *brand portfolio* encompasses all brands and brand elements that are in the legal possession of a company (Aaker 2004, p. 16). The key task of *brand portfolio management* is the analysis, planning, coordination and control of a company's brands. Different

interdependencies whose strength is influenced by the overall brand architecture (see Sect. 3.7.3) exist within a portfolio of brands. Many companies have mixed brand portfolios that have grown organically over time or expanded through acquisitions or fusions (Kapferer 1998, p. 275). Often the brands overlap in terms of positioning and may even address the same target groups. Due to the high costs associated with the maintenance of a brand, in such cases the overall portfolio should be reduced and the resources should be allocated to the remaining brands. However, in some cases an overlap of individual brands regarding the target groups may be desirable in order to promote internal competition in the organisation.

Every brand should have its own "territory" in which it can successfully maintain its status (Kapferer 1998, p. 285). Without a clear delimitation of individual brands, cannibalisation will lead to frictional losses, synergies cannot be utilised adequately and, ultimately, no long-term customer preferences will develop (Burmann and Meffert 2005).

For this reason, firms need some sort of brand portfolio management, which pursues the following goals, thus raising the effectiveness and efficiency of the existing brands and of the process of brand management (Aaker 2004, p. 33 ff.):

- improved use of synergies,
- exploitation of existing brand value,
- creation and preservation of brand significance on the market,
- establishment and maintenance of strong brands,
- clear profiling of the product range.

*Synergies in brand portfolios* can arise, for example, from utilising brand associations within a large portfolio of brands (see Sect. 3.7.3). Once the core values or the image of a brand have been established through a *clear profile* within the group of buyers, new products that are directed to other sub-markets or business areas and offered under the same brand name can profit very quickly and efficiently from the value of the parent brand. This way, a company's new business units can *strengthen the value and the importance of the parent brand, exploit the potential* of the existing *brand value,* and open up new growth potential.

But not only does the goal of a *maximisation of the performance* of the entire brand portfolio call for a comprehensive management of all brands, environmental changes also have a considerable influence on the brand design options and the relationships between brands. *Dynamic changes* of customer needs, technology, distribution channels and the competitors' offerings demand the permanent coordination and future-oriented steering of the brand portfolio. In this way, the optimisation of an individual brand at the expense of the value of the overall portfolio can be avoided, so as not to threaten company goals. A regular analysis of all brands may take the form of a comprehensive *brand audit* (Kapferer 1998, p. 277 and; Keller et al. 2012, p. 392 ff.).

In order to create the necessary conditions for successful market development with a portfolio of different brands, a *brand architecture* has to be developed, based on clearly defined criteria. The following section will explain the basic options.

### 3.7.3 Brand Architecture

If a company serves several business fields or offers several products with different brands, then each of these brands should be assigned a unique position within the portfolio. This means each brand is allocated a *mission* which clearly reflects its task within the framework of the corporate strategy. Along with the aspects *content* and *orientation*, the mission is part of the *strategic task* of a brand (Meffert and Perrey 2005).

This kind of structuring is important for preventing any inadvertent cannibalisation, for effectively managing the portfolio, and reducing inefficient conflicts within the overall organisation. In this way, the individual brand values can be maximised and the planning of budgets and resources optimised with the goal of realising the maximum potential of the entire portfolio. Often it is the positioning in the price spectrum that is crucial for the extent to which brands cannibalise one another (Kapferer 1998, p. 285). “Brand architecture is understood as the arrangement of all the brands of a company in such a way as to define the positioning and the relationships of the brands among each other and the product–market relationships from a strategic perspective” (Esch 2012, p. 502).

A company can pursue various strategy options to successfully organise the brand portfolio. One fundamental decision concerns the trade-off between the advantages of *independent brands* that have been tailored to the needs of certain target groups and positioned accordingly, and the advantages of *using synergies* within a portfolio (see Fig. 3.19). The term *corporate brand strategy* is used if the umbrella or corporate brand prevails, whereas the predominance of product brands independent of one another is described as a *product brand strategy.*

#### Corporate Brand Strategy

If the corporate brand (also known as umbrella brand) dominates, all the products of a business unit or even of the overall company are offered under a unified umbrella brand (*branded house*). This option is particularly suitable if the umbrella brand supports the company’s various product offers by positive associations, a strong market presence or by

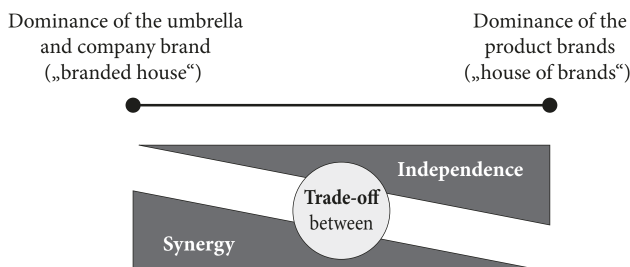



**Fig. 3.19** Competing goals of brand architecture design (According to Esch and Brautigam 2005, p. 858)

instilling trust (Aaker and Joachimsthaler 2000, p. 120 and; Esch 2012, p. 506 ff.). In this case, the product or service spectrum will reinforce the superordinate brand. This brand strategy is frequently found among service or industrial goods companies. For example, at *BASF AG* based in Ludwigshafen (Germany) various products and even different business units – from petrochemical feedstocks to paints, plastics and pesticides – are managed under a single umbrella brand. Hence the brand has a broad competence spectrum in the field of chemicals and even more potential for extension. New products and services can be introduced onto the market very efficiently by taking advantage of the image and prominence of the corporate brand.

#### Product Brand Strategy

If, in contrast, all of a company's products and services are marketed under different brand names (also known as an individual brand strategy), independent product brands will dominate (*house of brands*) and the name of the firm will fade into the background in communication. In this way, all brands can be precisely aligned to different target groups with regard to value proposition, identity and communication. Esch (2012, p. 358) concisely summarises the key idea as: "one brand = one product = one product promise". Although synergies are lost with this approach, and the establishment of image and prominence may be very costly, this loss may be more than compensated by higher prices and/or quantities sold. The company *Mars Inc.*, for example, pursues a worldwide individual brand strategy. This not only enables the precise positioning of each individual target segment, but, above all, a clear delimitation of the different business units. The use of a single umbrella brand for food products and animal feeds would be confusing for the consumer. For this reason, the two fields are clearly separated from one another and the various products are offered with different brand names (e.g. *Uncle Ben's, Milky Way, Whiskas).*

#### Family Brand Strategy

In practice, mixed forms often emerge in order to use the advantages of both strategies and to avoid their disadvantages (for details see Esch and Bräutigam 2006). With the help of a brand name, a trademark or a shape or colour code, brands can be *combined with each other horizontally* (product groups or strategic business fields on the same level) or *vertically* (across different levels of the company's hierarchy) (Langner and Esch 2006, p. 124).

This is called a *family brand strategy* if a consistent positioning of the brands is assured. Here it is crucial that the quality of each product or service conforms to the same (high) level within the brand family.

For instance, the well-known "three stripes" of *Adidas* are used in several brand logos within the corporate portfolio (Adidas Sport Style, Adidas Sport Performance, Adidas Sport Originals). This connection between different product groups enables the consumer to rapidly recognise and identify the brand. If this shared identity is also used in communication or distribution, synergy effects will arise within the brand portfolio – especially when a new product is launched. The same also applies to the brand *Toblerone*, where the

distinctive triangular shape of the chocolate and the packaging also evoke a powerful and unique association between different products (horizontal linking). And *Deutsche Telekom AG* uses the magenta-coloured "T" for the vertical linking of various brands within the portfolio. Both the corporate brand (Deutsche Telekom) and the individual brands of the various business units (T-Systems, T-Online, T-Mobile etc.) share the same code.

### 3.7.4 Expansion of Brand Competence via Brand Extension

In order to make use of growth potential, an attractive alternative to the costly launch of new brands onto the market is to expand an existing and established brand to different products. This saves investments for establishing a new brand and the prominence and image of an existing brand can be used to quickly ensure rapid growth of the market share. This expansion of the existing core performance of a brand to other products or services deviating from the existing offering is known as *brand extension* or *brand leverage*. If the *competence* of a brand is expanded, it is called *brand transfer*. If very similar products or services are added in the same performance category under the same brand, it is a *line extension*.

With a brand transfer, relevant properties of the master brand are transferred to a new product (or product spectrum); thus, the original brand is considerably changed with regard to the range of goods and services, the market positioning and the competitive situation (see the following example).

**Brand Extension at Lipton**

The Scotsman Sir Thomas Lipton was born in Glasgow in 1850 and started trading food at an early age. Within a few years he had established a chain of food stores throughout Great Britain. To secure the company's supply lines, Lipton acquired the rights to tea plantations in today's Sri Lanka and founded the Lipton Tea Company in 1893. In 1938 the food group Unilever bought the Lipton tea business with the associated brand rights, and in 1972, all the other Lipton business units. Today, with a sales volume of approx. € 3 bn., the brand stands for around 10 % of the worldwide trade turnover in tea and has expanded into over 110 countries. The family brand "Lipton" (Yellow Label, Green Tea, Herbal Tea, Iced Tea, Ice Tea etc.) that has its origins in food trading, now stands for innovative tea competence. Way back in 1941, the brand was expanded in the USA and in Canada by also offering chicken noodle soup. This new brand competence was continually expanded in the field of soups and ready-made meals. In Europe, the Unilever Group offers these and similar products not under the brand name of Lipton, but of Knorr, due to regional differences of Lipton's brand image.

In this context the core question is how many and, above all, which new product types a brand can potentially cover. Risks exist in the case of an excessive extension and an unsuitable brand architecture; in this case, the newly acquired product cannibalises other brands from the same portfolio or the new product addresses other customer segments than the previous ones, especially if these segments are not compatible with each other. Also, the profile of the brand may be lost in the established circle of buyers, thus diluting the core image of the master brand (Esch 2012, p. 382 ff.).

This is offset, however, by a series of important advantages that often make brand extension appear strategically worthwhile. Apart from the additional sales volume generated by the new product offer, the competence of the master brand can be expanded, for instance by rejuvenating the image with innovative products. Furthermore, the brand can be endowed with new associations and its prominence thus expanded. The addition of new associations can be very helpful, especially against the backdrop of changes in the social framework (e.g. environmental or nutritional awareness, new lifestyle trends etc.). Thus, the market launch of a vehicle with a hybrid engine considered to be environmentally friendly had a positive influence on the perception, the prominence and ultimately the strength and the value of the Toyota brand.

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# Market-oriented Business Unit Planning

# 4

## 4.1 Interdependencies Between Corporate Planning, Business Unit Planning and Marketing Mix Planning

In the following, we will explain the various interdependencies existing between market-oriented corporate planning, market-oriented business unit planning and marketing mix planning (see Fig. 4.1).

In the previous sections, we elaborated on the relationships between strategic corporate planning and strategic marketing planning. These two planning areas are closely interconnected. As the long-term success of a company depends on its survival on the sales markets, (strategic) marketing planning represents the core of corporate planning (Meffert and Burmann 1996). It should be clear now that, within the framework of normative management, market-oriented considerations play a key role in outlining the company's *vision* ("What is (should be) our business?") and, derived from this, the *corporate policy* ("the corporate mission to be accomplished") (for further details see Sect. 3.1).

In view of these factors and additional framework aspects (including core competencies), the *business unit mix* is defined as a central component of market-oriented corporate planning. Essentially it has to be defined in which *markets* ("Customers with specific needs and problems") and with which *products* ("basic, additional and ancillary products") the company wishes to operate (compare Sect. 3.2). The crucial role that market segmentation plays in forming strategic business units (SBUs) underlines the close link between corporate and marketing planning.

In order to ensure the long-term existence of the company, market-oriented corporate planning has to strive for a mix of business units which is balanced with regard to financial needs and profit generation, as well as to potential prospects and risks. Within the scope of the *target portfolio* and the overall context of the company, the objectives for the individual business units are determined and the priorities for allocating scarce resources are defined (see Sect. 3.3). These targets (e.g. growth, holding one's ground, withdrawal) are

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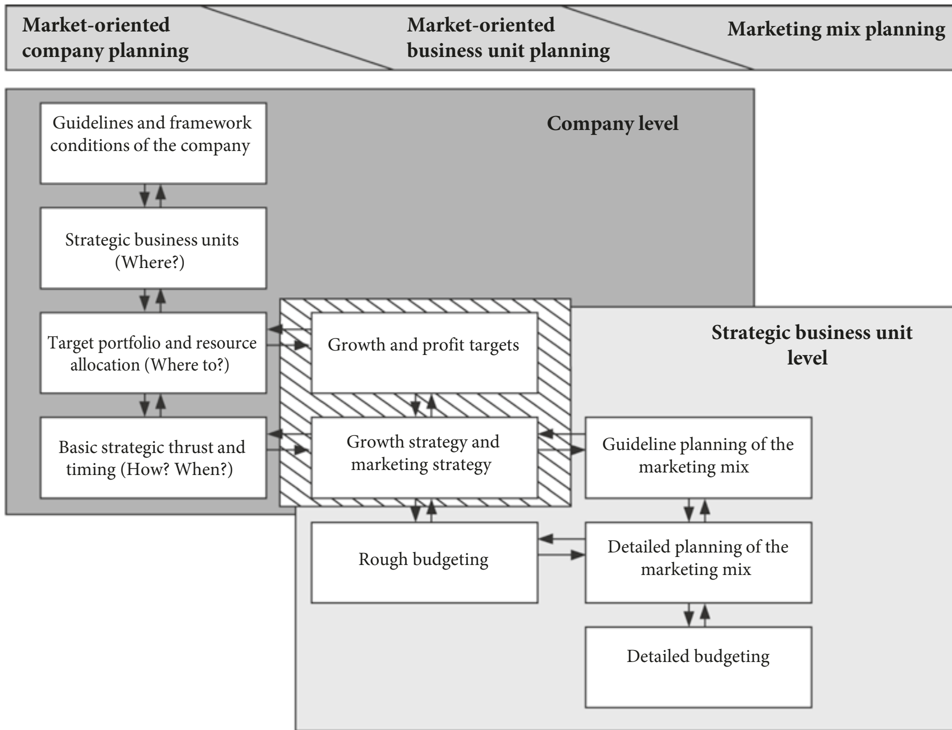


**Fig. 4.1** Interdependencies between market-oriented company planning, market-oriented business unit planning and marketing mix planning (Also see Meffert and Burmann 1996)

translated into *economic target parameters* that can essentially be categorised into growth and profit targets.

A further task of strategic corporate planning is to define the *basic strategic thrust* of the company. This particularly concerns decisions relating to the general principles, rules and procedures of the company with regard to the market, the competitors, the environment, new technologies etc. and decisions that determine when these principles, rules and procedures are to be applied (*Timing*) (see Chap. 3). These definitions give an essential orientation for determining the *growth strategy*, the *core task profile*, the *cooperation goals* and the positioning within the framework of market-oriented business unit planning. Within the context of this book, the core task profile, the cooperation goals and the positioning will be subsumed under the term *marketing strategy*. At this point a preliminary budget will also be set up.

The growth strategy concerns the question how profitable growth can be attained. Part of defining the growth strategy is to determine with which intensity the available *sources of growth and profit* are to be used (see Sect. 4.2). The following means are generally available for this purpose:

- acquisition of new customers (“customer acquisition”),
- maintaining and expanding existing customer relationships (“customer retention”),
- development of new product offers (“product innovation”) and
- prolongation and optimisation of the lifecycle for existing product offers (“product maintenance”).

*Positioning*, the *core task profile* and *cooperations and networks* are key elements of the *marketing strategy*.

Fully formulated *positioning goals* include:

- information about the customers (market segments) to be reached,
- information on the customers’ needs (problems, wishes, requirements, expectations) that are to be met,
- information on the nature and extent of the targeted competitive advantage,
- information on the configuration of the product offer (problem solving), which is to be perceived by the customers as best suited to their needs (see Sect. 4.5).

In other words: By elaborating positioning goals, it is defined how a certain competitive advantage is to be achieved for a certain customer group (see Sects. 3.4 and 4.5.1).

The positioning strategy determines the path to be taken in the market and among the competitors in order to achieve the positioning goals (see Sect. 4.5.5).

The *core task profile* answers the question which competencies (with regard to the core marketing tasks) have to be developed and maintained internally in order to open up and exploit market potential (see Sect. 4.3). It also has to be determined which competencies (of a strategic or operative nature) have to be procured externally, i.e. through *cooperations and networks* to be able to achieve the targeted positioning in the market (see Sect. 4.4).

The subsequent *marketing mix planning* determines as a first step the focus and the basic guidelines of the marketing mix (within the scope of planning the use of marketing instruments), then continues with the detailed planning with regard to the instruments of the marketing mix, namely

- product,
- price,
- communication and
- distribution.

The marketing mix has to be coordinated with the growth strategy and the marketing strategy in order to be able to plan in an integrated and specific way and to define the detailed budgets (see Chap. 5).

The arrows in Fig. 4.1 illustrate that such a planning process cannot just be processed from top to bottom along strictly hierarchical lines. Rather, it has to be an iterative,

interconnected and dynamic process, in the course of which objectives, targets, strategies and measures will have to be repeatedly changed and specified.

While the previous sections addressed the questions of marketing planning on the corporate level, now the role of the *growth strategy* and the *marketing strategy* as *links between marketing planning on the corporate level and marketing planning on the business unit level* (see Fig. 4.1) will be discussed.

## 4.2 Determining the Growth Strategy

### 4.2.1 Overview

The next step in the marketing planning process deals with the question which options are available for attaining the targeted economic marketing goals (contribution margin, sales volume, market share etc.).

The *task-oriented approach* developed by Tomczak and Reinecke (1996, 1999) defines the "core tasks" of strategic marketing planning, focussing on the key growth and profit generators of a company or a business unit and on the management of the required competencies.

Companies can achieve their growth and profit targets by acquiring new customers and/or by increasing the profit from existing customers (through higher willingness to pay, increased purchase frequency and intensity or cross-selling). In addition, they can attempt to introduce new products on the market and/or to prolong and optimise the lifecycle of existing products. Figure 4.2 details the *sources of growth and profit* with regard to the various core tasks.

| Strategic options | Source of growth or profit | Core task | Approaches |
|---|---|---|---|
| Customer acquisition | Future customers | Developing customer potential | • Gaining non-users<br>• Winning customers from the competition |
| Customer retention | Current customers | Exploiting customer potential | • Keeping customers (retention)<br>• Penetrating customers (penetration) |
| Product innovation | New products | Developing product potential | • Developing and introducing real market innovations<br>• Developing and introducing imitations |
| Product maintenance | Current products | Exploiting product potential | • Preserving products<br>• Expanding products |

**Fig. 4.2** Overview of the core tasks in marketing. (Tomczak et al. 2002)

The task-oriented view in marketing is not really “revolutionary”. It ties in with existing concepts, such as the well-known matrix of Ansoff (1957), and thus corresponds to the fundamental management philosophy of increasing sales volume and profits. None of the four core tasks (customer acquisition, customer retention, product innovation and product maintenance) is basically new either. What is crucial here is the focus on customer and product potential and the stipulation to coordinate this as effectively as possible with the competencies of the company. In this sense, market-oriented corporate management is equivalent to the integrated management of the four core tasks.

### 4.2.2 The Basic Concept of the Task-Oriented Approach

At its heart, the task-oriented approach deals with specific competencies that a company needs to utilise market potential better than its competitors.

*Market potential*, *core tasks* and *competencies* represent the key constructs of the task-oriented approach. To be able to tap into specific market potentials, specific core tasks have to be performed by a company (customer acquisition and retention, as well as product innovation and maintenance), which, in turn, demand certain competencies (outside-in perspective). Or, as expressed according to an inside-out perspective: By being able to competently fulfill certain core tasks, a company holds the basic capability of utilising certain market potential).

**Market Potential**

Within the scope of the task-oriented approach, the construct of *market potential* is quite broadly defined, encompassing all needs and requirements that can be met by a company (or business area) in the future. Two aspects have to be emphasised in this context:

- The needs of potential customers form the crucial reference point, because, at least hypothetically, the appropriate marketing measures will allow every need to be transformed into demand. A need is usually defined as the feeling associated with the attempt to eliminate a deficiency. This common definition can be traced back to von Hermann (1870). A distinction is made between *current* and *latent* (i.e. with a view to the future of a certain market) *needs* (see Geschka and Eggert-Kipfelstuhl 1994 for a discussion of the different types of needs). Current needs exist at present, are known to the customer and are satisfied by the company’s offerings or those of the competitors. Latent needs also exist at the time under consideration, but are not yet relevant for potential customers with regard to a certain market and are satisfied (often incompletely) in substitution markets.
- In their attempt to utilise market potential, companies basically compete with each other for *purchasing power* – either in direct predatory competition or possibly in more indirect substitution competition.

In this context, two types of market potential have to be distinguished (see Fig. 4.3).

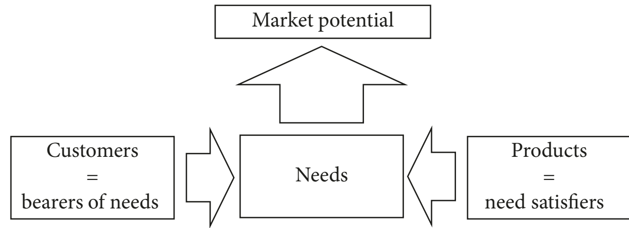


**Fig. 4.3** Market potential and needs

## Customer Potential

Customers with certain needs have to be identified so as to be able to identify customer potential. Customers can also be regarded as "*bearers of needs*" and may be distinguished in terms of their needs, on the one hand, and of their purchasing power, on the other hand. The *relevance of a need* varies between the customers and also depends on the purchasing, consumption or usage situation. In the automobile market, for instance, the need for "driving dynamics" plays a key role for a certain circle of customers (typically BMW and Porsche customers), while for other target groups (e.g. Toyota customers) this tends to be of less importance. The relevance of certain needs also varies over time (day, year, decade) with respect to a specific customer. For example, there are customers who are very health-oriented in the early morning (e.g. muesli for breakfast), more convenience-oriented at noon (e.g. a sandwich for lunch) and pleasure-oriented in the evening (e.g. dining in a high-class restaurant).

Generally it can be said that:

- the higher the number of customers sharing a need,
- the more subjectively relevant this need
- and the greater the purchasing power of the respective customers,

the greater the customer potential.

Thus, the customer potential for automobiles could be regarded as extremely high in China if we just consider the size of the market and the wish for mobility. However, the overall low purchasing power reduces the customer potential somewhat. But due to the steadily increasing available income, the Chinese market is set to gain further in importance in the future.

## Product Potential

To analyse the market potential it has to be determined which needs can be potentially satisfied with certain product offers or product properties. In this sense, products – usually combinations of goods, services and rights – can also be described as "need satisfiers". On the basis of their specific properties, they are potentially able to satisfy a more or less broad and deep spectrum of needs.

Generally, every product and every value (whether material or immaterial in nature) can be the object of a need. In reality, a need is never pure and simple, but is always a complex of needs (Lisowsky 1968, p. 7 and 79).

The *means–end chain approach* illustrates this phenomenon (e.g., Olson and Reynolds 1983; Kuß and Tomczak 2007) by illustrating that the properties of a product (e.g. a low-calorie soft drink) have various functional and psycho-social consequences (e. g., maintaining body weight, good appearance, health, enhanced self-confidence) that serve as tools (= means) to realise certain superordinate individual goals (= ends), such as self-assurance and self-esteem. Thus, these products have certain potentials that have to be utilised by the company through particular measures.

The product potential is the greater,

- the more diverse the spectrum of needs that can be satisfied with a product and
- the higher the subjective significance of the needs to be satisfied in comparison with other needs.

As the enormous sum of around € 50 bn. paid in 2000 for the UMTS (Universal Mobile Telecommunications System) licences in Germany demonstrates, the telecommunications companies regarded the product potential of this technology as extremely high. They assumed that with the aid of UMTS technology, an enormous bandwidth of different needs (information, entertainment, communication etc.) would be satisfied for a large number of customers.

**Competencies and Core Tasks**

In order to be able to utilise market potential, i.e. customer and product potential, companies need specific competencies. They have to be able to tap into new potential (innovation), and also to exploit potential to the maximum (persistence) (see Fig. 4.4). The following four types of competencies are therefore at the focus of market-oriented strategic management:

- *customer acquisition competence* (capability of developing customer potential),
- *customer retention competence* (capability of exploiting customer potential),
- *product innovation competence* (capability of developing product potential) and
- *product maintenance competence* (capability of exploiting product potential).

In the following section, the various core tasks and the associated activities will be described in detail.

### 4.2.3 Core Tasks in Marketing

#### Utilisation of Customer Potential: Customer Acquisition and Retention

The following section shows how customer potential can be systematically utilised, i.e. developed and exploited. First, customer potential analysis is used to identify, evaluate (customer value determination) and select (customer selection) the relevant customer potential. Based on this analysis, a company can choose between several directions of strategic thrust to sustainably utilise customer potential.

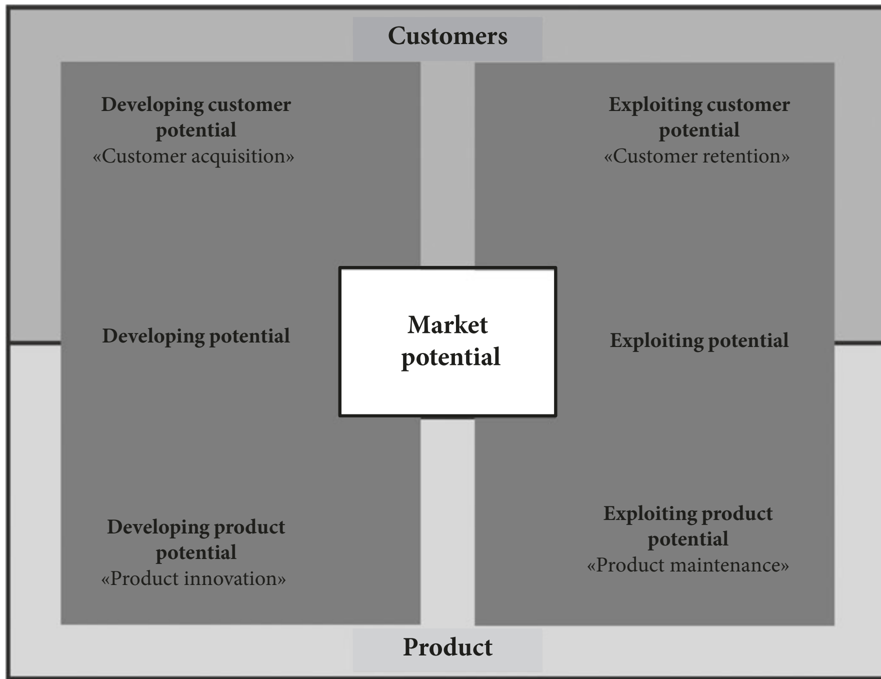


**Fig. 4.4** Competencies and core tasks

First we will discuss customer potential analysis, before examining the key tasks of customer acquisition and retention.

**Customer Potential Analysis: Identifying, Evaluating and Selecting Customer Potential**

In the process of identifying customer potential, it has to be investigated whether potential is available in the form of customer acquisition and customer retention. In both cases, the overall customer potential has to be quantitatively identified. A comprehensive data basis is key for the identification of customer potential. For this purpose, both internal (e.g. field representatives) and external sources of information (e.g. lead users) have to be drawn upon, and different techniques for information acquisition (e.g. monitoring, observing, trend scouting, group discussions, in-depth interviews, customer satisfaction surveys) have to be used (for details see Sect. 4.6.4.2).

**Evaluation of the Customer Group "Golf Lovers" by BMW AG**

BMW AG views golfers and golf enthusiasts as an attractive customer group, both in terms of customer acquisition as well as customer retention measures. The target group is considered to be attractive and brand-appropriate. BMW expresses this

on its own homepage as follows (BMW 2013): "BMW has long since become an integral part of international golf. Everywhere golfers strive for perfection, BMW is not far away: Whether at the BMW International Open, the only tournament on the European Tour staged in Germany that has existed for almost a quarter of a century; whether at the biggest international golf tournament series for amateurs, the BMW Golf Cup International; or at international major events like the BMW PGA Championship in England, the BMW Championship in the USA, the BMW Masters in China and the unique Ryder Cup. The message is: 'Driven by Passion'."

After customer identification, the customer potential has to be evaluated and the suitable customer potential selected. Customer evaluation and selection is possible both for potential as well as existing customers. Today, the evaluation of existing customers is still dominating. However, the market of potential customers is also increasingly pre-evaluated and selected.

*Customer Value and Customer Evaluation* Customer potential can be analysed with a large number of evaluation methods. The customer value represents the overall importance of a customer from the provider's perspective. Usually, the customer value can be divided into *monetary* and *non-monetary parameters* (Schulz 1995, p. 103 ff.; Cornelsen 2000, p. 38).

In the case of *monetary parameters* the annual sales or sales potential of the individual customer can be considered in a differentiated way using an ABC analysis (Köhler 2005, p. 397 ff.). ABC analyses divide customers into categories, such as A = key customers, B = "normal" customers and C = small customers. On the other hand, the customer value can be identified by calculating (potential) customer contribution margins (Köhler 2005, p. 409 ff.), allowing conclusions as to the profitability and the future potential of the customer. The potential contribution margin of a customer is the sum of the present contribution margin and the contribution margin predicted for the future. Additional pre and post costs should also be considered (e.g. costs of acquisition or costs incurred by ending the business relationship) (Link 1995, p. 109). Furthermore, there is the option of a customer lifetime evaluation. The concept of customer lifetime value transfers principles of investment appraisal to the customer relationship (Blattberg and Deighton 1996). In this context, obtaining or predicting future parameters, such as customer migration, and including these in the customer evaluation is particularly difficult.

*Non-monetary parameters* comprise the customer's reference potential (recommendations), cross-selling potential (sale of more than the original products), information potential (supply and usability of customer information), innovation potential (providing an impetus for new products), loyalty potential (affinity to provider) and cooperation potential (synergy and value enhancement potential through intensified collaboration and integration of the value creation chains) (for more details see Schleuning 1994, p. 161 ff.; Schulz 1995, p. 113 ff., Rudolf-Sipötz and Tomczak 2001, p. 15 ff.).

The monetary and non-monetary parameters can be analysed with different procedures. These include scoring and portfolio models.

*Scoring models* support the customer evaluation if a large number of features is to be included (Reinecke and Keller 2006, p. 267 f.). Besides monetary parameters and features that describe the reference potential, cross-selling potential or information potential, additional behaviour-relevant features (e.g. purchasing frequency) are also considered. Points are used to evaluate the customer; these are summed up to form a customer point value. The higher this value, the more valuable the customer is for the provider.

*Customer portfolio analyses* represent a special form of customer analysis based on combined criteria (Fink and Meyer 1995; Schulz 1995, 126 ff.; Reinecke and Tomczak 2006, p. 265 f.). They are analogous to the corporate portfolio, but customers and business relationships form the focus here. The selected dimensions either consist of one criterion each (e.g. sales volume) or several criteria are combined to form one dimension (e.g. customer attractiveness). The choice of indicators determines the predictive value of the models. Representation of the customer value in the form of a three-dimensional vector provides especially meaningful results (see also Huldi and Staub 1995, p. 27 ff.; Rudolf–Sipötz and Tomczak 2001, p. 80 ff.). A customer cube of this type comprises the present contribution to corporate success (e.g. contribution margin) and the future potential (e.g. potential sales or contribution margin) – both monetary parameters – as well as non-monetary factors such as the information and reference potential etc. (see Fig. 4.5).

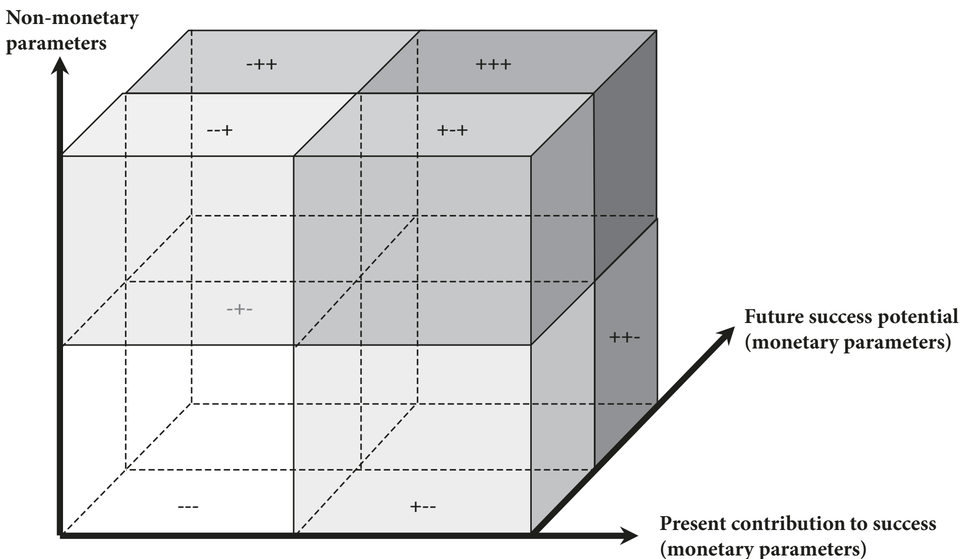


**Fig. 4.5** Customer cube for evaluating and selecting customers (Huldi and Staub 1995, p. 27 ff.; Rudolf–Sipötz 2001, p. 193)

*Customer Selection* The customers are evaluated on the basis of the three dimensions of the customer cube (Fig. 4.5). The cube is used as a simple method for visualising customer value, which in turn serves as an important basis for customer selection. For example, the customers in the outer cuboid (marked with "+++" in the figure) have been identified as top customers due to their high profitability, strong development potential and an outstanding evaluation of their resource potential. These customers have to be retained (or acquired) by the company, and their potential expanded. Customers in the cuboid next to the origin (marked with "---") may be "waived" because there is no reason to keep them in the customer portfolio or to acquire them in the first place (Rudolf–Sipötz and Tomczak 2001, p. 83 ff.). If the company is in a business relationship with such customers, it should be terminated or its intensity decreased (Finsterwalder 2002). With the aid of modern IT-supported forecasting methods, expected customer values can be calculated quite effectively by profile matching with existing customers.

Once the potential and existing customers have been identified, evaluated and selected, the appropriate measures for customer acquisition and customer retention have to be determined.

**Customer Acquisition: Developing Customer Potential**

The term "customer acquisition" is understood as the task of developing new customer potential. This can be done, for example, by establishing a new distribution channel, running a sales promotion campaign, internationalising or boosting the field sales force. Two basic strategies for customer acquisition can be distinguished (Karg 2001):

- *addressing non-users or non-consumers* and
- *poaching customers from the competitors.*

*Non-users* are those customers who have not yet bought, or made use of, certain products or services. Non-users have either a latent or a non-satisfied current need with regard to a product. Generally, in addressing non-users, the provider tends to be in *substitution competition*, which is essentially about convincing the customer that a need that was previously latent is actually relevant and should be considered in their purchasing decision. To activate latent needs, the situation that awakens a customer's need has to be determined. The required measures depend, among other things, on the willingness of the non-users to adopt innovations and on the competitors' activation measures (Kroeber-Riel et al. 2009, p. 93 ff.; Kotler et al. 2007, p. 276 ff.). To attract potential customers with current needs that have not yet been satisfied, the provider has to attempt to remove the barriers (e.g. financial restrictions) that currently prevent the customers from making the purchase.

A different approach is required to win the *competitors' customers.* In saturated markets in which intense predatory competition usually prevails, customer retention strategies will have been implemented (Diller 1996, p. 81; Dittrich 2002; Bruhn and Homburg 2013). Thus, the task is essentially to convince potential customers of the relative advantages of

one's own products so as to motivate them to switch providers. A detailed understanding of the determining factors of customer retention (also see the discussion on customer retention in the following section) and of the reasons for switching, as well as the choice of the right time, are critical aspects of successful customer acquisition.

The following box presents an example of a company pursuing the two customer acquisition strategies ("winning non-users" and "acquiring competitors' customers") at the same time – an extremely demanding strategy.

**Winning Non-users and Customers from the Competition: Nivea DNAAge**
(Source: http://www.gwa.de/images/effie_db/2009/NiveaDNAge.pdf) 2008 got off to a bad start for Nivea: L'Oréal Men Expert overtook NIVEA FOR MEN as the number 1 face cream for men. To win back the throne, NIVEA FOR MEN decided to enter the anti-aging segment. Two seemingly contrary target groups were both to be convinced with a single campaign: Firstly, men who had previously held a sceptical stance towards anti-aging products, viewing them as useless beauty products for women. These men, who considered wrinkles less as an imperfection to be battled, but rather as a manly sign of experience and maturity, were not to be won over with classical promises of product performance. Secondly, existing category users were to be addressed, who mainly used the competitor brand L'Oréal Men Expert – and they expected exactly what was irrelevant for non-users: convincing performance promises.

### Customer Retention: Exploiting Customer Potential

The core task of "customer retention" focusses on how customer potential can be exploited in the long term (see in particular Dittrich 2002; Bruhn and Homburg 2013). For this purpose, companies should create psychological (customer satisfaction, trust) and factual, i.e. technological, legal and economical, switching barriers for selected customers. Regarding customer loyalty, two general sub-strategies can be distinguished (Tomczak et al. 2002):

- *retention* and
- *penetration*.

Customer potential can be exploited simply by assuring continual repeat purchases and either preventing them from switching to the competitors or winning them back (*retention*). Achieving this requires proactive measures, such as raising customer satisfaction (e.g. Dittrich 2002), as well as reactive measures, such as professional complaint management (e.g. Stauss and Seidel 2007) or systematic customer recovery management (e.g. Stauss 2000).

**"Telekom-hilft" Feedback Community**

Complaint and feedback management is extremely important for companies in the telecommunications industry. The Telekom Deutschland Customer Service strives for open, direct and personal communication in line with "Customer Service 2.0". Whether in the Feedback Community, on Twitter or Facebook, the employees attempt to respond to customer enquiries quickly and competently. The underlying idea is that customers can become active members who actively support Telekom. As a result, the company can utilise the customers' valuable knowledge. (Source: www.telekom-hilft.de)

Customer relationships can be developed more strongly (*penetration*) by better exploiting the customers' willingness to pay, by increasing purchase frequency and intensity (more repeat purchases or up-selling) and by promoting related purchases (follow-on purchases and cross-selling). In up-selling, the customer is induced to buy higher-value products (e.g. a car one level above the old model). Follow-on purchases can result from connections between the first product and another product or service (e.g. buying a Barbie doll and then buying further dolls and accessories). Cross-selling is understood as additional purchases of products and services from other business areas (e.g. sale of a life insurance to a customer who had previously only bought property insurance, such as household and car insurance policies).

The following two examples are meant to further illustrate the concept of customer penetration.

**Customer Penetration through Up-selling, Cross-selling and Follow-on Purchases: Miele and Nespresso**

Building upon customer satisfaction, a strong brand and the resulting reference potential, the former cleaning specialist *Miele* managed to establish itself as a kitchen expert as well. Thus, "vertical customer retention" (repeat purchases, e.g. purchase of another Miele washing machine) could be supplemented by "horizontal customer retention" (additional purchases, e.g. oven, microwave, coffee machine, vacuum cleaner). To facilitate this, the design and the basic functional configuration of all devices was aligned as far as possible (e.g. opening knob on the same side, same colour, same height of drier and washing machine etc.). The structure of the operating instructions is identical. Follow-on purchases are also offered, e.g. warranty and service contracts, as well as consumables (washing powder, filter bags) that are ideally oriented towards the functionality of the Miele devices.

Another example is provided by the premium provider *Nespresso*, a subsidiary of the *Nestlé Group*. The design- and lifestyle-oriented Nespresso concept consists

of three elements: the sealed, portioned coffee capsules, the coffee machines and the “Nespresso Club”. As coffee machines are normally only replaced when they are damaged or when an innovative product appears, there is a high up-selling potential for *Nespresso*, especially in conjunction with the launch of machines in innovative designs and with additional functionalities (such as milk frothers) or new coffee varieties. However, *Nespresso's* main source of income is represented by the capsules especially designed for its own machine that can be purchased either via the internet, by phone or in the “Nespresso Boutiques” (follow-on purchases). Additional purchases are stimulated by a wide range of accessories, such as cups or decorative capsule storage containers. (According to Dittrich 2002, p. 141)

#### Utilisation of Product Potential: Product Innovation and Maintenance

On the product side, just as on the customer side, a product potential analysis has to be conducted, which means identifying, evaluating and selecting product potential. This addresses the core tasks of product innovation and product maintenance.

Again, we will first discuss the product potential analysis, before we will examine detailed measures for utilising product potential.

#### Product Potential Analysis: Identifying, Evaluating and Selecting Product Potential

*Identification of Product Potential* The use of a broad information basis is imperative in order to identify the potential of individual products and to decide which direction of strategic thrust is to be pursued for utilising product potential (Haedrich et al. 2003, p. 230 ff.). Relevant *trends and changes* need to be recognised in time. These changes may affect the product itself (or the entire product range), the technology, the customers (above all their needs), the competitors or the framework conditions (legal, social etc.). The procedures used for identifying customer potential may be modified and applied for identifying product potential as well (see Sect. 4.2.3.1).

*Product Evaluation and Selection* Here, new products (product innovations) as well as existing products (performance maintenance) have to be considered. It has to be investigated on an ongoing basis or at certain time intervals which potential the individual products (still) have, for example in which stage of the product lifecycle they are or which positioning they have (Tomczak et al. 2007). Also, it needs to be verified which (potential) sales quantities and which current and future product contribution margins may be achieved or have been achieved with which products, services and rights. Sales and contribution margin calculations provide important information that can be used for

selecting the various product offers, e.g., within the scope of a *portfolio or ABC analysis*, in order to eliminate products with low (anticipated) contribution margins from the product range (Tomczak et al. 2007) or not to launch them on the market in the first place (e.g. after estimating the prospects of success for a product innovation with the help of test markets or market tests).

In contrast, the *turnover calculation* uses turnover as the key evaluation criterion (Nieschlag et al. 2002, p. 660 ff.). It is primarily meant to reflect the absolute and relative significance of a product/product group as a *source of revenue*, but also to show value deviations with regard to plan data or to reference parameters from the previous period. Turnover calculations can also help decide which products should be eliminated, e.g. via an ABC analysis which categorises the products into three classes according to their contribution to corporate success. Figure 4.6 shows such an evaluation.

In Fig. 4.6 the first four products make a high contribution to the total turnover, products 5–7 are mid-range and products 8–20 make a low contribution and should perhaps be removed from the performance portfolio. Frequently (but not always) it becomes evident that 20 % of all products achieve a turnover contribution and contribution margin of approx. 80 % ("Pareto principle").

The *contribution margin calculation* involves a product evaluation, for example according to the following formula (always in relation to a certain time period):

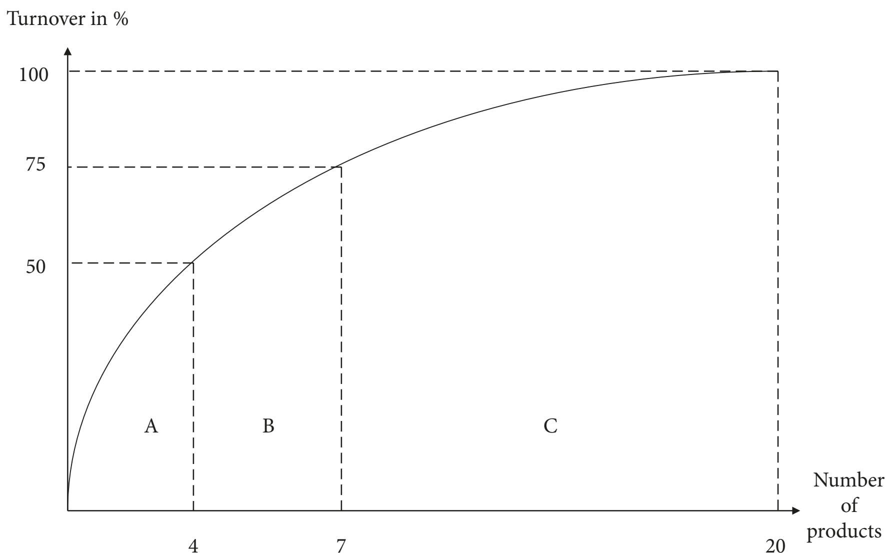


**Fig. 4.6** ABC analysis according to turnover (Nieschlag et al. 2002, p. 662)

| | Quantity sold × prices attained |
|---|---|
| Minus | Directly attributable sales costs (e.g. communication, distribution, sales) |
| *Minus* | *Quantities sold* × *factoring unit costs of production/manufacture* |
| = | Contribution margin per product or product group |

So the contribution margin of a product is that part of the turnover that remains after subtracting the costs directly attributable to the product and contributes to covering other costs in the company and generating a profit. Thus, the contribution margin calculation using an ABC analysis may be used for selecting product offers.

With the *portfolio technique* (for details see Sect. 3.3), existing and new products can be classified in a grid that differentiates between the two dimensions of market attractiveness (i.e. future market potential) and market position (e.g. turnover, relative contribution margin, market share). This may also be used for product selection. Thus, products with a weak market position and a low level of market attractiveness are designated as "Poor dogs" which represent the candidates for elimination. Products with a strong market position and a high level of market attractiveness represent the "Stars", which should receive future investments.

**Product Innovation: Developing Product Potential**

The core task of "product innovation" is to develop the product potential (see Tomczak et al. 2002 for more details). This includes all measures that have to be adopted to create new problem solutions and to successfully establish them on the market. An innovation must be based on the company's unique resources and capabilities such as a brand (e.g. Marlboro, Nivea), high investment in research & development (such as at SAP), a specific corporate culture (as at 3 M) or a core product (e.g. the plastic PTFE [polytetrafluoroethylene] of the company Gore; see the case studies in Sect. 4.5.4.3). In this context, two directions of thrust may be distinguished (Verhage et al. 1981, p. 75):

- *create "new-to-the-world" offerings* or
- *imitate products.*

A company may truly *develop and launch a real market innovation* ("new-to-the-world" offering) or it can copy products already on the market using imitation. While truly new, innovative products are mainly based on internal factors and resources, such as expertise in a new technology, *imitation* focusses on the competitors' products and the capability of copying them. Here, it is helpful to distinguish between the degree of innovation from the perspective of the market and from the perspective of the company. Market innovations, i.e. "new-to-the-world" offerings, are, in principle, new solutions to problems; either an old challenge is mastered in a completely new way or a need is fulfilled for which previously

there had been no concept. In contrast, corporate innovations, i.e. imitations, differ only in their design or in a somewhat modified, usually improved, function from similar products already on the market (Nieschlag et al. 2002, p. 692 f.), while the technical innovation was used by the company for the first time, irrespective of whether other companies had taken the step beforehand or not (Witte 1973, p. 3).

**Product Innovation at Hero**

A GfK study commissioned by Hero, which identified lack of time as the most important reason for the low fruit consumption in Switzerland, was the decisive factor for the development of the new product Fruit2day. This is a mixture of fruit juice, fruit pieces and fruit puree which, besides vitamins and minerals, also contains valuable dietary fibre from fresh fruits. With Fruit2day, fruit can be consumed fresh, not only without preparation and at any time, but thanks to the varied combination of tastes it also appeals to children more than pure fruit does. This not only makes it suitable as a snack for consumption on the move or between meals, but above all as a healthy alternative to sweets. With an uncomplicated, ready-to-eat and filling snack that helps to increase daily fruit consumption, Hero kept abreast of the latest consumption habits and picked up on both the convenience and the LOHAS trend (Lifestyles of Health and Sustainability), which means customers from several segments are addressed and various needs, such as time saving, fitness, health or better care for children, are satisfied. In May 2009, Fruit2day was also launched across the USA.

### Product Maintenance: Exploiting Product Potential

Once a company has managed to tap into additional customer potential with successful new offerings, the core task of "product maintenance" is to exploit this potential (for more detail see Tomczak et al. 2007). The aim is to keep the solution of a problem as widely present on the market for as long as possible (keywords: prolongation and optimisation of the production lifecycle), thus sustainably generating value. Two approaches are suitable in this context (Kaetzke and Tomczak 2000, p. 19):

- *preserving product potential* and
- *expanding product potential*.

*Preservation of Product Potential* Variation and revitalisation are the two possibilities to preserve an existing product. *Variation* involves marginal adaptations and innovations, with the product offer remaining virtually unchanged (e.g., development of the VW Golf over the past 40 years). If already existing values are resurrected, the term *revitalisation*

is used. Depending on the starting situation and the targets, revitalisation may not only preserve, but also expand the product potential (e.g. the Mini offered by BMW).

*Expansion of Product Potential* Differentiation, up-selling, bundling and multiplication are options for expanding the product potential. *Differentiation* is intended to generate or increase the sales of similar (additional) products. Besides the version of a product already on the market, further versions (varieties) of this product are launched (–e.g. light products or decaffeinated varieties of drinks). *Up-selling* attempts to increase value creation by offering more expensive variants in place of the previously sold basic version (e.g. replacement of the basic Nivea cream by the higher-quality Nivea face cream). In contrast, *bundling* is aimed at generating or increasing sales by combining products already launched with complementary products or (additional) services. This option is based on the performance system approach (Belz 1991; Belz and Bieger 2006). With *multiplication*, existing product offers are replicated and systematically offered in new markets (see von Krogh and Cusumano 2001, who characterise this strategy with the terms "scaling" and "duplicating") in order to generate or increase sales in additional markets (e.g. the propagation of the McDonald's fast food concept developed decades ago) (Tomczak et al. 2007).

**Some of the Challenges and Solutions of Product Maintenance at Coca Cola**
Hardly any other product shows such continuity in performance and packaging as *Coca Cola.* The secret recipe of the Coca Cola concentrate has remained unchanged since its invention in 1886. This unique product maintenance is based on various marketing measures. The results of intensive, ongoing market research proceed directly into planning and communication measures, thus regulating any deviations that may arise between the targeted and actual positioning among the respective target groups. Despite global marketing, the sub-markets and sub-target groups are served in a differentiated way. An effective and dense distribution system ensures maximum availability. A positioning model that combines the original brand values still communicated today serves as an orientation for all measures. For *Coca Cola* the question is what the company needs to do to maintain an unvarying product performance in a dynamic environment. The change in formulation in 1985 demonstrates a critical phase in product maintenance. *Coca Cola* changed the composition of classical Coke with a view to improving it. The new formulation under the name "*New Coke*" was to replace the classic beverage. The longstanding competitive battle with *Pepsi* and the Pepsi Test, in which *Pepsi* always comes off better among consumers, were crucial for this product maintenance measure. The extensive market tests prior to launching exposed a systematic error, however, as it was not made clear to the volunteers that "*New Coke*" was intended to replace and not supplement "*Classic Coke*".

The widespread outrage among customers and the slump in sales led to *Coca Cola* being reintroduced after just a few days. *New Coke* disappeared from the market. The Coca Cola managers became aware of the strong consumer commitment and the consistent value emanating from the brand. For *Coca Cola*, product preservation is above all about positioning and not about maintaining the product.

In 2005, the company launched "*Coca Cola Zero*". This brand was mainly aimed towards "non-users of light products" (men) since its taste is hardly distinguishable from that of classic *Coca Cola*. Not least as a result of its great success, the target group has since been expanded to women. (Based on Roosdorp 1998, p. 241 ff.)

In order to be able to systematically exploit market potential, all activities have to be oriented to the four core tasks. Figure 4.7 presents a general overview of the options generally available to achieve growth and profit.

#### Specific Competencies for Fulfilling the Core Tasks

The previous section demonstrated how market potential analysis and the core tasks of marketing may be used to derive the growth options of a company. To be able to utilise these growth options, companies need certain competencies (for customer acquisition, customer retention, product innovation and product maintenance).

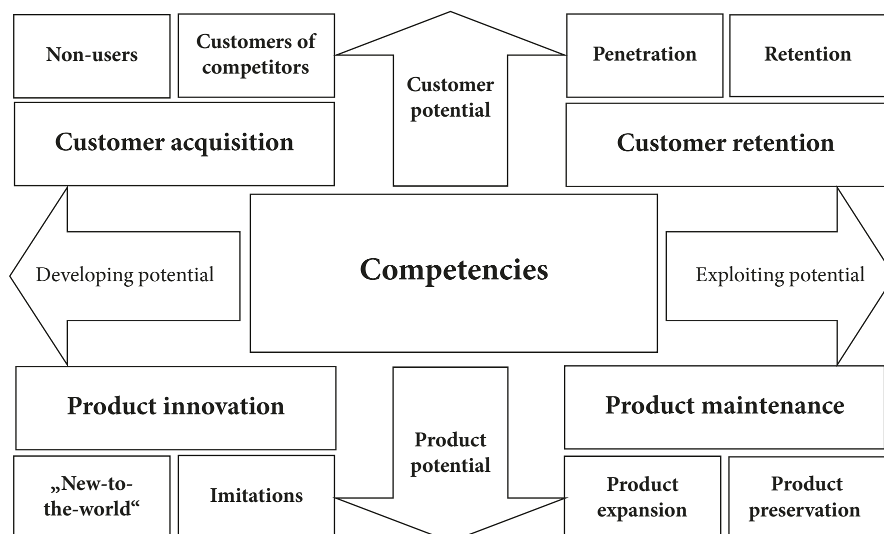


**Fig. 4.7** Growth and profit options (Tomczak et al. 2002)

| Core task | Philosophy | Required competencies (examples) | Companies (examples) |
|---|---|---|---|
| Customer acquisition | "Win the customer" | - Risk reduction capability<br>- Powerful and focussed sales organisation, hunter mentality | Vorwerk, AWD |
| Customer retention | "Care for the customer" | - Capability to gather and process customer information<br>- Service and consulting capabilities<br>- Capability of customer integration<br>- Capability of building relationships | IBM, MLP, Ritz Carlton, Amazon, Zalando |
| Product innovation | "Leave for new shores" | - Creativity and openness (thinking out of the box)<br>- Readiness to accept risks<br>- Speed (time-based competition) | Apple, 3M, Gore, Google |
| Product maintenance | "Optimise your solution" | - Capability of optimising<br>- Striving for security<br>- Capability of standardising (economies of scale) | Procter &Gamble, McDonald's |

**Fig. 4.8** Specific competencies for fulfilling the core tasks (according to of Tomczak et al. 2002)

The internally available competencies can be identified within the scope of a *competence analysis*. Various, often competing competencies are needed in order to be able to master a core task (see Fig. 4.8). According to definition, these competencies refer to the coordination and linking up of knowledge and certain tasks. For instance, the competence of "creativity" requires that an individual possesses the necessary knowledge to develop ideas, methods and products that are new for the company and provide benefit both for the customer and the company. Secondly, the individual has to possess additional knowledge about these ideas, methods and products in order to be able to decide which information or materials are to be deployed in which form. Furthermore, this knowledge has to be linked with complex tasks because only in this context can this knowledge unfold through higher motivation, satisfaction and productivity (von Krogh and Roos 1995; Cummings and Oldham 1997; Zimmer 2001).

However, these are only examples. Due to the complex structure of knowledge, it is difficult, at least with the methods currently available, to exactly define the capabilities which will lead to higher-than-average fulfilment of a core task (see von Krogh and Venzin 1995, p. 420 ff. and the literature cited therein). This is due to the fact that capabilities are often based on company-specific processes and are embedded in complex structures; specific cause–effect relationships between skills and competitive advantages are often not even known to the company itself. It is exactly this aspect which ensures that capabilities are hard to imitate and can therefore lead to competitive advantages (Barney 1991, p. 107 ff.). Generally, every company is faced with two challenges: On the one hand, it is a matter of *developing specific competencies* in order to best fulfil the individual core tasks (see Sect. 4.2.3.4). On the other hand, efforts have to focus on the *integration of the four core tasks*. So, overall, the aim is an *optimal core task profile* (see Sect. 4.3).

### Coordination of Market Potential and Competencies

Whether, and if so, which, measures are adopted to acquire or retain certain customers, to launch new products in a market or to invest in relaunching existing products, depends on where a company's scarce resources can be deployed most effectively and efficiently. This requires an answer to the question which growth options and potentials are to be used in the future and are actually available.

In other words: market potential on the one hand, and competencies on the other hand, have to be matched and coordinated. The *market potential–competencies matrix* presented in Fig. 4.9 identifies the various options a company is faced with.

Generally, resources should be deployed where the existing competencies meet the greatest possible market potential (use of competencies). If a company already has some of the necessary competencies, but these are not yet sufficient for growth options with high market potential, the existing competence base should be used and expanded via (further) development of selected competencies (use and development of selected competencies). If confronted with areas with a high growth potential, but at the same time a lack of competencies, the management has to decide whether it will be possible to make use of this market potential after the relevant investments. To ensure an efficient deployment of

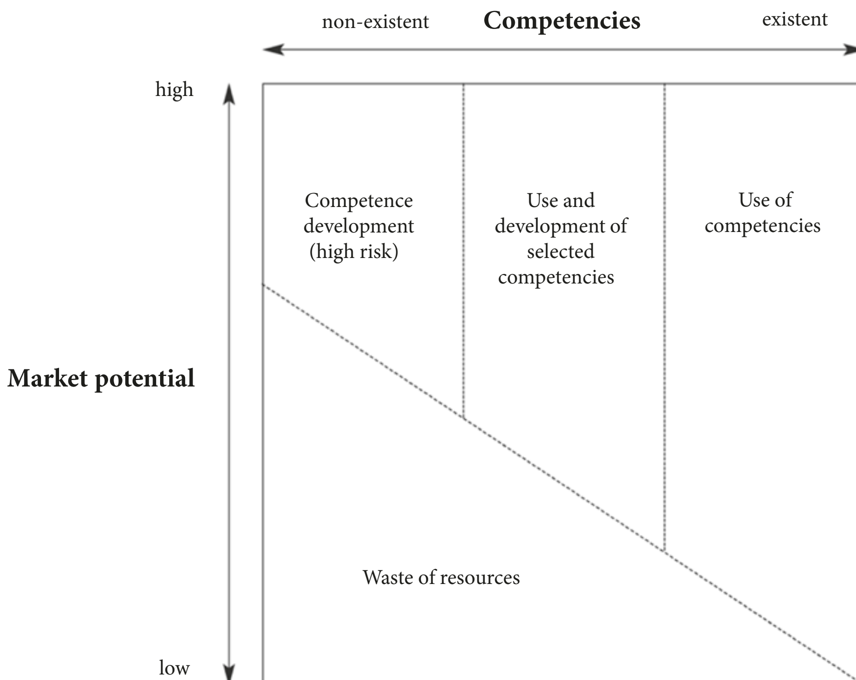


**Fig. 4.9** Market potential–competencies matrix

resources, in some cases it may even make sense to cut down on competencies for which no market potential is available (or no longer available).

The following examples may serve to illustrate the use and development of competencies.

**On the Use and Development of Competencies in Various Companies**

Using competencies

- The leading European hotel group *Accor* used its customer acquisition competencies, especially those developed in France, to open up the international hospitality market (Sofitel, Novotel, Mercure, Ibis, Formule 1).
- *3M* is using its innovative competence in very diverse fields, such as health care, office materials, electronics and communication, as well as in transport.
- The variation of the Nivea product series and its expansion with the Nivea for Men series uses the product maintenance competence accumulated by *Beiersdorf* over decades (e.g. Nivea, Eucerin, Florena, 8x4, Labello).

Developing competencies

- *Hilti,* an international company in the field of construction and demolition technology, has a strong customer acquisition competence essentially based on direct distribution. With a new multi-channel strategy (central customer service, online website, Hilti Shops and sales representatives), Hilti continues to develop this competence.
- *IBM* rounds off its traditional customer loyalty competence by expanding relationship management: additionally to the traditional contact to all employees and managers responsible for hardware (IT managers, CIOs), it now concentrates on developing contacts with the specialist departments (e.g. Marketing) that often decide, or are involved in deciding, on software and service contracts.
- *Microsoft* put its innovation competence to the test by developing the Xbox. While its core competence had previously been in the field of software, Microsoft now used it to penetrate the game console market for the first time.
- With the opening of the first *Starbucks* coffee shop in Tokyo in 1996, the company embarked on its international expansion strategy. The catering concept – which had been very successful in the USA – was exported and adapted with the help of local distribution organisations; the skill of product maintenance was further developed.

(Tomczak et al. 2002)

In order to acquire missing competencies and to achieve the envisioned objectives (growth, profit, value enhancement), the following possibilities are available (Verdin and Williamson 1994, p. 84):

- *Internal development (asset accumulation)*: Internally existing competencies are defended and expanded.

**Fig. 4.10** Financial target system

| | Existing products | New products | |
|---|---|---|---|
| **Existing customers** | 250 | 150 | 400 |
| **New customers** | 200 | 400 | 600 |
| | 450 | 550 | 1.000 |

- *Cooperative development (asset sharing)*: The basic idea is to concentrate on internal core competencies, but to secure access to third-party competencies (for example from highly specialised companies) via cooperations.
- *External development (asset acquisition)*: Missing competencies are procured through fusions and acquisitions.

The best path to be taken in order to gain new competencies is strongly dependent on industry specifics and the tradability of competencies. The relative costs accrued by the acquisition are decisive (Verdin and Williamson 1994, p. 84).

Overall it can be said that the coordination of market potential, on the one hand, and internal competencies, on the other hand, provide a basis for the effective allocation of resources (investments) and thus focal points for determining the basic strategic thrust. These focal points can be defined by a quantitative evaluation. Resources have to be distributed between developing and exploiting product potential, on the one hand, and between developing and exploiting customer potential, on the other hand. Figure 4.10 shows the *target system* resulting from this evaluation. Here the individual target parameters show the importance attributed to the individual growth options and the resulting growth strategy.

Apart from the growth strategy, the marketing strategy also has to be defined as part of market-oriented business unit planning. The marketing strategy encompasses the elements of core task profile, cooperation and positioning. These individual elements will be discussed in the following sections.

## 4.3 Core Task Profiles

Due to a lack of certain competencies, it is usually not possible for a company to take advantage of all options in every situation. The key challenge in this context is to identify the appropriate core task profile based on the defined growth strategy and to base the

company's activity on the highest potential growth generation. In other words: Which competencies (for the core marketing tasks) have to be developed or maintained internally in order to be in a position to open up or exploit market potential?

### 4.3.1 Types of Core Task Profiles

In the following, some typical core task profiles will be explained on the basis of examples (see Fig. 4.11):

**Profile of the Trendsetter**

In new and innovative markets, the focus is especially on *customer acquisition and product innovation*; this results in the core task profile of a trendsetter tht tries to open up customer and product potential simultaneously. Thus, the marginal utility of the marketing budget is significantly higher for these two core tasks than it is for customer retention and product maintenance. For example, manufacturers of electric cars mainly invest their marketing resources in customer acquisition. Advertising, sponsoring and promotional activities are paramount. At the same time, the providers invest intensively in creating infrastructure for electromobility by means of marketing coalitions. Car sharing is offered in an attempt to acquire new customers. In contrast, these providers do not (yet) invest significantly in customer retention measures. Neither is there any relevant product maintenance in this young

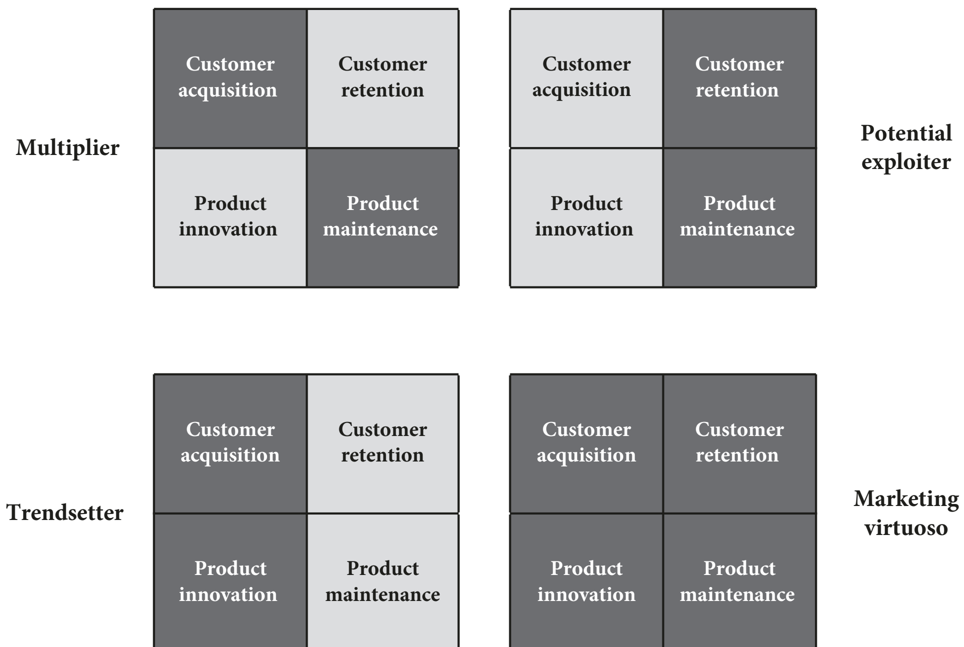


**Fig. 4.11** Some examples of core task profiles (Tomczak et al. 2002)

market. For long-term success, it will be necessary to either remain a trendsetter and continuously offer new products or to gradually switch the focus from customer acquisition to customer retention.

**Profile of the Potential Exploiter**

Potential exploiters pursue a combination opposite to that of the trendsetter core task profile. They concentrate on existing customer and product potential and optimise their marketing measures, such that this potential is sustainably exploited. Here the core tasks of *customer retention* and *product maintenance* take centre stage. An example for a potential exploiter in the aviation industry is Lufthansa. This company has a large customer base and offers a broad performance spectrum. When the aviation markets were liberalised, Lufthansa had to prevent particularly attractive customers (business travellers, private frequent flyers) from switching to competitors (e.g. by offering the Miles & More frequent flyer programme, raising customer satisfaction etc.). Secondly, it had to adapt its existing product range and capacities to the changed market conditions, for example, by updating and improving services (e.g. optimised capacity management through membership in the Star Alliance, continuous improvement of in-flight and ground services in Business Class).

**Profile of the Multiplier**

The *multiplier* focuses on the instruments of *customer acquisition and product maintenance*. A typical example of this profile are international franchisors such as McDonald's that aim at exploiting a successful idea worldwide. New customer potential has to be opened up for this purpose, as demonstrated by the following statement from McDonald's CEO: "The 120 countries in which we operate represent 95 % of the world's purchasing power. Yet we feed less than 1 % of the world's population on any given day" (Greenberg 2001, p. 3). Up until 2013, McDonald's had opened over 34,000 branches worldwide. At times, McDonald's branch network was expanding at a rate of one branch every four hours. The franchisor is responsible for customer acquisition (advertising) and product maintenance (quality management, training courses, provision and development of expertise, positioning etc.). Customer retention is primarily the result of the operative business ("Marketing brings customers in, operations brings them back.").

**Profile of the Marketing Virtuoso**

Some companies do not emphasise individual tasks but strive to *pursue all four core tasks intensively*. An example of such a *marketing virtuoso* or marketing all-rounder is the company Swisscom. Swisscom developed from a traditional telecommunications provider into a TIME company (TIME = Telecommunications, IT, Media and Entertainment). The company permanently creates new product offers (such as digital television (Swisscom TV)), constantly opens up new customer potential with existing and new offerings, emphasises customer retention (offering accessories, raising the willingness to pay through high quality products with outstanding customer service) and maintains the Swisscom brand as well as the individual products and services through ongoing updating and improvement.

**Empirical Evidence Regarding the Four Core Tasks**

In 2006, the Institute for Marketing and Retailing of the University of St. Gallen conducted a cross-industry empirical study on "*Marketing in the 21st century*" in Switzerland. As part of this standardised written survey, the core task profiles, resources and capabilities, competitive advantages and success parameters were investigated on the business area level. In each case, the head of marketing and those members of the (business area) management responsible for corporate marketing and/or sales were surveyed. The target group of the survey was formed by a random selection from a total of 2500 Swiss companies. A total of 379 managers participated in this survey. 367 out of 377 interviewees specified the core task profile correctly. Theoretically, 16 (= $2^4$) different core tasks profiles are conceivable. Figure 4.12 shows that there are real-life examples for each one of these possible core task profiles. However, it is also clear that some core task profiles appear far more often than others. For instance, 15 % of all companies have competence advantages in customer loyalty and product maintenance, 14 % act as "customer acquirers". It should also be pointed out that around 8 % of companies are demonstrating the core task profile of a "marketing virtuoso" (all-rounder). (Tomczak et al. 2007)

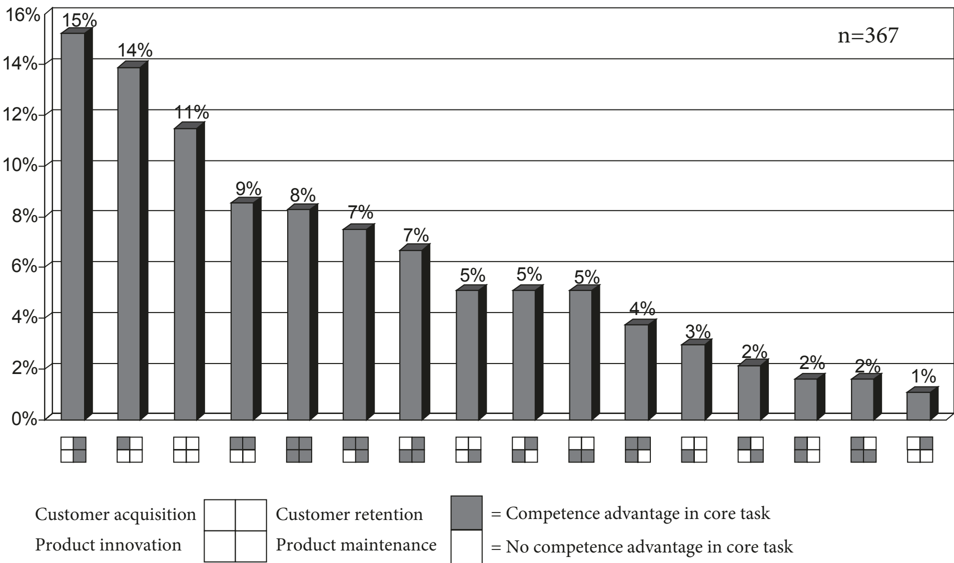


**Fig. 4.12** Frequency of the core task profiles. (Tomczak et al. 2007)

### 4.3.2 Competition-Beating Core Task Profiles

When deciding on core task profiles, two fundamentally different perspectives are to be distinguished:

- **Concentration on core competencies**
  These companies focus on a core task and attempt to use and extend their superiority in this area. The disadvantage of this approach is that it is simply not possible to utilise all the theoretically available market potential. To realise the objective of "business excellence", the company should concentrate on the core competencies and outsource all value creation activities that ar not crucial for success (Töpfer 2006, p. 119).
- **Complete utilisation of the market potential**
  To be in a position to realise all conceivable growth and profit opportunities, companies have to master all core tasks as effectively as possible ("all-rounder"). Such an approach is prone to the risk of fragmentation. Lack of competencies may mean that no competition-beating core task profile can be developed. "No company can be good at everything. First, companies have limited funds and must decide where to concentrate them. Second, choosing to be good at one thing may reduce the possibility of being good at something else" (Kotler 1999, p. 55). Thus, companies run the risk of becoming a marketing amateur rather than a virtuoso.

In view of the conflict described above, the question has to be asked whether certain *general rules* for formulating core task profiles can be determined. In the literature, various authors discuss this question in the context of approaches that show a similar orientation as the task-oriented approach, providing some (initial) pointers for formulating competition-beating core task profiles, in particular the approaches by Miles and Snow (1978) and Treacy and Wiersema (1995) as well as further developments by Slater et al. (1997) and applications by Hagel and Singer (1999).

The individual approaches are based on various theories and theoretical concepts, particularly the generic competitive strategies according to Porter, the resource-based approach and network theory.

According to Treacy and Wiersema (1995), a company or a strategic business unit has to offer a unique value proposition, develop a new operative business model and consistently pursue its value disciplines, despite continuous changes and improvements, in order to operate successfully on the market. These considerations are based on the hypothesis that three customer types exist in every market: customers who prefer innovations, customers who prefer reliable products, and customers who expect their individual wishes and needs to be addressed as fully as possible. Three different strategies may be derived from this concept, which describe how a company can successfully combine its operative business model and value proposition: *operational excellence*, *product leadership* and *customer intimacy*. Each of these three strategies is based on its own business model with distinct features of the organisational structure, company processes, information system and corporate culture.

Treacy and Wiersema (1995) stress that a company has to strive for top performance in one of these three strategies, but also has to make sure it does not have any significant competitive disadvantages in the other two.

Slater et al. (1997) complemented the three strategy types according to Treacy and Wiersema with the strategy type of the *brand champion*. The brand champion, like the customer intimacy type, also stresses the customer perspective, but on a "mass market level". Key for this strategy type is the establishment and maintenance of brand value, including market segmentation and analysis, positioning and cultivation of good channel relationships.

Hagel and Singer (1999) distinguish between the three strategy types *customer relationship, product innovators* and *infrastructure management* which are, in principle, the same types as those of Treacy and Wiersema, but from an inside–out perspective, stressing that their strategy types place the emphasis on each one of the key core processes of a company: sales, product development and infrastructure management.

Summarising the approaches presented above and combining them with the task-oriented approach shows that different strategy types demonstrate different competence structures. To achieve competitive advantages it is necessary to concentrate on one strategy or one core process.

Similarly, qualitative and quantitative results regarding successful core task profiles within the scope of the task-oriented approach show that due to the high overall complexity and necessary investments only a few companies are able to utilise all market potential without any outside support.

Tomczak et al. (2007) identified three successful core task profiles: customer relationship, product leadership and focused market leadership.

*Customer relationship companies* continuously increase their share of wallet and improve the economies of scope. For this purpose, they need a relatively diverse and broad product range. They place the focus on the core tasks of customer acquisition and customer retention. So the key challenge is understanding the individual customer and controlling customer access. The latter is usually secured through direct distribution. Examples of customer relationship companies: Dell, Amazon or typical retailers like Rewe (Germany) or Coop (Switzerland).

*Product leadership companies* concentrate on the performance side of the task-oriented approach, i.e. on the core tasks of product innovation and product maintenance. They continuously create new products that define the state of the art. They are also always on the look-out for first mover advantages. Management is geared to economies of scale and takes a global perspective. This type of company strives for a broad and rapid expansion in the markets. To achieve this, it mainly relies on indirect distribution, key account management and a relatively narrow programme of standardised products with performance advantages (quality, brand). Successful examples of this type of core task profile include Procter & Gamble, Gore, Nike, SAP and Hilcona.

*Focused market leadership companies* focus simultaneously on customer relationship and product leadership, thus concentrating on all core tasks. However, this type of company focuses on limited, but attractive market segments. In the selected market segments they try to achieve price premiums for innovative products by means of customer

knowledge and intensive customer relationship management. Characteristic of this core task profile is selective distribution with a strong direct lead channel. Examples of focused market leadership companies include Starbucks, Hilti and Nespresso.

**Empirical Findings Regarding Successful Core Task Profiles**

As part of the empirical study on "*Marketing in the 21st century*" presented in Sect. 4.3.1, the core task profiles and several success parameters were investigated on a business area level. One aim of the empirical study was to analyse the relationship between success and core task profiles. Success requires outperforming the competition (Ambler 1999, p. 706). Thus, this study operationalised success in comparison with the main competitor, with the development of the overall profit and the sales volume serving as the measures of success.

Figure 4.13 presents the success of the individual core task profiles indicating that the profiles of customer relationship, product leadership and focused market leadership are the most successful ones. In contrast, core task profiles with no competitive advantage in any core task or with competitive advantages in diametrically opposed core tasks (e.g. in customer retention and product innovation) are less successful. (Tomczak et al. 2007)

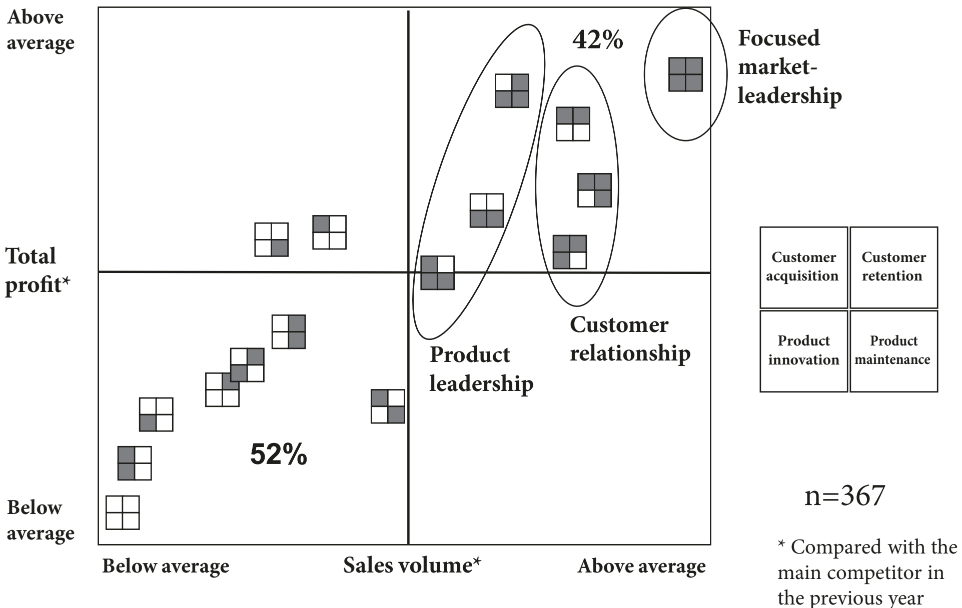


**Fig. 4.13** Relationship between core task profile and success. (Tomczak et al. 2007)

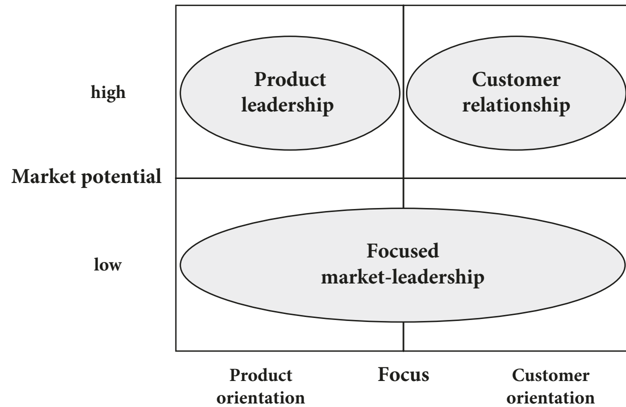


**Fig. 4.14** Competition-beating core task profiles (Tomczak et al. 2007)

The matrix presented in Fig. 4.14, with the two dimensions "customer/product orientation" and "market potential" may be used for systematising the *competition-beating core task profiles*.

Due to the high complexity, companies that combine all core tasks tend to focus on a relatively small market segment only. They are therefore called focused market leadership companies. In contrast, companies with a focus on performance concentrate on a broadly defined sales market with a relatively limited product range. Customer-oriented companies try to expand their competitive advantages in the core tasks of customer acquisition and customer retention. Typically, this type of company serves a relatively narrow target group with a relatively broad product range.

In the following, examples from the fastening industry will be used to illustrate the various competition-beating core task profiles.

### Examples of Competition-beating Core Task Profiles in the Fastening Industry

*Customer relationship companies*

The assembly technology company *Würth* from Germany is a leading trading group characterized by distribution through sales representatives. Its customers include renowned companies from the construction, timber, automotive and metal industrie. An integral part of customer orientation at *Würth* is the high level of service. The consistent customer orientation allows *Würth* access to valuable customer information and leads to high customer retention and loyalty. *Würth* offers its customers a wide product assortment of fastening and assembly materials and tools with approx. 120,000 different products. The product range extends from simple mass-produced goods like screws to customer-specific individual solutions. The products are manufactured by sub-contractors, but are distributed under the *Würth* brand. *Würth* is one of Germany's biggest unlisted companies.

*Product leadership companies*:
The German *Fischer* group encompasses four business areas: fixing technology (dowels and building supplies), automotive systems (multifunctional components for car interiors), “fischertechnik” (construction toys) and process consulting. The fixing technology area is by far the biggest source of revenue. More than three quarters of sales are generated abroad. The global perspective is also reflected by the national subsidiaries now numbering 42. Klaus Fischer: “We are expanding very dynamically to be in a position to serve our customers even faster and better, to gain new market shares and to access new customer groups” (www.fischer.com). Following the principle of lean management the company strives for scaling effects.

*Fischer* develops and produces products for all relevant areas of fixing technology and sees itself as an innovation leader, true to the slogan: “Looking for innovations will take you to fischer”. *Fischer* holds over 2,000 patents and comes up with around 40 new inventions per year. The products are mainly distributed via DIY stores and trading partners. The customers include craftsmen as well as do-it-yourselfers.

Over the past five decades, *fischer* has become the market leader in dowel technology and attained a consolidated turnover of € 633 mil in 2013.

*Focused market leadership companies*:
The *Hilti* group from Liechtenstein is a worldwide leading company in the development, manufacture and distribution of high quality product systems for construction. *Hilti* is in direct contact with commercial end consumers via its own distribution network. Depending on the customer needs, specialised sales advisers, the *Hilti Center*, the customer service hotline or the internet are available for customer support. Two thirds of all employees, now numbering over 21,000 worldwide, have direct contact with the customer. In their selected market segments, *Hilti* realises a price premium for its innovative products with strong value propositions, such as high quality and a strong brand. (The *Hilti* brand has coined the name for an entire class of tools. In the construction industry they don’t say “Pass me the hammer drill!”, but “Pass me the Hilti!”). Hilti generates over CHF 4.3 bn turnover and an operating result of CHF 304 mil.

## 4.4 Cooperations and Networks

As explained above, due to the overall high complexity and the required capital investment only a few companies are able to utilise all market opportunities without any outside support. An alternative approach is to enter into strategic partnerships. Thus, after defining the core task profile, the next step is to plan strategic cooperations and networks.

*Strategic cooperations* are understood as collaborations of two or more companies with the aim of combining and complementing the individual strengths (resources and capabilities) in the respective business units. Through strategic cooperations, companies can achieve competitive advantages which they would not be able to achieve alone. These advantages may be (Wrona and Schell 2005, p. 335 ff.):

- time advantages,
- achievement of cost advantages,
- access to, or the protection of, relevant resources,
- access to, or the protection of, relevant markets,
- knowledge acquisition and expansion of organisational learning,
- risk reduction,
- power gains.

**Classification of Cooperations According to the Number of Participating Partners**
In the classification of cooperations according to the number of cooperation partners, the resulting relationships can be distinguished (see Fig. 4.15) as

- bilateral links,
- trilateral links,
- simple networks and
- complex networks.

Cooperative collaboration of two partners is understood to be a *bilateral relationship*. If three partners cooperate with one another, this is described as a *trilateral relationship*. If a company cooperates with more than three partners, this collaboration is also known

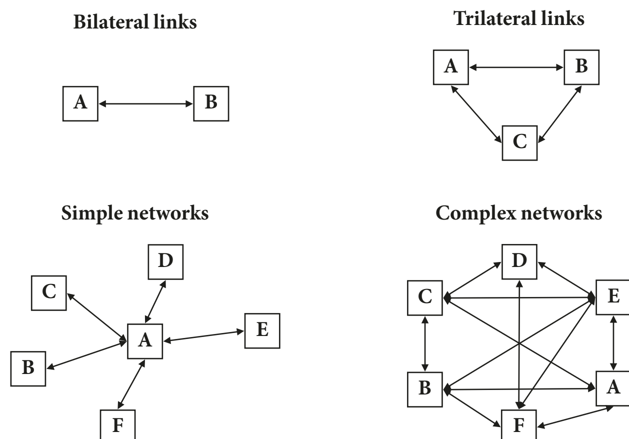


**Fig. 4.15** Classification of different forms of cooperations according to the number of links. (according to Kutschker 1994, p. 126 and; Friese 1998, p. 147)

as a company network. *Simple networks* are usually structured in a star topology, with a central – or focal – company having a bilateral relationship with each of the other companies of the network. A typical example of a simple network is the franchising system (e.g. McDonald's restaurant chain). Here a franchisor interacts bilaterally with several franchisees. *Complex networks* consist of multilateral relationships between individual (non-focal) companies (Theling and Loos 2004, p. 10 f.).

**Classification of Cooperations According to the Direction**

Depending on the direction of cooperation, they can be classified into horizontal, vertical and diagonal (conglomerate) cooperations (Helma and Janzer 2000, p. 25; Sydow 2001, p. 248; Theling and Loos 2004, p. 8; Schögel 2006, p. 20):

- A *horizontal cooperation* is a partnership on the same level of the value chain. An example of a horizontal cooperation is the fitness tracker "Fuelband SE" from Nike, which – at least on launching in 2013 – could only be used with Apple iOS devices, such as the iPhone 5.
- *Vertical cooperations* are entered into by companies on different levels of the value chain. For example, the collaboration of automobile manufacturers with their suppliers is increasingly based on a cooperative inclusion of the suppliers in the value chain.
- In *diagonal cooperations* the cooperation partners have positions on different levels of the value chain (as in vertical cooperations), but, in addition, they also belong to different industries.

According to institutional economics, cooperations can be viewed as as a means of coordinating economic activities which is located somewhere between the market (purchase agreements, exchange transactions) and an internal hierarchy (100 % subsidiary, fusion) (see Fig. 4.16). Cooperations are therefore also regarded as "hybrid" organisational forms (Williamson 1985).

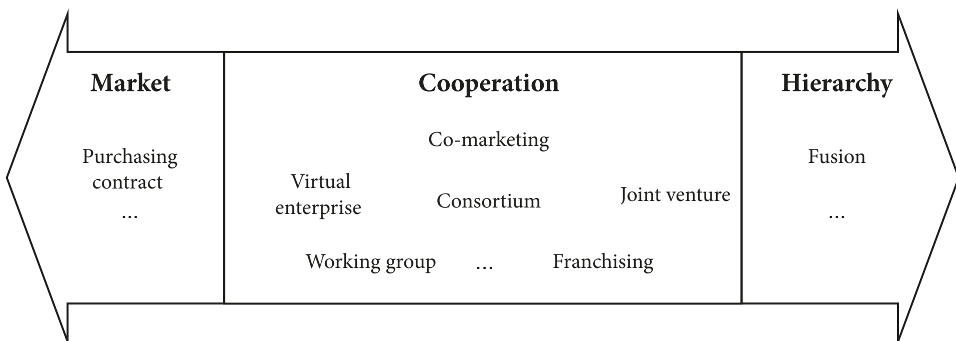


**Fig. 4.16** Forms of cooperation and their placement between market and hierarchy (according to Siebert 1991, p. 294 and; Schögel 2006, p. 47)

Above, the various forms of cooperation were presented in isolation. In practice, they usually do not exist in a pure form, but as combinations of the various forms of cooperation (Morschett 2005, p. 388).

Despite the large number of advantages of cooperations, there are also disadvantages that have to be considered:

- Cooperations cause costs, e.g. increased communication, coordination and control costs.
- Cooperations can lead the partner companies into dependencies.
- Cooperation can result in a less favourable negotiating position.
- The joint use of core competencies causes the participating partners to obtain insights into operational secrets (e.g. technologies and expertise).

## 4.5 Positioning

Once the core task profile has been determined and potential strategic cooperations have been considered, the next planning step is to define the so-called positioning goal system. Essentially, it has to be decided which competitive advantage is to be established and expanded in the market.

The following section is based in large parts on Haedrich and Tomczak (1996, p. 136 ff.).

### 4.5.1 Overview

The growth strategy can usually only be realised once certain positioning goals have been achieved. Generally, above-average growth and/or profit targets can be realised if (also see Simon 1988)

1. the relevant needs and problems
2. of sufficiently large ("economically viable") customer groups
3. can be sustainably satisfied or resolved
4. with tailored, efficient offerings, based on solid competence,
5. which, from the customer's perspective,
6. are better than those of any other provider.

This means that, when formulating a positioning goal system, the company has to answer the following questions as precisely as possible:

1. *Which needs (relevant to purchasing decision-making) must and should be addressed?*
   It has to be defined which customer needs, problems, wishes, demands etc. are to be addressed and in which intensity. In this context, various types of needs may be

distinguished: basic, additional and ancillary needs, articulated and latent needs, minimum requirements, as well as needs before and after the purchase (striving for satisfaction, avoidance of dissatisfaction). Depending on the customer type (e.g. new versus regular customer, professional versus power promoters, buyers versus users), the buying and rebuying decisions are determined by differently structured bundles of needs. Specific preferences for the company's own offering have to be defined.

2. *Who must and should be assigned to the circle of customers served?*
   Here, the question has to be answered which circle of consumers or organisations should generally be addressed (macro-segmentation), which individuals or groups have an influence on the purchasing decision (micro-segmentation, reference groups, buying centres), and whether marketing should concentrate on core or peripheral target groups. In many markets, at least two types of customers have to be distinguished, i.e. end customers and intermediaries, and serving both requires closely linked marketing concepts.
3. *Which products must and should be offered?*
   Here it has to be determined with which core product or service components (minimal quality) and additional components (value-enhancing qualities) the needs of the various types of customers are to be satisfied. The *core product or service components* usually include the "generic product" or the "generic service" with its basic performance and the *minimal performance components* that the customer expects with regard to utility, price, information and availability (Grosse-Oetringhaus 1996, p. 62). *Additional performance components* are those that the customer does not generally expect (also see Stauss 1996, p. 243 f.); they can generally be provided in all areas of marketing (utility, financial incentives, image, relationships, availability). What constitutes the core or additional performance components in a specific market situation depends primarily on the customers' expectations, which depend on the maturity of the market, the competitive situation and the prevailing market norm.
4. *Which positions must and should be taken with regard to the competition?*
   Here it has to be defined which positions the solution components offered to the customers should assume with regard to the competition. According to Meffert and Burmann (1996), the five basic dimensions of quality, price (cost), image, innovation and flexibility orientation ("customer focus") are to be distinguished. Along these dimensions and with regard to the customers to be served and their needs, it has to be defined which competitive advantage(s) is (are) to be realised. Here the aim is to create a sustainable, i.e. non-imitable, lead in the customers' perception (also see Simon 1988). Thus, the key goal is not to maximise the benefit for the customer; rather, the emphasis is on the relative enhancement of customer benefit (Große-Oetringhaus 1996).

The key goal of all marketing efforts is to achieve competitive advantages. A *competitive advantage*, also called a "*unique selling proposition (USP)*" or "*unique marketing*

*proposition (UMP)*”, arises once the following requirements are satisfied (see Magyar 1987, p. 142 ff. and; Meffert 1988, p. 119 ff.):

1. A real customer need, i.e. one that is significant for the targeted customer group, has to be addressed. The performance components of one’s own offering have to be translated into a product offer for the respective customer. The extent of the competitive advantage depends, among other things, on the significance of the problem to be solved for the customer. The more important the problem is for the customer, the bigger is the potential for achieving competitive advantages.
2. The benefit has to positively and permanently differentiate one’s own product offer from those of the competitors. The key goal is not to maximise the customer benefit, but rather to provide a relative enhancement of the customer benefit (Große-Oetringhaus 1996).
3. The benefit should coincide with core competencies of the company. Lasting competitive advantages can only be created if real superior capabilities and resources exist (Day and Wensley 1988).
4. The customers have to be able to clearly perceive the benefit. As Trommsdorff (1992, p. 324 f.) explains: “As in other success factor analyses, PIMS also reached the conclusion that, besides the market share, the product quality perceived by the customers is the most important success factor; this does not refer to the objective quality, but to the customers’ quality impression (…).” (cf. the discussion on PIMS in Sect. 2.1.4) The yardstick for successful positioning is therefore the customers’ subjective perception (Tomczak and Müller 1992). This statement is not only valid for the consumer goods or service industry, but also for the investment goods industry. Here, too, it is not the objective quality, however defined, but the quality subjectively perceived by the customer that is relevant for marketing success.

The permanent anchoring of a brand, perceived in a differentiated way, in the consumers’ heads is the necessary prerequisite for successful positioning. The brand is considered the “essence” of the value proposition for the customer (also see Sect. 3.7.1). However, this proposition can only be communicated successfully to external stakeholder groups once the organisation, i.e. all managers and employees of a company, have developed a joint understanding of the common values, competencies and personality of the brand (Burmann et al. 2003, p. 7; Tomczak et al. 2009).

### 4.5.2 Relationship Between Brand Identity and Brand Positioning

The *brand identity* is the sum of those features of a brand that remain identical over space and time and sustainably define the character of the brand from the perspective of the internal target groups (Meffert and Burmann 1996, p. 31). The brand identity is the starting point for positioning a brand in the competitive environment and serves to create a

unique identifying image for the customers. The procedure follows an iterative process. Starting with the brand vision and the origin of an existing brand, the brand personality, the brand values and the brand leadership competencies are used to define the brand performance components (Burmann et al. 2003, p. 7 and; Esch 2012, p. 117 f.). The relevant value proposition for the customer, which may be of an emotional, functional or symbolic nature, manifests in the brand performance components (What does the brand accomplish?). This convention, which may also be used as a management instrument within the organisation, forms the basis for the subsequent strategic positioning of the brand with regard to the competitors. If this positioning is implemented by means of the marketing mix, over the course of time a brand image will form in the customer's mind, which has to be constantly monitored. If the actual performance measured (the brand image) deviates from the targeted performance (the brand's value proposition), the relevant counter-measures have to be adopted.

It is obvious that focussing on just a few features of a brand which are relevant to the purchasing decision (e.g. reliability and durability in the case of the *Miele* brand or lifestyle in the case of *Harley Davidson*) secures long-term competitive advantages (Esch 2012, p. 103 f.).

These features always have to be preserved when extending a brand. Otherwise, repositioning or new positioning measures have to be adopted for the brand. For example, the brand *Ricola* stands for competence in herbs and is a symbol for health. The brand transfer from the original Swiss herb drops to (feel-good) herbal teas has been very successful. However, the transfer of the brand to cough syrup, which is usually more associated with sickness than with well-being, proved to be a flop in the USA. The brand obviously lacked the necessary credibility in the medical field.

### 4.5.3 The Classical Positioning Model

#### Presentation of the Classical Positioning Model

A central and basic idea of marketing is: Customers choose those products or services whose perceived properties best meet their (benefit) expectations. It is important to take this central hypothesis into account if products or services are to be successfully positioned in the market.

This basic idea is the basis of the classical positioning model. Here, various competing products and services are positioned in a so-called positioning space. This *positioning space* is formed by axes that reflect the product properties relevant for purchasing decisions in a defined market (e.g. Freter 1983, p. 33 ff.; Brockhoff 2001).

In practice, the market reality perceived by the customers is mapped with as few dimensions as possible to be able to deal with a manageable and communicable decision-making problem. Thus, two- or three-dimensional positioning models are generally used. Of course, such an approach represents a considerable simplification of reality, as customers

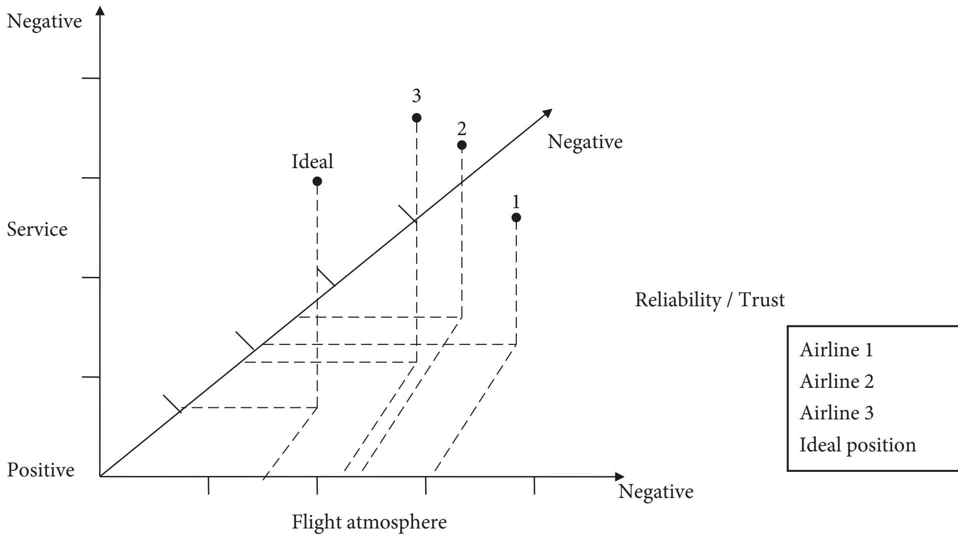


**Fig. 4.17** Three-dimensional positioning model exemplified by the airline business- (Trommsdorff 1992, p. 330)

are usually influenced by more than two or three prouct properties or benefit expectations. On the other hand, such an approach is often objectively justified because this simplification creates the basis for a solid positioning that can be asserted in the market and with the customers (Kroeber-Riel and Esch 2004, p. 51 ff.). "Only those who concentrate their full power on just a few parameters are perceivable and achieve better performance in the long term" (Simon 1988, p. 471).

An example of a three-dimensional positioning model is presented in Fig. 4.17: the positions of airlines. Besides positioning actual products and services, so-called *real brands*, such positioning models can also be used to discover open market segments by defining so-called *ideal brands* that reflect the ideals or preferences of a certain customer group with regard to the market under consideration.

The *classical positioning model* has four core elements (see Wind 1982; Freter 1983, p. 34 f.):

- *Properties:* The customers' relevant product-specific expectations have to be determined. In this context it is important to note that different properties will not affect the customers' purchasing decisions to the same extent. For airline passengers, the properties "service", "flying atmosphere" and "reliability" are of particular importance for the purchasing decision and satisfaction.
- *Positions of products and services:* Each product and each service is characterised by its relevant properties according to the customers' perception. In our example, the airlines are individually positioned in the space relevant for the passengers.

- *Customer positions:* Each customer has their own requirement or preference profile for an ideal product or service. Customers with similar requirements and therefore homogeneous needs form a market segment. In the aviation example above, only the average ideal point of a segment (or the entire market) is reflected.
- *Distances between product and customer positions:* Distances exist between the position of a customer and the particular performance components offered. The central hypotheses of the classical positioning model are:
  (a) The lower the distance between the ideal positioning and the effective positioning, the higher the probability that the customer purchases the product.
  (b) The product with the lowest distance will be preferred (purchased).

When trying to position a product, two general directions of thrust may be distinguished (Esch 1992, p. 10 f.; Kroeber-Riel et al. 2009, p. 269 f.):

1. *Adaptation of the offered performance components to the benefit expectations (needs, wishes) of the customers.*
   In this approach, the expectations of the customers are assumed to exist as the so-called ideal brand. The goal is to make an offer that corresponds to this ideal brand as closely as possible.
2. *Adaptation of the benefit expectations of the customers to the performance offered.*
   Here, it is attempted to shift the benefit expectations of the customers in such a way that the performance components offered (by the real brand) appeal to them.

The aim of both approaches is therefore always to reduce the perceived distance between the ideal and the real brand. In practice, both approaches are usually used in combination.

**Advantages and Limitations of the Classical Positioning Model**

The classical positioning model undoubtedly provides the marketer with valuable and indispensable information for planning the future marketing mix. Based on the analysis of the status quo, insights can be gained whether the relevant needs of the target group are satisfied with the positioning strategy currently pursued or whether certain shifts in the perception of the image have taken place. Competition-oriented strategies can be derived – as described –, for example by striving to position one's own product offering as closely as possible to an ideal brand not served by the competition so far.

However, in view of the intense competition prevalent in many markets today, a positioning strategy simply geared to the classical positioning model will have some *serious shortcomings*. These include:

- *A trend towards conformity of the competitive offerings:* All competitors in a market have basically the same information at their disposal and therefore tend to draw similar conclusions with regard to their marketing and competitive strategies. Thus, the

competitors in a certain market will follow increasingly similar strategies, thus making their offerings interchangeable, both in terms of their objective functionality as well as in their emotional quality.

- *Past-oriented marketing*: The model looks backward, into the past (Trommsdorff 1992, p. 332). However, competitors as well as customer expectations and needs are dynamic. The classical analysis can only identify image deficits that should be eliminated. This approach is certainly necessary in many cases, but is ultimately an expression of reactive marketing.
- *Lack of innovation orientation*: The preferences of customers (ideal brands) are determined by commonly used methods of market research, usually with representative, standardised surveys. However, in this way only those customer opinions can be surveyed which have been shaped by the marketing of the past. It does not allow a positioning oriented on future market potential.

*Conclusion*: The classical positioning model tries to help adapt either the performance components to the customer expectations, or the customer expectations to the performance components. This approach only takes those wishes into account, which customers have explicitly articulated in diverse forms. Therefore, the classical positioning model represents a reactive approach.

### 4.5.4 Active Positioning

#### Overview

Due to the limitations of the classical positioning model discussed above, a supplementary positioning approach is necessary (Tomczak and Reinecke 1995). It is not sufficient to align marketing to articulated customer wishes. Instead it is necessary to elicit latent customer wishes and to serve these with the appropriate marketing measures (see Fig. 4.18).

The following discussion on *active positioning* follows the work of Ries and Trout (Trout and Ries 1972; Ries and Trout 1986; 1993). Active positioning is about occupying a decision dimension hitherto unidentified by the customers, yet of (crucial) importance for their purchasing decision. According to Ries and Trout (1986) this represents a “real” competitive advantage. In other words: A product offer only has a competitive advantage if it addresses its own market Therefore, Ries and Trout (1986, p. 79 ff.) recommend that market challengers should not try to master the existing market rules more effectively than the market leader, but instead select a strategy which searches for new rules or a new market (“new game strategies”).

Two approaches are available for developing an active positioning (see Sect. 3.1.2):

- *Outside–in orientation:* The first step is to identify the latent needs of certain customer groups in order to provide innovative solutions in a second step.

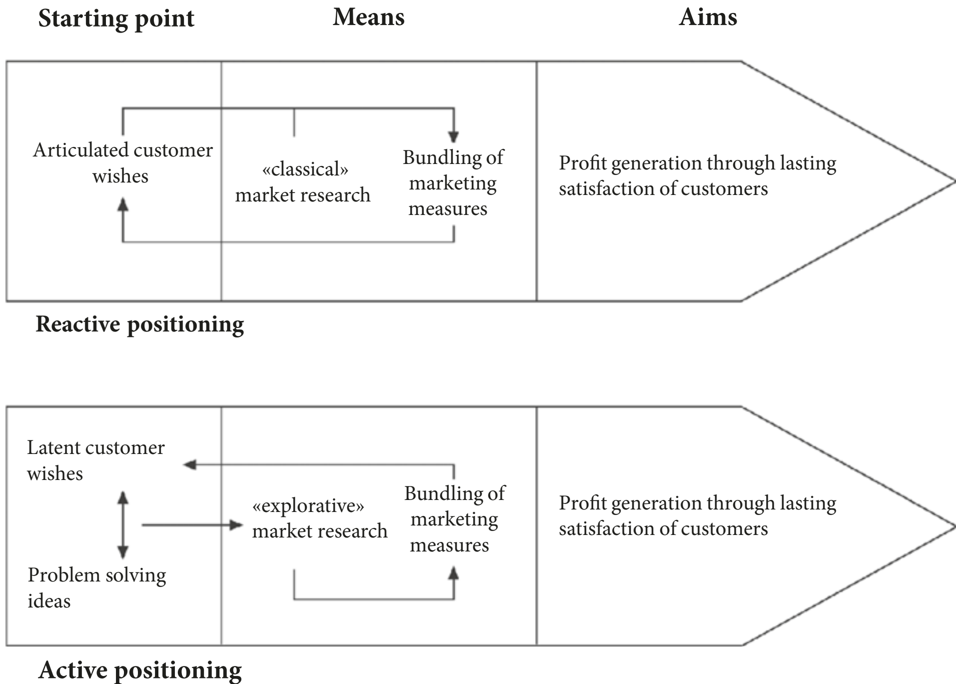


**Fig. 4.18** Reactive and active positioning (Tomczak 1994)

- *Inside–out orientation:* The first step involves creating an innovative solution with a specific resource infrastructure (including core competencies) for which, in a second step, customers with (latent) needs are sought.

#### Outside–in Orientation: Identification of Latent Customer Needs

In contrast to classical positioning, active positioning attempts to develop new property and image dimensions thus redefining the rules of the market and the competition (Esch and Levermann 1995; Esch and Andresen 1996).

Hamel and Prahalad (1992, p. 46 f.) emphasise this shift from reactive to active marketing: "Naturally it is important to listen to customers, but those who do no more than that will hardly become market leaders." *It is therefore necessary to liberate oneself from the tyranny of the markets served to date*, to develop innovative product concepts and to actively lead the customers, rather than running after them: "Market leaders […] know what their customers want, even before they are clear about it themselves (Hamel and Prahalad 1992, p. 47). It is therefore necessary to speculate on the customers' problem solving expectations in order to be able to satisfy *future needs* better than the competition (Backhaus and Voeth 2007, p. 22).

**Identification of Latent Customer Needs – Swatch**

The marketing success of the watch brand *Swatch* and the fact that it became a marketing icon for decades did not come about by positioning the brand within a framework of known image dimensions in such a way that it better fulfilled the ideals of a certain customer group. Rather it was a case of discovering new dimensions such as "fashionable up-to-dateness" for the watch market and to uniquely occupy this position.

Latent or future needs, however, cannot be identified with the classical methods of market research. Rather, it is necessary to analyse all the internal and external information existing in a company and to generate new information by assessing the needs for innovation. The aim of this explorative approach is to better understand the customers' problems and, within the scope of one's own product offer, to address them faster than the competition. For this purpose, various approaches can be adopted (Geschka and Eggert-Kipfelstuhl 1994):

- *Acquisition of information through customer participation*: Via intensive cooperation with customers, the attempt is made to obtain information that will be relevant for designing one's own product in the future. Of particular relevance in this context is the lead user concept, whereby innovative and pioneering customers are involved in shaping the product offer (Von Hippel 1988; Herstatt 1991; Herstadt and Hippel 1992).
- *Acquisition of information through situation analysis*: Here, the aim is to identify the customers' problems in realistic usage situations via extensive observation and to develop potential solutions. Appropriate methods include the "critical incident technique" (Stauss 1996) or the analysis of customer wishes with means–end chains (Kuß and Tomczak 2007, p. 58).
- *Information acquisition through creativity or forecasting techniques:* By changing the situation and the perspective, creativity and scenario techniques are used to obtain information that indicates latent needs and possibly tentative approaches towards a solution.
- *Information acquisition through explorative expert interviews*: By carefully selecting various specialists and experts, all conceivable aspects of a particular topic are included, so as to recognise possible trends that may provide insights regarding potential latent needs. When selecting the experts, it is important to factor in different disciplines, as well as different and contradictory opinions (Weinhold-Stünzi 1994).

### Inside–out Orientation: Exploiting Specific Resource Endowments

The resource-oriented approach is primarily based on an inside–out orientation that places top priority on the efficient exploitation of company-specific resources (see Sect. 3.1.2).

For the resource-oriented approach, the starting point for innovative positioning may be new technological possibilities (see especially Kliche 1991; Töpfer and Sommerlatte 1991). In the case of such *technology-driven innovations*, first there exists the technical concept, and then the potential user has the opportunity to develop an idea of the product use and benefit (Geschka and Eggert-Kipfelstuhl 1994, p. 127). If these innovations provide customer benefits and comply with the *specific resource potential* of the company, they form the basis for sustainable competitive advantages.

Examples of material resources include capital endowment, production systems, IT systems or a far-reaching distribution system. Immaterial resources include technical knowledge, the company's reputation, brand value, etc. (Wolfrum and Rasche 1993; von Krogh and Rogulic 1996).

Despite the primarily inside–out orientation, it still needs a strategically relevant resource base which will lead to a competitive advantage (see Sect. 3.1.1).

The use of company-specific resources is illustrated by the following example.

**Exploiting a Specific Resource Endowment – Gore-Tex**

The Gore-Tex membrane was originally developed for the aerospace industry. In 1957, Bill Gore, later on the co-founder of *W. L. Gore & Associates,* first suggested the material polytetrafluorethylene (PTFE) as a means of improved insulation against cold. In 1969, the astronauts Edwin Aldrin and Neil Armstrong used equipment components fabricated from this material. In 1972, the first Gore-Tex fibre was produced and subsequently continuously improved. On account of its special properties, such as impermeability to wind, water and cold and extreme durability, it could be used for various other applications. Today, Gore-Tex membranes are used for gloves, hats and caps, shoes, socks, gaiters and all kinds of other garments.

The military uses the membranes in clothing and shoes, as does the police, the fire service and other professional groups who work outdoors in wind and weather. In addition to the working world, the fibre is also used in the fields of fashion and leisure, as well as in sports, e.g. for trekking and ski equipment, in motor sport and cycling or in football. *Gore* used its specific resource endowment (polytetrafluorethylene and the technology behind it) to create a special customer benefit with its products. (Based on Gore 2007)

### Synthesis of the Outside–in and Inside–out Orientation

As mentioned above, pursuing only one of these two approaches usually does not result in a sustainable competitive advantage.

Should a company succeed in identifying latent customer needs and serving them with an offering of interest to many customers, the competition will easily catch up and also

take advantage of the profit opportunities presented by such an attractive market if there are no entry barriers in the form of a specific resource endowment.

Sustainable competitive advantages can only be achieved through a *synthesis of external needs and internal resource orientation*: "… it is the ability of the business to use these inside–out capabilities to exploit external possibilities that matters. Thus, there has to be a matching "outside–in" capability to sense these possibilities and decide how best to serve them" (Day 1994, p. 40 f.). Day speaks of "spanning capabilities" necessary to connect internal and external capabilities (Day 1994, p. 41).

**Recognising and Utilising Needs – IBM**

In many market segments, *IBM* waited for the competition to develop and try out new products. Once an innovation proved successful, *IBM* entered the business on a major scale.

The introduction of the personal computer (PC) was a case in point. While Apple launched the PC on the market as the innovator, *IBM,* as an imitator, established the industry standard. The situation has since changed dramatically so IBM decided to exit many sub-markets (e.g. by selling the PC business to Lenovo). *IBM* did not lose sight of the needs of the market, however, but entered lucrative new business fields, especially in consulting and in other business-to-business services.

Thus, considerations derived from the analysis of a "classical" positioning model (reactive positioning) have to be combined with approaches for active positioning. Depending on the situation, the focus has to be placed either on more reactive or on more active positioning. Especially in young markets, in which the competitive intensity is not yet very high, competitive advantages can be achieved with the help of reactive positioning. In saturated markets, however, usually innovative paths have to be taken using active positioning to define what essentially is a new market.

### 4.5.5 Positioning in the Markets of the End Customer and the Intermediary

Companies that distribute their products via indirect channels have to align their marketing efforts not just to the *end customer*, but to *intermediaries and sales agents* as well (in the food industry, e.g., to wholesalers and retailers; in the pharmaceutical industry to doctors, pharmacists and hospitals; in selling heating systems, e.g., to installers and architects). So, depending on the degree of differentiation of the

distribution system, companies have to operate in two or more markets simultaneously, which differ as follows:

**End Customers**

These may be individuals or organisations (companies, public institutions, etc.) which utilise the industrial products, usually sourced via the intermediary, or convert them into fundamentally new products (industry and trade).

**Intermediaries**

These are companies that procure goods from other companies and sell them to the end customers without changing them in any way.

End customers and intermediaries have very different needs and requirements. For instance, when buying a premium beer, consumers want to quench their thirst and also maybe satisfy a certain prestige need. A food retail company, on the other hand, wants to achieve a certain sales volume by including this premium beer into its product range and generate a certain contribution margin. Therefore, *different positionings* are aimed for in the end customer and intermediary markets, which also lead to different competitive advantages. The success in both markets is often mutually dependent, however. A provider can usually only achieve competitive advantages in the intermediary market if it offers products that are demanded by the end customer (so-called pull effect). Conversely, a provider can only be successful in the end customer market if its products are distributed in a certain quantity (degree of distribution) and quality (e.g. by providing consulting services). Marketing planning therefore has to decide on specific marketing strategies (core tasks, positioning goals and strategies) and marketing measures for the end customers and the intermediary markets, and these marketing strategies and measures also have to be closely interlinked (see Fig. 4.19).

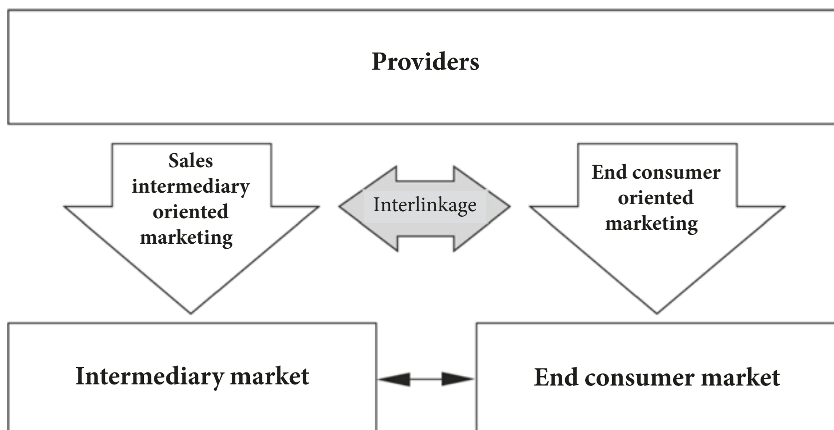


**Fig. 4.19** Interlinkage of intermediary- and end customer-oriented marketing

### 4.5.6 Positioning Strategy on Business Unit Level

In accordance with the ideal course of the marketing planning process, we will now deal with questions of how to plan a positioning strategy.

#### Overview

Having discussed the theoretical principles of the positioning concept in the previous section, we will now deal with the key decision-making dimensions that have to be considered in formulating a positioning strategy, as derived from the core task profile and the positioning goals.

After an analysis of the status quo to determine the actual positioning of the respective offering, the positioning strategy has to be defined, with the aim of realising the target positioning in the market, which allows to achieve the marketing goals (contribution margin, turnover, market share etc.) and the desired core task profile. The positioning strategy defines the behaviour towards customers and competitors, or, in other words, it defines guidelines for the deployment of the marketing mix (Haedrich et al. 2003, p. 99 f.).

Numerous approaches for structuring positioning strategies according to different dimensions can be found in the literature (in particular see Becker 2013, p. 139 ff.); discussing them is beyond the scope of this book (for a summary overview see Tomczak 1989, p. 111 ff.; Meffert and Burmann 1996, p. 111 ff.). These approaches, which differ somewhat conceptionally but also complement each other to some extent, lead to the following four strategic dimensions with their various options:

- *Strategy variation* (To what degree does the positioning strategy pursued so far have to be changed?)
- *Strategy style* (What kind of competitive behaviour should be selected?)
- *Strategy substance* (What benefit(s) should be offered to the customers?)
- *Strategy field* (Which target groups should be prioritised?)

The individual strategic dimensions and their significance for asserting the targeted positioning will be explained in the following sections. A preliminary remark is important at this point: In practice, of course, the individual decision-making areas of a positioning strategy cannot be isolated since they are closely linked with one another (see Fig. 4.20). Decisions in one dimension will influence the decisions in another dimension.

Although the following sections will explain the planning of a positioning strategy with a view to the end customer, the explanations are also valid for the intermediary level.

#### Strategy Variation: Changing the Positioning Strategy

The field of strategy variation mainly concerns the question whether the current position of the respective business unit in the market continues to be viable or *whether changes are necessary,* and if so, to what extent. The current situation of the market and the company

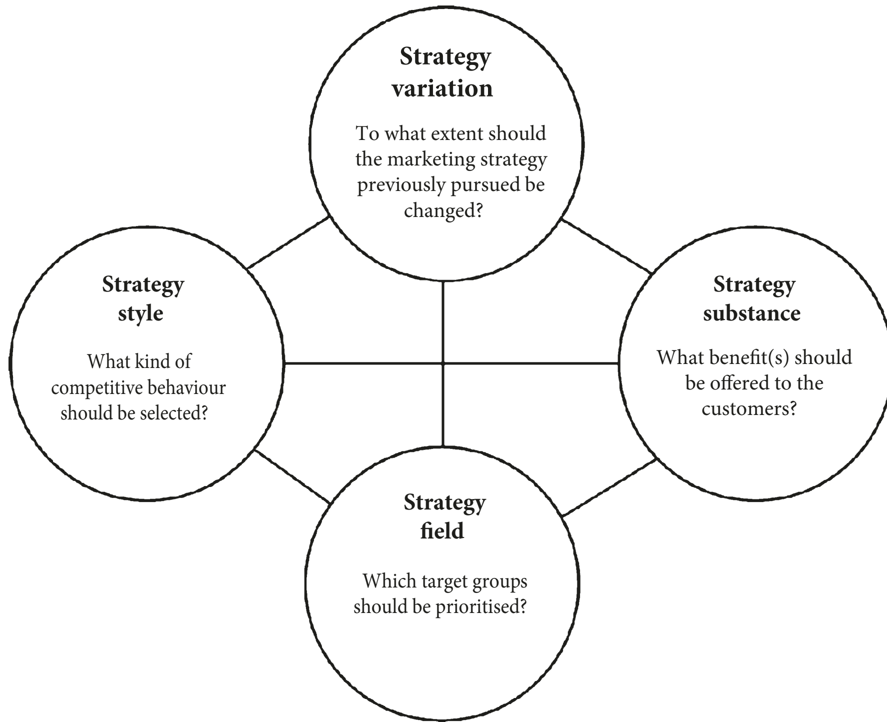


**Fig. 4.20** Elements of a positioning strategy on the business unit level

are decisive factors for answering this question. Basically, technical advancement on the producer side and shifts in the needs on the demand side give rise to greater or lesser dynamics.

Undoubtedly, constantly changing positioning is one of the key problems in marketing. Numerous companies operate unsuccessfully in the markets because their position is changed arbitrarily (e.g. when a new marketing manager becomes responsible for the brand), randomly (e.g. due to a lack of coordination between Sales and Product Management) or oriented on momentary developments in the environment. Consequently, the (potential) customers have very little or no idea of the "unique" benefit that is offered to them. Therefore, a widespread and certainly valid basic principle in marketing calls for maintaining a successful market position once it has been achieved. In view of today's rapid changes regarding the market, competitors, society and technology, the weaknesses of such a static positioning are obvious. Consistency in positioning management is doubtlessly not an intrinsic value; rather, the guiding principle has to be: as much consistency as possible and as much flexibility as necessary. *Dynamic positioning* has to replace static positioning (Tomczak and Roosdorp 1996, p. 33 f.).

Three types of approaches can be distinguished in this respect: preservation, repositioning or new positioning (Haedrich et al. 2003, p. 102 ff.).

**Preservation of the Market Position**

Preservation of the market position essentially means that the market segment targeted to date continues to be served with the same positioning strategy. An approach of this nature should always be selected

- if there is currently a competitive advantage for this target group and it is assured that this will also be the case in the future (i.e. no serious changes in customer preferences or relevant competitor measures etc. are to be anticipated);
- and if this target group is estimated to be viable at present and in the future (this means, e.g., that the company's growth expectations do not exceed the respective market growth, otherwise new customer groups, for which no competitive advantage exists at the moment, have to be won).

If the position in the market is to be preserved, it is essentially a matter of consolidating it. In principle, the positioning strategy is not changed. This does not mean, however, that the marketing mix can remain unchanged. Certain *changes on the instrumental level* are usually necessary. In the product policy area, it is also necessary to adapt the packaging to new fashion trends. In terms of communication policy, the advertising campaign may under certain circumstances have to follow the shift in values.

**Changes in Communication at Axe**

The emotional component "success with women" has played a key role in the successful positioning of the *Axe* brand for over twenty years. Yet, over the course of time it has been necessary to make adjustments regarding the roles of men and women in the seduction of the opposite sex. In the early 1990s, advertising showed a "true gentleman" who hurried to assist a lady in distress, coming very close to her, whereupon she is beguiled by his "fragrance that provokes women". Nowadays, the campaigns are characterised by a youthful and ironic style of presentation. The ladies have become "girls" who are neither inept nor do they wait for the man to show initiative. They are well aware of their charms and simply take what they want. When the "boys" use the advertised body spray, "the Axe effect" takes over – men become the object of female desire.

**Repositioning**

Repositioning is characterised by the fact that the market segment previously served – the so-called *core target group* – remains largely unchanged, but an expansion of the market served is to be achieved by incorporating peripheral target groups. These groups can only be addressed if the positioning is at least marginally changed.

The reasons that necessitate repositioning of a product or a brand are essentially:

- *shrinkage of the market segment* (e.g. because target groups dwindledue to the age pyramid, or because the benefit expectations of parts of the target group have altered);
- the company's *growth targets* and/or *earnings targets* which can no longer be realised in the original market segment;
- *competitors' activities* that gradually erode the established competitive advantage (e.g. me-too strategies, substitution competition);
- demands from other *stakeholder groups* (e.g. of an ecological or social nature).

For repositioning, the previous positioning strategy has to be modified. Here it is necessary to take action on the basic strategic level, e.g. by varying the content of the preference strategy pursued so as to fulfil the benefit expectations (needs) of peripheral target groups as well. Changes on the instrumental level that affect both the qualitative (design) and quantitative (intensity) side of the marketing mix are inevitably derived from such a strategy.

The successful *realisation of repositioning* represents a very difficult and highly complex task, which in practice has to be tackled repeatedly for the reasons given above. The key problem of repositioning is that the core target group should remain largely unchanged. However, this group is perfectly addressed by the original positioning. The core target group is perceived as a competitive advantage, but now, for the reasons given, other target groups are also to be won. This is only possible with a modified competitive advantage which is relevant to the core target group as well as the new target groups that are not at all or only in part addressed by the old positioning.

The risks of repositioning are apparent. The marketing measures intended to bring about repositioning may be evaluated by the core target group as irrelevant or – even worse – as negative, with the result that the competitive advantage is reduced over time or is even lost. At the same time, the new target groups aimed for may not be won over, e.g. due to shortcomings in the strategy implementation. Both effects can often be observed in practice.

**Repositioning at Porsche**

A successful example for repositioning is presented by the launch of the Cayenne under the *Porsche* brand. Porsche was positioned as a sports car specialist. The 911 was and is the centrepiece of the brand, which, as a classical third or fourth car, does not have to fulfil any real transport needs. The typical 911 buyer is male, married, has a gross household income of over 300,000 euros and is 45 years old on average. As a means of utilising the potential of the Porsche brand and continuing growing as a company, the Porsche brand was repositioned in 2002. Based on the knowledge that the typical 911 customers have 3.2 vehicles in their households of which 36 % are sports utility vehicles (SUV), the Cayenne (with five seats and a

spacious transportation volume) was launched as a Porsche for everyday use or as the "sports car among the off-road vehicles". By 2003, already half of the 77,000 Porsche cars sold per year were Cayenne. With the Cayenne, the Porsche brand could introduce new dimensions in versatility, practicability and driving characteristics. It is a classical first or second vehicle. (Source: Clef 2004).

### New Positioning

In cases in which there are no longer any market opportunities on the basis of the previous positioning, there is the option of either eliminating the product from the company portfolio (disinvestment, sale) or of new positioning.

New positioning is equivalent to launching a new product or occupying a fundamentally new image dimension. For instance, new positioning is necessary

- if *attitudes* in the target group towards the offering have shifted into the negative domain,
- if *no competitive advantage* exists and there is also no chance of catching up with the competition,
- if the target group served is *no longer economically interesting* (e.g. because the volume has become too small).

New positioning demands a fundamentally new basic strategic orientation that starts with a greatly changed or new target group. In order to arrive at a competitive advantage, a new product benefit has to be found which has not been offered by competitors and meets the needs of the target group ("active positioning"). Similarly to a new product launch, new positioning entails considerable risks; the flop rate of new positioning is certainly comparable to that of new product launches.

#### New Positioning at Triumph Adler

*Changing the business purpose* is an extreme form of strategic realignment. For example, *Triumph Adler*, which became well known as a typewriter manufacturer, had originally manufactured bicycles and motorbikes, but no typewriters. After several changes of owner, the company, starting in 1994, pursued a completely different, service-oriented business purpose – it acted as a management holding company for SMEs. *Triumph Adler* has since sold off most of its holdings and has undertaken further restructuring. Since 2006 the company concentrates on a single business purpose. It uses the competence it has developed over recent years in the field of imaging and, as a consulting company, specialises in optimising workflow processes in the document business.

**Continuum of Variation Strategies**

The three types of variation strategies presented here provide rough orientation points along a continuum of possible strategies that extend from one extreme of "preserving the market position" to the other extreme of "new positioning". In practice, most strategies more or less represent a repositioning, with some emphasising the aspect of new positioning and others the preservation of the market position.

This *strategy typology* is illustrated by the matrix presented in Fig. 4.21 which comprises the dimensions "Degree of change in the positioning strategy" and "Change in the target segment". On the assumption of targeted and rational planning, only the diagonal represents useful combinations since the two dimensions, as elaborated in the above discussion, are independent of one another. The underlying thesis: Every change in positioning is reflected in a modified positioning strategy that in turn addresses other target groups.

Nevertheless, in reality not only the options lying on the diagonal are to be encountered, either because a repositioning did not have the intended effect or because new target groups could be won although no active repositioning had been undertaken. These constellations, however, are not the result of a rational and targeted planning process, but are consequences of unforeseeable circumstances (e.g. because a dietary trend was incorrectly assessed or not considered at all).

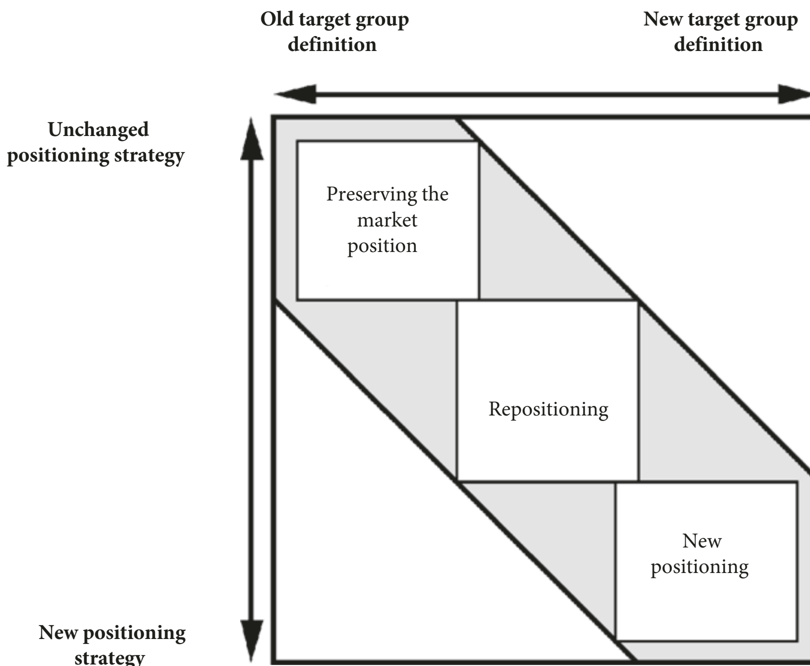


**Fig. 4.21** Types of positioning strategies (Haedrich et al. 2003, p. 107)

For implementing repositioning and new positioning strategies, it is not sufficient to deploy isolated marketing instruments, e.g. advertising. Instead, *all areas of the marketing mix* have to be checked and possibly modified according to the changed or new positioning.

**Dynamic Positioning**

As mentioned above, reflecting on the positioning strategy – for whatever reasons – represents an ongoing task for marketing management. In this context, the question arises as to how a certain product offering is to be managed on the market throughout the product lifecycle (dynamic positioning). Clinging to a rigid positioning from the product launch through to elimination will usually have as little success as constant repositioning or new positioning without a concept. A middle way between these extremes has to be sought.

**Dynamic Positioning as Exemplified by the VW Golf**

The example of the *Golf* (a car model of Volkswagen AG) helps to understand how a strong and compelling position in the market can be maintained over a long period of time. Since the *Golf* went on the market in 1974 as a compact car, it has become today's bestselling car in Europe. In 2012, the seventh generation was introduced. The position of the "*Golf*" brand has always been characterised by just a few positioning statements throughout its entire historical development. In essence, the brand management consists of preserving what is good and improving what needed to be improved (Tomczak and Reinecke 1998, p. 260 ff.).

As the product was successful from the very beginning, there was no need to undertake major changes. The core position of "quality, purchase security, economic efficiency and classlessness" is continuously advanced and with each change of model additionally supported by further elements, such as safety, environmental friendliness, comfort and design. The seventh-generation *Golf* is intended to increase the variability of the model policy, among other things, by introducing a modular transverse matrix.

Positioning maintenance for the "VW Golf" by Volkswagen AG illustrates the essential *guidelines* that any dynamic positioning should follow (Tomczak and Roosdorp 1996, p. 33 f.):

- The *periodic reduction* of the positioning to one (or a few) core dimension(s) promotes the (strong) market position once it has been achieved. It supports the clear perception in the view of the customers and prevents dilution and weakening of the positioning statement.
- The *periodic emphasis* on a few additional positioning dimensions updates the offer over the course of time.

### Strategy Style: Definition of the Competitive Behaviour

The second field of strategic decision-making involves defining the strategy style. Starting with the specific situation of the company and the market (including market share, special resources and competencies, market potential and growth), decisions have to be made as to which *behaviour towards current and potential competitors* has to be chosen in order to realise the positioning strived for. Kotler and Keller (2012) distinguish the four roles of market leader, market challenger, market follower and market niche provider.

The main aim of *market leaders* is to maintain the dominant position in the respective market (e.g. a market share of 40 %). Three sub-goals may be listed here: expansion of the overall market volume (with a disproportionally high share), preservation or increase of the market share. Market leaders master the rules applying in a market better than the competition and best exploit experience curve effects. Their interest usually lies in maintaining the status quo whenever possible. *Market challengers* strive to expand their market share (e.g. of 20 %) by attacking the market leader, providers of the same size or smaller competitors. They either intensify competition within the existing rules or they attempt to introduce new competitive rules into the market. In contrast, *market followers* endeavour to hold their market position (e.g. a market share of 10 %). They attempt to avoid direct competition by aligning their competitive behaviour to the rules set by the market leader. *Market niche providers* are active in a special sub-area of the market and strive to avoid confrontation with larger competitors. They have developed special capabilities for their specific market niche that enable them to serve this market profitably in the long term.

From this short discussion of the various roles available to the providers in a market, three dimensions emerge that have to be considered in the choice of strategy style (Timmermann 1982; Gussek 1992, p. 127 ff.; Becker 2013, S. 384 ff.):

#### Degree of Competitive Intensity

Should a more *aggressive* or more *defensive* competitive style be chosen?

#### Dealing with the Competitive Rules

Should the *established rules* of competition be followed or should the attempt be made to change the competitive rules *innovatively*?

#### Competitive Arena

Should the *overall market* be served or should the resource potential be concentrated on a *market niche*?

Considerations concerning the possible influence on competitive rules and the choice of the competitive arena always implicitly relate to aspects of timing. The question arises in each case whether certain strategies and/or measures in a certain market segment should be adopted earlier (“leader”, “innovator”, “market initiator”, “pioneer”) or later (“early follower” or “late follower”). Both approaches have advantages and disadvantages

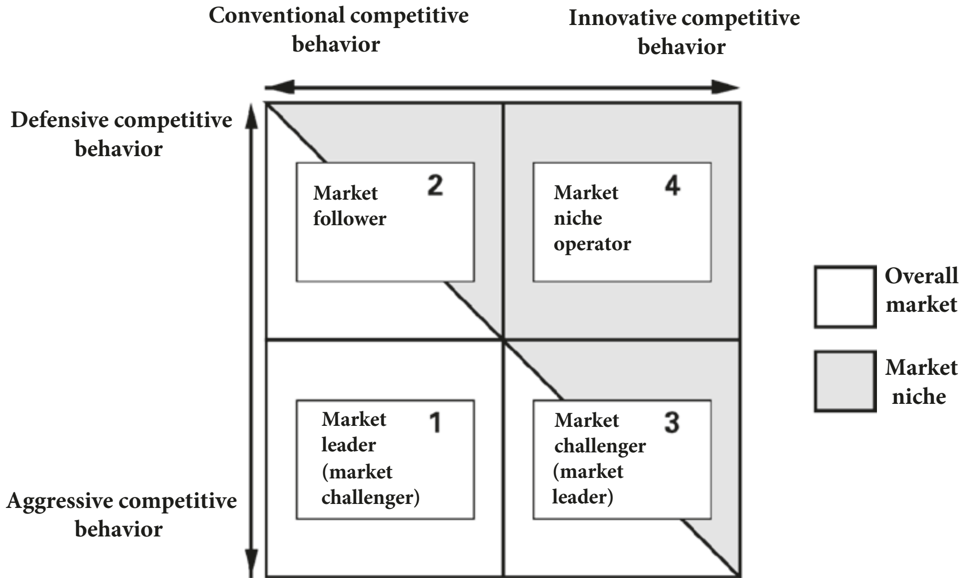


**Fig. 4.22** Competitive strategy options (Haedrich et al. 2003, p. 115)

depending on the situation (see the detailed discussion in Sect. 3.6; on timing strategies on the business unit level see Wolfrum & Rasche 1993) (Fig. 4.22).

In this context, the following competitive strategy options can be distinguished:

*First Option: Aggressive and Conventional Competitive Behaviour* The existing rules of competition are not essentially changed. The aggressive behaviour is expressed in an intensification of those activities (e.g., more intensive advertising, more aggressive selling, programme extensions, improvement of services, intensification of price competition) to which the previous market success is mainly attributable. This option is first and foremost suitable for *market leaders*, to some extent also for strong *market challengers*. Numerous business units provide examples of such a competitive behaviour (e.g., Procter & Gamble, Coca-Cola, McDonald's, VW, major German and Swiss banks such as Deutsche Bank, UBS, Credit Suisse and insurance companies such as Allianz, Zurich, AXA Winterthur).

*Second Option: Defensive and Conventional Competitive Behaviour* This option covers the role of a *market follower*. In order to successfully survive in the market, market followers attempt to deploy their capabilities such that they participate in market growth. They take a defensive role and follow the normal competitive rules. Market followers have only a slight competitive advantage and their strategic goal is to operate in the overall market, but, whether consciously or unconsciously, they often occupy regional sub-markets that are not of interest for larger competitors or can only be served with difficulty. Typical examples of such behaviour are regional furniture dealers with medium to large display

areas that have a small competitive advantage on account of their location. A market follower strategy is doubtlessly an expression of reactive marketing, but, under certain circumstances, including the pursuit of a disinvestment strategy (e.g., VW allowed the "Beetle Convertible" to follow the market in Europe for years before taking it off the market) or a three-brand strategy, it may represent efficient competitive behaviour.

*Third Option: Aggressive and Innovative Competitive Behaviour* This option demands an active establishment and expansion of autonomous and lasting competitive advantages ("active positioning"). Such behaviour is characteristic of *market challengers*, but under certain circumstances also of market leaders that no longer see any growth opportunities within the bounds of the existing rules of competition. The aim is to find fundamentally new strategic options for the respective market, whose successful implementation reverses the rules previously applicable in this market ("new game strategies" or "anti-strategies"). Essentially, it is a matter of deploying a marketing mix that deviates from traditional market norms. Well-known examples for consistent implementation of an aggressive and innovative competitive behaviour that encompasses almost the entire range of marketing tools are IKEA (see Fig. 4.23; Becker 2013, p. 859 f.) and Swatch. These examples illustrate two further aspects:

- "*New game strategies*" may become *part of the market norm* over time. Thus, self-collection has become a matter of course in the furniture trade. Firstly, other furniture traders besides IKEA, such as Interio in Switzerland, have adopted a similar concept, and secondly, a department for self-assembly furniture can now be found in almost every traditional furniture store.
- A *switch of competitive arena* from the market niche to the overall market may accompany this kind of strategy. For example, IKEA and Swatch have now become market leaders in most countries.

| **Standard marketing mix in the furniture trade** | **IKEA marketing mix** |
|---|---|
| Delivery by the furniture dealer<br>Assembly by the furniture dealer | Self-collection<br>Self-assembly |
| Coverage of the entire price spectrum (cheap to luxury) | Generally relatively inexpensive |
| Regional presence | International brand strategy |
| Campaign advertising | Image advertising |
| Personal customer advice | Self-service; catalogue; info desk |

**Fig. 4.23** Comparison of the standard marketing mix of a traditional furniture manufacturer and the IKEA marketing mix

On the other hand, it is often sufficient to pursue innovative paths in some selected instrumental areas only to achieve competitive advantage.

*Fourth Option: Defensive and Innovative Competitive Behaviour* This kind of behaviour is equivalent to actively searching for *market niches* in order to largely avoid the competition in the respective market. The following preconditions must exist so that market niches can be served profitably in the long term:

- sufficient size or growth potential,
- uninteresting market for larger competitors and
- existing or attainable competitive advantage.

Many companies can be found that have operated for many years very successfully in such market niches. Prominent examples are the retailer Body Shop, Ajona toothpaste and Seba-med soap products. Many successful market niche providers are typically found in the investment goods industry. This is mainly due to the fact that numerous (small) customer groups exist in these markets that have very special problems that can only be solved with a provider's special applications and technical specialisation (e.g., the specialist Mekra Lang that offers mirror systems for transporters, buses, caravans and lorries).

It has to be pointed out that a company with a large number of business units often plays all these roles from the market leader to the market challengers and the market niche player in the various areas.

#### Strategy Substance: Definition of the Customer Benefit

The third crucial aspect of a positioning strategy involves the *type of the targeted competive advantage*.

The two influencing parameters price and product are combined in the so-called *price/performance ratio* (value for money). The benefit of an offering comprises the performance perceived subjectively by the customer and the corresponding, also subjectively evaluated, price. Thus, a continuum of equivalent benefit combinations is conceivable (see Fig. 4.24). The offers at the one end of this continuum provide an improvement in performance. The offers at the other end provide cost savings for the customer (Kreilkamp 1987, p. 114 ff.).

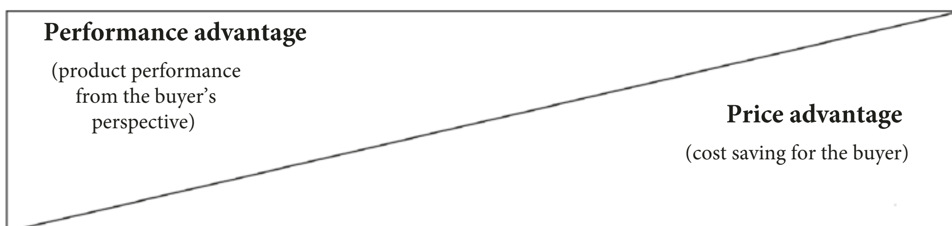


**Fig. 4.24** Conceivable benefit combinations for the customer. (Kreilkamp 1987, p. 118)

As already presented in detail in Sect. 3.5, two possibilities are therefore available to achieve competitive advantage: either the aim is to generate a comprehensive cost advantage from which the customer benefits in the form of a price advantage or something unique is created from the customer's perspective in terms of quality or performance. Focussing on a certain customer group (overall market or segment), two aspects have to be considered for planning a positioning strategy on the business unit level:

**Type of Customer Benefit**

Should the customer be offered a *performance* or a *price advantage*?

**Use of Marketing Instruments**

Should the marketing mix be *performance-focussed or rather price-focussed*? Performance-focussed marketing demands the use of all non-price-based marketing instruments. In price-focussed marketing, however, all non-price-based marketing instruments follow the standard in the relevant market, differentiation from the competition is only achieved with the help of a low price level.

Becker (2013, p. 185 ff.) describes these two strategic orientations as *preference* and *price/quantity strategies* (see Fig. 4.25).

| | **Preference strategy** | **Price/quantity strategy** |
|---|---|---|
| **Type of customer benefit** | Performance advantage based on product properties (USP) or image properties (e.g. UAP) leads to relatively improved (multidimensional=emotional and/or rational) satisfaction of needs | Price advantage leads to relative cost savings |
| **Competitive advantage** | «Better»: higher performance in relation to the competition for the same price (under certain circumstances exploitation of acquisitional potential).<br>«Different»: differentiated image in relation to the competition for the same price | «Cheaper»: lower price in relation to competition at the same price |
| **Use of marketing instruments** | Combined and consistent use of all non-price marketing instruments to influence the customers | Price as key marketing instrument to influence the customers (standard marketing mix) |
| **Examples**<br>Retail<br>Automobiles<br>Computer<br>Banks<br>Beverages | <br>Globus, Douglas<br>BMW, Mercedes-Benz<br>Apple<br>Julius Bär<br>Perrier | <br>Aldi, Denner<br>Kia, Skoda<br>Medion<br>Bank Coop<br>Oettinger (beer) |

**Fig. 4.25** Characteristics of the preference and price/quantity strategies

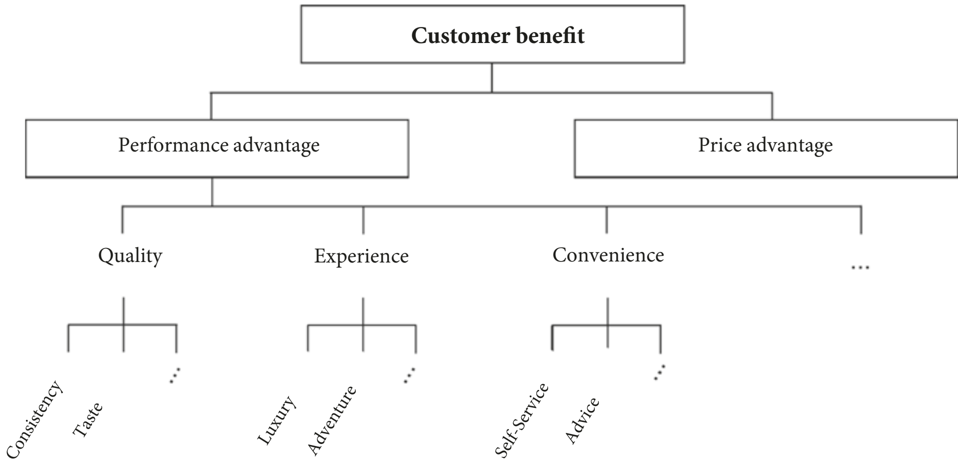


**Fig. 4.26** Performance and price advantages

**Fig. 4.27** Examples for preference and price/quantity strategies in the overall market or in sub-markets

| | *Preference strategy* | *Price/quantity strategy* |
|---|---|---|
| ***Overall market*** | • *VW Golf*<br>• *Nivea*<br>• *Gillette* | • *Hyundai*<br>• *Oettinger (beer)*<br>• *ALDI* |
| ***Market segment*** | • *Porsche*<br>• *Apple*<br>• *Perrier* | • *InterSky*<br>• *Otto*<br>• *Lada* |

It should be stressed again at this point that the key marketing objective is not to maximise the customer benefit per se, but to be in a position to satisfy a relevant customer need (according to the customer's assessment) better than other competitors. In other words, the focus is on the relative increase in customer benefit (Große-Oetringhaus 1996).

Both performance-oriented and price-sensitive groups of buyers can be identified in almost every market, so that, as a rule, competitive advantages can be consistently established with both a preference and a price/quantity strategy. It is interesting to note, however, that in each market typically only *one provider* can achieve a competitive advantage through the price/quantity strategy, because only one provider can be perceived as "cheaper" than the others. However, several possibilities exist in almost every market for reaching a competitive advantage through a preference strategy (Becker 2013, p. 446 f.; also see Fig. 4.26).

As illustrated by the examples in Fig. 4.27, preference and price/quantity strategies may both be successfully pursued in the overall market as well as in individual sub-markets.

As Porter (1999, p. 70 ff.) pointed out, a clear strategic orientation is an important precondition for marketing success; this means a clear "*either/or strategy*" (Backhaus 1995, p. 148) has to be pursued:

- *either* it is a matter of “satisfying multidimensional preference bundles with the help of a differentiated marketing mix better than the competition”
- *or* “of offering the customer relative cost savings through price advantage”.

“Neither/nor” strategies that do not strive for unique profiling either with regard to price or performance are not considered promising, as they offer no clear advantage in the customer’s assessment (“strategy caught between two chairs”). In the case of such offerings customers will ask themselves: “Why should I buy something that is neither particularly low-priced nor especially good?”

Fig. 4.28 presents the so-called *U curve* according to Porter (1999, p. 70 ff.) which describes the relationship between strategic orientation and market success (return, profit, cash flow). In contrast to Porter, however, the type of strategy, not the relative market share is plotted on the abscissa (x-axis), (Becker 2013, p. 179). This is for the following reasons:

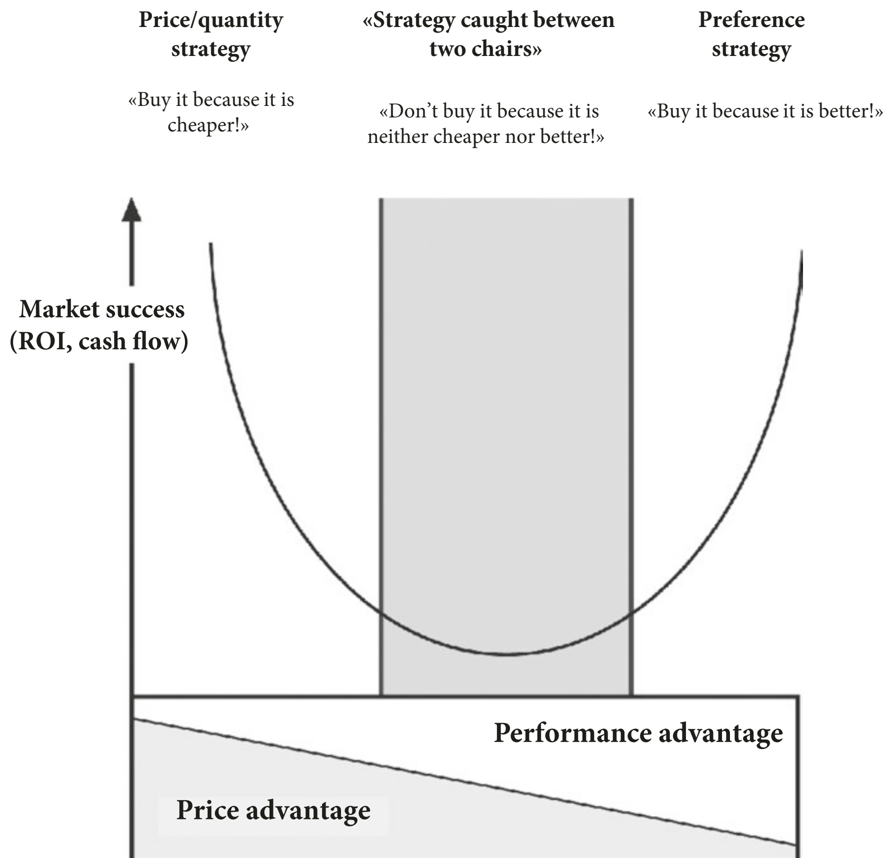


**Fig. 4.28** U curve modified from Porter (Porter 1999, p. 70 ff.)

- The relative market share represents a target parameter that can be influenced through preference or price/quantity strategies.
- In practice, there are business units that successfully pursue price and cost leadership strategies, although they are no market leaders, and also business units that have achieved market leadership with differentiation or preference strategies.

Even with so-called *outpacing strategies* (see Sect. 3.5.5), which are characterised by offering a high performance level and low costs at the same time, customers usually perceive a distinct profiling (either "better" or "cheaper") and not a double profiling (both "better" and "cheaper"). Practical experience shows that offerings which are objectively better as well as cheaper than competitor offerings are still bought by customers either because they promise to save costs as compared with comparable competitor offerings or because they are classified as offering superior performance.

Thus, Japanese luxury class automobiles like the Lexus are purchased by certain customers because they are cheaper than the cars made by Mercedes and BMW while offering comparable performance. While in the performance domain they just offer the market standard, though this is at a relatively high level in the luxury segment, Japanese automobiles typically offer a competitive advantage in the price domain.

In many *mature markets* the problem faced by providers pursuing preference strategies is that the competitors have caught up in nearly all performance areas and the market standard has been established on a very high level. As the customers can hardly perceive any differentiation in these markets any more, the price becomes the decisive purchasing argument for increasingly large circles of buyers. In addition, there is the risk that although the customers do perceive quality advantages, these are over-compensated by price advantages of product offerings with comparable benefits. In other words, the performance-oriented customer groups are shrinking in those markets. Becker (2013, p. 731 ff.) accurately describes such effects as "downward price adjustments".

**Value Positioning**

These developments underline the necessity of dealing with the structure of the price/performance ratio offered to the customers. Kotler (1999, p. 59 ff.) speaks in this context of value positioning and distinguishes five relevant types:

*More for More* In many markets (including automobiles, watches, textiles, kitchen equipment) there are companies (such as Ferrari, Lange & Söhne, Gucci, Bulthaupt) that successfully offer so-called luxury products at extremely high prices. Customers in these markets are prepared to pay a correspondingly high price for a high level of perceived performance. The price represents an important quality indicator in such markets. However, the value positioning "performance advantages for an above-average price" is not only important in luxury markets, but may be observed in almost every market. The "more for more" approach represents the purest form of a preference strategy. The value positionings of "superior performance at a comparable price (more for the same)" and "comparable

performance at a lower price (the same for less)" represent approaches that challenge the positioning of "more for more" offerings in an increasing number of markets.

**Examples of "More for More" Positioning**

Providers like *Mercedes, BMW, Audi* and *Jaguar* in the automobile market, insurance companies like *AXA Winterthur, Zürich* and *Allianz* or consumer goods providers like the Swiss pastry maker *Kambly,* the brewer *Beck's* or the company *Henkel* with its Persil brand have successfully followed this approach in their markets for decades.

*More for the Same* A "more for the same" positioning is essentially also based on a preference strategy. Yet, there is a crucial difference in that the customer receives more performance in relation to a certain reference price in the particular market.

**"More for the Same" Positioning by Lidl**

*Lidl* succeeded in establishing itself as a competitor in the German retail discount segment alongside *Aldi. Lidl* managed to almost catch up with *Aldi* in terms of price and in the customers' perception. At the same time, *Lidl* managed to obtain the backing of the powerful brand item industry in order to offer customers a broader and deeper, as well as more innovative product range than *Aldi*, which essentially concentrates on its own brands.

*The Same for Less* "The same for less" positioning is the most typical form of a price advantage or price/quantity strategy. Companies that follow this approach claim to offer comparable products at a more favourable price. Car producers like Hyundai orientate themselves towards providers like VW in their product and communication policy pointing out that they offer almost the same performance, but at a lower price. For example, Hyundai advertised in Switzerland with the slogan "The German among the Asians".

*Less for Much Less* A variant of the price advantage strategy that has gained in importance on various markets over recent years is the "less for much less" approach. Here companies offer products which are below the usual quality in the respective market, and below that expected by many customers, at an extremely low price. The reason why such an approach works in more and more markets is essentially attributable to the fact that products increasingly include components that offer no additional benefit to certain customers or customer groups, for which they would be prepared to pay a higher price.

Typical examples in retail are the hard discounters such as Aldi that have reduced their retail performance to a certain limited product range.

*More for Less* An offering that promises both high performance and price advantages would doubtlessly have a superior positioning. As discussed above, it is highly questionable whether a provider is in a position to assert such a positioning in the market, i.e. in the customers' perception. A more detailed analysis shows that even "category killer stores" like IKEA or Zara are positioned in the customers' perception as price advantage providers. However, by constantly raising the standard quality in its market, the provider ensures that the pressure on the competitors permanently increases. Jack Welch, former chairman of General Electric, ascertained around the turn of the millennium that: "If you can't sell a top-quality product at the world's lowest price, you're going to be out of the game […] the best way to hold your customers is to constantly figure out how to give them more for less" (as cited in Kotler 1999, p. 54). In other words: Irrespective of which value positioning a provider has chosen, improvements both on the performance aspect as well as on the price aspect will always be necessary due to the intensive and dynamic competition in the markets.

### Strategy Field: Definition of the Market Segments to be Served

The fourth basic strategy decision involves the choice of the strategy field of a company. The *definition of the business activity* represents one of the key decision-making fields in strategic marketing planning on the corporate level and has already been covered in Sect. 3.3. Considerations on market segmentation, as discussed in the following, of course, play a key role in the "business unit definition" as part of the so-called bottom-up approach for defining markets.

### Importance of Market Segmentation

Market segmentation is one of the most important concepts of modern marketing. It may be defined as follows:

- *Market segmentation* is the division of a heterogeneous overall market into relatively homogeneous buyer groups with the aim of addressing these groups in a differentiated way.

> **On the Relevance of Market Segmentation**
> "A company that wants to serve an extensive market – whether the consumer goods, industrial goods, reseller market or the procurement market of the public sector – often finds that it cannot serve all customers in this market to the same extent. They are too numerous, too broadly scattered and have too widely differing purchase requirements. […] Rather than trying to compete in all areas […] the company should determine the most attractive market segments that it can successfully serve." (Kotler et al. 2007, p. 356; source text in German)

| Undifferentiated marketing | Differentiated marketing |
|---|---|
| Homogeneous needs in the overall market | Heterogeneous needs in the overall market, homogeneous needs within the segment |
| One product for a mass market | Specific products for defined segments |
| Competitive advantages due to a product with a clear price advantage, better properties or strong advertising | Competitive advantages due to unique products that meet the needs of certain segments |
| Special profit opportunities through economies of scale in production and marketing | Special profit opportunities through higher margins for specific products |

**Fig. 4.29** Undifferentiated and differentiated marketing

Several considerations associated with market segmentation become clearer if this differentiated kind of marketing is compared with the undifferentiated form (see Fig. 4.29 which follows Assael 1985, p. 225).

Since in highly developed industrialised societies all the basic needs are covered to an increasing extent, market segmentation has become a key for success in many markets. Integrating the basic principle of market segmentation into the relevant strategies offers the following advantages:

- higher customer satisfaction due to specific products,
- more efficient (because more precisely targeted) use of advertising, sales promotion and distribution measures,
- reduction of competitive pressure by reducing the number of competitors compared to the overall market,
- more precise target setting for marketing planning.

Meffert et al. (2012, p. 187) summarise the essential ideas of market segmentation in a single sentence: "The main aim of market segmentation is to achieve a strong fit between the product offer and the needs of the target groups."

There are, of course, drawbacks and limitations to a strategy of market segmentation. These occur especially if a company offers several products for different sub-markets rather than a unified product for a mass market. Higher costs for production, warehousing etc. will arise in such a case. Additionally, sometimes it can be observed (e.g. in the laundry detergent market) that large companies offer several products (brands) in the same market or in not clearly divided sub-markets. In this case there is frequently competition between these products for market shares. In marketing practice this effect is known as "cannibalisation".

### How to go about Market Segmentation

Several preconditions must be met before it is possible to determine market segments. We will discuss the most important ones in the following. Subsequently, the standard criteria for market segmentation in consumer goods and investment goods markets will be presented.

The most elementary requirement for market segmentation is that *differences between the various products are relevant for the customers* and can be clearly perceived by them. The food industry offers numerous examples both for products that are not (yet) differentiated (flour, sugar etc.) as well as for a very widespread division of markets according to price level, tastes, customer age groups (e.g. coffee market) etc. There are also ample examples of how, through changes in customer behaviour and/or through targeted marketing measures, previously undifferentiated markets now offer segmentation opportunities. A typical example is the beer market; while in earlier times only a few brands were offered by regional breweries, today diverse types (pils, dark beer, export, wheat beer etc.) and even international brands are available, in different price categories.

A second prerequisite is that there have to be *pronounced similarities in needs among certain groups of customers*. Otherwise it is hardly possible to offer these groups an attractive product. Examples for very different needs are the markets for certain services (e.g. hairdressers, management consultants) that are highly individualised.

Serving a market segment can, of course, only be worthwhile if the size and potential is sufficient for a profitable strategy. In markets with a low number of customers and/or an infrequently occurring demand, the introduction of a large number of different products for each one of the very small market segments is usually not profitable.

The fourth prerequisite for market segmentation is the *identifiability and accessibility of customers*. If targeted marketing strategies are to be developed for a customer group, this is only worthwhile if this group can be defined by certain features and can be reached by suitable media, sales channels etc.

Finally, it should also be mentioned that for successful market segmentation the company needs to be able to develop and implement a suitable strategy for the respective segment. For example, serving the “high-performance computer” market segment requires a certain technical expertise. Also, a small car producer would probably have difficulties in obtaining sufficient acceptance for a new model in the “luxury limousine” market segment. In this context, a connection with the “resource-based approach” presented in Sect. 3.1.2 is apparent.

Most of the criteria applied for market segmentation can be combined into groups. The common criteria groups in the consumer goods sector are presented in Fig. 4.30 and illustrated on the basis of examples in the following:

- *demographic and geographic criteria* (age, gender, family status and family size, region of residence, urban or rural population);
- *economic and social status* (income, employment, social class, education);

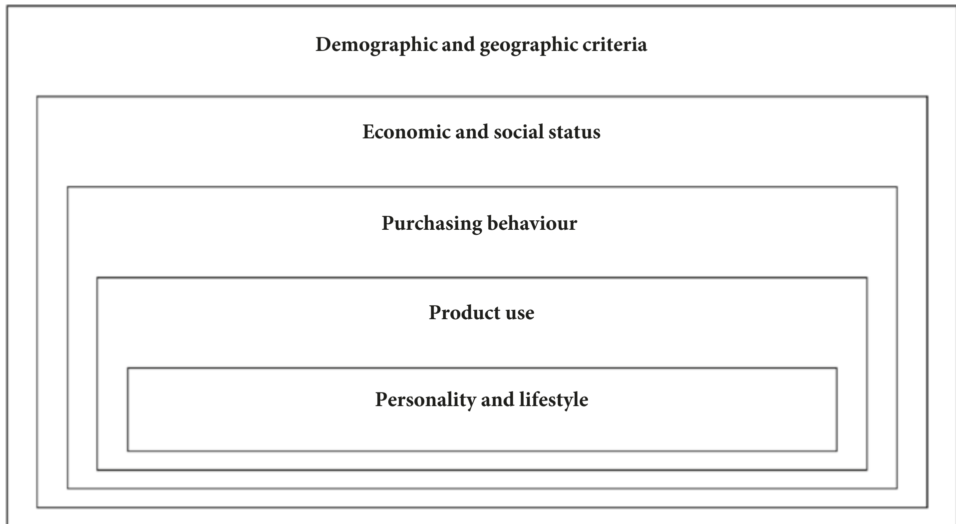


**Fig. 4.30** Criteria for market segmentation in the consumer goods sector

- *purchasing behaviour (*buying frequency, choice of shopping location, brand loyalty, type of purchasing decision-making process);
- *product use* (intended purpose of the product, type of product properties considered, importance of the product properties considered);
- *personality and lifestyle (*enthusiasm for innovation, pleasure orientation, striving for security etc.).

The basic principles of market segmentation likewise apply to the consumer goods and investment goods sectors. However, other criteria are applied in segmenting investment goods markets. The most important criteria groups are compiled in Fig. 4.31 (according to Shapiro and Bonoma 1984) and illustrated by examples in the following:

- *external features* (industry, company size, region);
- *creation of goods and services by the customer* (applied technologies, previous suppliers, capabilities/expertise);
- *purchase decision-making process on the customer's side* (organisational integration of procurement, balance of power in the company, procurement policy, decision-making criteria);
- *situative factors* (urgency of need, order size);
- *personal features of those involved in the purchase decision-making process* (risk aversion/striving for security, cognitive style, commercial versus technical orientation).

The two diagrams in Figs. 4.30 and 4.31 have in common that the features are ordered according to their observability. The more observable a feature is and the easier it is to

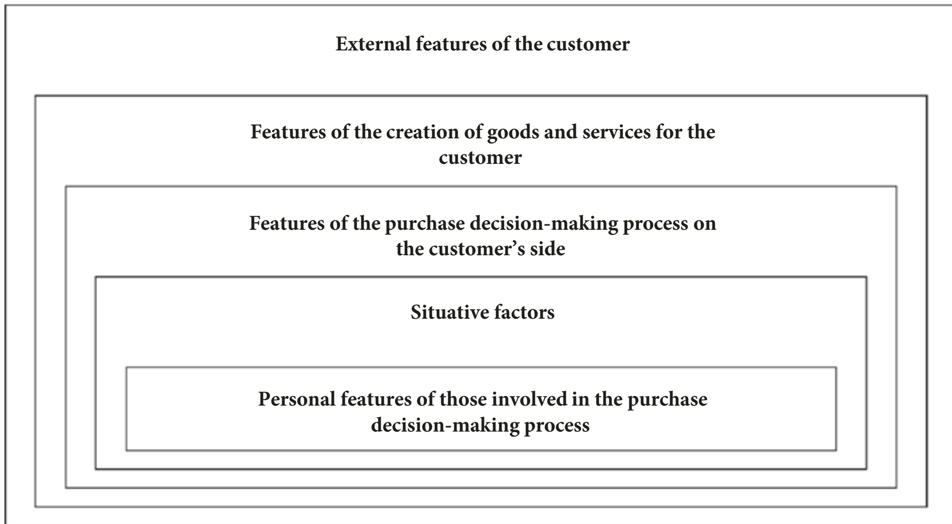


**Fig. 4.31** Criteria for market segmentation in the investment goods sector

procure the relevant data, the further it is to the outside in the diagram. However, to avoid misinterpretations, two critical comments have to be made:

- The sequencing of the criteria groups as presented above does not mean that they are independent of each other.
- The diagrams say nothing about the importance of the individual criteria for a certain segmentation problem.

Differentiation between macro- and micro-segmentation is customary in investment goods marketing. *Macro-segmentation* refers to the features of the companies and organisations under consideration as customers (e.g. company size, location), whereas in *micro-segmentation* the persons involved with procurement are considered as individuals and as a group ("buying center") (e.g. their hierarchical position, personal characteristics) (Kleinaltenkamp 2002).

In most cases several criteria are used for defining market segments. For instance, to describe the eligible market segment for a sporty version of a mid-range car, the following criteria could be used: age (20–40 years), income (€ 40,000–60,000 per year), region (Europe) and lifestyle (leisure-oriented).

Market segmentation has already been touched upon in the explanation of the Abell scheme (Sect. 3.3.2). There, as in the present section, it also was a matter of identifying relatively homogeneous customer groups. In this context it has to be noted that segmentation can be undertaken at various degrees of differentiation on the different planning levels from market-oriented company planning through to planning the marketing mix. So it may well

suffice for marketing planning on the company level, for example, to define the segment “forwarding companies in the European market”. In contrast, deciding on a marketing mix of product, price, communication and distribution policy measures may require a more restricted orientation to the segment “mid-sized forwarding companies (15–50 employees) based in Germany and dedicated to the transport of fresh goods (refrigerated vehicles)”.

A *strategic business unit* is, by definition, the combination of a certain product range with a certain market (product/market combination). Marketing planning on the business unit level is therefore not concerned with the fundamental decision as to which market is to be served. Instead, it is a question of deciding,

- against the background of changing market, competitive and environmental conditions (including customer needs, purchasing behaviour, values, substitution competition, development of media etc.),
- how the existing market and market segment definitions have to be modified (e.g. by accessing peripheral target groups, concentrating on major customers or lead users, intensified cultivation of core customers, focusing on power promoters in the buying centre)
- in order to achieve the marketing objectives(earnings, growth targets etc.).

The dividing line between segmentation decisions on the overall company level and the business unit level is often not clearly defined. Basically, these are closely interconnected areas in which the top-down and the bottom-up perspectives of marketing planning (in the sense of the approach by Day mentioned in Sect. 3.3.2) have to be iteratively linked.

It is also common in marketing practice to distinguish between market segments and target groups. In the insurance industry, for example, market segments are understood to be superordinate customer groups, e.g. “companies” and “private individuals”. A specific market segment comprises several target groups; the market segment “companies”, for example, encompasses the target groups “trade/professions”, “companies” and the “public sector” (Fig. 4.32).

In order for a company to deploy the available resources in the most effective and efficient way, decisions affecting the basic market selection and segmentation have to be made “top-down”, i.e. from the context of the overall company. Decisions that specifically affect a market segment and its target groups are better treated “bottom-up” from the business unit perspective.

### Defining the Positioning Strategy on the Business Unit Level

In the previous sections, we presented the various areas which have to be considered in defining a positioning strategy on the business unit level. As mentioned above, these areas are closely related and have to be considered simultaneously in marketing planning. These four building blocks have to be joined together in such a way that a consistent positioning strategy results. Becker (2013, p. 352 ff.) refers to such a combination of strategic building blocks as “strategy chips”.

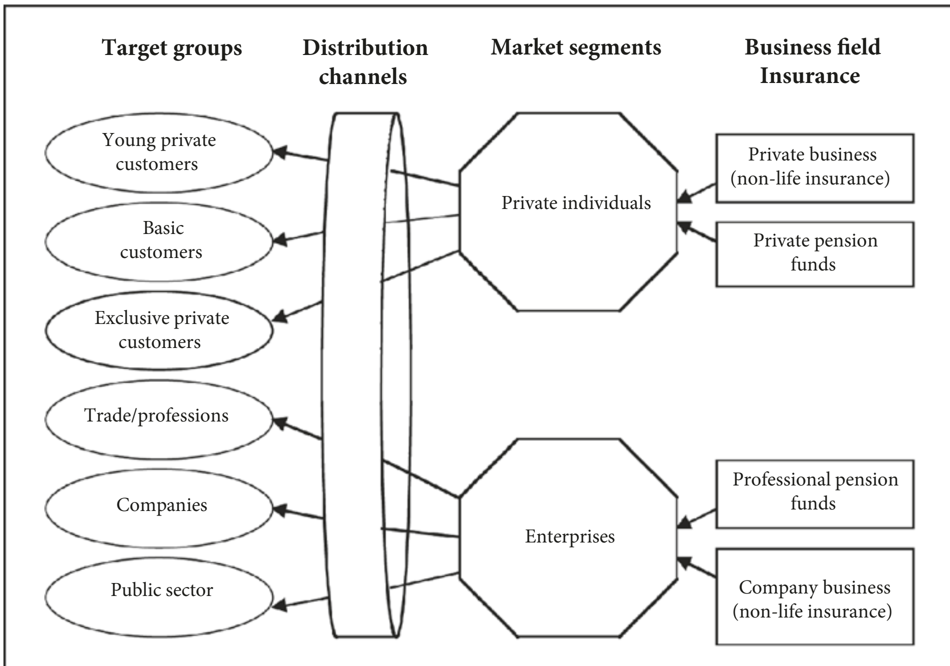


**Fig. 4.32** Market segments and target groups in the insurance sector (Schogel and Finsterwalder 1999, p. 29)

First, the *strategy variation* has to be determined. It has to be decided whether the current position can be maintained in the competitive environment, whether repositioning is necessary or whether a new positioning has to be strived for. In relation to this, the *strategy field* and the *strategy style* have to be defined, i.e. decisions have to be made on serving the overall market or a market niche in an aggressive or defensive and in an innovative or conventional way. Finally, in the area of *strategy substance* it has to be decided how to establish a competitive advantage.

Figure 4.33 presents the decision-making areas which a positioning strategy on the business unit level has to take into account. Each area can also be understood as a continuum (Tomczak 1989, p. 141 ff.); in the case of strategy variation, for example, it extends from "maintaining the market position" on the one side to "new positioning" on the other side, with "repositioning" representing the midpoint of the continuum.

Each positioning strategy can therefore be seen as a combination of specific expressions of the four decision-making continuums (as exemplified by the lines in Fig. 66). Basically, there are numerous possible combinations for defining a positioning strategy. However, not all combinations are potentially successful options in all industries and for all companies.

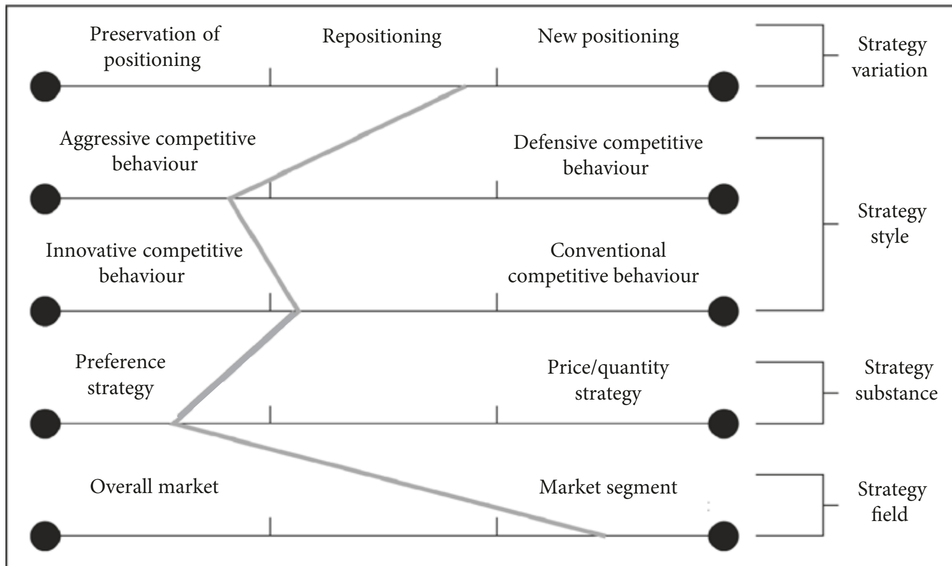


**Fig. 4.33** Decision-making continuums of positioning on the business unit level

For instance, the results of an extensive empirical study conducted for 203 business units indicate that three types of positioning strategies are especially successful in the consumer goods market (Gussek 1992, p. 276):

- "*Preference-oriented market segmentation strategy*": preference strategy with an innovative and aggressive strategy style on a sub-market (e.g. Red Bull);
- "*Preference-oriented mass market strategy*": preference strategy with an innovative and aggressive strategy style and overall market coverage (e.g. Nivea, Knorr);
- "*Aggressive price/quantity strategy*": price/quantity strategy with an innovative and aggressive strategy style and overall market coverage (e.g. Aldi).

These results appear plausible and are largely consistent with the tenets of the strategic orientation of business units as presented in the previous sections. On the one hand, aggressive and innovative positioning strategies apparently offer the greatest potential for success. On the other hand, it is obvious that above-average success with a price/quantity strategy is only possible on a national market or a global sub-market, because a sufficiently large basis is necessary for exploiting experience curve and economy of scale effects. In contrast, preference strategies can be successful both in sub-markets as well as in the overall market.

Companies that rely on intermediaries for the distribution of their products and services have to develop two (or possibly several) closely interconnected positioning strategies:

one with end customer orientation and a second one with explicit intermediary orientation. In developing an intermediary-oriented positioning strategy, again decisions have to be made with regard to the strategy variation, the strategy style, the strategy substance and the strategy field.

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# Planning the Marketing Mix

# 5

## 5.1 Overview: Elements and Effects of the Marketing Mix

In every company a certain number of variables is available in a particular situation to implement the growth and marketing strategies (core task profile, planned cooperations, positioning goals and strategies) and to attain the marketing objectives. These variables can be classified as so-called *marketing instruments* and together they constitute the *marketing mix*. Planning the marketing mix is therefore the focus of operative planning.

The marketing instruments are usually categorised into the following four areas (e.g., McCarthy 1960; Assael 1993; Weinhold-Stünzi, 1994 p. 149; Meffert et al. 2012; Kotler and Keller 2012):

- product,
- price,
- communication,
- distribution.

The marketing instruments are often referred to as the *4 Ps* (product, price, promotion, place). Some authors break down the marketing instruments into just three groups, with product structure and pricing combined to the "product range policy" (e.g., Haedrich and Berger 1982), while others, especially in service marketing; distinguish seven areas (e.g. Magrath 1986): the four "classical" instruments as well as "personnel", "processes" and "physical facilities". The difference in the number of marketing instruments is therefore always a question of practicability, although the four basic instruments above have become widely accepted internationally. The distinction between the instruments is not clearcut anyway: for example, a customer club may affect all instruments (e.g., specific services for club members, discounts for regular customers, a customer club magazine and websites

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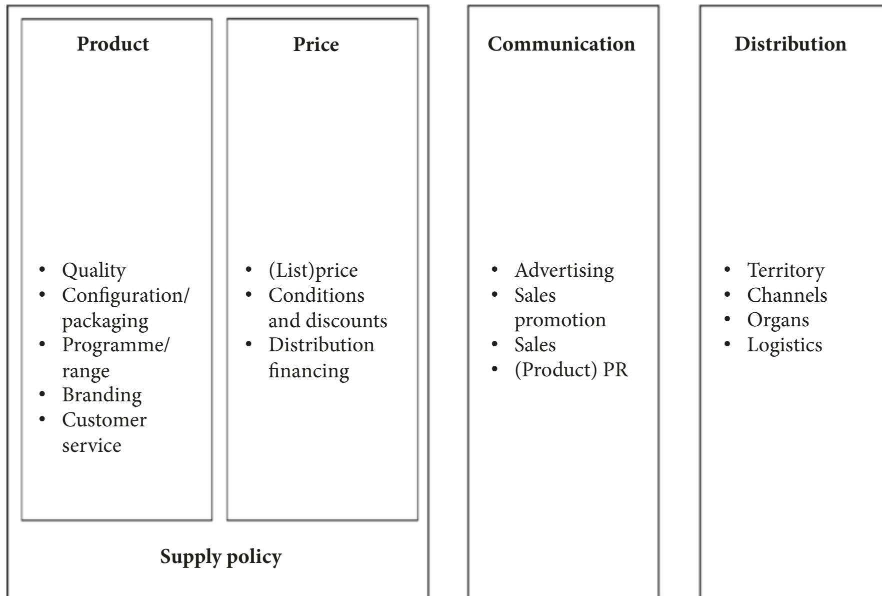



**Fig. 5.1** Overview of the marketing instruments

on which only members can order). Despite the fact that the marketing mix with its strong product focus often appears very oldfashioned today, it is undeniably a valuable didactic tool which can be linked with more innovative concepts. The individual areas comprise a large number of "sub-instruments", as presented in Fig. 5.1.

Whereas strategic marketing planning relates to longer periods (around 3 to 10 years depending on the industry), operative marketing planning and planning of the marketing mix is typically geared to shorter periods (often one year). As a rule, frequent and short-term changes in the composition of the marketing mix should be avoided, as some instruments (e.g. advertising) are only fully effective after long-term deployment and it is hardly possible to change some instruments (e.g. distribution systems) at short notice.

A synergistic interaction of the individual marketing instruments is essential for attaining the marketing goals strived for. This idea is expressed in the term "marketing mix" which implies that it is a matter of the combination of instruments, especially as the instruments cannot be distinctly separated anyway. A special model of a car brand, for instance, may be understood as part of the product design, but it also has a significant influence on communication and implications for pricing.

Thus, the marketing mix is the combination of marketing instruments selected for a certain planning period. In planning the marketing mix, the priority is to determine a favourable *combination of resources* and not to optimise individual instruments. The significance of this aspect is illustrated by the following example.

**The Optimal Combination of Resources**
Consider the marketing for a high-quality perfume. For long-lasting market success, certain characteristics of the marketing instruments clearly have to be present: good and unique product quality, luxurious packaging, high price (quality indicator), attractive advertising, distribution through exclusive specialist shops. A single "incompatible" component in the marketing mix, e.g. a cheap-looking package or distribution through discount stores would lead to a far lower acceptance of the product among the consumers and/or retailers.

Therefore it has to be considered in planning the marketing mix that customers perceive the individual instruments of the marketing mix as a whole.

**Perception of the Marketing Mix Elements by the Customer – BMW**
The value of a *BMW* as perceived by the customer does not only depend on the engine performance, reliability and workmanship of the vehicle. The value is also influenced by the image of the brand, the purchasing setting (e.g. design of the showroom) and by the experience during sales negotiations (e.g. friendliness and competence of the sales personnel).

The *value gain* perceived by the customer is the central trigger for purchasing decisions (Große-Oetringhaus 1996; Kotler et al. 2007, p. 43 ff.). Customers will select that offering or performance system that promises the greatest value gain. For the customer the value gain arises as the difference between the sum of values and the sum of costs of the offering as illustrated in Fig. 5.2. Both the sum of values and the sum of costs are influenced by all marketing instruments. For example, the sum of costs perceived by the customer depends, among other things, on:

- how the customer assesses the monetary costs incurred (leasing offers, discount systems, financing models or "teaser offers" can lead to different subjective price perceptions among customers);
- how the customer evaluates the time and effort to be invested in procurement (e.g., self-collection from the manufacturer versus delivery via the dealer, self-configuration on the internet versus sales advice);
- how the customer judges the psychological effort incurred. The image of the provider, warranties or the negotiation process itself will create a more or less positive business climate and can increase or decrease the customer's f confidence in the purchasing decision.

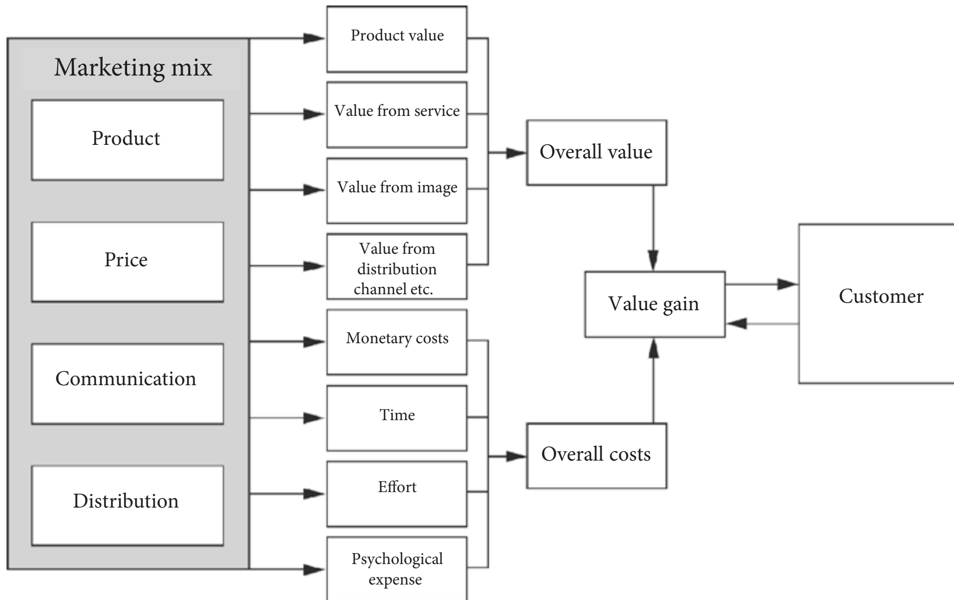



**Fig. 5.2** Value gain for the customer (According to Kotler et al. 2007)

Marketing efforts should concentrate on creating satisfied customers. Thus, in planning the marketing mix, the promise of a high value gain (keyword: customer acquisition) is not enough. It also has to be ensured that the value gain perceived after purchasing ("actual") equals or even exceeds the anticipated value gain ("target") (Kotler et al. 2007, p. 44 ff.), because only then will the customer be satisfied or at least not dissatisfied (keyword: customer loyalty).

**The Challenges of Digitalisation**

One of the main challenges faced by companies today is increasing digitalisation and virtualization of the markets (keywords: *eBusiness, social media)*. The development from an industrial society to an information society affects all areas of marketing and every marketing instrument. The following aspects have to be emphasised:

- increased market transparency with reduced information and transaction costs;
- personalised product and service offerings (keywords: one-to-one-marketing, customising);
- integration of the customers in the service provision process and interactivity in communication, because the customer acts as the sender as well as the receiver of information and is therefore an active part of the communication process;
- availability of information and products at any time in any place (24/7, worldwide) and immediate access to information in real-time;
- multimediality of the offerings (audio, video, text, image and possibly 3D printing).

In the following sections, brief overviews are given on all areas of the marketing mix. The aim is to illustrate the role of the individual marketing instruments and sub-instruments in the marketing mix and to demonstrate the relevant decision-making fields and options for the respective areas.

## 5.2 Product

### 5.2.1 Functions of Products and Services

The marketing instrument product deals with *designing the sales products* (goods, services and/or rights) of a company with the aim of achieving certain goals (usually regarding turnover, contribution margin and profit). As the product represents the actual object of exchange that is to provide a certain benefit to the customers, for which they are willing to reciprocate (usually by paying the purchase price), product design plays a dominant role ("heart of marketing") in relation to the other instruments in the marketing of many companies. However, strategic success potential may also rest in other areas.

The question what a "product" actually is cannot be answered easily. Products can be *goods, services and rights* as well as combinations thereof. Rights are understood to be the entitlement to use certain goods or services or selected financial services.

Products usually do not consist of a "bare" basic performance; rather, they are *performance bundles* (Engelhardt et al. 1993) or *performance systems* (Belz et al. 1991; Belz and Bieger 2006) (see Sect. 5.2.4) that consist of both material and immaterial components. According to the basic idea of marketing, it has to be stressed that customers essentially do not buy products or bundles of performance components, but rather a complex of benefit combinations. The performance typology by Engelhardt et al. (1993) illustrated in Fig. 69 makes clear the complexity of the product concept and helps illustrate the interdependence of product properties and benefit components. The benefit of a "product" (e.g. a flight) arises for a customer from the resulting performance (e.g. punctual arrival at the right place in a modern aircraft with well trained pilots) as well as services provided during the creation process (e.g. well-being due to friendly service during the flight). In addition, Fig. 5.3 shows that a "product" can encompass both material and immaterial components (e.g comfort of the seats, internet access, pleasant on-board service, feeling of safety due to the airline's reputation) and that the process of rendering the performance can be more autonomous (e.g. transport of postal items) or more integrative, i.e. involving customers (e.g. passenger transportation).

For products, a distinction is often made between industrial and consumer goods (Backhaus and Voeth 2010, p. 3): *consumer goods* are commodities and goods that are distributed directly or via retailers to the "end consumer" (e.g., food, cars), whereas *industrial goods* are purchased by organisations to produce other products (e.g., raw materials, production machines). This derived demand is the common feature of all industrial goods.

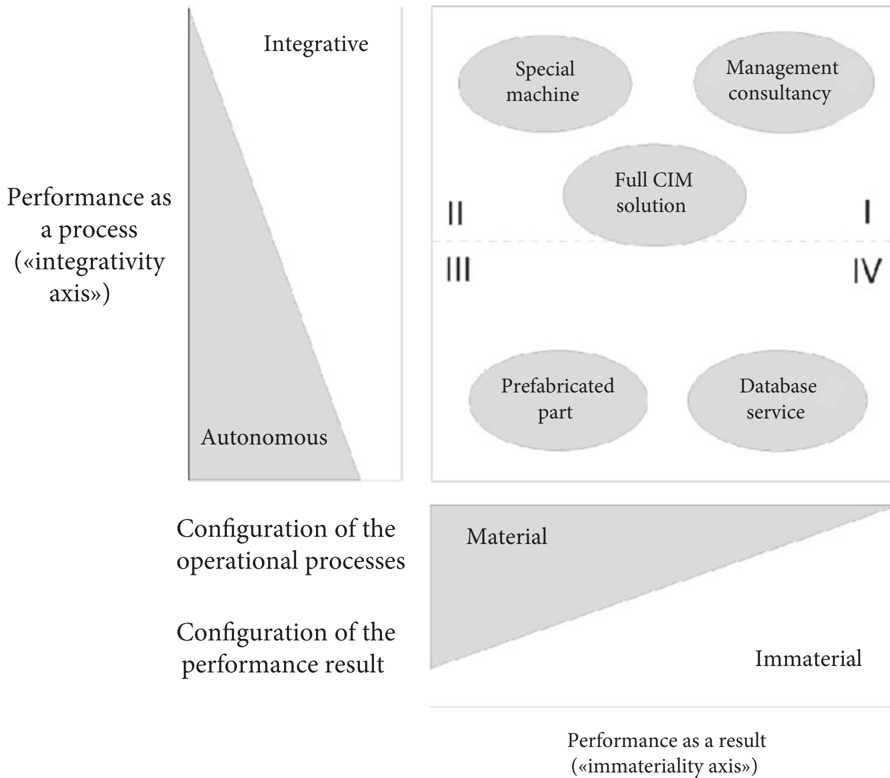



**Fig. 5.3** Performance typology (Engelhardt et al. 1993, p. 417)

In designing products, companies have to focus on the needs, expectations and behaviours of current and potential customers, which they can explore and understand with the aid of market research. Essentially, the following aspects have to be taken into account (Herrmann and Huber 2009, p. 3):

- The products offered have to satisfy the customers' *needs* better than competing products. The increasing orientation on the perceived customer benefit means that traditional product-oriented industry boundaries are increasingly shifting or even disappearing and companies are faced with completely new competitors. For example, exclusive winter sports locations like St. Moritz are nowadays in competition with long-haul destinations such as the Maldives.
- Not the physical, chemical or technical features of material goods or the way in which a service is rendered determine the purchasing decision, but rather *the benefit potential attributed to the offering by the customer*, which is determined by the consumers' uptake and processing of information (keyword: consumer behaviour). As a result, "objective" factors and the customers' subjective assessments may not coincide. Customer needs,

as well as the customers' assessment of the suitability of certain product properties for satisfying these needs, will change over the course of time.

- Not all properties of a product create benefit for every customer, as not every customer is informed of all the properties of a product and also because customers have different needs (keyword: *market segmentation*).

Thus, product design encompasses two focus areas: firstly, measures regarding individual, separable products over the course of their lifecycle *("product policy"")*, secondly, measures concerning the structure and scope of the products offered by a company or a business unit *("product range or assortment")*. It is interesting to note that the set of products offered by industrial and service companies is usually known as a product line and that offered by retailers as an assortment.

### 5.2.2 Structure and Scope of the Product Range or Assortment

The decision on product range or assortment encompasses all activities of a company or a business unit that are involved with the structure and scope of the sales programme. It is expedient to distinguish along the lines of Assael (2001) between the terms product mix, product line and product.

The *product mix* is understood as the entire programme of offerings or the product range a company or a business unit offers on the market. The product mix comprises various product lines and product categories designed for certain sub-markets (e.g. hair care products, detergents) or market segments (e.g. seniors, juniors).

A *product line* encompasses a certain number of products that share certain characteristics or technologies, show complementary properties ("bundling") or share the use of other marketing instruments (e.g. distribution channels). Product lines differ with regard to their depth and breadth, with the depth describing the selection of products that are basically suitable for solving a customer problem (e.g. shampoos for normal or greasy hair), and the breadth encompassing the selection of products that are used by the customer to solve different problems (e.g. hair shampoo, setting lotion, conditioner).

Offering an extensive and *differentiated product mix,* which encompasses different product lines that also have a certain breadth and depth, entails various advantages:

- turnover and possibly profit can generally be increased,
- the market position can be better defended against the competition with the aid of products geared to individual customer needs,
- resources in research and development, production and procurement can be used more economically ("economies of scope and scale"),
- the bargaining power towards intermediaries and suppliers is strengthened,
- brand values can be utilised via image transfer,

- the dynamics in the technical, social and economic environment and changes in customer behaviour can be dealt with more easily (for example, price and quality can be adjusted in accordance with the different economic cycles).

On the other hand, a strongly differentiated product mix also has considerable potential drawbacks. Excessive variant diversity leads to overcomplexities that can result in unhealthy cost structures, for example in production, or that overstretch the sales competence of the field representatives. There is also the risk that entire product lines or individual products are "cannibalised". Extremely extensive product ranges can also overstretch the customers' willingness and capability to process information and cause confusion and reactance *("consumer confusion")* (Rudolph and Kotouc 2005; critically Scheibehenne et al. 2010).

Thus, one of the key tasks of product and range design is to offer a marketing mix which supports the long-term corporate goals. This is only possible if the scope and structure of the company's offerings are continually analysed and adapted to the internal (e.g. company vision, resource endowment) and external requirements (e.g. customer/competition behaviour, technological change).

Whether we consider the entire product mix of a company or individual product lines, the decision-making spectrum of the program and product range design extends from constriction to preservation and structural change through to expansion (see Fig. 5.4 and

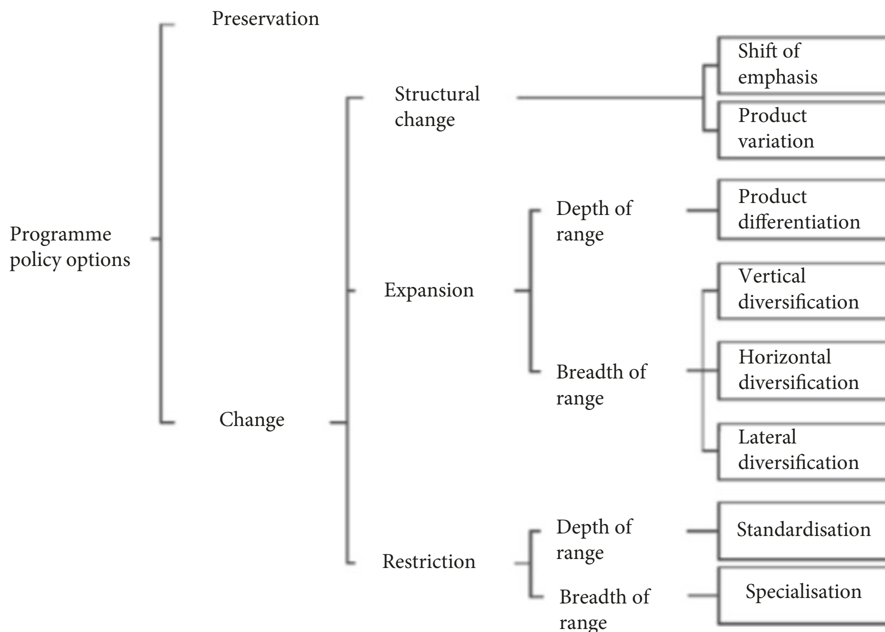



**Fig. 5.4** Potential options of programme policy (along the lines of Engelhardt and Plinke 1979, p. 160)

Engelhardt and Plinke 1979, p. 160 ff.; Assael 2001, p. 420). Regarding product lines, the individual decision-making alternatives may be described as follows:

A *structural change* in the sense of a *transfer of emphasis* means that a shift in turnover, sales or profit shares of different programme and range components is strived for without changing the number of products. In contrast, *product variation* means that individual elements of a product are changed, for instance within the scope of a model change. *Expansion* ("line extension") or *constriction* refer to the *depth* or *breadth* of a product line or range (see above).

The expansion or constriction of the depth of a product line or range is achieved by product differentiation or standardisation, respectively. Offering different variants of a product type is described as *product differentiation* ("line deepening"). In *product standardisation* the products offered for a specific problem are harmonised such that the number of products within a product line is reduced ("line pruning").

### 5.2.3 Decisions on Individual Products and Services

All decisions regarding individual products have to be considered on the basis of possible substitutive or complementary relationships between products and product lines taking the entire programme of offerings into account. The fundamental question now arises as to which properties and design features the product should have. Customers judge the effect of all marketing instruments en bloc (keywords: performance system or complex of *benefit combinations*). This means that, besides the core product, this judgement also includes features of product design, configuration, packaging, branding and (add-on) services. In order to fulfil customer expectations to the greatest possible extent, the coordinated use of the entire range of product policy instruments is necessary. In general, the following *sub-instruments* are distinguished (Haedrich and Tomczak 1996, p. 28 ff.; Herrmann and Huber 2009, p. 2 f.):

- *Core product and core performance:*
  The "core" of the product encompasses the key functional properties and their quality (e.g. in the case of wine, a liquid with certain taste characteristics). In the case of a service company, the core performance rendering process is of central concern (e.g. in the case of an airline, the actual flight). Quality firstly relates to objective properties of the product (material, functionality, shelf life, durability etc.) and secondly also to the customers' subjective assessments.
- *Branding:*
  The marking of products with names and symbols and a characteristic design are of special importance in marketing. Therefore, brand management should be treated as a separate and superordinate decision-making area of marketing, as proposed by Meffert et al. (2012).

- *Packaging*:
  Packaging serves to protect the product during transport and storage, to enable stacking, to allow for the presentation at the point of sale and to facilitate its use. Its communicative and informative function is of particular importance.
- *Purchase- and use-related (add-on) services:*
  Numerous (e.g. technically complex) products would hardly be saleable without accompanying services. These services, such as advice, delivery, assembly, maintenance, training, warranties, can be rendered in the pre-sale phase, during the purchase and post-sale.

### 5.2.4 Individualisation vs. Standardisation of Products and Services

Within the framework of product design, it is particularly important to decide whether standard mass market products or individualised solutions are to be offered. Especially in the B2B domain, products are usually tailored towards the needs of individual customers and can therefore only be produced in cooperation with the customer (*customer integration*).

The ongoing developments in the field of information and communication technology open up ever new opportunities for individualising standardised products, even when serving mass markets in the consumer goods sector (e.g. Piller 2006). "*Mass customisation"* is a mixed strategy with which products and services are configured flexibly so that they can be produced in large numbers and simultaneously be tailored to the specific requirements of individual customers.

**mi Adidas – "Customised Shoes for you"**
With its modular system *mi adidas,* the Adidas Group is a pioneering company in the field of mass customisation. Since 2001, customers have been able to use *mi adidas* to select from a broad range of design options to adapt their sport shoes to their individual needs, as had previously only been possible for football stars. The individualisation options relate to the dimensions of fit, functionality and design. The perfect fit and functionality are ensured (by precisely measuring the feet and studying the running style) at the configuration terminal in the shops, which are equipped with statistical and dynamic measurement systems, a laptop and test shoes. In terms of design, the customers can configure the appearance of their shoes with the aid of colours and different variants of tongue, upper leather and stripes. Furthermore, *Adidas* also launched an internet-based idea contest for customers with the purpose of optimising the existing buying process via *mi adidas*. With this initiative the company went even one step further with regard to customer integration depth, namely from mass customisation to open innovation. (Based on Reichwald and Piller 2009, p. 257 ff.)

The *performance system approach* by Belz attempts to combine aspects of standardisation with those of individualisation (Belz et al. 1991; Belz and Bieger 2006). The basic idea is to design integrated solution packages for attractive customer segments. Depending on the attractiveness of the customer and the costs of individualisation, a performance system can even be configured individually for a key account customer (for example when dealing with complex industrial goods), or the products are highly standardised, but can be customised through self-configuration (e.g., using modular systems). A key goal of this approach is to establish inter-relationships between products and to combine previously isolated individual goods and services by integrating the customer.

Figure 5.5 shows the systematic expansion of a core product into a performance system. The aim is to maximise the overlap between the performance combination offered and the needs of the customer (segment) to minimise "dead-end products/services" (performance components that fail to meet a relevant need), because "a product/service only achieves a benefit if it satisfies a need" (Weinhold-Stünzi 1994, p. 175). At the same time, all the essential needs (buying criteria) should be covered by the performance system to avoid offering the competitors scope for improvement. Performance systems go far beyond the instrument of product design, because they also affect pricing and communication (keyword: emotional profile).

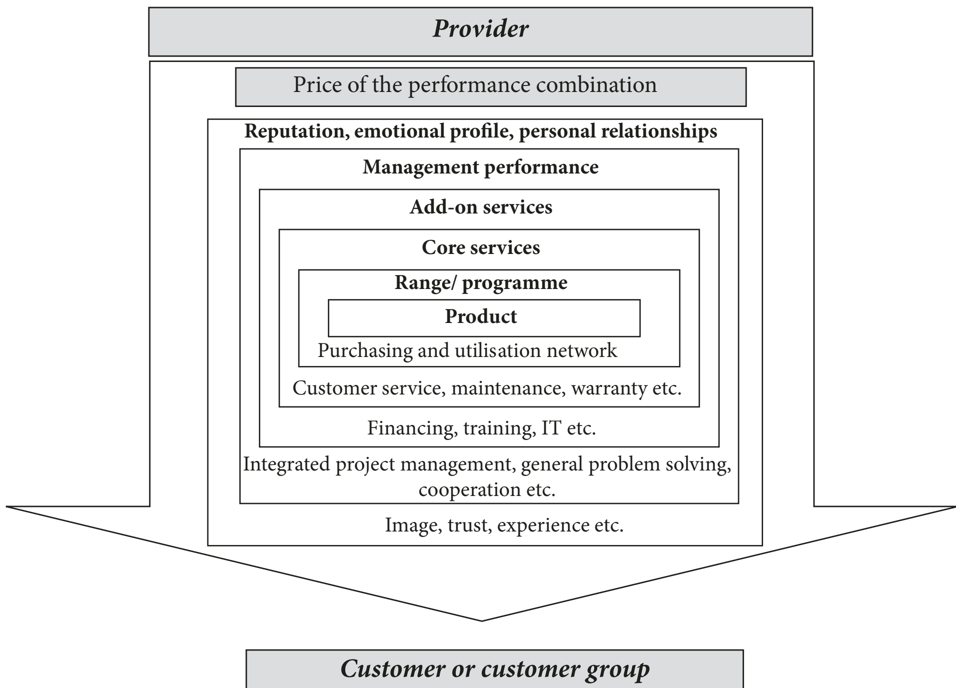



**Fig. 5.5** Example of a performance system (According to Belz et al. 1991, p. 12 and Haedrich and Tomczak 1996, p. 57)

## 5.3 Price

### 5.3.1 Functions and Mechanisms of Pricing

The *price* of a product or a service is the number of monetary units that the buyer has to pay for a unit of the product or service (Simon and Fassnacht 2009, p. 6; Diller 2008, p. 30). So the price always consists of two components: the amount of money (price) and the defined performance (price reference basis or price denominator, for example Euro/$m^2$, Swiss Franc/piece etc.). In their subjective evaluation, the customers always consider both the product/service (the customer benefit) and the price to be paid. Customers will only buy the product if the net benefit – i.e. the difference between benefit and price – is positive. Among all the competing products, the customer will choose the product that renders the greatest subjectively perceived net benefit. For this reason, the price is not to be considered in isolation but always in relation to the performance (keyword: price/performance ratio), with the perception of price and performance always influencing each other.

*The task of pricing* therefore consists of determining prices according to the company's goals and achieving them on the market taking both the acquisitive effect of prices and their function of covering costs and profit into account. These two tasks can be partially or completely in conflict.

Determining the *terms and conditions* as a sub-area of pricing enables the systematic control of the behaviour of market partners through the differentiation of normal or list prices. Typical conditions include, for example:

- discounts (price reductions under certain conditions, such as minimum quantities),
- bonuses (e.g., refunds at the end of the year according to the turnover generated over the entire year),
- early payment discounts (e.g., 3 % discount for cash or immediate payment),
- special delivery conditions (e.g., allocation of transport and insurance costs),
- special payment conditions (e.g., financing and leasing offers).

Pricing has a somewhat *special status* in the marketing mix, because, in contrast to the other three instruments, it represents the customer's reciprocation. The price should therefore never be considered in isolation, but always in relation with other instruments of the marketing mix. Price problems usually only reflect other weaknesses in the mix, for example product quality or distribution.

Price changes mostly have a stronger and more rapid effect on sales and market share than other marketing instruments and can be implemented without great time delays. As competitors can also react to price changes quickly, it is hard to establish a long-lasting competitive advantage only on the basis of the price (Simon and Fassnacht 2009, p. 7). Price changes also have a far faster and stronger effect on entrepreneurial success than other marketing instruments, as they have a direct impact on revenue.

Pricing decisions are extremely complex, associated with a high degree of uncertainty and – once implemented – can lead to serious consequences for the company. When examining the price of an established product and deciding on the price of a new product, it is first necessary to define the importance of the price in the overall marketing mix. This depends on consumer behaviour (for example the customers' price sensitivity), but also on the competitors' behaviour, the economic situation, the cost structure and any changes in the industry.

In the following sections we will first discuss the aims of pricing (Reinecke and Hahn 2003, p. 341 ff.), and subsequently the methods of price fixing and price differentiation.

### 5.3.2 Pricing Goals

Pricing goals have to fit into the overall marketing goal system with regard to timing and targets. A key guide is provided by the marketing strategy, especially the *positioning strategy*. There are two basic options (Simon 1992, p. 60 ff.; also see Sect. 4.5.6.4 on strategy substance):

- As a result of a better product/greater benefit and with the support of the relevant other instruments, the company can enforce a higher price on the market.
- When offering the same performance components as the competition, the company can achieve competitive advantage through a lower price; in this case, long-term lower costs are a prerequisite.

The weighting of the four key tasks – customer acquisition, customer loyalty, product innovation and product maintenance – also has an influence on pricing. For instance, in order to promote customer loyalty, special conditions may be granted to particularly attractive regular customers, and introductory or test offers may be used for product innovations.

Generally, quantitative and qualitative goals can be distinguished.

**Quantitative Goals**

The distinction of the categories *profit* or *profitability* (long-term and short-term), *growth* (turnover, sales, market share), and *security* or *risk minimisation* has become established in marketing science (Becker 2013). The weighting particularly depends on the company's situation and the owner's risk profile. Medium-sized family businesses usually place a higher emphasis on security (= independence from banks) and profitability, whereas large, stock exchange listed companies prioritise growth followed by profitability aspects. Also, the three objectives are weighted differently depending on the lifecycle of the industry, the company and its products, which is essentially reflected in pricing. In relatively new markets, such as high-speed data communication, growth and therefore turnover take on greater importance, whereas in mature industries the focus on profitability is stronger.

The quantitative price targets have to be clearly operationalised as part of marketing planning. It has to be decided which turnovers and which contribution margins are to be generated with which products and which customers.

**Qualitative Goals**

As only the subjectively perceived price is a critical factor in purchasing decisions, and often considerable differences exist between the perceived and the objective price level (Schindler 1998, p. 3), qualitative price goals also have to be set in pricing. The company therefore has to reach decisions for the various product components and customer groups concerning the degree to which the following price goals are strived for (see Diller 2008, p. 138 ff. for more details):

- *Affordability*: This involves an assessment of the absolute price level from the customer's perspective. A product is considered to be favourably priced if its price is significantly lower than that of the competition or than the customer's individual price threshold (for example, € 9.99 for an audio CD).
- *Value for money*: How do customers assess the price/performance ratio? Not just the absolute price, but quality and preference aspects are crucial here.
- *Trust and fairness*: Do customers consider the price to be fair and honest? Are prices arrived at in a consistent and fair way? How reliably are prices, once agreed upon, adhered to in practice? Does the customer have a possibility of influencing the prices? How does the customer assess the provider's goodwill? Does the provider act opportunistically from the customer's perspective, i.e. is he focussed on his own benefit?
- *Price satisfaction* within a business relationship: Does the actual experiences match the original expectations regarding the price?

In the case of relationship-based business, such as long-term contracts, price satisfaction and trust take on special importance; in purely transactional business relationships (e.g. one-off purchases), however, it is quite possible to attain short-term profit and growth targets by fooling the customer through purposely creating price intransparency.

*Supplementary qualitative price goals* may consist of sending signals that the provider is prepared to take on the competitors (Belz and Schindler 1994) or to deter potential competitors from market entry.

Examples from the telecommunications and air travel industries verify that qualitative goals in pricing are in no way independent of one another. Planning and assuring a consistent system of goals therefore represents a major challenge in price planning.

As with the quantitative price goals, the qualitative goals have to be distinctly and clearly operationalised and prioritised in such a way that they are known to, and understood by, all those involved in pricing decisions and implementation (Monroe 2003, p. 433 ff.).

### 5.3.3 Price Setting

The three key determinants in pricing decisions (3 Cs) are the provider's *costs,* the structure and behaviour of the *competition* as well as the behaviours and perceptions of the *consumers* or customers (Tucker 1966, p. 19; Diller 2008, p. 59 ff.). Thus, cost-oriented, competition-oriented and customer-oriented price determination processes may be distinguished, to which numerous methods of price formation can be assigned. In this context, static pricing refers to the determination of the optimal price at a fixed point in time. If several periods are considered in the pricing decision, this is described as dynamic pricing (see Siems 2008, p. 231 ff.).

#### Static Pricing

**Cost-Oriented and Company-Oriented Pricing**

In practice, costs are often a priority in pricing decisions. From a long-term perspective, a product can only be offered profitably if it covers the variable and fixed costs (full cost calculation). In the short term, fixed costs cannot be reduced and should be covered or exceeded whenever possible. If the price is above the variable costs, a unit contribution margin is generated. The short-term lower price limit coincides with the variable unit costs (marginal cost calculation).

In terms of approach and objectives, two methods can be distinguished: Retrograde calculation starts with the selling price and investigates whether the prices expected by the customers are economically viable. In practice, particularly the cost-plus method (progressive calculation, *overhead calculation*) is applied. The costs of the product constitute the starting point. Following its determination, an absolute profit mark-up is added.

Pricing decisions on the basis of cost data appear very easy at first, as the required data usually exist in the company's cost calculation system. Yet, the collection and allocation of the various costs proves a challenge for many companies. The fact that the competition and customer behaviour are ignored means this traditional form of price setting is problematic.

Besides the costs, other corporate factors also influence price setting, for example, other *brands and product lines*. The confectionery and beverage conglomerate Mars, for instance, has to coordinate the prices for Snickers and Mars. Similarly, the Volkswagen Group has to coordinate the prices and the product design of comparable models from Skoda, Volkswagen and Audi to avoid undesired cannibalisation and substitution effects.

**Competition-Oriented Pricing**

*The structure and behaviour of the competitors* also play an important role in pricing. Especially in oligopolistic markets in which just a few providers operate, competitive reactions to pricing measures have to be taken into account in all pricing decisions. So, a price increase may become disadvantageous if the competition does not follow suit and the

company in question loses market shares. On the other hand, a price reduction may lead to a slide in the price level if the competitors follow and also drop their prices.

Occasionally it occurs in industrial goods markets that companies want to pick up or keep an important customer under all circumstances, for example because this serves an important image function for a certain industry. In such cases, with a strong focus on the competition, *"strategic" prices* may be charged that often hardly cover the internal (full) costs (and are often questionable from a business management perspective).

The more the products differ from those of the competition, the greater the company's scope in pricing tends to be. This is why companies with a *niche strategy* usually seek to consciously differentiate themselves from the competitors' prices. However, the adaptation strategy, in which all competitors orientate themselves on the "price leader", is also widespread (Siems 2008, p. 77).

### Demand-Oriented Pricing

In order to be in a position to judge whether a price or a price change is optimal, the change in demand resulting from a price change should be known. The direction and magnitude of the change in demand depend upon the so-called price elasticity:

$$\text{Price elasticity} = \frac{\text{relative change in sales in \%}}{\text{relative price change in \%}}$$

The relationship between sales and price can be portrayed with the *price–sales function*. Its shape can vary considerably (e.g. Diller 2008, p. 77 ff.); some examples are shown in Fig. 5.6. (Note that in the macroeconomics literature, price is the dependent variable and is thus plotted on the y-axis. However, in the business management literature it is more

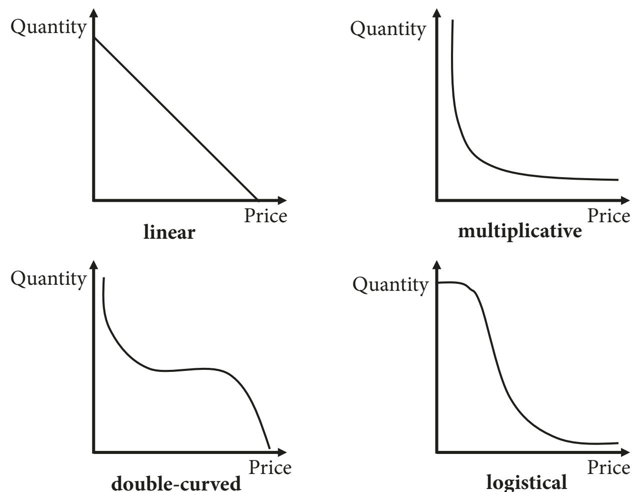



**Fig. 5.6** Variants of the price–sales function (Based on Diller 2008, p. 77)

expedient to consider price as a marketing instrument and hence as the independent variable; the price is therefore normally plotted on the x-axis.)

A factor that influences the price–sales function is the customers' knowledge of prices: the more pronounced the price knowledge (e.g., for key articles such as butter, milk and coffee or for DVDs and CDs in the non-food sector), the greater the emphasis on price (Shapiro 1968) and therefore the higher the price elasticity of demand. Also, the easier it is to substitute a product (e.g., a drug by an effective generic) and the less urgent the demand (e.g. luxury goods as opposed to basic food items), the higher the price elasticity of the demand. In contrast, unique product benefits, an unmistakable image or stable customer relations may lead to a lower price elasticity (Siems 2008, p. 100 and 392).

So, demand-oriented pricing concentrates on determining the price–sales function and thus the *assessment of the benefit of a product as perceived by the customer*. This may be determined with the following methods (Simon and Fassnacht 2009, p. 109 ff. and; Völckner 2006):

- *Use of real market data* or data from pilot markets; market data from similar products or price information from other countries also help to determine the price–sales function.
- *Price experiments*: For this purpose, the price is varied in different sales regions or in different shops and the effect of the different prices on sales is investigated.
- *Lotteries and auctions:* In these methods, the customers' willingness to pay is determined iteratively (in a similar way to auctioning a product on ebay).
- *Customer surveys*: In direct price queries, the customers are asked at what price they would purchase a product or whether they would be prepared to buy a product at a certain price. This procedure appears very easy, but it is usually not particularly valid, because customers often do not really know their own willingness to pay and also often fail to respond honestly. In indirect price surveys, the customers have to sort different offerings described in detail along with the prices according to their preference and possibly specify which products they would buy. The price–sales function can then be determined with the aid of so-called conjoint analyses.
- *Expert surveys*: Especially in the case of very innovative products for which customers cannot immediately recognise the benefit, it may be useful to have well-selected, proven experts discuss and estimate the price–sales function.

#### Dynamic Pricing

In dynamic pricing several periods are taken into account. This is necessary if the price in a certain period influences the profit situation in later periods. Of particular importance on the sales side are *carry-over effects* (a customer's repeat purchases in a later phase) and *price change effects* (customers orientating their behaviour on earlier prices). The development of price elasticity over the lifecycle is also worth mentioning in this context. On the cost side, the experience curve and economies of scale form the most important

determinants of dynamic pricing (see Sects. 2.1.2 and 2.1.3). However, changes in costs, market and competition as described above also have to be considered.

Pricing decisions that take dynamic aspects into account are especially important during the launch of new products. The two basic options in this context are either skimming or penetration strategies (Dean 1951, 1976; Simon and Fassnacht 2009, p. 328 ff.):

The *skimming strategy* involves launching the new product at a comparably high price. This price is then successively reduced over the course of time. This strategy is especially well suited for highly innovative products and products with low short-term price elasticity. It emphasises the short-term aspect, i.e. generating short-term profits for covering the high development costs.

With the *penetration strategy*, the product is launched at an especially low price to generate sales and to gain market share as quickly as possible. The price change over the course of time is not firmly established. The most important argument for pursuing this strategy is a high short-term price elasticity. The penetration strategy emphasises the attainment of long-term earnings.

Figure 5.7 gives an overview on the arguments for these two strategies.

| Skimming strategy | Penetration strategy |
|---|---|
| Realisation of high short-term profits, which are little affected by discounting | Faster growth of sales means there are higher overall contribution margins, despite lower unit contribution margins |
| With real innovations: profit realisation in the period with monopolistic market position, reduction of the long-term risk of competition, fast payback of R&D expenditure | Positive intrapersonal carry-over effects (consumer goods), build up of a long-term strong and superior market position (higher prices and/or higher sales volumes in the future |
| Profit realisation in early lifecycle phases, reduction in risk of obsolescence | Exploitation of static economies of scale, short-term cost reduction |
| Creation of downward price potential, exploitation of the positive effect of price change is possible | Rapid increase in the cumulative quantity, thus fast progression on the experience curve, achievement of a cost advantage over competition that is hard to catch up |
| Gradual absorption of willingness to pay (consumer surplus) through temporal price differentiation | Reduction of the risk of failure, as lower introductory prices are associated with a lower probability of flopping |
| Avoidance of the necessity of price increases (calculation on the safe side) | Discouraging potential competitors from market entry |
| Positive prestige and quality indications of the high price | |
| Avoidance of building up high capacities, therefore fewer demands placed on financial resources | |

**Fig. 5.7** Arguments for skimming and penetration strategies (Based on Simon and Fassnacht 2009, p. 329)

### 5.3.4 Price Differentiation and Variation

Differences in the individual customers' assessment of products, their varying purchasing power and price elasticity allow for price differentiation, i.e. offering similar products at different prices. Types, forms and implementation problems of price differentiation are presented in Fig. 5.8, with international pricing treated separately as a special case of *regional price differentiation*.

*Price differentiation according to customers* is based on the familiar model of market segmentation. *Non-linear price formation* (Tacke 1989) is of relevance for goods for which the sold quantity depends on the price. The price per unit decreases (e.g., continuously) with increasing purchase quantity; it may also decrease discontinuously, for example according to price categories (e.g. passport photos: 4 pcs. for 10 €, 8 pcs. for 15 €, 16 pcs. for 20 €). Dual component tariffs are particularly common in telecommunications (basic charge and usage fee). Block tariffs allow customers to choose between different dual-component tariffs adapted to their usage patterns (e.g. in the electricity industry). The "Bahncard" from Deutsche Bahn (German railways) and the "Halbtax" (half charge) subscription from Swiss railways are other examples of non-linear prices: The customer pays a basic charge and thereafter a (reduced) fee per railway kilometre travelled. Price bundling is of special relevance in a multiple product company, which sells several products at a combined price (for instance a crockery set rather than individual plates and cups). In

| Type of price differentiation | By customers/ market segments | By quantity (non-linear price formation) | By countries |
|---|---|---|---|
| **Basis** | Differences in individual benefit/ maximum prices/ price elasticities | Differences in the marginal utility of the 1st, 2nd, … nth unit | Differences in use/ maximum prices/price elasticities by countries |
| **Forms** | • Personal<br>• Regional<br>• Time-related<br>• Supported by differentiation of other instruments | • Dual component tariff<br>• Block tariff<br>• Volume discount<br>• Price points<br>• Continuous price structure | International price differentiation, special problems:<br>• Exchange rates<br>• Inflation<br>• Customs duties, quotas |
| **Implementation problems** | • Segment definition<br>• Segment separation | • Prevention of bundling of demand<br>• Measurement optimization<br>• Communication | • Grey imports/ arbitrage<br>• Price adjustment<br>• Organisation<br>• Political restrictions |

**Fig. 5.8** Types, forms and problems of price differentiation (Simon 1992, p. 43)

this case, the customer's willingness to pay which has not been exploited for one product can be transferred to another product in the bundle.

**Price Bundling at McDonald's**

*McDonald's* offers very successful menus. Here the company takes advantage of the fact that some customers who are mainly hungry will be prepared to also buy a drink at a reduced price. Other customers may be thirsty and not very hungry, but due to the attractive price will be enticed to order a complete menu. It is also possible to buy a "menu plus" with larger portions of food and drink for a small additional amount. Pricing of this nature encourages higher consumption (for which the company is criticised by consumer advocates), but has had a very positive financial effect for McDonald's.

*Price variation* describes a price adjustment over the course of time. Examples include seasonal or introductory discounts or special offer campaigns. Such measures have to be carefully planned, as negative effects can also occur, such as loss of image, hoarding purchases or a lasting decline in the consumers' willingness to pay. Time-dependent price differentiation is especially common with airlines: often the price for a flight increases the later it is booked. Price variations are also common among transport service providers or in the hotel industry (e.g. special rates at the weekend). Service providers in particular resort to price variation instruments in order to optimise the utilisation of their capacities and their earnings ("yield management").

**Price Variation at Deutsche Bahn**

*Deutsche Bahn AG* rewards early booking with low "bargain prices". Customers who book their tickets at least three days in advance receive (subject to quotas) discounts between 25 and 50 % (dependent on the date of travel). Thus, travel prices are no longer solely calculated on the basis of the kilometres travelled. Railway passengers who buy their tickets immediately before the journey have to pay the higher "normal price".

Price differentiation and variation are important elements of active pricing that can lead to considerable growth in earnings. To some extent they also have a negative impact on the qualitative price goals, such as price trust and price satisfaction, which is why their deployment has to be well evaluated. Furthermore, highly differentiated prices also raise the internal complexity, as the price system has to be communicated within the company and employees have to be trained accordingly.

## 5.4 Communication

### 5.4.1 Functions and Instruments of Communication

An important prerequisite for the success of a company is that the solutions provided by it are perceived and accepted by the customer. *Communication* is generally understood to be “the transmission of information and meaningful content for the purpose of steering opinions, attitudes, expectations and behaviours of certain addressees according to specific objectives (Bruhn 2013, p. 3, based on; Meffert et al. 2012, p. 608). Communication as a marketing instrument has to be defined more closely with regard to the target groups to be addressed: target groups for communication are primarily customers, (sales) market partners, employees and other persons and organisations that influence the sales market. Thus, *marketing communication* encompasses those elements of the marketing mix through which the relationships between the organisation and its customers are promoted by the exchange of information, ideas, opinions etc.

The importance of communication (and of brand management) is increasing significantly in many industries due to the growing number of interchangeable products which the providers attempt to differentiate by means of communication. Communication has taken on a key role for industrial goods as well, due to the technological progress regarding certain components and the pronounced complexity of solutions: as customers are often hardly able to assess the quality of a product, communication is important for reducing the uncertainty connected with decision-making.

The following questions define the *key aspects of communication* (Bruhn 2013, p. 41; Meffert et al. 2012, p. 606):

- Who (organisation, company)
- says what (communication message)
- under what conditions (situative circumstances)
- via which channels (media, means of communication)
- to whom (target persons or recipients of communication)
- in which area (territory)
- at what costs (communication expenditure)
- with what consequences (communication success)?

**Communication Goals and Effective Components**

The *goals of communication* are directed towards the exchange of information, ideas and opinions, often as a means of influencing (customer) behaviour on the market.

Usually no direct relationships between communication policy measures and behaviour or behavioural changes can be verified. So apart from general economic marketing goals like sales, turnover and market share the communication goals are classified into cognitive (concerning awareness), affective (concerning emotion) and conative

(concerning intentions and actions) *goals* (Kroeber-Riel et al. 2009, p. 635 ff.; Bruhn 2013, p. 182 ff.):

*Cognitive-oriented target parameters* manage the intake, processing and storage of information without directly affecting behaviour. These include (among others):

- attention and perception,
- knowledge of brands and products (awareness),
- knowledge about properties of products (e.g. product advantages).

*Affective-oriented target parameters* expand the spectrum of goals by adding emotionalised aspects, so that a product is differentiated from other competitive offerings and can be positioned individually. These include (among others):

- interest in product/service offerings,
- building trust,
- attitude, image and customer satisfaction,
- product and brand positioning,
- emotional experiences.

*Conative-oriented target parameters* relate to the reactions of the recipients to the communication measures, especially regarding their intentions and behaviours, such as:

- information behaviour,
- willingness and intention to buy,
- repeat purchases,
- recommendations.

The precondition for effective communication is *contact*. For example, to have an effect, advertising has to be received by the recipient's sensory organs, whether intake is conscious or unconscious, with or without attention (Kroeber-Riel et al. 2009, p. 636).

The oldest and at the same time most well-known communication effectiveness model is summarised as the so-called *AIDA formula* which has been described as a sales technique for the first time by E. Lewis in 1898. According to this model, communication goals aim to attract first Attention, then Interest and Desire thus triggering the act of purchasing (Action). This formula is now considered to be largely outdated on account of its oversimplification. Thus, the strict sequence of the goals is questionable in certain situations, such as with the urge to buy sweets. Moreover, the interaction with customers is hardly taken into consideration. Yet it is still valid that the awareness or topicality of a brand or a product is the ultimate communication goal. An offering that is unknown to the customer is normally not included in the decision-making process. For a product to be incorporated in the short list *("evoked set"*, Kroeber-Riel et al. 2009, p. 425 f.), the

customer must have a positive attitude towards it, i.e. basically accept it. Only through clear differentiation can a company make its offerings positively stand out in the customer's perception.

**Basic Types of Communication Strategies**

Esch (2011, p. 77 ff.) identify four basic types of communication strategies that serve to position an offering. They start with the assumption that two determinants are crucial for the communication impact: (1) the *type of advertising* (emotional, informative or mixed) and (2) the customer's *level of involvement*, i.e. the degree of their inner commitment (Kroeber-Riel et al. 2009, p. 637):

- *Informative positioning* essentially conveys factual information, e.g. price or product functions, to the recipient. The information on product properties is communicated with regard to the respective needs of the customers.
- *Emotional positioning* largely dispenses with cognitive information content, as the product information would be trivial and/or considered as unimportant by the customer.
- *Emotional and informative positioning* works according to the classical formula: "Appeal to a need and show that the offering is suitable to satisfy this need" (see Kroeber-Riel and Esch 2011, p. 99). In practice, this communication strategy is the most common one.
- *Positioning by topicality* appears promising if the target group has little or no emotional and cognitive involvement in the object of communication. In this case, advertising is intended solely to keep the product up-to-date in the consumer's consciousness.

**Significance of the Media**

The significance of mass media like television, radio, internet and printed matter depends on their reach and their suitability (here and in the following see Kroeber-Riel et al. 2009, p. 631 ff.). The *reach* reveals how many persons a medium reaches (*quantitative range*) and which persons are reached (*qualitative range*). In order to avoid scatter losses as far as possible, the audience reached by the media should coincide as closely as possible with the target groups of communication. The *suitability* of a medium is determined firstly by its general appeal. For example, the prestige and the credibility of TV advertising is usually higher than that of free advertising papers; cinema advertising has the advantage over TV advertising that the viewers pay more attention. Secondly, the external design of a medium also determines its suitability: posters, for example, are usually not suitable for conveying acoustic signals.

Today, a three-way split has been established in considering communication media. Whereas most classical advertising media are so-called "*paid media*" (companies have to pay for using these media, such as television, radio, internet banners, but also classical trade fairs), the use of social media or evaluation portals has given rise to so-called "*earned media*", i.e. communication resulting from the interaction of customers among themselves. Though this is significantly cheaper and is very effective by virtue of its independence, it

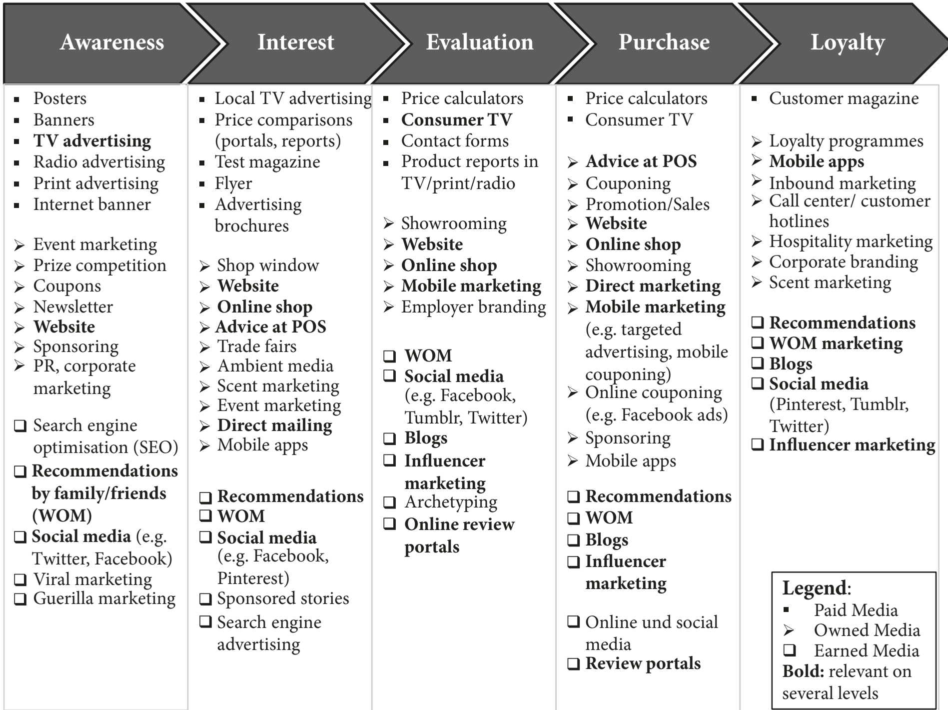



**Fig. 5.9** Paid, owned and earned media in the customer communication process

can only be indirectly influenced by the company. "*Owned media*" include all media the company has under its control, such as its own publications like customer magazines, its own website or company-specific in-house events. The current challenge in communication is to link these three types of media effectively and efficiently (see Fig. 5.9).

## 5.4.2 Communication Instruments

Communication instruments ultimately represent *conceptual bundlings of similar communication measures* (Bruhn 2013, p. 6).

The two classical instruments of advertising and sales promotion, as well as personal selling and some other options, will be examined in the following. Personal selling is a key instrument of personal communication; as it also has distribution functions it is occasionally allocated to distribution.

### Advertising

"Advertising can be defined as an attempt to influence behaviour by using special communication media" (Kroeber-Riel and Esch 2011, p. 55, for details see; Behrens 1996,

p. 1 ff.). In this context, advertising encompasses both indirect (mass) communication through media and direct communication, for example through advertising letters or e-mails. In contrast to personal selling, there is no personal contact, so advertising is considered an impersonal, one-sided communication instrument. This deficit is often countered by adding dialogue components (coupons, numbers of telephone hotlines, references to internet sites, comment functions) (Bruhn 2013, p. 366). Advertising can either relate to the company's products or to the company itself.

An advantage of advertising is that via mass media such as television, print media, radio and electronic channels (e.g. online banners) many recipients can be addressed simultaneously so the cost per communication contact is low. However, due to the high level of information overload, the resulting information selection and existing prejudices against advertising manipulation on the consumers' side, the effect of advertising is (often) limited. The limited behavioural effects of classical mass communication are also often criticised (Rutschmann 2013); these are higher for direct marketing, search machine marketing or online marketing campaigns (see Kollmann 2013 on eBusiness).

**Personal Selling**

"Selling as a socio-economic process encompasses all relationship-building measures by which sales persons (sellers) try to directly or indirectly motivate sales partners (buyers) to make a purchase (Weinhold-Stünzi 1994, p. 256). The main characteristic of personal selling is the fact that a dialogue is conducted with the customer, mainly by means of personal contact (Belz 1999, p. 5); this is intended to lead to an individual customer relationship with the ultimate aim of attaining the sales targets (Weinhold-Stünzi 1994, p. 256).

Personal selling is generally very expensive, because, in comparison with other communication instruments, only very few customers can be contacted at the same time. In many areas, the process of personal selling has therefore been replaced by self-service concepts. In the case of complex and highly individualised problem solving, the customer still needs to have the cost and benefit elements explained within the framework of personal discussions. For this reason, personal selling still has a prominent role with products that require some explanation, both in business-to-consumer markets (such as automobiles, property or wealth management) and in the business-to-business domain (e.g. in high-tech markets). Personal selling tends to be recommended as a communication instrument if the following conditions are fulfilled (Kuß and Kleinaltenkamp 2013, p. 251):

- high value of the individual order,
- relatively low number of market transactions,
- high need for advice from the customer's perspective,
- individualised products,
- intensive negotiations on products, prices and conditions.

Telephone or online channels are often deployed to make personal selling more cost-effective and customer-oriented. Thus, inbound marketing approaches attempt to

use contacts initiated by the customer (due to service concerns or information needs) for selling purposes (Schagen 2013).

Especially in industrial goods marketing, personal selling is often very complex, as the purchasing decision is not made by an individual, but rather by a formal or informal buying center (for details see Büschken 1994). The needs of several persons (such as users, purchasers, influencers, formal decision-makers) and their relationships have to be considered in this case.

**Sales Promotion**

Sales promotion (often just called promotion) encompasses measures of limited duration (usually in the form of a campaign) that support other marketing measures and are intended to promote sales among retailers and consumers (Gedenk 2002, p. 11). The aim is to stimulate a rapid reaction from the purchaser, i.e. to directly support the sale of a product (Shimp 1993, p. 9). Depending on the target group, a distinction is made (Gedenk 2002, p. 13) between:

- trade promotions,
- retailer promotions,
- consumer promotions.

With *trade promotions* the manufacturer intends to motivate retailers to undertake *retailer promotions* towards the consumers by means of discounts, training courses or advertising allowances. For example, the dealer can pass on discounts or put up additional displays.

In *consumer promotions* a manufacturer turns directly to the consumers, for example with competitions, coupons, product add-ons or product samples. In the early phase of the product lifecycle promotions mainly serve to stimulate trial purchases and in the later phases to increase repeat purchases.

Occasionally, measures primarily aimed towards the company's own sales representatives to support personal selling are also assigned to the category of sales promotion (see Weinhold-Stünzi 1994, p. 257). Such *field sales promotions* are aimed at improving the motivation of the relevant employees and their capability to sell. Typical measures include training courses, bonuses, sales competitions or the provision of selling aids.

**Other Communication Instruments**

Besides the traditional instruments of advertising and sales promotion, there is a large number of other instruments that may be assigned to the area of communication. For instance, *sponsoring* (promotion of persons or organisations to attain communication goals such as raising awareness and improving image or staff motivation) (for details see Bruhn 2013) is becoming increasingly important. In *event marketing* (Meffert et al. 2012, p. 697) a company stages a company- or product-related event (e.g. anniversaries or new product launches).

*Product placement* as the paid use or appearance of a product as part of the plot of a feature film or a TV programme is particularly used in the USA, but increasingly also in Europe, even though the legal provisions here are more restrictive. *Internet communication* (e.g., search machine, banner and e-mail marketing, social media) is now a standard instrument, even though the expenditure is usually below that for the classical instruments.

*Exhibitions and trade fairs* (Kirchgeorg et al. 2003; Kirchgeorg et al. 2010) are of special importance in the business-to-business domain.

*Public relations activities* are of special importance (for details see Zerfaß 2004). This goes far beyond pure sales promotion; rather, it is the aim of public relations to shape the relationships of the organisation with various public groups (e.g., shareholders, suppliers, employees, customers, politics, environmental organisations) in a methodical, systematical and economically sensible way (Meffert et al. 2012, p. 688). While marketing primarily (though not exclusively) focusses on the stakeholders – customers, employees, competitors and market partners –, public relations is geared to all public sub-groups related to the organisation.

Public relations work is therefore not to be viewed as a sub-area of marketing, even though it is certainly relevant for marketing on account of its impact on the customers. This is especially the case if public relations work relates to specific products ("*product PR*"). The goals, target groups and instruments used by marketing and public relations can therefore overlap. The public relations department, for instance, sometimes also makes use of (company) advertising to attain its communication goals. However, press conferences, business reports, and company functions are the classical instruments of public relations. An important task of public relations is to shape the relationship with the media. If messages can be communicated as news via the (mass) media, this has the advantage of being relatively cost-effective, because usually no placement costs arise. However, the communication process and therefore its impact cannot be influenced in the same way as in classical advertising.

### 5.4.3 Integrated Marketing Communication

*Integrated marketing communication* is a popular buzzword from marketing practice and science, but it is also a key concept for optimising the communication effects. Integrated market communication is defined as the coordination of all measures of market communication regarding content, timing and design in order to harmonise and strengthen the impression created by communication (along the lines of Esch 2011, p. 25 ff.). For example, personal selling should focus on the same arguments as advertising (*content-based* integration). Also, it is advisable to harmonise the formal design of advertising, sales promotion campaigns and the internet presence (logos, colours, fonts) to improve identifiability. This can be supported by key images (e.g. purple cow for Milka, green seal for Beck's beer). The *time-related* coordination of various media and communication instruments is useful to achieve the best possible effects.

Often the term "360 degree communication" is used to describe marketing campaigns that combine online and offline media to optimise effectiveness and efficiency. Figure 5.9 gives an overview of the diverse instruments, categorised into paid, owned and earned media.

Integrated market communication can also be incorporated in a concept of integrated overall communication, whereby the overall internal and external communication of an organisation is the object of integration (including staff and shareholder communication) (see Bruhn 2009).

## 5.5 Distribution

### 5.5.1 Functions and Management of Distribution

Distribution encompasses all the tasks and institutions through which products are managed to be "ready for use or consumption" (Weinhold-Stünzi 1994, p. 338). This includes all the company's decisions that serve to make the various elements of the offering available to the customer. Generally two sub-areas of distribution may be distinguished, which, however, are not completely independent of one another (Specht and Fritz 2005, p. 48 ff.; Schögel 2013, p. 28):

- *Acquisitive distribution*: This sub-aspect refers to the legal, economic, informative and social relationships between all of the players involved in the transfer of goods. Ultimately this is about the management of distribution channels and paths, i.e. the question as to which institutions are involved in the distribution of the product and how the relevant activities are partitioned among the parties involved.
- *Logistic (physical) distribution*: This is geared towards bridging space and time through transport and storage of the products, including order processing and delivery. The focus is on the decisions regarding the structure and management of logistics (transport, storage, delivery), order acquisition and processing.

Distribution management specifically has to decide on the following areas (Ahlert 2005 and Schogel 2013, p. 295 ff.):

- *selection* (evaluating and selecting suitable distribution channels),
- *acquisition* (motivating those involved in the distribution channel to work together with the manufacturer),
- *coordination* (steering and coordinating the distribution channel(s) in accordance with the company's goals).

Distribution decisions are usually *long-term* oriented, as changes are difficult. Establishing material and personnel capacities can lead to far-reaching cost and capital burdens.

Indirect sale via market partners inevitably leads to a certain dependency on these organisations so that decisions cannot be made solely from the perspective of the individual company any more. In many markets, the trading business is intensely concentrated and this tendency is generally increasing, so there is a shift in power from manufacturers to traders. In many markets the institutional trade has a considerable influence on the extent and the form in which the companies' marketing measures are passed on to the end customer; for example, it decides:

- whether a product is available at all in retail (keywords: listing, level of distribution),
- whether (from the manufacturer's perspective) the product is managed in line with the operation strategy (compatibility of the image of the trade channel with the image of the product /brand offered,
- in which way the product is physically and communicatively presented to the end customer (keywords: placement, environment, price),
- to which extent and in which quality customer services are offered before and after the purchase.

According to Meffert (1988, p. 102), every industrial company tries to gain "complete control of all marketing instruments across the entire distribution channel" with the lowest possible investment of its own resources. In principle, the aim of the manufacturer is to integrate intermediaries that are legally and economically independent in such a way that the positioning strived for in the end customer market can be realised.

### 5.5.2 Distribution Organs

Generally, the following institutions and bodies can fulfil distribution tasks:

- the manufacturer's own institutions,
- intermediaries or sales agents,
- the manufacturer's cooperation partners,
- the customers' procurement institutions, e.g. factory outlets.

For actively managing distribution, the first three tasks are the most important ones.

**The Manufacturer's Own Institutions**

The sales department is in charge of securing and processing orders. (As explained in the discussion of personal selling in Sect. 5.4.2, these tasks usually affect the marketing instruments of both communication and distribution).

*The provider's points of sale* can belong to the production facility, be associated with the production facility (only legally independent) or be operated as a legally and economically separate entity. Sales subsidiaries belonging to the production facility allow large

companies to reach out to their customers. The elementary sales organ is the individual salesperson, sales engineer, key account manager or member of the management board that participates in particularly important negotiations with prominent customers.

In most industries the internet has become a central direct distribution channel (for details see Schogel 2013, p. 468 ff.), though logistic distribution usually still requires partners (sales agents, see the following paragraph).

**Intermediaries and Sales Agents**

Intermediaries and sales agents are legally independent and usually also economically largely independent with regard to the number and interchangeability of their clients.

*Sales agents* do not acquire ownership of the goods, but only act as mediators (Specht and Fritz 2005, p. 48); they take on a serving function in logistics (forwarders, warehouses), in acquisition (independent commercial representatives and agents, commission agents as well as trade fair and event organisers) and support or influence the marketing process (e.g. advisers, scientific institutes, architects).

In contrast, *intermediaries* act as independent traders, i.e. they buy goods in their own name and on their own account. They therefore bear the entire distribution risk. Intermediaries are generally categorised into wholesale and retail. *Wholesale* sells the goods "unchanged or following customary manipulation, i.e. without significant treatment or processing, to other retailing companies, processors, commercial or large-scale consumers" (Specht and Fritz 2005, p. 71); often distinctions are made between domestic and foreign trade, and between business-to-business and business-to-consumer trade. In contrast to wholesale, *retail* mainly sells the goods to consumers and private households; it therefore takes on a key position in indirect distribution (Specht and Fritz 2005, p. 79).

Retail fulfils the following functions (Kleinaltenkamp 2006, p. 324 ff., based on a typology by Karl-Christian Behrens):

- *temporal coordination* between production and demand (stockkeeping),
- *spatial coordination* (transport),
- *price coordination* (price knowledge, arbitrage function, negotiation competence),
- *quantitative and qualitative coordination* (provision of the correct quantities to meet demand in the required depth and breadth of the product range),
- *informative coordination* (customer information and advice on the offering, but also information on market needs to the manufacturers).

As a result of the variety and dynamics of different markets, both wholesale and retail come in many different forms. Performance specialisations lead to special modes of operation (Nieschlag 1954; McNair 1958) that can be described in terms of the following features (Specht and Fritz 2005, p. 80 ff.):

- *structure of the product range*:
  - product group structure (special, specialist or full range),
  - quality level,

- *structure of services with regard to*
  - the location of the transfer of goods (e.g. shop, weekly market, mail-order),
  - *the form of transfer (e.g. service, self-service),*
- *share of services* in the overall performance; for example, this is usually lower for a discounter than in a specialist store with personal service.

Depending on the manifestation of these features, the following modes of operation may be distinguished in retail (Specht and Fritz 2005, p. 83 ff.): specialist shops, special shops, department stores, traditional mail-order companies, supermarkets, hypermarkets, discounters, vending machines, specialist markets (e.g. DIY stores), convenience stores (e.g. petrol station shops), internet shops, and teleshops. Due to the dynamic development the boundaries between them are often blurred.

### 5.5.3 Management of Distribution Channels

Decisions with regard to distribution channels especially relate to their structure, i.e. their type, length and combination (number of distribution steps and mode of operation of the institutions involved). Further questions, such as the scope and form of involvement of individual players and whether the distribution performance is rendered single-handedly or in cooperation, will not be examined further at this point.

The two basic types of direct and indirect distribution are distinguished according to how many levels of trade are involved.

The term *direct distribution* is used if a manufacturer does not use independent trading companies and the distribution process essentially only takes place between the manufacturer and the users of the product (sometimes via sales agents). The precondition is that the provider manages its own sales institutions. The computer company Dell, for example, markets its hardware in the business-to-business segment directly, i.e. without any wholesale or retail interposed. The choice between a company's own institutions and the use of sales agents is essentially a *"make-or-buy decision"*.

In *indirect distribution*, independent trading companies are used as intermediaries. They pursue their own interests and will attempt to assert these towards their suppliers and customers. Thus, it is necessary to coordinate the manufacturer-specific marketing concepts with the marketing measures of the downstream distribution stage(s) – at least those which may be influenced (keyword: *vertical marketing*, Tomczak 1991). An essential feature of indirect distribution is the fact that the distribution channels have multiple stages, with at least two or more levels (e.g. manufacturer, wholesaler and retailer). Figure 5.10 provides an overview of the typical distribution channels of an industrial company.

The diversity of the individual distribution channels allows the manufacturer to use several of them at the same time, thus creating a *multiple channel system* (Schögel 1997 and 2013, p. 455 ff.). Clear product differentiation and/or market segmentation is necessary to avoid conflicts in the parallel distribution channels and to manage them optimally.

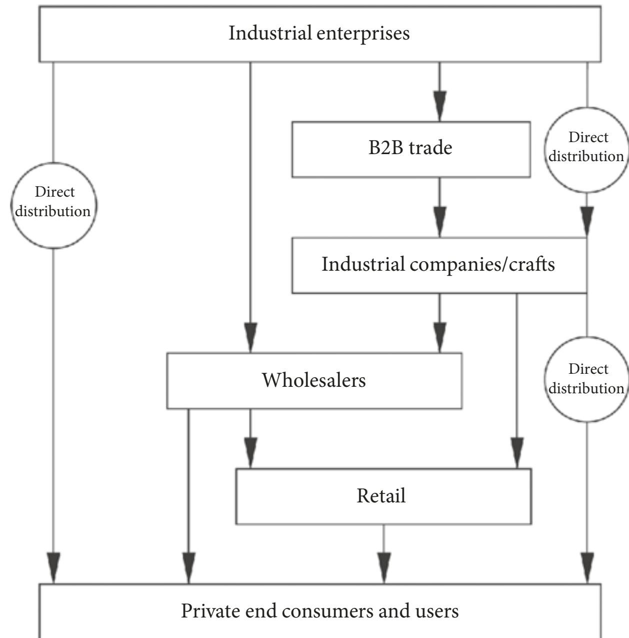



**Fig. 5.10** Distribution channels of an industrial company (Along the lines of Meyer 1984, p. 257)

**Examples of Multiple Channel Systems**

For example, manufacturers of sweets use numerous distribution channels: vending machines, food retail, confectionery stores, chemists and pharmacies, bakeries, kiosks, restaurants and petrol stations as well as internet channels.

Airlines distribute their offerings via their own sales offices and internet online shops, independent travel agents, tour operators and brokers, as well as horizontal cooperation partners.

Distribution of *Nespresso*, for example, takes place online, via telephone and mail order, in Nespresso Boutiques, through intermediaries specialised in business customers, as well as in cooperation with hotels and catering companies or airlines.

In *intensive distribution*, companies strive to achieve a strong presence of their products in a wide range of relevant sales locations. In contrast to this, in *exclusive distribution* the number of retailers engaged is purposely kept low. A midway position is adopted in *selective distribution*. This is characterised by restriction to a limited number of intermediaries within a sales territory.

Numerous influencing factors from the company, market and environment have to be considered in the evaluation of alternative distribution channels. Selected influencing factors which underline the multidimensionality of the decision-making situation are described in the following.

### Capital, Cost and Revenue Effects

As the establishment of an internal sales and distribution organisation requires considerable resources, companies usually tend to prefer indirect distribution. However, direct distribution can enable the manufacturer to assert higher earnings on the market, as the trade margin for the services of intermediaries otherwise incurred does not apply. Another factor in favour of direct distribution is that the company keeps control over the distribution channel, making it easier for it to pursue its own marketing goals.

### Characteristics of Demand

Distribution to a large number of customers with little geographical concentration and small quantities per purchase tends to favour indirect distribution channels with many stages. The more individual the performance requirements and the more complex the decision-making processes for the customers, the more likely it is that the provider will tend towards direct distribution channels. This is very often the case in the business-to-business domain.

### Product Properties

Product properties not only influence the decision whether a "short" (direct or with few stages) or a "long" (several trading stages) distribution channel is selected, but also which requirements are placed on the intermediaries and sales agents. Short distribution channels tend to be favoured for technically complex products requiring consultation as well as for perishable or high-value goods. Products that can be stored, require rapid delivery or are sold in small quantities (e.g. "fast moving consumer goods" for everyday consumption) tend to be more suitable for indirect distribution.

### Characteristics of Intermediaries and Sales Agents

Both in the decision whether distribution functions are to be assigned to in-house or to external bodies, and in the selection of the respective intermediaries or sales agents, the following criteria have to be considered (Olbrich and Schröder 1995, p. 18 f.):

- *Degree of function fulfilment:* scope of the distribution functionsexecuted, scope of the risk accepted, degree of specialisation, experience, quality.
- *Costs* accrued by engaging and switching intermediaries and sales agents.
- *Image of the intermediaries and sales agents* among the target groups.
- *Flexibility of the intermediaries and sales agents:* time necessary for establishing a functioning organisation, ability and willingness to adapt to changes in the provider's strategy, required degree of commitment to the intermediaries and sales agents, compatibility of the different intermediaries and sales agents.
- *Manoeuvrability and controllability of the intermediaries and sales agents:* relative position of power, willingness to coordinate behaviour with the client.

Companies that cooperate with intermediaries and sales agents in marketing their products to end customers operate in two markets simultaneously: in the end customer market and

in the intermediary market. In such cases, closely interconnected strategies and bundles of measures are needed for both markets. As a rule, distribution decisions made with a view to the end customer market represent the basis for strategic marketing planning in the intermediary market. Derived from the positioning strategy regarding the end customer market, the requirements for the distribution channels and organs (keywords: degree of distribution, advisory quality) are formulated.

However, distribution decisions also have to be made with a view to the intermediary market. Here, too, it has to be defined which channels and organs should bring the products to the customers on the intermediary level. For example, key account managers are used in the consumer goods industry to sell the company's products to the trade customers.

This results in different forms of *vertical cooperation* in the distribution chain. Three forms can be distinguished (for details see Schögel 2013, p. 365 ff.):

- In *trade-oriented brand management* the manufacturer strives to market its goods to the end customer according to its own goals with the lowest possible frictional losses; marketing leadership therefore lies in the manufacturer's hands.
- In the *supply strategy*, trade assumes marketing leadership. The manufacturer regards itself only as a supplier to trade, which is therefore considered as the end customer.
- In the *value creation partnership* the manufacturer and the trade strive to exploit synergies and therefore opportunities for increasing effectiveness and efficiency in distribution within the framework of a cooperative approach (for example through joint managing of the product range, keyword: category management).

## 5.6 Planning the Marketing Mix

### 5.6.1 Planning the Marketing Mix as a Complex Decision-Making Problem

The key goal in planning the marketing mix is to find, ideally, the optimal *combination of marketing instruments*. In particular, it has to be defined which instruments are to be deployed at which times, in which intensity and which configuration to achieve a predefined system of goals in the best possible way.

Finding the best suitable combination of the individual marketing instruments and measures represents a considerable problem in theory and practice. Planning of the marketing mix is especially complicated for the following reasons (also see Nieschlag et al. 2002, p. 329 ff.; Kühn and Vifian 2003):

**Large Number of Possible Combinations of Marketing Instruments**

Almost all instruments and sub-instruments of the marketing mix present a large number of dimensions that may usually be sub-divided again into additional dimensions, which in turn may take on diverse forms. Figure 5.11 presents a branch of such an instrumental

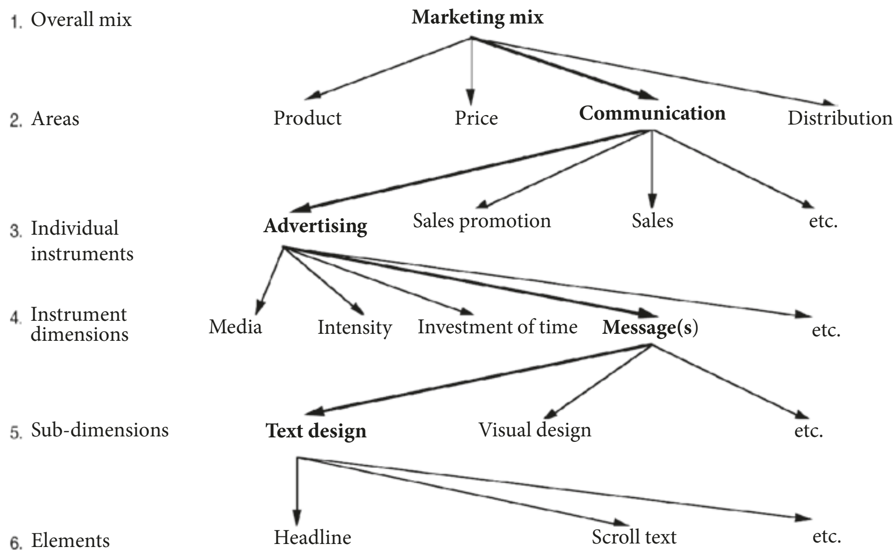



**Fig. 5.11** Example of a hierarchy of marketing instruments (According to Kühn and Vifian 2003)

hierarchy as an example and for illustration. So the marketing planner is confronted with an unmanageable quantity of possible combinations of instruments. It is inconceivable to investigate all combinations in order to select the one that is particularly favourable.

**Strong Dynamics in the Development of New Instruments and Dimensions**

As new instruments and dimensions are constantly being developed in all areas, the set of available options changes all the time. For example, the dynamic and intensive competition in communication currently demands the use of a far broader range of communication instruments than in the past. In practice, this is reflected in an increase in new communication instruments such as e-mail, multimedia promotions, event marketing, internet presence, social media, sponsoring of science and culture, scene marketing, customer training, in-house fairs, acoustic design, product placement etc. These open up diverse new ways for companies to convey their messages to the target groups. New sub-instruments often also appear in other areas: thus, in recent years instruments such as “teleshopping” or “electronic markets” have become established in distribution; multiplechannel systems have now almost become the standard in distribution.

**Interdependencies of Marketing Instruments**

Functional, time-related and hierarchical interdependencies exist between the individual marketing instruments. *Functional dependencies* are apparent in the fact that the use of an instrument can substitute another instrument (e.g. an image created through advertising allows to reduce the use of personal selling) or supplement it (e.g. an especially high-profile offering allows to assert a relatively high price). Competing relationships between

individual instruments are also conceivable (e.g. a cluster of sales promotion campaigns with special offers can threaten the premium price strategy actually pursued). *Time-related relationships* between the use of individual marketing instruments are of special importance: for example, a special offer should be available in the distribution channel before advertising for this offer is started. Generally, marketing instruments can be deployed simultaneously, in a staggered manner, discontinuously or taking over from each other.

In addition, marketing instruments are related to one another according to a certain *ranking*, i.e. there are instruments with higher priority than others. The relevant literature (see Haedrich et al. 2003, p. 140 ff.) distinguishes between instrumentally and situatively oriented approaches of hierarchical arrangement. Instrumentally oriented approaches postulate a general ranking between the instruments. Thus, product, price and distribution represent constitutive factors that are necessary for a product to be offered on the market, while instruments of communication policy tend to be of an accessory character; they may not be obligatory, but are often very important for market success. Situatively oriented approaches classify the marketing instruments according to certain conditionsdefined by, for example, the industry, the economic level, individual markets and the product type (see Meffert et al. 2012, p. 786 ff.).

**Spillover Effects Between Various Business Fields**

Measures relating to a certain business field can impact other business fields. Examples for this are the effects of advertising for a product on other products offered by the same manufacturer or on products that are distributed under the same "umbrella brand" on the one hand and the "cannibalisation effect", which refers to the rise in the sales of one product reducing the demand for other products from the same manufacturer in the same or a neighbouring market, on the other hand. For instance, at VW a sales increase for the Polo may be partly at the cost of the Golf and vice versa.

**Uncertainty with Regard to the Effect of Measures**

Typically the success of individual measures in marketing cannot be ascertained or forecast with any precision or certainty, which makes planning the interaction of several measures very difficult.

**Resource Limitations**

In practice, the identification and implementation of a favourable (possibly optimal) marketing mix is often impeded by restrictions in planning ("scarce management capacity") and/or in financial resources. In pharmaceuticals marketing, for example, medical sales representatives (= field sales) who visit doctors are so expensive that they are hardly employed for medicines with low margins that are not (or no longer) patent protected.

**Coordination Problems Between Different Function Holders**

Often, there are many specialised positions and departments responsible for marketing decisions. In some companies, product managers, account managers, national and regional

managers, heads of sales, advertising managers, managers responsible for online activities, and marketing managers are jointly responsible for certain marketing instruments. Such a division of labour not only creates a high level of coordination expense, but there is also the risk that different assessments will lead to contradictory decisions, which may then result in an unbalanced marketing mix.

### 5.6.2 Problems of Optimising the Marketing Mix

The best possible configuration of the overall marketing mix represents the key goal of operative marketing planning. From a theoretical viewpoint, but also from a practical perspective, it would be necessary or desirable for the planning of the marketing mix to take place simultaneously across all marketing instruments, sub-instruments as well as dimensions and elements. To achieve an *optimal marketing mix*, planning would need to be based on the following criteria (see Kaas 2001, p. 1002 ff.; Wöhe and Döring 2013, p. 466 f.):

- all marketing goals are known;
- all conceivable combinations and interdependencies of possible marketing instruments and activities are considered;
- a long-term planning perspective forms the basis, so that effects arising in later periods can also be considered;
- reliable information about the future is available;
- the costs of each marketing measure and
- of the market reaction functions (e.g. behaviour of customers, intermediaries and competitors) are known.

If all this information were available, especially that on the impact of each marketing measure and activity on the costs and the overall revenue, that marketing mix would be realised whose marginal revenue is greater than, or at least equal to, the associated marginal cost. The so-called Dorfman-Steiner theorem (Dorfman and Steiner 1954) is fundamental for the relevant calculation. This theorem is a marginal-analytical derivation for optimising the allocation of resources in the marketing mix. “The optimum is achieved if an additional monetary unit invested in the marketing mix results in the same marginal revenue irrespective of which instrument it is invested in” (Kaas 2001, p. 334).

The discussions in the previous section on the diverse problems in planning the marketing mix and particularly on the functional, time-related and hierarchical interdependences of marketing instruments showed, however, that the required information is not available or only in an insufficiently precise form, so that such *marginal-analytical selection procedures* with simultaneous planning as part of an overall model are hardly possible in marketing practice (also see Wöhe and Döring 2013, p. 466 f.).

Nonetheless, long-standing research endeavours to assess the market reaction functions have indeed borne fruit. Typical curves of such functions have been identified and

methods for their assessment developed (see Esch et al. 2013, p. 374 ff.; Lilien et al. 1992, p. 650 ff.; Leeflang et al. 2000, p. 66 ff.). Despite serious drawbacks (constant marginal revenue, saturation effects are not taken into account), linear curves are often suitable to express the effects of changes of an independent variable (e.g. advertising budget) within a relatively narrow range around the previous value. Concave and S-shaped curves which better reflect the saturation effects typical in marketing are also common. The complexity of the problem of assessing market reaction functions is increased by the fact that dynamic (time-dependent) effects often have to be considered as well. Thus, the effects of marketing instruments will often manifest with a time lag and/or the effects will continue even though the instrument in question is no longer deployed ("carry-over effects").

In practice, due to the limited data situation no optimum can be determined although efforts are made to get close. Esch et al. (2013, p. 389 f.) also explain that even significant deviations from the optimal allocation of resources in the marketing mix will often only lead to slight losses.

Due to the considerable problems in applying model-based optimisation procedures, practical marketing planning is still usually characterised by

- partial, i.e. incomplete approaches,
- specifications that are determined step-by-step,
- and (often) non-quantitative assessments of the marketing instruments and measures.

It is generally accepted that usually only a useful, but perhaps not the best solution will be found.

To arrive at such a useful solution, the use of so-called heuristic procedures is recommended (see Gussek 1992, p. 31 ff.). The following discussion on the *heuristic approach* to planning the marketing mix is preceded with a citation from Wöhe on the pros and cons of using heuristics:

> The doors are wide open to subjective judgement. Optimal solutions cannot […] be expected. But on the other hand, economic activity is only predictable to a limited extent. Those who do not want to make compromises are condemned to do nothing. The results of doing nothing are usually worse than inadequate entrepreneurial action. (Wöhe and Döring 2013)

By applying heuristic procedures, the overall problem of determining the marketing mix is divided up into successive sub-problems to be tackled in a stepwise procedure. First, the fundamental conceptual decisions have to be made; from those, ever more differentiated operative decisions are derived (see Kühn and Vifian 2003).

The following *heuristic procedure of planning the marketing mix* is suitable for many situations:

1st step: planning the growth strategy and the marketing strategy and determining a rough budgeting,
2nd step: planning the guidelines for the marketing mix,
3rd step: detailed planning of the marketing mix and detailed budgeting.

The first step has already been covered in Sects. 4.2 to 4.5. The decisions on growth strategy, marketing strategy (core task profile, cooperations and positioning) and rough budgeting to a certain extent delimit the scope for planning the marketing mix, since the decisions on the resources and measures with which the marketing goals are to be realised have to be made with a view to the growth strategy, the marketing strategy and the rough budgeting. Generally it may be assumed that even a defined marketing strategy still leaves a large number of options open, i.e. there are still many possible marketing mix combinations for implementing the selected marketing strategy more or less effectively. To ensure a clear and consistent marketing mix, to reduce planning complexity and to incorporate the growth strategy and the marketing strategy it is useful to interpose a further step before planning the individual marketing instruments in detail and to coordinate the marketing mix across all instruments. Such *guideline planning of the marketing mix* narrows down the strategy range defined by the growth strategy and the marketing strategy and keeps the creativity of the planner on track. It is an essential step that reduces the complex reality and supports decision-making in marketing planning (also see Fig. 5.12). It should again be noted here that such a planning process does not proceed in a strictly sequential way, but is characterised by iterations, cross-linkages and high dynamics. In the following, two approaches will be introduced which may be used in guideline planning, singly or in combination:

- the dominance standard model by Kühn and Vifian (2003),
- the zone model of differentiation by Rudolph (1993),

Following that, the connection between guideline planning and the core tasks will then be explained.

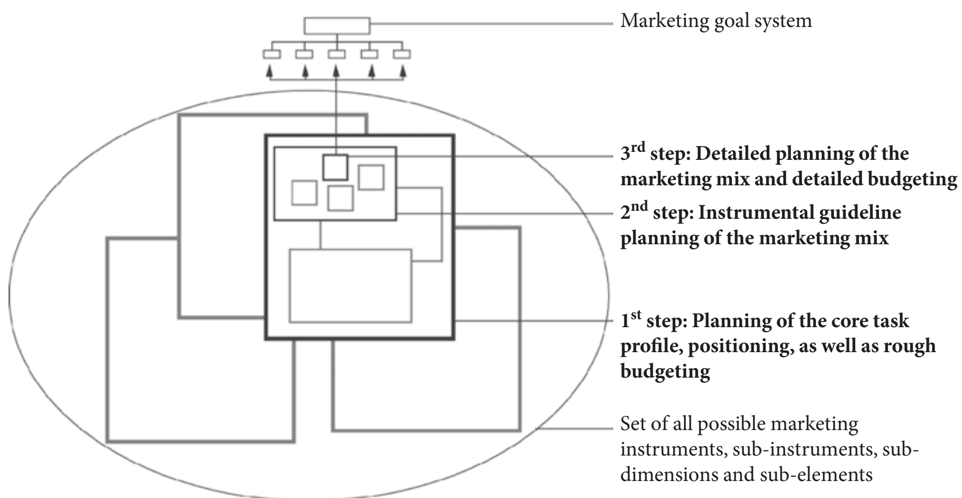



**Fig. 5.12** Reduction of the planning complexity through a heuristic approach

### 5.6.3 Guideline Planning of the Marketing Mix

#### The Dominance Standard Model by Kühn

To solve the problem of having to simultaneously consider a large number of possible marketing measures, the dominance standard model by Kühn and Vifian (2003) sets out with the question of "whether starting points exist that allow to focus on certain marketing instruments and to define a sequence for determining the instruments of the marketing mix" (Kühn and Vifian 2003). For this purpose, Kühn developed a typology that distinguishes between dominating, complementary, marginal and standard instruments. These categories can be characterised as follows (also see Fig. 5.13):

*Dominating Instruments* These are instruments whose configuration and use

- contains certain degrees of freedom,
- is crucial for market success with respect to competitors and
- requires a high level of financial, personnel or intellectual/creative investment.

*Complementary Instruments* These are instruments whose configuration and use

- contains certain degrees of freedom,
- is of importance for market success and is necessary or expedient for supporting the effect of the dominating instruments.

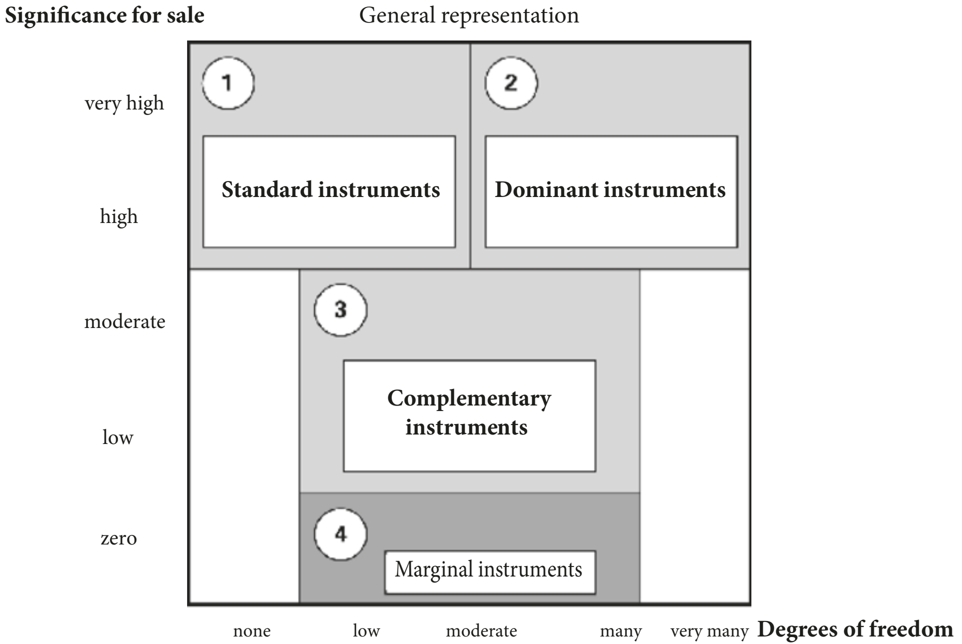
*Standard Instruments* These are instruments whose configuration and use

- contains few or no degrees of freedom since they have to be adapted to a standard determined by the market situation,
- with non-attainment of the standard almost certainly leading to failure,
- whereas exceeding the standard is either not possible or not acknowledged by the customers.

*Marginal Instruments* These are instruments whose use and configuration is and remains meaningless for market success in a certain situation.

These categories cannot be definitively assigned to certain marketing instruments. In practice, their importance varies depending on the situation (market, segment, time, company etc.). The task of the marketing planner is therefore, as the *first step,* to categorise the marketing instruments potentially available, based on a sound internal and external analysis and oriented on the marketing strategy.

The *second step* is to design the marketing mix according to this categorisation. First the dominating instruments have to be dealt with, then the complementary instruments, while the standard instruments do not need any real decisions as the market and technical



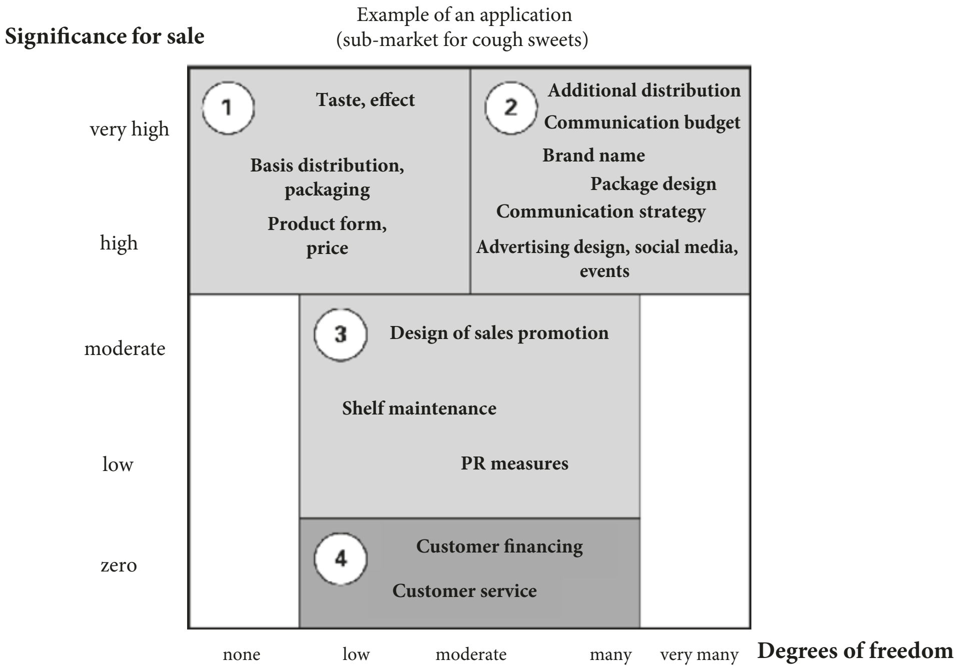
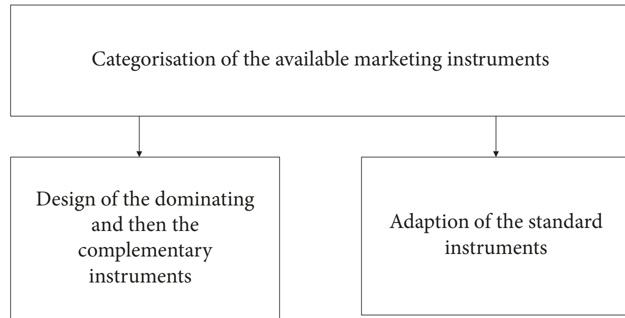




**Fig. 5.13** Dominance standard model by Kühn (Based on Kühn 1997, p. 45)

**Fig. 5.14** Application of the dominance standard model




standards do not allow any degrees of freedom (see Kühn and Vifian 2003). Determining and configuring the dominating instruments represents the key conceptual decision and thus the result of the guideline planning process As illustrated by Fig. 5.14.

### The Zone Model of Differentiation by Rudolph

The zone model of differentiation was developed by Rudolph with a view to retail. However, with slight modifications it can also be used in other economic sectors (Rudolph 1993; Rudolph et al. 2014). In developing this model, Rudolph assumed that companies are always especially successful if they are the first to realise new measures at the right time (see Rudolph 1993, p. 94).

Similarly to the dominance standard model by Kühn, Rudolph's model reduces the complexity of planning the marketing mix by assigning the marketing instruments and sub-instruments to certain categories. Rudolph distinguishes three categories (see Fig. 5.15):

*Safety Zone* This category includes benefits and marketing instruments that are taken for granted by the customer and are therefore provided by almost all competitors.

*Differentiation Zone* This category comprises benefits and marketing instruments which are in demand from the customers' side, but are not yet or not adequately provided by the competitors.

*Early Identification Zone* This category includes benefits and marketing instruments that are currently not provided by any company, but which will (probably) be in demand from customers in the future.

For marketing instruments assigned to the differentiation zone, the articulated customer wishes represent the starting point for further planning. For marketing instruments in the early identification zone it has to be investigated whether certain innovative problem solving ideas meet with latent and/or future customer wishes.

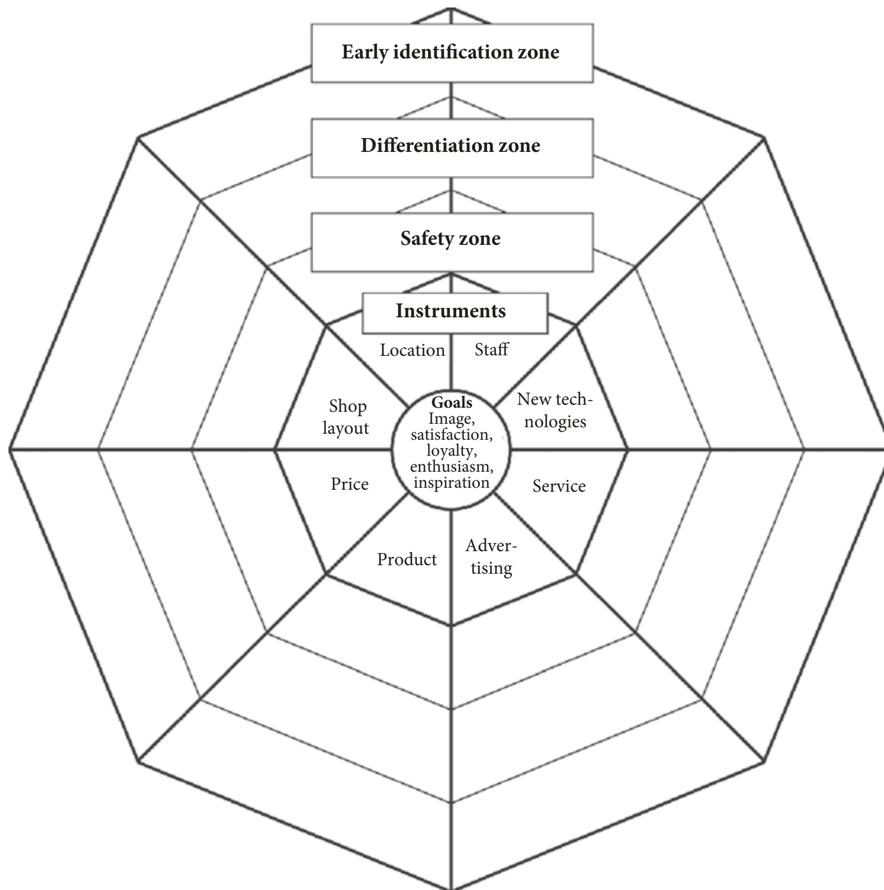



**Fig. 5.15** Zone model of differentiation (Rudolph et al. 2014, p. 193)

A stepwise approach is recommended when using Rudolph's zone model of differentiation. First the *actual profile* should be analysed to identify one's own strengths and weaknesses, as well as opportunities and risks in the market and in competition. Subsequently – based on the growth strategy and the marketing strategy – the *target profile* has to be established and the focal points and guidelines for the use of the marketing mix have to be defined.

#### Coordinating Guideline Planning of the Marketing Mix with the Growth and Marketing Strategies

Marketing managers have to correlate the key instruments with the growth and marketing strategies in the various business fields in order to deploy them in the best possible way for the respective core tasks.

Generally, all marketing instruments are suitable for each core task and for the core task profile to be pursued in the future. However, the core tasks shape the configuration of the marketing instruments to be deployed. While some marketing instruments can be primarily, though not exclusively, assigned to a certain core task – such as customer clubs or newsletters to supporting customer loyalty – this is not necessarily the case for other marketing instruments such as distribution (also see Tomczak and Reinecke 1996, p. 15). Thus, the interactions of instruments within the scope of a core task but also beyond have to be considered when planning the marketing mix.

**Interactions of Instruments Within the Scope of a Core Task**

When planning a core task it is important that the marketing instruments and sub-instruments are not considered individually and additively; instead, their relationships with one another have to be examined (Belz 1999). The use of a marketing instrument within the scope of a core task should never be viewed dissociated from the use of other instruments.

**Interactions Between Marketing Instruments Deployed for a Certain Core Task**

Regarding customer loyalty it is possible, for example, to retain customers by means of technical switching barriers (system business), contractual agreements (e.g. terms of notice) and/or price (loyalty discounts). Furthermore, a company retains customers by exceeding their expectations or at least by demonstrating to the customer that the level of performance exceeds that of the competition (customer loyalty through customer satisfaction). These instruments can also be used in combination.

**Interactions of Instruments Between the Core Tasks**

The interdependencies of the core tasks also have to be considered in planning the marketing mix. Regarding the core tasks pursued within the scope of the growth and marketing strategies, planning of the instruments therefore has to be undertaken not just for each task individually but also across all tasks. In the latter case, the interactions of individual instruments or instrument combinations have to be considered (also see Tomczak and Reinecke 1996, p. 16).

**Interactions Between Marketing Instruments Deployed for Different Core Tasks**

For example, both potential customers and existing customers can be reached with the *communication instrument* "print advertising". In such a case, the advertising message is shaped by the core task on which the focus is placed. The advertisements of some car manufacturers constitute a compromise: On the one hand, the images

attempt to create an impression of topicality among new customers and to position the company's products. However, these ads are usually supplemented with a more or less extensive advertising text that is directed to the existing customers, giving them the arguments as to why their buying decision was correct. This text contributes to resolving any cognitive dissonances that may exist and thus strengthens customer loyalty. The marketing instrument *pricing* can also be used to acquire new customers (for example through teasers and special offers) on the one hand, but also to retain existing customers (loyalty discounts, price differentiation), on the other hand.

Care should be taken in planning that the decisions regarding marketing instruments within each core task do not counteract the goals of another core task. For this reason, teaser offers for new customers should not be so attractive as to neutralise the customer retention measures.

**Conflicting Goals Between Core Tasks**

Credit card organisations and banks are often strongly oriented towards acquiring new customers, often waivinge the annual fee for the first year. This ultimately leads to "destructive marketing" (Belz 1989), as the acquisition offers also present existing customers with an incentive to cancel their own credit card after a year and to apply for a new – free – card from another organisation.

Publishers also often struggle to coordinate customer acquisition and retention measures. Thus, they invest relatively large sums of money in direct marketing to ensure that existing subscribers are not accosted with highly attractive "teaser offers" – because it will annoy regular customers paying the "normal price" if they find out that new customers are billed far less.

Figure 5.16 provides an overview of the interactions to be considered by the marketing planner, with the vertical arrows showing the interdependencies within a core task, the horizontal arrows showing the interactions between the core tasks.

Once guideline planning (determination of the key instruments on the basis of a guideline model and planning the use of the instruments in coordination with the growth and marketing strategies) is completed, there will be some initial, but helpful answers to the following questions (also see Becker 2013, p. 486):

- Which marketing instruments are available in a specific situation?
- Which instruments should be deployed as part of the growth and marketing strategies to be pursued?

| Instruments \ Core tasks | Customer acquisition | Customer retention | Product innovation | Product maintenance |
|---|---|---|---|---|
| Product | | | | |
| Price | | | | |
| Communication | | | | |
| Distribution | | | | |

**Fig. 5.16** Interactions of marketing instruments within and between the core tasks

- In which way should the instruments be used (qualitative aspect)?
- To what extent should the instruments be applied (quantitative aspect)?
- In which sequence should the individual instruments be deployed (synchronisation)?
- In which combination will the marketing instruments be effective (harmonisation)?

### 5.6.4 Detailed Planning of the Marketing Mix

The detailed planning of the individual instruments and sub-instruments to be used within the framework of the marketing mix covers the following steps:

- the general requirements derived from the previous planning phases have to be specified,
- a specific, scheduled plan of measures has to be derived,
- detailed budgeting has to be carried out.

In planning the individual instruments and sub-instruments – just as in planning the overall marketing concept – the following "*classical" process phases* may be distinguished (see Belz 1991, p. 26):

- specifications derived from the overall marketing concept (growth strategy, marketing strategy, guideline planning of the marketing mix, rough budgeting),
- internal and external analysis,
- definition of detailed goals regarding the marketing instruments,
- definition of the strategies regarding the marketing instruments,
- definition of the measures and actions,
- realisation and implementation,
- monitoring.

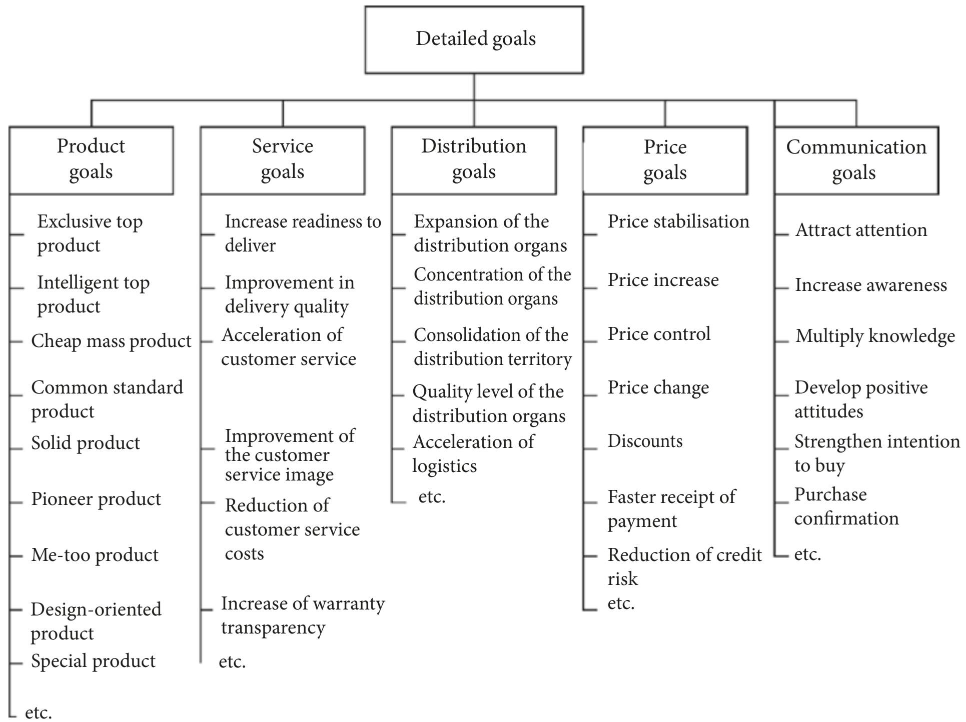



**Fig. 5.17** Examples of detailed goals in marketing (Koppelmann 2001, p. 249)

The detailed planning of the marketing mix focuses on the development of *sub-concepts*, e.g. concepts for advertising, sales, customer service, pricing, product development, direct marketing and distribution (see the examples given by Belz 1991, p. 72 ff.). These sub-concepts comprise the measures in the marketing mix required for implementing the growth and marketing strategies, with the detailed planning extending across the core tasks. They are coordinated through guideline planning which determines the focus in the deployment of the instruments for the respective core tasks and provides guidelines for the quantitative and qualitative configuration of the marketing mix.

The examples given in Fig. 5.17 illustrate the diversity of possible goals that may be set in the various areas.

Moreover, in all the areas numerous strategies and measures are available for detailed planning. Although it is clear that with the definition of the marketing goals, the growth and marketing strategies, the guideline planning and rough budgeting, essential phases of marketing planning have indeed been covered on the business field level, considerable efforts are still required for planning the individual instruments in order to create the framework for an "optimal" market presence.

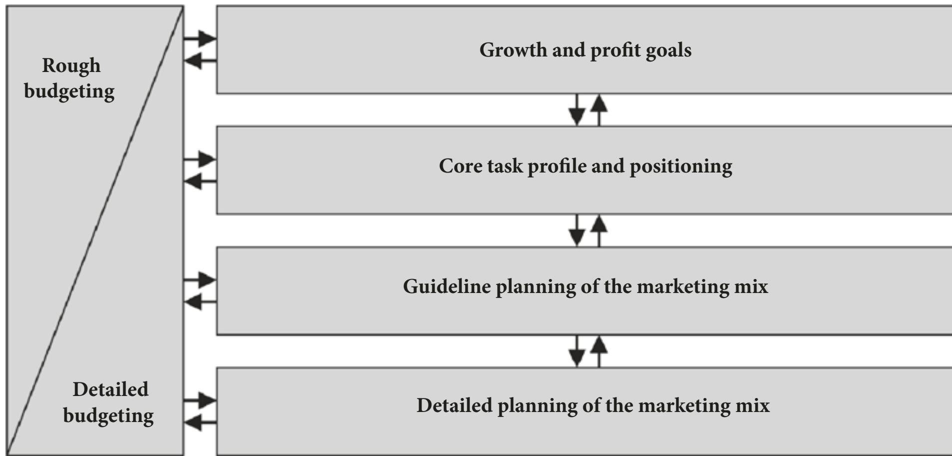



**Fig. 5.18** Summary of the planning process

## 5.7 Summary

Figure 5.18 provides a summary of the discussions in this chapter. It illustrates that once growth and profit goals have been defined for a business field, the growth strategy has to be defined, based on the four elements of customer acquisition, customer loyalty, product innovation and product maintenance. The marketing strategy is then elaborated and initial rough budgeting is undertaken (step 1). Building upon this, decisions regarding the marketing mix have to be made (guideline planning). These include defining the strategic approach (e.g. quality model), the key instruments as well as the coordination and planning of the instruments with regard to the growth and marketing strategies (step 2). Finally, it is necessary to undertake detailed planning of the marketing mix and detailed budgeting. This covers the implementation of the previous planning steps in sub-concepts (e.g. distribution concept), substantiation of the mix for each core task and across core tasks, consideration of the interdependencies between the core tasks and the instruments and the configuration of specific measures. In addition, the budgets for the respective marketing instruments and sub-concepts have to be allocated (step 3).

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# 6 Marketing Implementation and Management Control

## 6.1 Marketing Implementation

### 6.1.1 Characterisation of the Implementation Challenge

The challenge of implementing marketing strategies, i.e. the problem of translating strategies into measures, has been brought up by several authors over recent years (e.g., Belz 1998, p. 566 ff.; Köhler 2000; Meffert et al. 2012, p. 775 ff.). The very slow development of market orientation in companies or failures in marketing may not least be attributed to the fact that it is often difficult to implement marketing plans continuously and jointly with all the relevant areas of the company. Marketing implementation entails both challenges in the collaboration with other functions (such as R&D, Production, Finance & Accounting), as well as coordination with Sales. A succinct characterisation of the problem is provided by Hilker (1993, p. 4), who comprehensively investigated aspects of marketing implementation: "Implementation means realising solutions available in a conceptual form by transforming them into effective action".

Hilker supplemented this definition with some additional characteristic aspects:

- Marketing implementation relates to *far-reaching changes* in companies, as usually a large number of areas and individuals are affected, whose behaviours and activities are strongly influenced. So it is necessary to *inform* and *motivate* many persons.
- Implementation involves *consciously* targeted changes.
- Due to the diverse *feedback mechanisms* in the planning process and the various substantiation steps involved, it is not an easy matter to conceptually separate planning and implementation from one another.
- As implementation does not occur as one single act, but rather as a sequence of actions and decisions, it has a *process character*.

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**Study on the Relevance of Implementing a Strategy**

"A study involving 275 asset managers concluded that the capability of implementing a strategy is more important than the quality of the strategy itself. (…).
A survey of management consultants conducted in the early 1980s revealed that fewer than 10 percent of the strategies formulated were also actually successfully implemented. In 1999, Fortune magazine reported in its cover story on the most serious errors made by well-known CEOs. It transpired that when it comes to strategy and vision, the illusion prevails that the right strategy alone is essential for success. According to the article: 'In most cases – we estimate 70 percent – the actual problem does not lie in a poor strategy, but rather in poor implementation.'"
(Kaplan and Norton 2001, p. 3)

The problems arising from the discrepancy between the development of strategies and their implementation are clearly illustrated by the diagram in Fig. 6.1, which is based on Bonoma (1986, p. 29) and Meffert et al. (2012). The different fields are easy to interpret. A good strategy with excellent implementation provides the basis for success. A good strategy cannot be effective with poor implementation, so its chances of success are squandered. Good implementation of a poor concept leads to the realisation of its negative consequences or possibly – due to the experience gained in implementation – to the mitigation of the negative consequences. With a poor strategy and poor implementation, failure is simply a matter of time, although it will be hard to clearly identify its causes.

| **Implementation** / **Strategy** | Appropriate («Good») | Inappropriate («Poor») |
|---|---|---|
| Good | Success | Negative consequences (possibly mitigated due to experience) |
| Poor | Trouble («squandered chance») | Failure |

**Fig. 6.1** Success and failure of strategies dependent on their implementation (Bonoma 1986, p. 29)

So, implementation obviously plays an often underestimated role for practical marketing success. In this regard, Aaker (2009) refers to relevant examples from US companies. For this reason, the following sections outline some starting points that may facilitate the adequate implementation of strategies. Based on authors such as Aaker (2009), Czepiel (2012, p. 470 ff.) and Köhler (2000), three aspects will be addressed:

- questions concerning the *organisation of marketing and sales* which determines the tasks, processes, structures and responsibilities for marketing activities (Sect. 6.1.2);
- *budgeting*, which allocates resources to the respective tasks (Sect. 6.1.3);
- *corporate culture* and the capabilities of the employees involved (Sect. 6.1.4).

For more comprehensive, integrated approaches to market implementation, reference is made to Hilker (1993) and Von Der Oelsnitz (1999). The aspect of marketing management control, which is closely associated with the effective implementation of marketing strategies, will be examined in Sect. 6.2. The final Sect. 6.3 introduces an approach – the balanced scorecard – that serves both for implementation and for control.

**Strategy Implementation or Strategy Formulation?**
Mintzberg (1994, p. 107 ff.) criticises the excessive reflection and rigidity within the framework of classical strategic planning. Rationality with a planned out, explicit formulation and implementation of strategies does not necessarily prevail in practice; on the contrary – random, incremental, non-linear, retrospectively rationalised processes are a lot more common. He therefore redefines the tasks of the planners: they should not attempt to plan strategies, but should rather see themselves as catalysts who support strategy formulation.

### 6.1.2 Marketing Organisation

Chapter 1 of this book attempted to clarify the basic concept of marketing. According to this definition, the sales market (or the customer) is the direct or indirect starting point and, at the same time, the focus of all corporate activities. So it is not only a matter of aligning marketing people or sales staff towards the customer wishes, but the other operative areas as well, especially research and development, production and logistics. So in considering the marketing organisation, it is important to also keep an eye on the market-oriented coordination of all other functional units. This section will briefly outline some special requirements for the marketing organisation. Some of the basic types of organisational structures most widespread in marketing will then be introduced.

The special requirements imposed on marketing, which is caught between the conflicting priorities of customer wishes, competitive ability, social and economic framework conditions and the company's capabilities, lead to certain *requirements being placed on the marketing organisation* (Meffert et al. 2012, p. 812):

- *Integration*
  In this context, integration is understood both as the coordination of the various measures within the marketing unit, as well as the reconciliation with other areas of the company (e.g. procurement, R&D, production). This means aligning the entire company to the needs of the sales market.
- *Flexibility*
  The marketing organisation has to develop, modify and realise timely and effective strategies, especially under oftentimes rapidly changing conditions, as adaptation to market conditions and customer requirements is another essential feature of the marketing orientation of companies.
- *Creativity and innovative capacity*
  Innovation orientation (in order to gain competitive advantages) is an essential feature of marketing. This is why the creativity of individuals and entire organisational units, as well as product innovation and creative advertising, play a significant role.
- *Specialisation*
  The preceding chapters have already conveyed an impression of the heterogeneity of marketing activities. Among others, concepts from behavioural science (→ purchaser behaviour), statistics (→ market research), IT (→ online marketing and marketing analytics), strategic considerations and financial concepts (→ profitability analysis of new products) are of major importance. The staff needs to be sufficiently qualified to meet these diverse challenges.

With regard to the implementation challenge addressed in this section, the main question is the extent to which the various forms of the marketing organisation are in a position to ensure the comprehensive, consistent and flexible implementation and adaptation of the marketing strategy. Basically, function-oriented, object-oriented and multi-dimensional approaches can be distinguished when it comes to the marketing organisation (Freiling and Köhler 2014, p. 81 ff).

In a *function*-oriented *organisation* the positions or departments are each responsible for a certain type of activity; therefore there is specialisation in execution. Employees who carry out similar activities and functions are combined in organisational units (e.g. departments). In the marketing department, for example, there are organisational units for market research, marketing planning, advertising, sponsoring, sales promotion, online marketing, direct marketing, sales (back-office and field sales), distribution logistics and customer service.

An assessment of this organisational structure with regard to the requirements mentioned above shows that a key weakness may be in the integration of the marketing

measures. The measures relating to a product (or a customer group or a sub-market), e.g. advertising or sales promotion, usually lie in different hands. This requires either close cooperation between several function managers to coordinate the individual measures (→ marketing mix), with all the challenges entailed (e.g. rivalry regarding resources), or the involvement of superordinate management levels. The expenditure of time necessary for this kind of coordination and often quite unwieldy official channels impair the flexibility of such an organisational structure. Ultimately, the often narrow specialisation of the employees tends to restrict their creativity, and innovation (e.g. novel products) can only be pursued in a laborious and lengthy process involving various departments. The decisive advantages of functional marketing organisations lie in their simplicity and manageability, as well as in the specialisation and thus continuous increase in competence of the members of the organisation.

*Object-oriented organisational structures* are characterised by the fact that they define responsibilities with regard to certain planning and management objects and not with regard to the type of activity. This means that various tasks (such as market research, advertising, sales, physical distribution) have to be coordinated across these functional areas according to the specific needs, e.g. of a product group (product management) or a customer group (account management) or a region (regional management).

In the case of *multidimensional approaches*, various function-oriented and object-oriented organisational structures are combined with each other.

**Introduction of Product Management at Procter & Gamble in 1931**

At *Procter & Gamble* there were problems with the sales performance of a newly launched soap, so they assigned a young manager by the name of Neil McElroy to exclusively take care of this product. This turned out to be a very successful move in two ways: the soap prevailed on the market, and the manager was later to become the president of *Procter & Gamble.* Since then, the product management system has not only taken off at *Procter & Gamble,* but also in many other companies, especially in conglomerates from the branded goods sector. (Assael 1993, p. 391)

The *job of product manager* above all involves planning and coordinating. Along the lines of Kotler et al. (2007, p. 1148 f.),their tasks can be outlined with the following key points (in detail Matys 2005):

- collection, analysis and interpretation of (market) information relevant for the product,
- developing short- and medium-term strategies for the product,
- planning the marketing mix,
- preparing forecasts of the product's sales and market share development,
- collaborating with advertising agencies,

- coordinating all product-relevant activities from other areas of the company (e.g. production, quality control, sales, customer service),
- monitoring compliance with plans,
- giving suggestions for improving the marketing mix,
- giving suggestions for new products.

Product management largely meets the requirements placed on the marketing organisation outlined above. *Coordinating* all the measures relevant for the product from the various departments of a company is one of the key tasks of the product manager. In this context, *flexibility* is achieved by bringing together information and planning tasks. This ensures fast responses to changes in market conditions without having to observe the usual procedures and mechanisms. The *creativity and innovative capacity* of the product manager should be fostered through a wide range of contacts and discussions with other functional areas, as well as numerous external contacts.

Kotler et al. (2007, p. 1149) emphasise *two further advantages of product management*. In contrast to a purely functional marketing organisation, where the interest of management is often concentrated on a few "big" products (e.g. with a high sales volume), product management works to ensure *appropriate support for "smaller" brands* as well. Ultimately, product management is also an area that is very suitable for *training future management staff* for marketing.

The spreading of the marketing approach in the 1960s and 1970s was accompanied by the introduction of the product manager system in the corporate structure. Subsequently, another product-oriented form of the marketing organisation occurred sporadically: category management (see Kotler et al. 2007, p. 1152). This embraces the responsibility for an entire product group (e.g. cosmetics, soft drinks). In some consumer goods companies product managers may even be responsible for profit and loss, i.e. not just for marketing, but for all business management aspects of their product.

Today, *(key) account management* has come up alongside product management in some companies. This is due to two aspects: customer (group)-specific needs, on the one hand, and the fact that in many markets, such as the car industry or food retailing, demand is concentrated in the hands of just a few customers or wholesalers, on the other hand.

The introduction of key account (large customer, key customer) management is due to this development. In this case, object orientation does not relate to a product, but to a customer group.

Just as the product manager has to ensure the success of a product by coordinating all relevant measures, the key account manager has to coordinate all relationships with key customers. The field of activity of the key account manager extends in two directions: a functional and an organisational level (for details see Belz et al. 2014):

Within the scope of *functional key account management*, the account manager's responsibility is to

- *analyse* the customers' situation, their specific needs and decision-making structures, on the one hand, and the performance, competences and structures of one's own

company, on the other hand. The question of the profitability of the customer groups is of key importance here.
- Building upon this, a customer-specific strategy has to be derived and *realised* (for instance, by extending the product range or implementing specific price and condition systems for key customers).

On the organisational level of key account management, efforts should be made to avoid any insular solutions. Two aspects are essential here:

- *Integration:* The key account plans have to be coordinated with the company and with the overall marketing strategy, for example, to prevent negative spillover effects on other customers. Also, it is necessary to promote the cross-functional, cross-divisional and international cooperation with key customers.
- Successful key account management is ultimately based on the *fundamental decision of top management* to effectively and consistently direct all efforts towards key customers.

It is important to note that not the immediate, short-term sales success is the focus of interest in key account management, but rather the long-term growth of partnership-oriented business relationships with the key customers. The questions raised in relation to product management concerning the requirements on the marketing organisation apply here as well.

### 6.1.3 The Marketing Budget

A marketing budget is a roadmap with formal objectives and formulated in terms of monetary or quantitative parameters that is set up for a marketing organisation unit for a certain period with a certain level of obligation (Wild 1974, p. 325; Horváth 2011, p. 204). In a sense, budgets are a result of the planning process, and at the same time they are the starting point for realising those plans by means of detailed measures.

Marketing budgeting (for details see Reinecke and Fuchs 2006) is therefore a process encompassing the creation, adoption, control and deviation analysis of marketing budgets. According to Steinmann et al. (2013, p. 393 ff.), four essential budget functions can be distinguished:

- *Orientation function:* It clarifies the decision-makers' obligation to pursue certain objectives (e.g. sales and contribution margin targets) and defines their responsibility for results.
- *Coordination and integration function:* The sub-budgets correspond with the various super- and subordinate measures, and thus contribute to their coordination.
- *Control function:* Quantitative budget targets serve as a yardstick for performance measurement and thus for controlling and monitoring; causes for any deviations have to be researched by means of deviation analyses.

- *Motivation function:* It promotes the decision-makers' motivation, particularly through their involvement in budget definition and by guaranteeing room for manoeuvre, through which the employees' individual responsibility, creativity and commitment are strengthened.

The hierarchical coordination of marketing budgets can generally proceed according to three classical methods (Barzen 1990, p. 99 ff.; Becker 2013, p. 768 ff.; Weber and Schäffer 2014, p. 289 ff.):

- In the *top-down method* the marketing budget is assigned by top management and subdivided on each of the downstream levels. This approach ensures alignment with corporate strategies and is not verytime-consuming, but may lead to acceptance problems with regard to the budget targets.
- In the *bottom-up approach*the marketing budget is developed from the bottom to the top, with the hierarchically subordinated organisational units preparing budget proposals and then coordinating these with management. The advantages of this approach are the utilisation of in-house market and customer knowledge and enhanced motivation of the budgeted units. On the other hand, it needs a lot of coordination effort and may give rise to opportunistic behaviour and excessive budgetary demands.
- The *counter-current method* combines the top-down and bottom-up approaches, with the starting procedure being either top-down or bottom-up. Starting with a top-down approach seems best suited to ensure priority for the profit or target goals of top management on the one hand, and, on the other hand, to make effective use of the market knowledge of all subordinate organisational units, thus leading to a higher motivation to attain budget targets.

The task of resource allocation , which focusses on the amount of the marketing budget and its distribution in terms of scope and time, is at the core of marketing budgeting (Mantrala 2002, p. 409 f.). In this context, *analytical* and *heuristic approaches* can be distinguished (Reinecke and Fuchs 2006, p. 804 and; Bruhn 2012, p. 212 ff.; see Fig. 6.2).

*Analytical methods* focus on the reaction function that mathematically and quantitatively models the interaction between marketing input parameters (cost budget) and output parameters (such as sales volume, contribution margin or market share) (Mantrala 2002, p. 411). To better cope with the complex interactions arising in the real world, the approaches partly take into consideration time-related impacts over several periods, interdependence and interaction effects between marketing instruments, reactions from competitors and uncertainty.

On this basis, marketing budgeting can be optimised – with regard to the target function and within the scope of the assumptions made – through the use of suitable methods (Mantrala 2002, p. 410 ff.). Despite their analytical superiority, these optimisation-oriented approaches are of relatively low importance in practice (Mantrala 2002, p. 410). This is

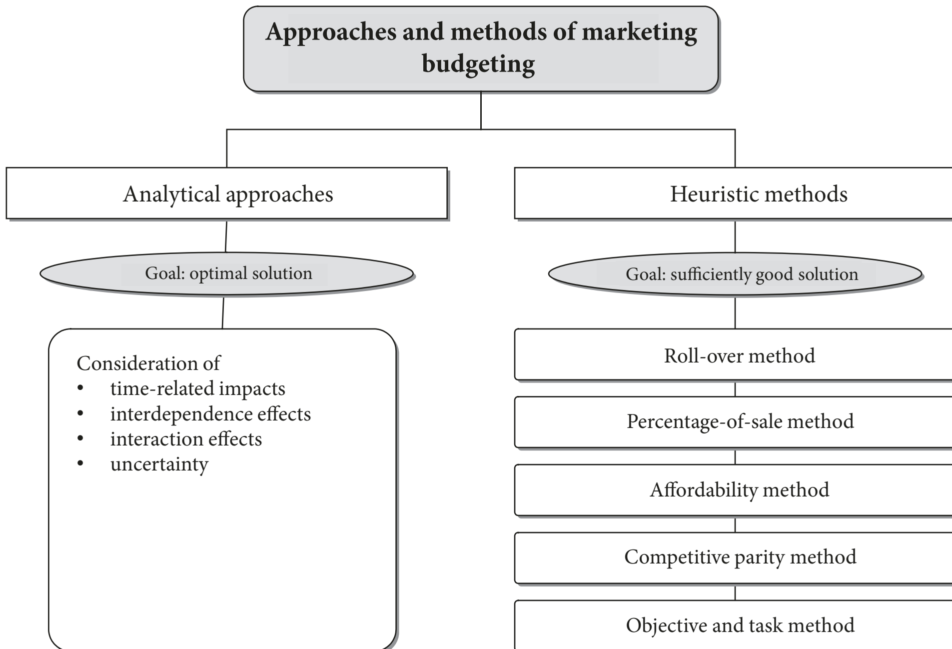


**Fig. 6.2** Approaches and methods of marketing budgeting (Reinecke and Fuchs 2006, p. 804, based on; Bruhn 2012, p. 214)

basically due to strong methodological and implementation-related challenges (e.g. validity of the model specification or availability of the required data).

Accordingly, *heuristic methods* of marketing budgeting dominate in corporate practice. In contrast to analytical methods, they do not strive for optimal solutions, but rather for sufficiently good solutions (Bruhn 2012, p. 212 ff.; Meffert et al. 2012, p. 789 ff.):

- With the *roll-over method*, the marketing budget is oriented on the budget from the previous period. While this is fast and requires minimum effort, it lacks a strategy and output orientation.
- On the basis of the *percentage-of-sale method*, the marketing budget is determined as a percentage of a reference value (e.g. sales volume or contribution margin). This method is easy to apply and takes account of financeability. However, it lacks inherent logic: The marketing budget is determined by a reference value such as sales volume and not vice versa, which may lead to procyclical marketing budgeting.
- With the *affordability method*, the definition of the marketing budget is aligned to the available financial resources. The advantages and disadvantages correspond to those of the percentage method.

- With the *competitive parity method*, the marketing budget is oriented towards the budget of the main competitor. Here, the problem is that company-specific marketing objectives are not considered and competitor marketing budgets are not transparent.
- With the *objective- and task-oriented method*, the marketing tasks and measures required for attaining the marketing objectives are quantified and budgeted as costs. This is an inherently logical and rational approach. The key prerequisite is, however, that all interactions are known, which is not often the case in corporate practice.

Overall, it is apparent that the "optimum" configuration of the marketing resource allocation essentially depends on detailed knowledge of the functional interactions between marketing input and output parameters and thus is closely linked with marketing performance measurement (Reinecke 2004; also see Sect. 6.3). Thus, efficient marketing budgeting generally requires that companies do not focus one-sidedly on cost control, but also consider the output-generating effects of marketing measures in particular.

In practice, an exclusively rational, "mechanistic" view of marketing budgeting would certainly not do justice to the diversity and complexity of the subject matter. Hence, Piercy (1987) considers the marketing budget as a political result based on negotiation processes, social interactions and the exertion of influence. He analyses the allocation of marketing resources, especially in the context of the distribution of power within the organisation, as well as political struggles and negotiations. Here objective and resource decisions cannot be separated, as the budget directly influences the distribution of power in the sense that the level of a sub-budget is an expression of the budget manager's power. Therefore, the budget forms a basis for asserting future budgets. Both decisions are closely linked; this means that in budget negotiations – e.g. between sales and advertising managers – individual objectives and interests are also negotiated (see Barzen 1990, p. 125 f.and the literature cited therein).

### 6.1.4 Corporate Culture and Employees

Ideally, market orientation affects all areas of the company, not only the marketing or sales department. Thus, marketing implementation will show up the company's willingness and capability to actually live out market-oriented behaviour. This relates both to the company as a whole and to the individual employees.

The concept of *corporate culture* plays an essential role in the general "behaviour of companies". "Organisations […] develop their own distinctive patterns of ideas and orientations that shape the internal and external behaviour of the members in a sustainable manner" (Steinmann et al. 2013, p. 710). According to Steinmann et al. (2013, p. 709 ff. f.) and others, the following aspects are characteristic for corporate cultures:

- Corporate cultures have an *implicit character* insofar as they are based on shared convictions and not on directly observable phenomena.
- Corporate cultures shape ongoing actions, they are *lived out*.
- Corporate cultures stand for *common values*, orientations etc. in a company.

- The corporate culture represents the *conceptional world* of an organisation's members; it mediates meaning and orientation.
- Corporate cultures originate and change through *learning processes*, through positive and negative experiences with different modes of behavior.
- New employees take on the behaviours shaped by a corporate culture by means of a *socialisation process*, not through a conscious learning process.

In an empirically based concept of corporate culture, Homburg and Pflesser (2000) distinguish four levels:

- *values* (a company's rather abstract, fundamental objectives, e.g. regarding quality and competence),
- *norms* (rules on desired and undesired behaviours, e.g. regarding the response to customer enquiries or internal communication),
- *artefacts* (actually perceivable indicators for market orientation, such as certain narratives, language or rituals),
- *behaviours* (acquisition and dissemination of market-related information, behavioural response to such information).

The study by Homburg and Pflesser not only succeeded in confirming the interdependence of these four levels for a company's market success, but also – and perhaps more importantly – the importance of market orientation for the success of companies.

So it is apparent that the (market-oriented) corporate culture plays an important role in the comprehensive and consistent implementation of a marketing strategy. It is apparant that companies like 3 M, Gore or Apple, whose cultures are shaped by innovation and market orientation, have repeatedly been successful on the market with innovations, whereas former state-owned companies that for a long period had a governmental character are hard pressed to ensure continuous customer-oriented behaviour among their employees. The latter example also illustrates that the relationship between marketing implementation and corporate culture can become a special problem due to the rather persisting nature of corporate cultures.

With regard to the individuals involved in implementing a marketing strategy, the challenges of marketing implementation can be summarised in four categories (Hilker 1993, p. 16 ff.):

- *Knowledge/understanding:* Are the employees really familiar with the essence of marketing? Have they understood it profoundly?
- *Ability:* Do the employees have the necessary skills to realise marketing strategies and to perform the resulting tasks?
- *Will:* Are the employees motivated to behave in a market-oriented way in their area of responsibility?
- *Authority*: From their own perspective, do the employees have the necessary organisational freedom to behave in line with customer and market needs?

Examples of these challenges are frequently encountered in practice. For instance, employees in research and development departments often tend to be more scientifically oriented and it is not always easy to motivate them to focus on customer requirements and not on general scientific progress (→ *will*). Some people may believe that marketing and advertising or marketing and sales are identical (→ *knowledge/understanding*). And sometimes procedural requirements do not allow an employee to respond to a justified customer complaint unbureaucratically and quickly (→ *authority*).

If marketing implementation is impaired by the employees' deficits (knowledge/understanding, ability, will), there are three ways of attempting to overcome them: training new (junior) staff, training and reorientation of existing employees or hiring new employees with the relevant experience.

## 6.2 Marketing Management Control

### 6.2.1 Marketing Management Control as Quality Assurance for Management

The task of *marketing management control* is to ensure the effectiveness and efficiency of market-oriented management (Reinecke and Janz 2007). It therefore serves to ensure the quality or rationality of marketing management (also see Weber and Schäffer 2006).

Effectiveness and efficiency can be understood as follows (see Fig. 6.3; in detail Lasslop 2003, p. 8 ff. and; Bonoma and Clark 1988):

In a broad sense, *effectiveness* denotes the operative effect and thus the output of the production process: Have the prescribed goals been attained? In a narrower sense, effectiveness defines the degree of efficacy: Is the goal attainment above the target level formulated in advance?

*Efficiency* is a relative ratio: A measure is efficient if no other measure has a better output/input ratio. In accordance with the rationality premise of the economic principle, a necessary but not sufficient requirement is that the output must be greater than the input, because otherwise a loss of scarce resources would result.

Marketing management control and marketing planning are very closely interrelated; without planning and plans, one cannot actually speak of control, as there is no specification of goals, which form the basis for every kind of control. If, for example, in small and medium-sized companies the coordination of marketing is solely achieved through personal instructions, no marketing management control can be introduced.

### 6.2.2 Tasks of Marketing Management Control

Weber and Schäffer (2006b, p. 70) structure the planning and management process (see Fig. 6.4) ideally as follows:

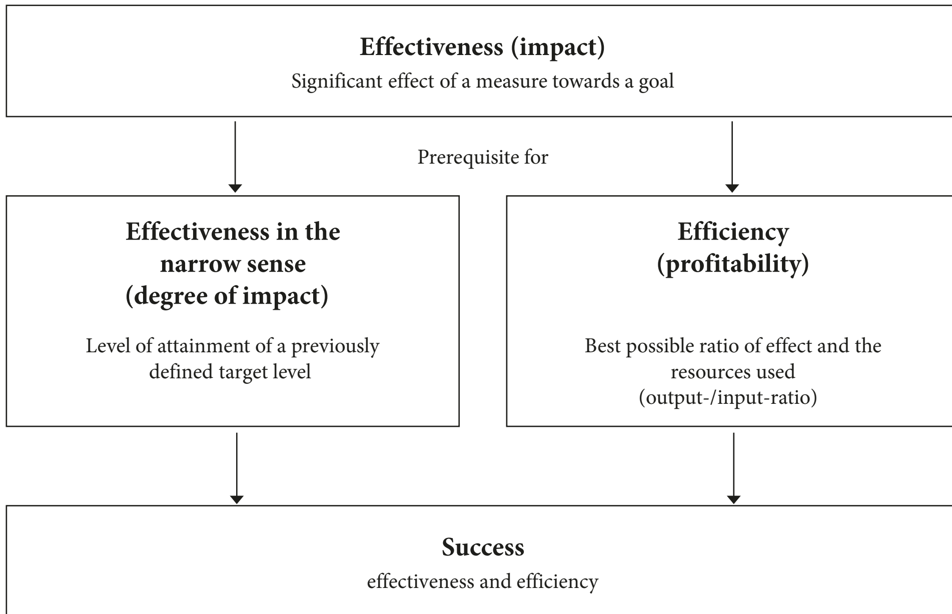


**Fig. 6.3** Relationship between effectiveness, efficiency and success (Lasslop 2003, p. 12)

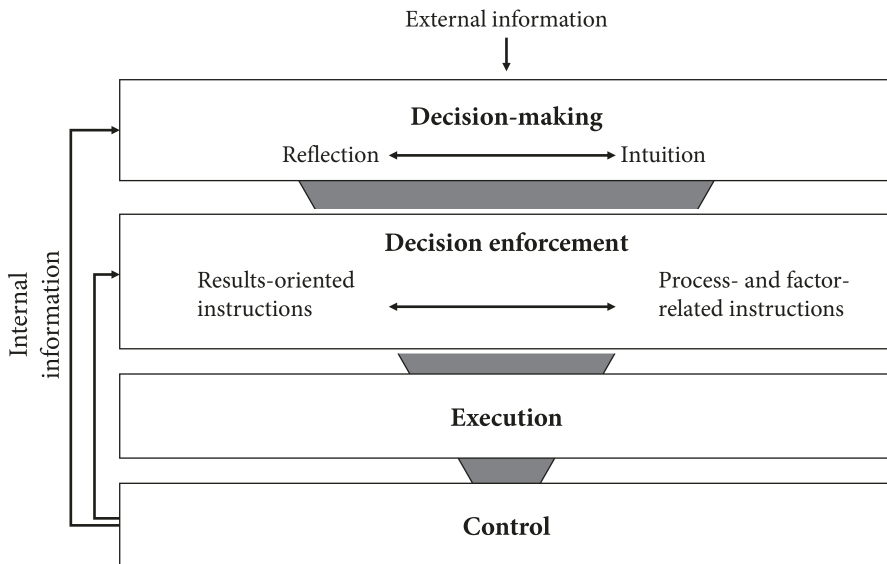


**Fig. 6.4** Idealised management cycle (Weber and Schäffer 2006, p. 70)

- The starting point is the *decision-making process*, which can proceed on the basis of reflection (intellectually influenced) or intuition ("gut feeling"). For a reflective process, there has to be sufficient knowledge available for an analytical consideration which is based on experience or external information.
- In order to *enforce* the decision, it has to be communicated to the employees responsible for implementation. This may be in terms of target results (e.g. contribution margin envisaged for the end of the year), process specifications (e.g. specification of a certain sales method) or factor-related instructions (e.g. specification of the maximum cost budget).
- Ideally, the decision communicated by management is actually implemented by the employees. This execution phase is not part of the leadership or management system, although *controlling* the match between what has been envisioned and what has been achieved is. The result of this comparison of the target and the actual state either leads to renewed decision-making (e.g. revision of the plan) or forms the basis for new enforcement processes (e.g. mandating specific activities to achieve a future match between the actual and target states). Decision-making, implementation and control are therefore closely related to each other.

Using this approach for structuring marketing management control, the following tasks can be distinguished (see Fig. 6.5):

**Providing problem-related information**

This includes the problem-specific bundling and coordination of information, especially from *accounting* and *market research*. Here, market research is understood as the function

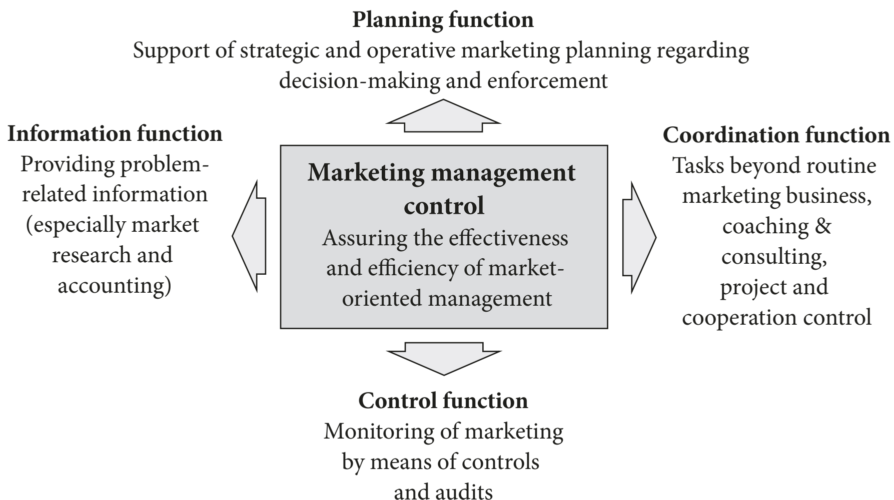


**Fig. 6.5** Tasks of marketing management control (Reinecke and Janz 2007; building upon Köhler 2006, p. 43)

that connects consumers, customers and the public with the provider through information (Kuss 2012, p. 2). From a management-related perspective, the focus should particularly be placed on the interpretation of this information, rather than on pure collation or simple analysis. It is important that the various units and departments in Marketing (for example Product Management and Account Management) receive this information (such as product or customer contribution margins, market and customer shares) in such a way that it can be processed in in a timely and effective way. Moreover, it is necessary to coordinate the interfaces between these numerous marketing units to allow for an integrated view.

**Supporting Marketing Planning with Regard to Decision-Making and Implementation**
Besides processing information of relevance for decision-making, this includes support for management in generating decision-making options. In practice, the lack of thought given to alternative marketing strategies and implementation measures is a central flaw in many marketing concepts; marketing management control can help to identify and surmount this problem. The evaluation and critical examination of decision-making options is also part of this task, both in terms of financial consequences as well as their feasibility and enforceability.

Marketing management control supports marketing management methodically and instrumentally, for example in budgeting, selecting market and customer segments, or regarding the question of how incentive systems can be configured effectively and efficiently. This also includes the configuration of the interfaces and interrelationships between marketing and the other functional areas, especially since all corporate planning is usually based on sales planning.

**Marketing Monitoring: Controls and Audits**
Köhler (2006) summarises controls and audits under the term “monitoring”.

*Controls* are retrospective comparisons of targets and the actual status; they complete the cycle of decision-making and decision enforcement, which makes them an important component of marketing management control. For example, marketing mix control – as the name indicates – serves to check the marketing mix and its components with regard to a product’s market success. The focus lies on questions such as the following:

- Have the goals with regard to individual marketing instruments (e.g. increase in the level of awareness for a product, image change, higher level of distribution) been reached?
- How have the product’s sales and market shares developed in relation to the envisioned goals?

*Audits*, in contrast, are more future-oriented monitoring processes with a feedforward character that deal with the conditions for future utilization of success potential. The term “audit” refers to a broad-based critical investigation of the situations important for a company’s marketing. Kotler et al. (1977, p. 27) define: “A marketing audit is a comprehensive, systematic, independent and periodic investigation of the marketing environment,

goals, strategies and measures of a company or a business unit with a focus on identifying problem areas and opportunities and recommending measures to improve the marketing performance of the company."

The keyword "comprehensive" refers to the fact that all the important aspects of marketing and not just the current problem areas are subjected to monitoring. This monitoring is carried out systematically in that a sequence is prescribed from the analysis of the framework conditions through to individual measures. Impartiality and therefore objectivity of the results is best achieved if the audit is conducted by a central audit department or by suitably qualified external consultants. Audits should be performed periodically to avoid the situation that an investigation is only started once a business area is in difficulties. It also assures an ongoing updating of the market orientation (which is imperative for marketing).

**Coordination Function**

This concerns activities beyond the routine marketing business and includes the control of specific marketing and sales projects, as well as marketing cooperations with other companies.

This function also encompasses support for comprehensive projects, such as the overall alignment of marketing to value-oriented corporate management (keyword: shareholder value) or the introduction of key performance indicator systems for marketing. The high topicality of these systems in science and practice has led to a strong interest in the question of how to develop quantitative parameters for the contribution of marketing to corporate value and earnings (Ambler 2003). Here the focus is on determining and applying monetary and non-monetary marketing performance indicators (e.g. for customer satisfaction and value, non-monetary brand strength and financial brand value). These are referred to as "marketing metrics" (Ambler 2003; Farris et al. 2010). Reinecke (2014) determined the most common and important key performance indicators for marketing and sales (survey of 388 companies in German-speaking countries). According to the share of companies that counted the respective indicator among the five most important indicators for the company, these are (Reinecke 2014, p. 19):

- turnover/sales volume (69 %),
- net profit (46 %),
- market share (39 %),
- contribution margin I (28 %),
- customer satisfaction (28 %),
- relative sales growth (22 %),
- perceived service quality (22 %),
- turnover per employee (19 %),
- relative market share (18 %),
- share of new customers in the customer portfolio (18 %).

A noteworthy result of this study is that parameters that receive much attention in the literature, such as customer or brand value, have so far failed to receive the same attention in practice. This is particularly due to the fact that dynamic marketing performance indicators are very hard to operationalise.

However, marketing performance indicators may also serve to support the implementation of marketing strategies, either by means of a marketing-specific key performance indicator system (see Reinecke 2004 for more details) or, in the context of the entire company, with a balanced scorecard, which will be discussed in detail below.

## 6.3 The Balanced Scorecard as an Aid for Implementation and Control

Since the 1990s the concept of the balanced scorecard has emerged from the USA, attracting strong interest and diverse applications. It is an extension and advancement of the traditional performance indicator systems (mainly aimed towards the finance sector). By jointly considering the financial perspective, customer perspective, internal operative perspective (internal business processes), and the learning and growth perspective (personnel), a balanced combination of relevant earnings figures and success factors is achieved. Then the relevant parameters are presented in a summarised form in a report sheet (scorecard). As explained below, the balanced scorecard serves both for implementing strategies and for control.

**The Importance of the Balanced Scorecard for Implementing Strategies**
"The balanced scorecard provides a framework to communicate and describe the strategy in a comprehensible way. We cannot implement a strategy if we cannot describe it. In contrast to the financial sector, where standard systems have long existed, such as bookkeeping, profit and loss accounting, there are no generally accepted principles of regularity to describe a strategy." (Kaplan and Norton 2001b, p. 11)

In the following, the four perspectives mentioned above will be characterised in more detail. The longest and most firmly established perspective in management control is the *financial perspective*. Common parameters include cash flow, profit or return on investment of a business field. The *customer perspective* focusses on the identification of the customer groups and market segments which the company caters for and the definition of the relevant parameters (e.g. market or customer share, share of satisfied customers). Success with customers – for example in the form of high sales volumes or insensitivity to price increases resulting from customer loyalty – leads to the attainment of financial goals.

On the other hand, the prerequisite for market success is adequate performance (superior to that of the competition). Rendering this performance is the object of the *company-internal perspective*. So this is a matter of ensuring product quality, delivery capability, speed of product innovation etc., i.e. the configuration of the internal business processes in such a way that customer needs can be better met than by the offerings from competing companies. With regard to the fourth perspective, the *learning and growth perspective*, aspects of the employees' qualification and motivation, of information supply and organisational structure, are paramount. These form the basis for rendering current performance and, not least, for innovations that safeguard and expand competitive advantages (Kaplan and Norton 1996, p. 43 ff. and; 2001, p. 63 ff.). For each of the four perspectives, the respective *goals, measurement parameters, specific manifestations* of these measurement parameters and *measures* have to be defined. Figure 6.6 shows an example of such a balanced scorecard in which the relationships between the various perspectives and the dependence of the goals for these perspectives are implied from the company's vision and strategy.

The connection between the respective goals and measures for the four perspectives implied in the figure is illustrated by an example: If one of the goals from the customer perspective is that an outstanding image of the customer service is strived for, the corresponding measurement parameter could be the assessment of one's own customer service in comparison with competing providers, as derived from a customer survey. The specific manifestation of this measurement parameter corresponding to the goal could be, for

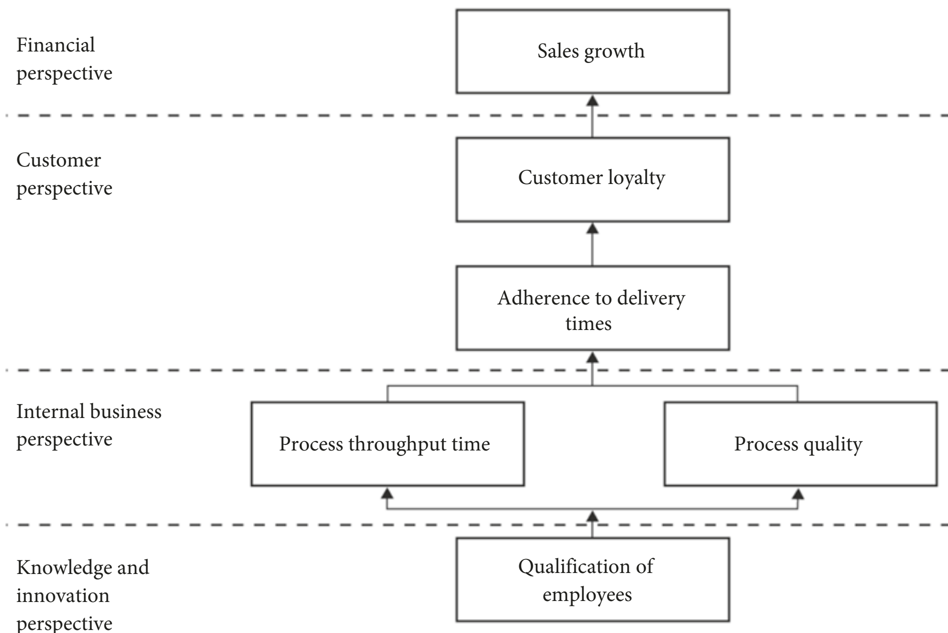


**Fig. 6.6** Structure of a balanced scorecard (according to Kaplan and Norton 1996 p. 9)

instance, that a share of at least 75 % of customers evaluate one's own customer service as best of all. Measures to attain this specific goal could possibly be training courses for customer service employees and communication measures to help customers to better identify the company's capabilities.

The causal relationship between the various perspectives of a balanced scorecard and the goals and measures as stipulated by Kaplan and Norton (1996, p. 30 f.)can be illustrated by the following (hypothetical) example. A company wants to achieve a certain sales growth by existing customers making more repeat purchases. This requires strengthening of customer loyalty. It appears that this is significantly influenced by delivery times. So the internal business processes have to be configured such that production and delivery times are short and can be precisely adhered to. In turn, the precondition for this is the relevant qualification and motivation of the employees involved in these tasks. Figure 6.6 presents the detailed relationships for this example.

The example is also intended to clarify why, as mentioned at the beginning of this section, the balanced scorecard serves both for the *implementation of strategies* as well as for their *control*. On the one hand, it is apparent how certain strategic goals (e.g. growth of a business area) can be more and more substantiated and related to the various corporate areas (e.g. R&D, advertising, customer service, sales). The measures necessary for implementation arise from this. On the other hand, the parameters used and their specific manifestations in line with the respective aims can also serve as control parameters.

The balanced scorecard is a concept that relates to all the various functional areas of a company and thus goes beyond the scope of marketing planning which is covered in this book. But the following example of a balanced scorecard is set up mainly with regard to marketing aspects (see Fig. 6.7).

Figure 6.7 Example of a balanced scorecard with a marketing emphasis

The balanced scorecard presented in Fig. 6.7 illustrates the conceptual chain from the objectives to the corresponding measures. Furthermore, it is apparent that the various perspectives are also logically linked with one another. For instance, an increase in profitability (financial perspective) may be achieved through increasing prices. This requires, among other things, an increase in customer loyalty (customer perspective) that may be achieved with especially fast service (internal perspective). In the reverse direction, the employees' customer orientation (learning and growth perspective) can, by means of "tailored" products, lead to a favourable positioning (customer perspective) and thus to more scope for increasing prices (financial perspective). This also demonstrates how goals function as links between different planning levels as discussed in Sect. 4.2.

Finally, it should be pointed out that the example presented in Fig. 6.7 illustrates the function of a balanced scorecard for implementation *and* control. The different measures with the respective targets to be achieved are also well suitable as control parameters. At the same time, the assignment of measures to targets and the linking of different corporate areas and planning levels also serves for implementation, because specific goals and concrete tasks for certain employees or departments can be derived from general goals.

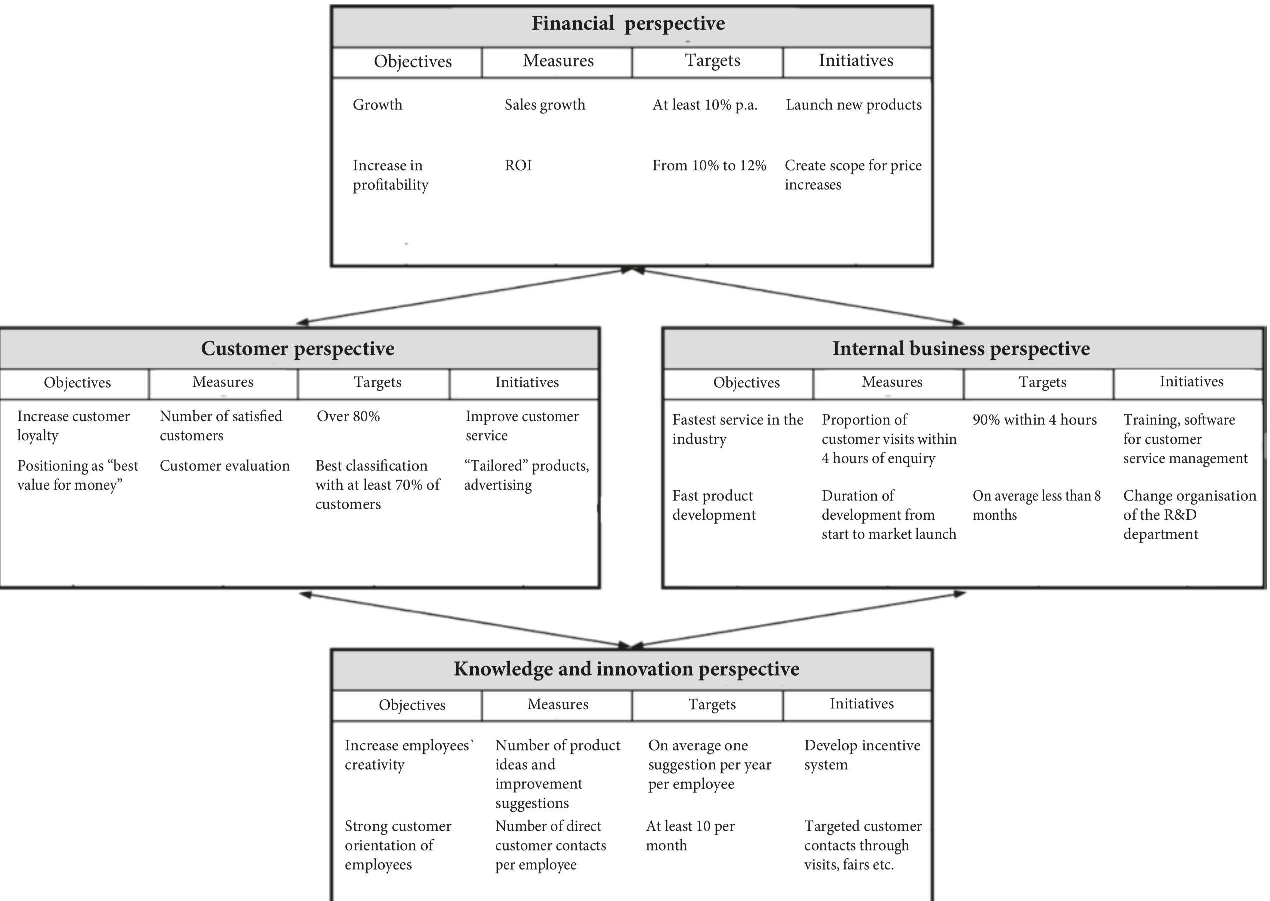


**Fig. 6.7** Cause-effect relationship between the elements of a balanced scorecard (According to Kaplan and Norton 1996, p. 31)

The *strengths of the balanced scorecard* lie in connecting strategy formulation and implementation and therefore in the field of communication. Its *weaknesses* usually lie in the way in which this instrument is introduced. Often it is prescribed one-sidedly "from above" without the participation of the key personnel, so the performance indicators are often hardly used in practice. Although the fundamental interdependencies delineated by the scorecard appear plausible, there is no empirical evidence and the effects are often delayed, which may be easily overlooked when interpreting the overall key performance indicator system. From a marketing perspective it would be useful to operationalise as many competition-oriented performance indicators as possible – the comparison with competitors is, after all, the customers' yardstick as well.

The balanced scorecard has become established in practice as a helpful instrument that mitigates two key deficits of marketing implementation at the same time: Firstly, it ensures a connection between (strategy) planning and control, and secondly, it integrates marketing in the corporate strategy and thus ensures market-oriented management.

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