

# Plan for Today

- Recap of Session One
- Different Orientations of Marketing
- Planning Cycle
- Company Analysis:
  - BCG Matrix
  - GE Multifactor Model
  - Core Competence and Competitive Advantage

# Recap: Session 1

- What is Marketing:

Marketing is delivery of customer satisfaction at a profit: attract new customers by promising superior value, and keep current customers by delivering satisfaction.

- Marketing = Choosing Profitable Exchanges
- 3Cs of Marketing: Customer, Company, Competition
- 4Ps of Marketing: Product, Price, Promotion, Place

# Barbie Video

- Company: One woman vision
- Consumer: Children, Parents: Liberated, Self expression – importance of research... Westernization, American-ness
- Competition: International (Cindy)
- Product: The idea, The shape/size. Extensions. Accessories. Name. Packaging. Role of Ken.
- Price: Premium
- Promotion: Ads, Matching the changing environment
- Place: Worldwide
- Other Issues: Ethical issues. Loyalty  $\Rightarrow$  Relationship

Take-away: Understanding consumers is key.

## **Session 2:**

**Part One: Marketing Philosophies and  
the Planning Process**

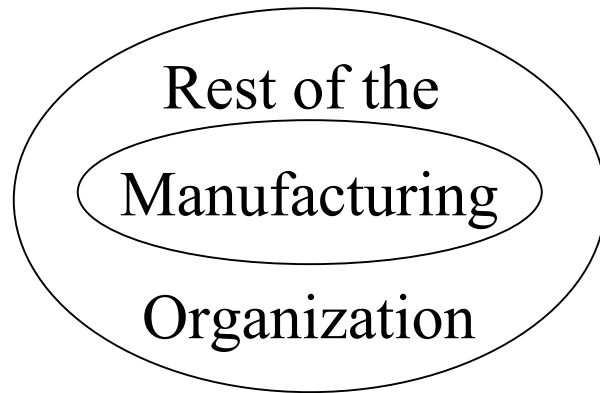
**Part Two: Company Analysis – Portfolio  
Planning and Core Competence**

# **Sell-A-Pen Exercise**

# **Different Orientations of Marketing**

- Production Orientation
- Product Orientation
- Sales Orientation
- Market Orientation

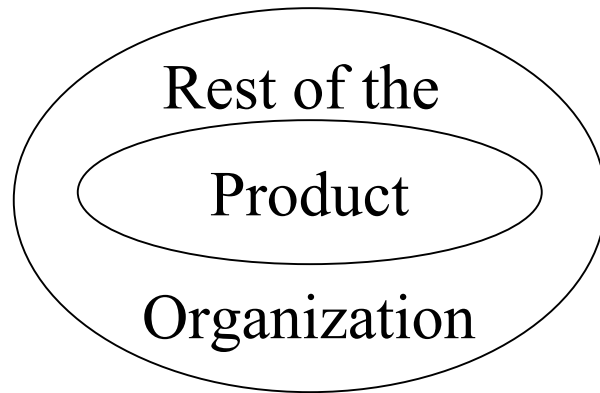
# The Production Concept



## **Business centered around Manufacturing**

- Consumers favor products that are
  - Widely available
  - Affordable
- Focus on operational efficiencies and cost reduction
- Product quality not the primary focus

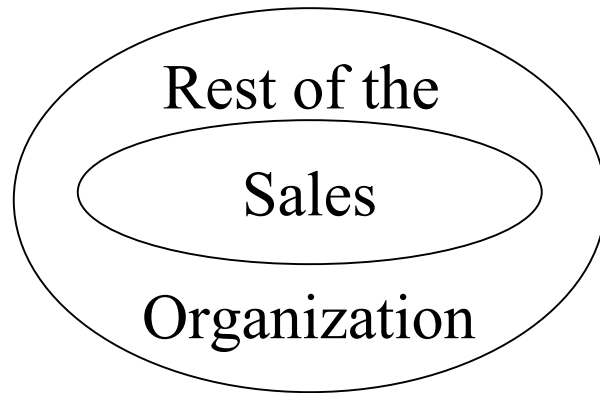
# The Product Concept



## **Business centered around Product**

- Consumers favor products that offer
  - Highest quality
  - Best performance
  - Most innovative features
- Focus on design features and product excellence

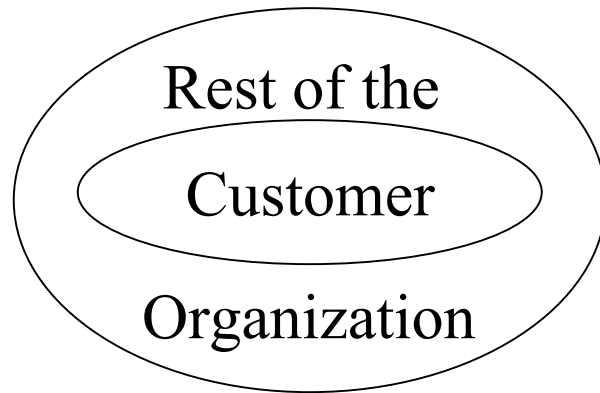
# The Selling Concept



## **Business centered around Sales**

- Sell what you make
  - Focus on sales transactions
  - Typically for unsought goods
  - Driven by overcapacity
  - Assumes hard sell customers are satisfied
- Focus on clinching the ‘deal’

# The 'Marketing' Concept



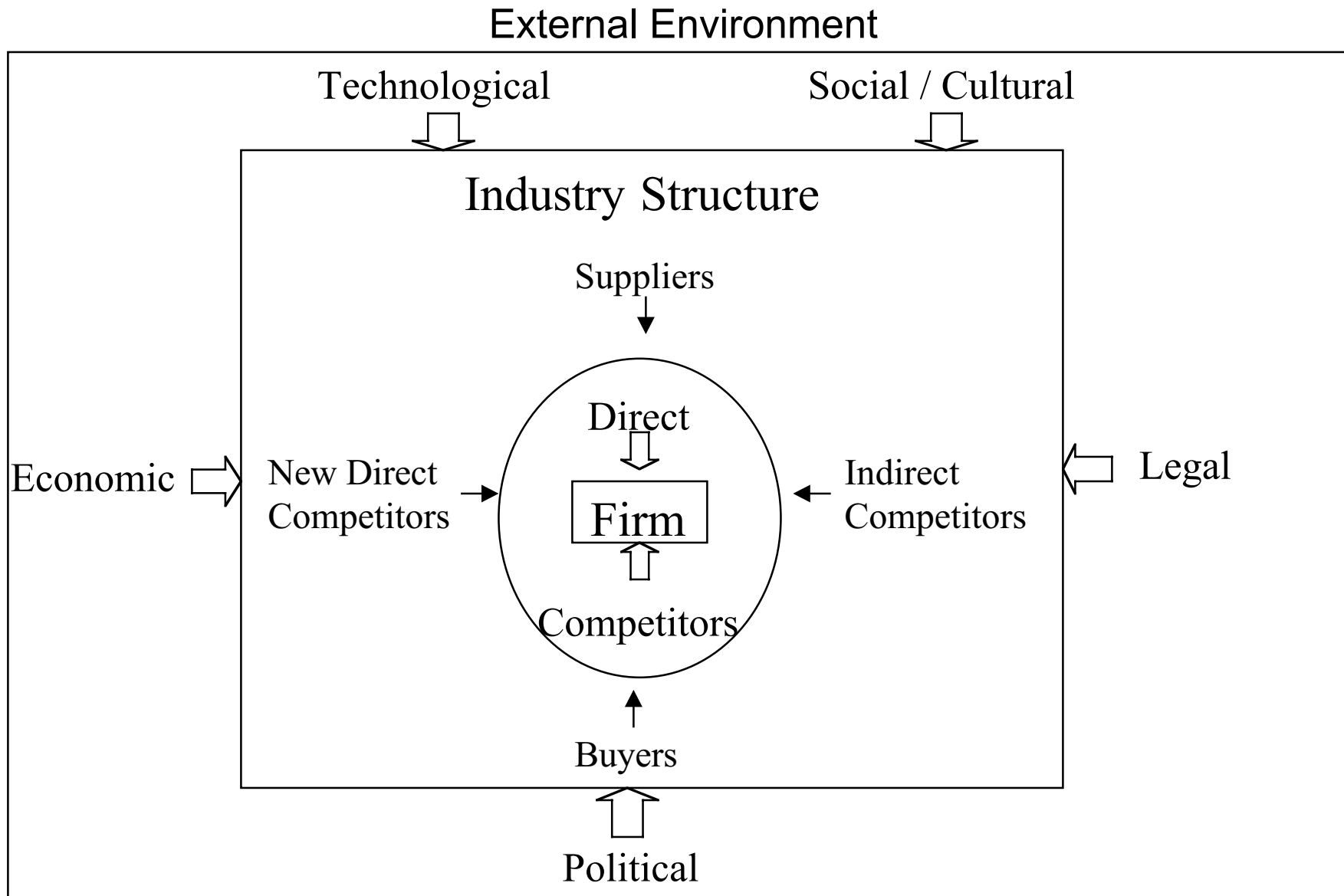
## **Business centered around the Customer**

- Assumes that
  - Customers have unmet needs
  - Organizations can provide products and services that satisfy these needs at a profit
- Focus is on providing 'value' to the customer

# Selling Versus Marketing

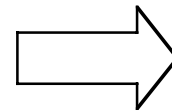
Starting Point	Focus	Means	Ends
Factory	Existing products	Selling and promoting	Profits through sales volume
<b>The selling concept</b>			
Market	Customer needs	Integrated marketing	Profits through satisfaction
<b>The marketing concept</b>			

# Marketing and the Changing Business Environment



# Consequences of Environmental Forces

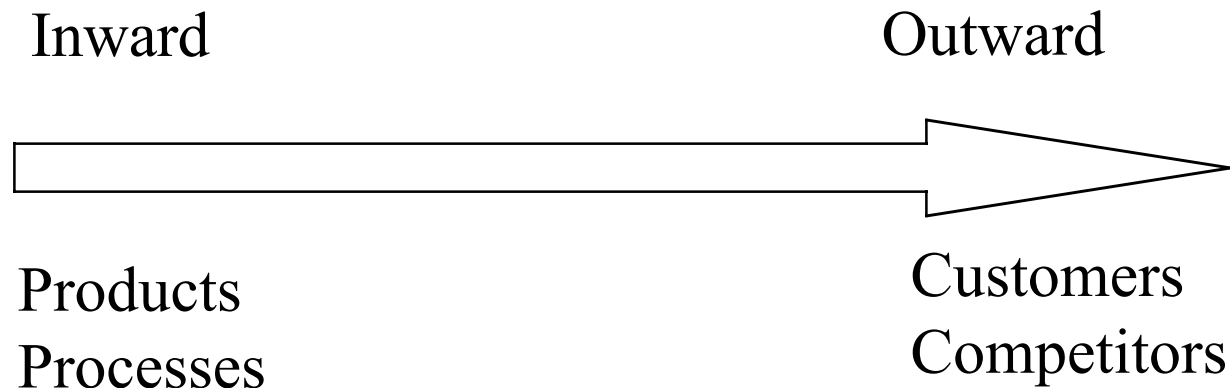
- **Increasing Competition**  
Competition in the old days was like a tea party compared to what it's like today (Jack Trout, 1999)
- **Shorter product life cycles**  
Memory chip capacity will double every 18-24 months (Moore's Law)
- **Sophisticated customers**  
...the Web represents an enormous shift in power to the consumer (Evan Schwartz, author of *Webonomics*, 1997)



Squeeze on profits

# The Marketing Philosophy

- Company Orientation



- Consequences of outward orientation
  - Pricing: Cost-plus or value-based
  - Marketing \$: Expenses or Investment
  - Org. Str.: By Product/Process or By Customers

# The Marketing Concept

- To achieve organizational goals by determining the needs and wants of customers and delivering the desired benefits more effectively and efficiently than competitors

“There is only one valid definition of business purpose: to create a customer.

- Peter Drucker

“Everything starts with the customer.”

- Lou Gerstner, CEO of IBM

“Creating shareholder wealth is not the purpose of the business. It is the reward for creating customer value.”

- Michael Tracy and Fred Wierseman in CFO magazine

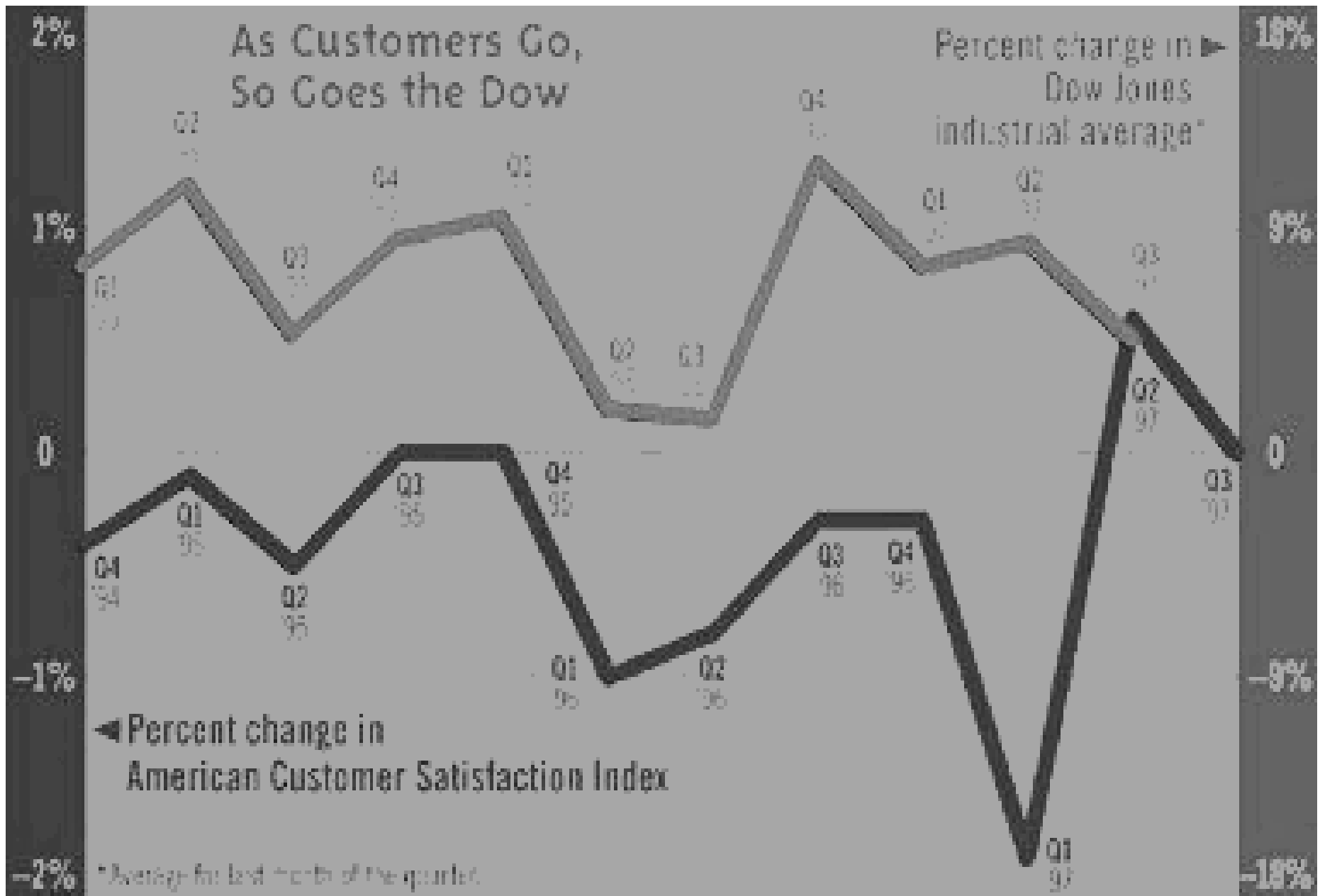
# The Marketing Concept

“In the factory we manufacture cosmetics. In the drugstore we sell hope.”

- Charles Revson

As Customers Go,  
So Goes the Dow

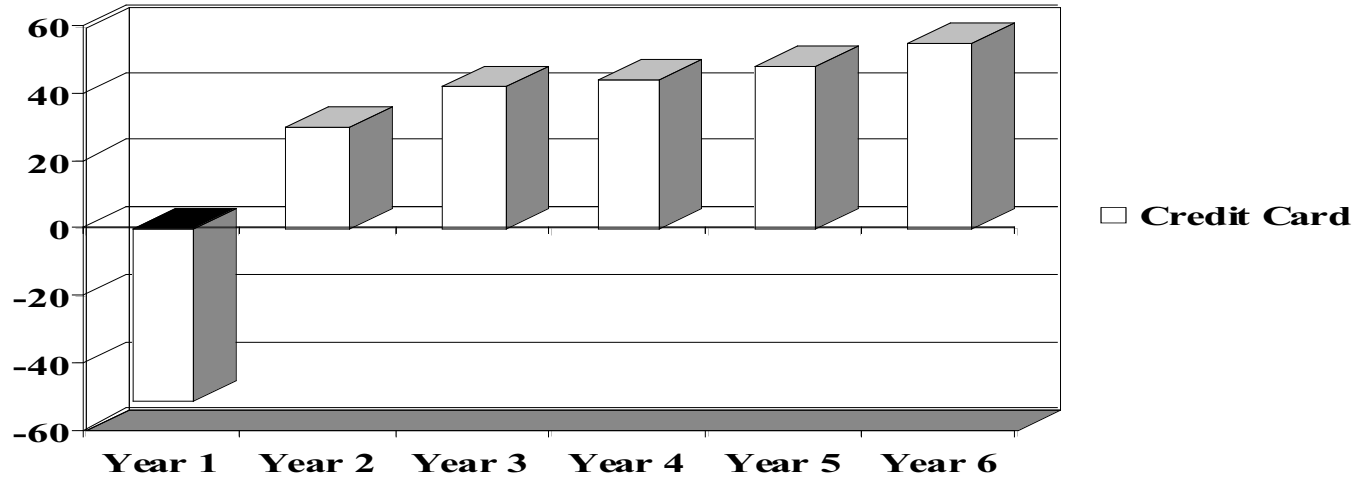
Percent change in  
Dow Jones  
industrial average\*



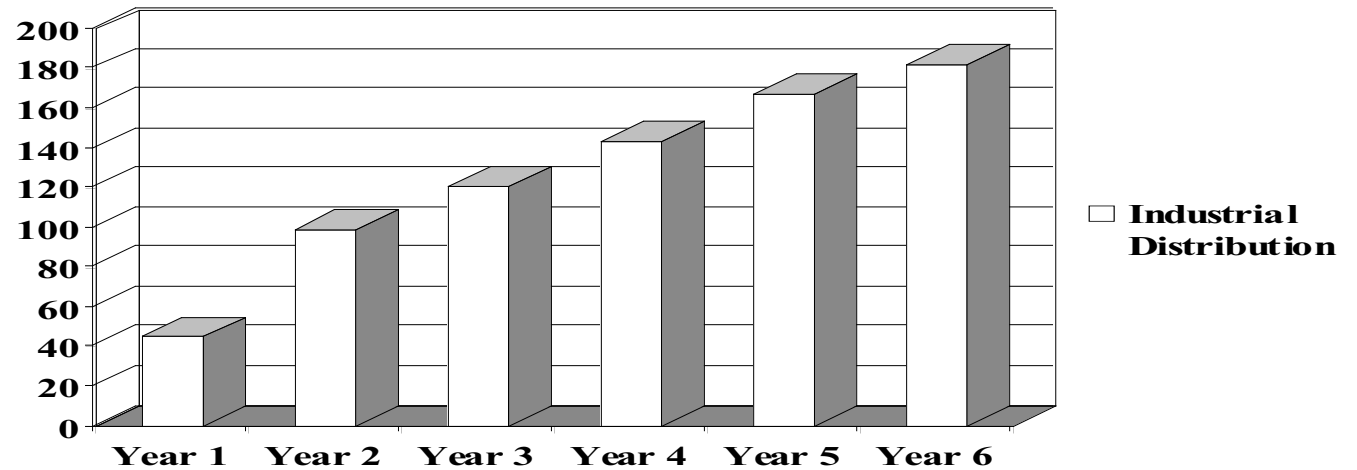
Source: National Quality Research Center at University of Michigan Business School

# Profit One Customer Generates Over Time

Dollars(\$)



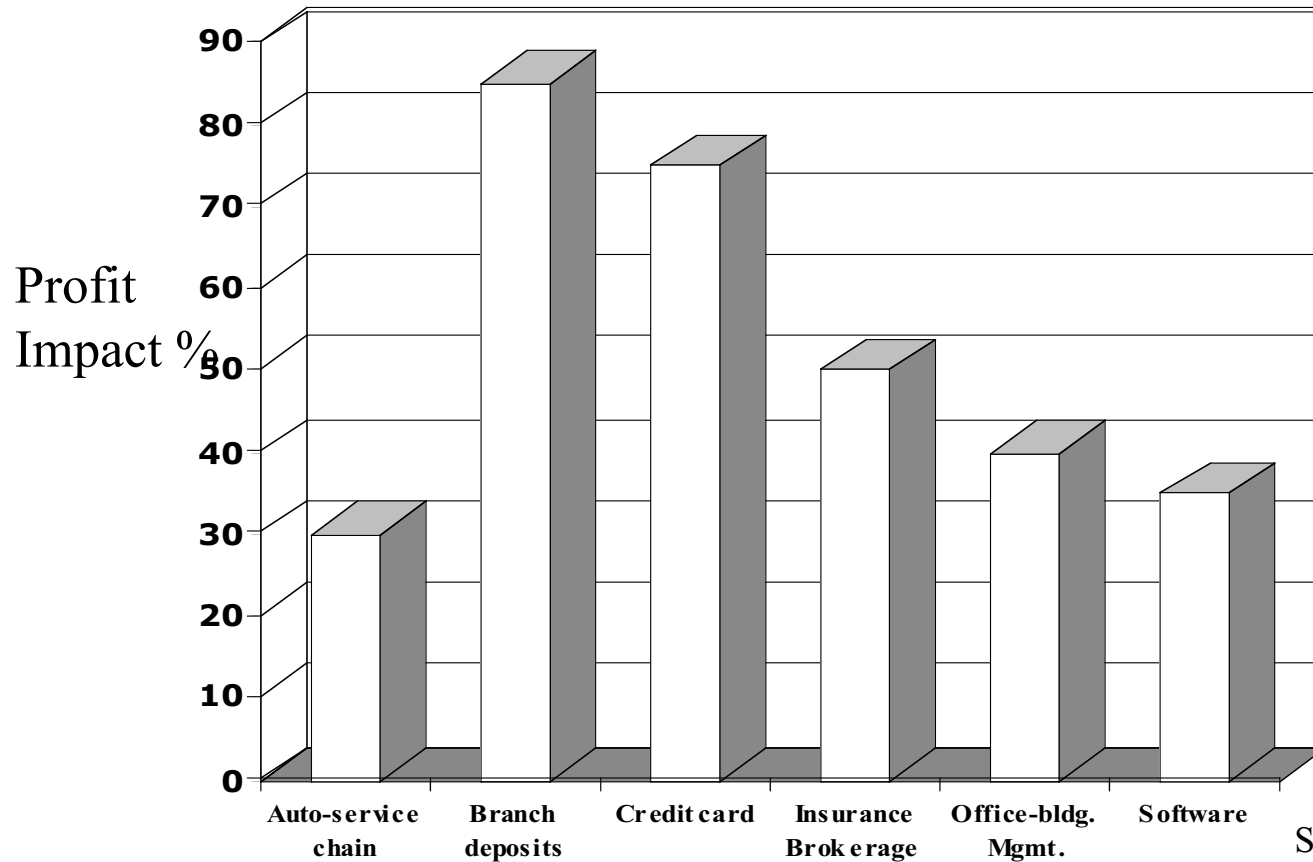
Dollars(\$)



Source : Bain and Company

# Customer Retention: Benefit v/s Acquisition Cost

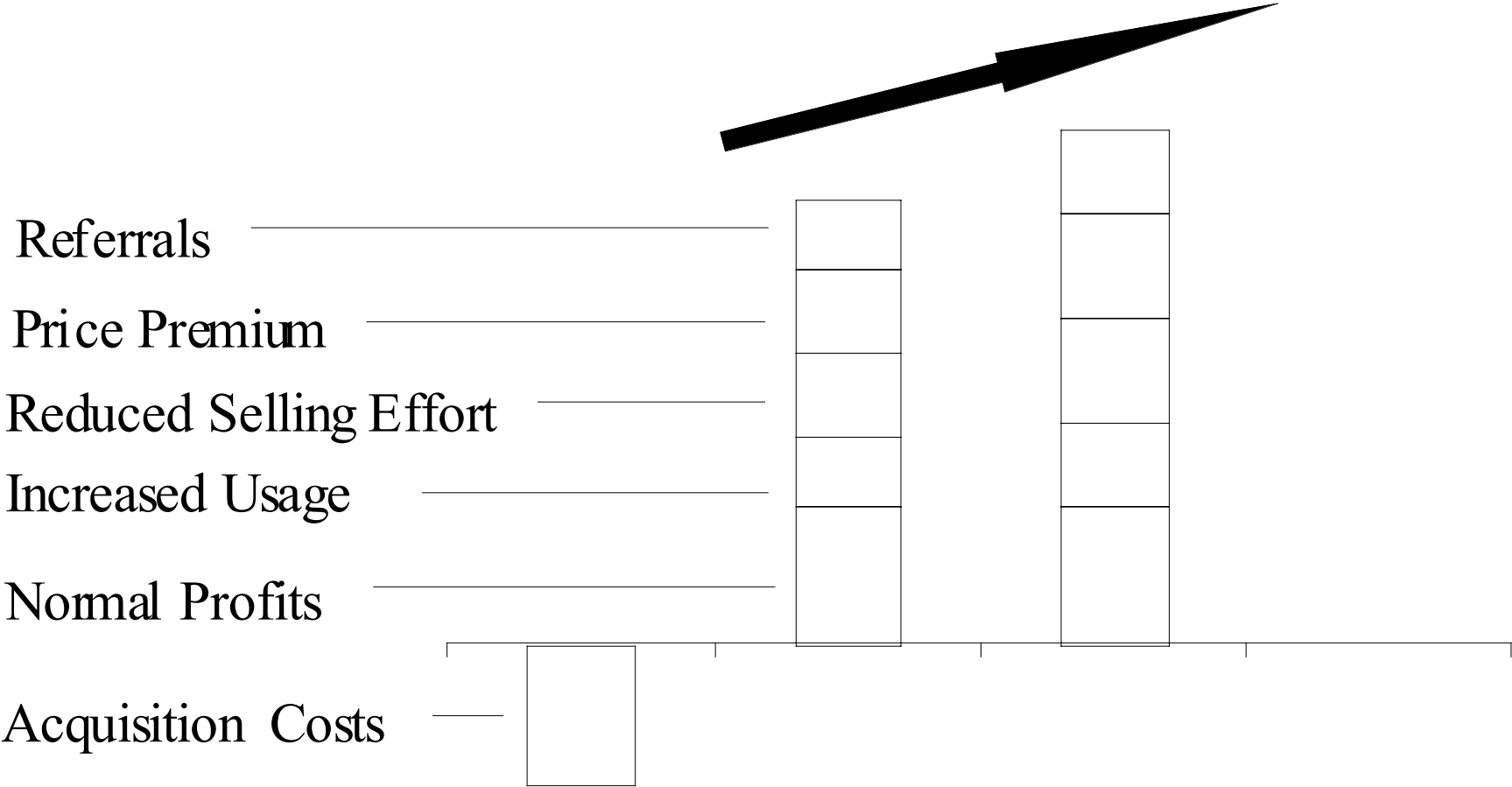
- Impact of reducing customer defections by 5% on industry profits



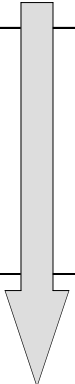
Source: Bain & Co.

- Cost of attracting a new customer can be upto 5 times the cost of keeping a current one happy

# Profits Through One Satisfied Customer

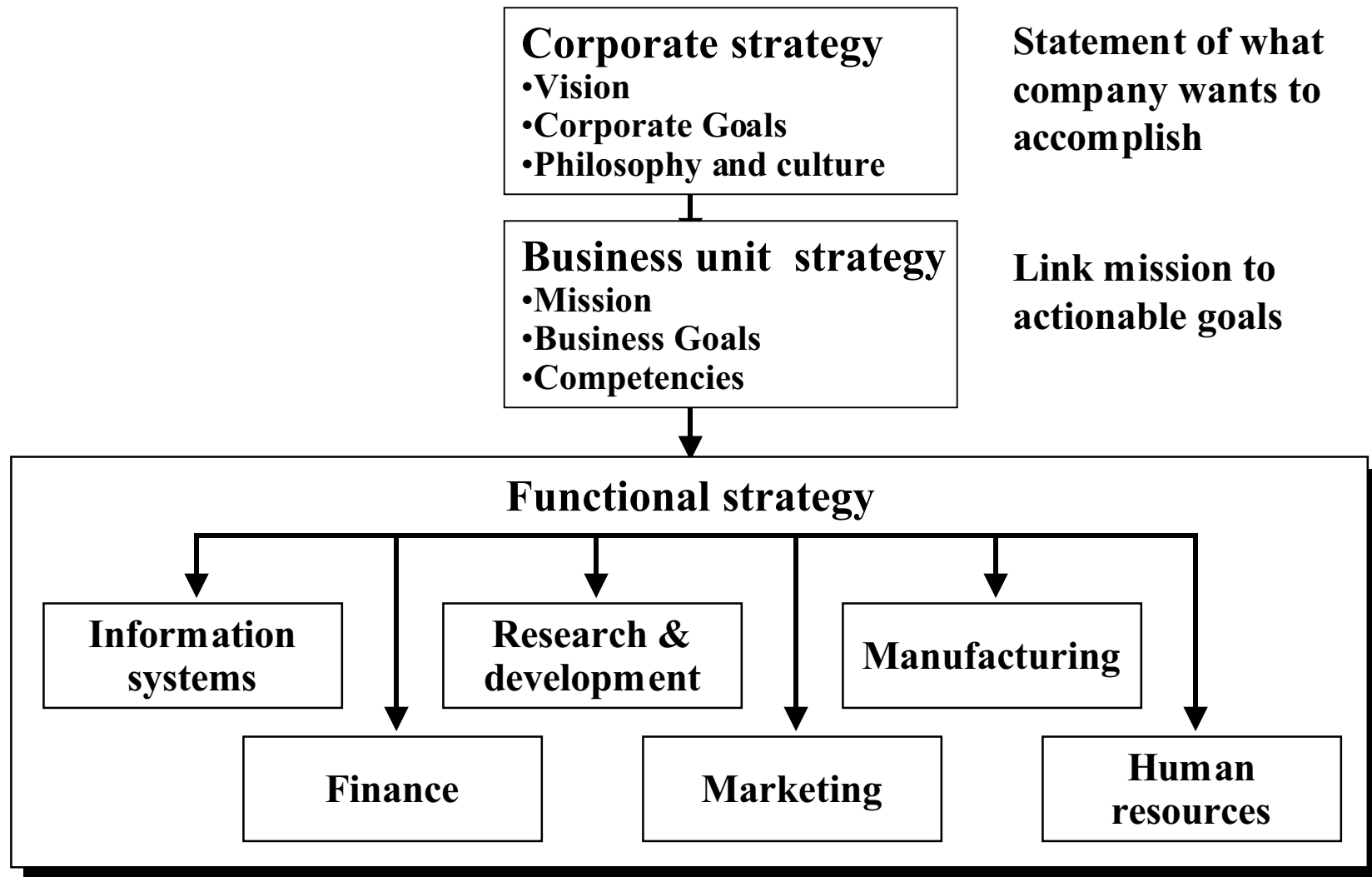


# Company Orientations Towards the Marketplace

<b>Orientation</b>	<b>Description</b>	<b>Relative Time Span</b>	<b>Basic Managerial Objective</b>
Production	Transition from Home Manufacturing to Factories	Industrial Revolution	Profit Maximization via Economies of Scale
Product	Focus on Product Development, Performance and Features and the Growth of Large Scale Industrial Empires		Profit Maximization Through Superior Product Performance
Sales	Transition from Scarcity of Goods to Scarcity of Markets; Market Saturation with Basics		Profit Maximization via Demand Generation
Marketing	Transition from Internal (Organization) to External (Customer) Basis for Guiding Marketing Decisions	1990s	Profit Maximization via Matching of Products to Customer Wants and Customer Intimacy

# **Management Planning and Business Strategy**

# Three Levels of Strategy in an Organization

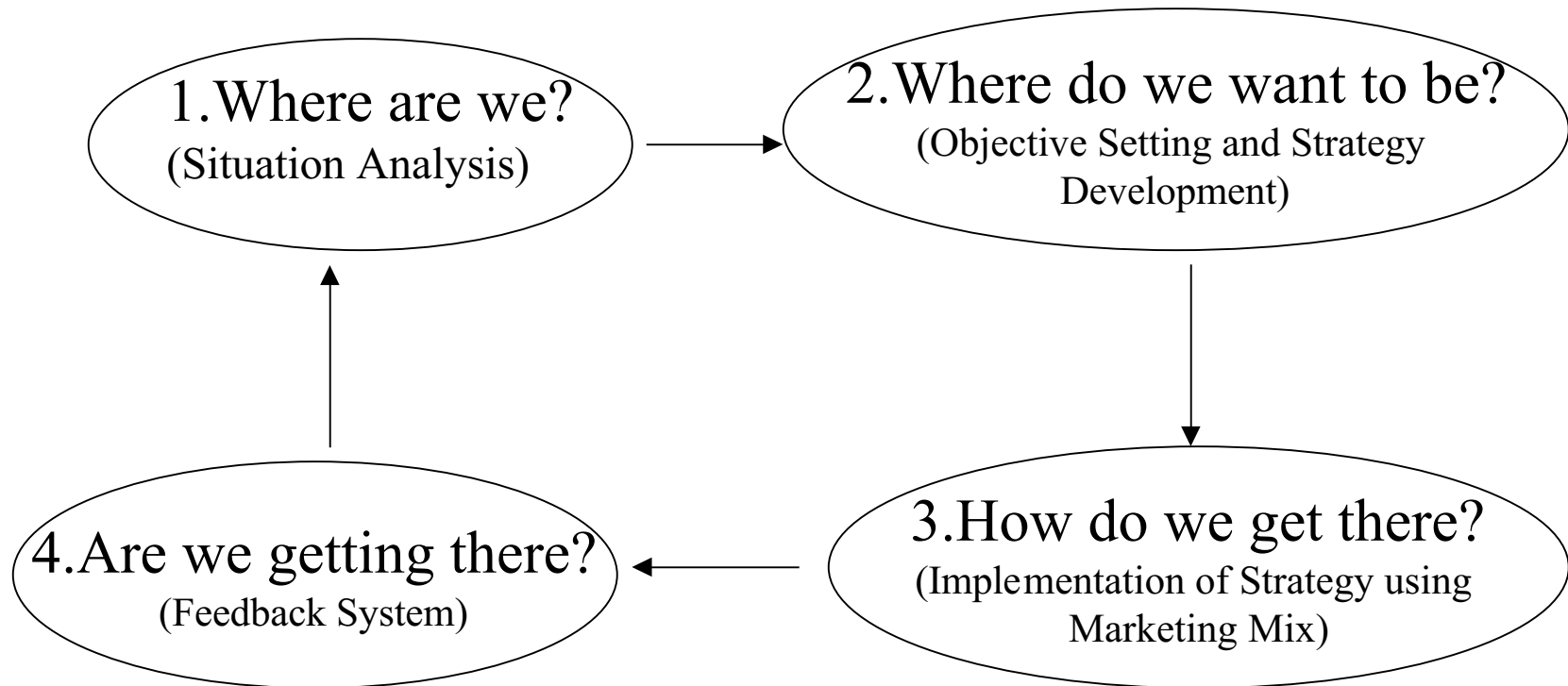


**Analyze current SBU's. Developed to support organization goals**

# **Marketing Planning in the Overall Business Strategy**

- Four key questions for developing, implementing and monitoring the business strategy

# The Planning Cycle



# A Framework for Marketing Planning

- Where are we?
  - Market and Industry Analysis
  - Customer Analysis
  - Company Analysis
  - Competitor Analysis
- Where do we want to be?
  - Company versus Marketing Objectives
  - Product/Market Strategy
  - Segmentation
  - Product Positioning
- How do we get there?
  - Product
  - Price
  - Promotion
  - Physical Distribution
- Are we getting there?
  - Feedback systems

# Where are we? (*Situation Analysis*)

- Market and Industry Analysis
  - Environmental Factors
  - Market definition
  - Market size and growth
  - Industry structure
  - Market segments
- Customer Analysis
  - Who buys
  - When
  - How do they get information
  - Important attributes
  - Where do they buy
  - Purpose of purchase

# Where are we? (*Situation Analysis*)

- Company Analysis
  - Company philosophy and mission
  - Portfolio Analysis
  - Capabilities: SWOT analysis
  - Profitability
- Competitor Analysis
  - Who are the current and future competitors
  - What is their current strategy
  - What are they likely to do in the future
  - SWOT analysis for key competitors

# Where do we want to be? (*Objective Setting*)

- Marketing Objectives in the Overall Company Mission
- Product/Market Strategy

		<b>Market</b>	
		Existing	New
<b>Product</b>	Existing	<i>Market Penetration</i>	<i>Market Development</i>
	New	<i>Product Development</i>	<i>Diversification</i>

- Segmentation
- Product Positioning

# How do we get there? *(Implementation via the Marketing Mix - 4 P's)*

- Product
  - Product Line
  - Product Design and Packaging
  - Brand Name and Line Extensions
  - Brand Equity
- Price
  - Skimming versus Penetration
  - Price Setting
  - Price Discrimination
  - Reference Prices

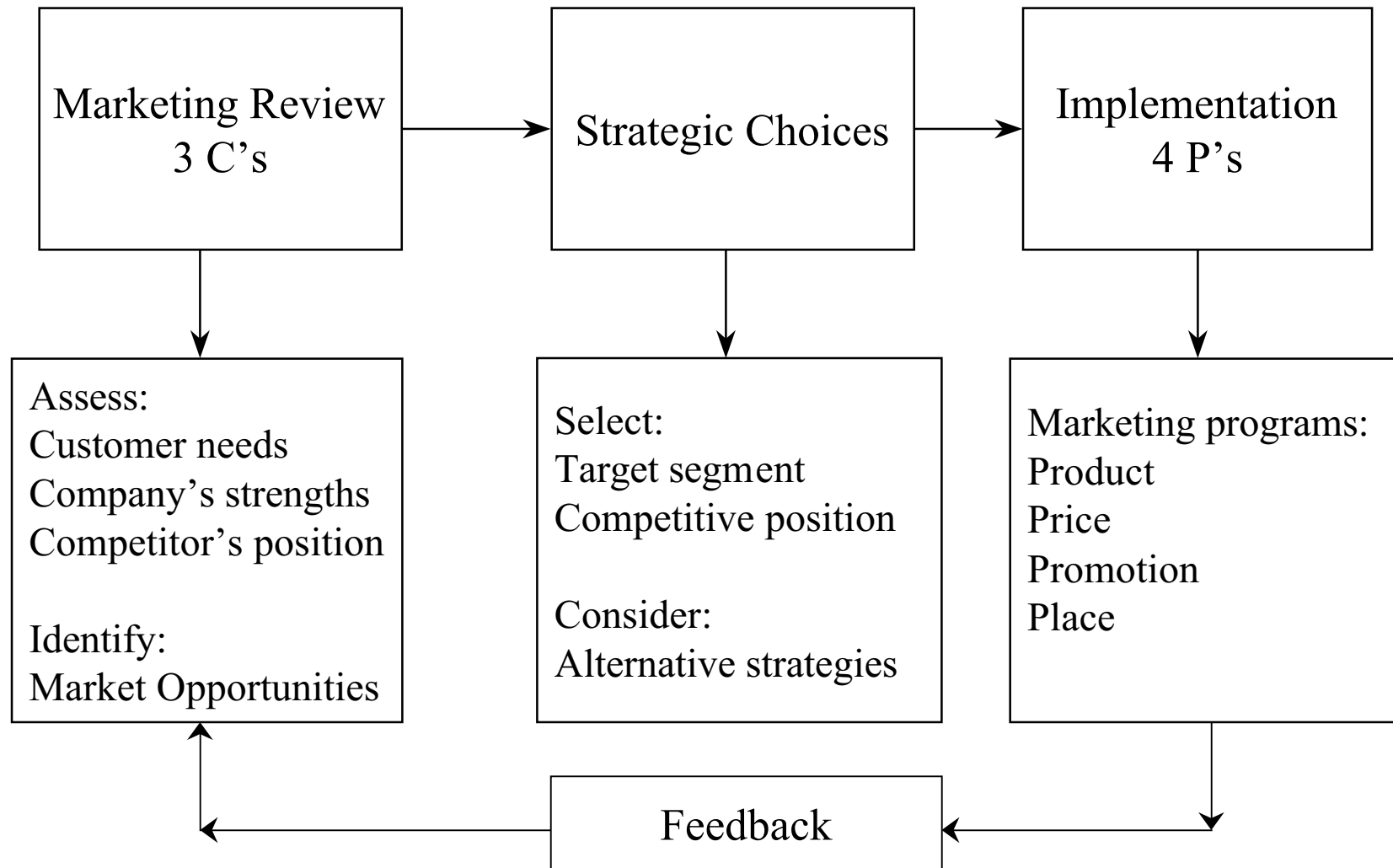
# How do we get there? (*Implementation via the Marketing Mix - 4 P's*)

- Promotion
  - Communication Strategy
  - Advertising versus Sales Promotion
  - Consumer versus Trade Promotion
  - How much to spend
  - Media Selection and Scheduling
- Physical Distribution
  - Channel Length and Breadth
  - Types of Dealers
  - Manufacturer's Reps or Own Sales Force
  - Selling on the Web

# **Are we getting there? (*Feedback System*)**

- Marketing Research
  - Qualitative and Quantitative research
  - Industry analysis, competitive research
  - Consumer insights: KAP
  - Product, price, advertising research
  - One-time, Tracking studies

# Marketing Planning using 3C - 4P Framework



## **Part Two**

# **Company Analysis: Portfolio Management and Competitive Advantage**

# Corporate Strategy and Portfolio Planning

The corporate strategic planning process consists of four components:

- Definition of the corporate mission
- Identification of the Strategic Business Units within the corporation
- Analysis of the current portfolio
- Development of a corporate plan for business growth

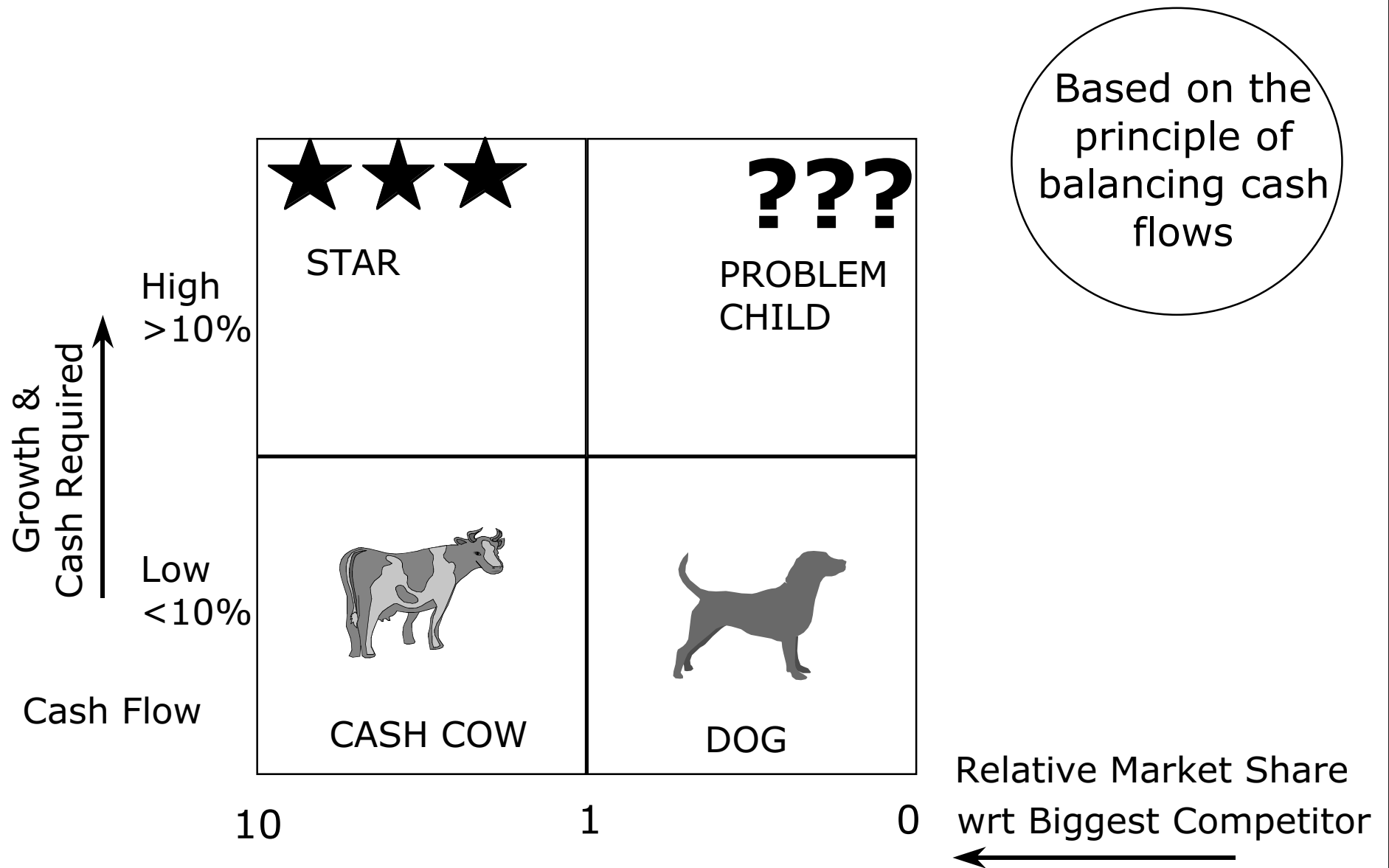
# The Corporate Mission

- What is our business (are we being myopic)? Who is our customer? What customer benefits do we provide?
- The corporate mission should reflect 3 elements:  
Environmental factors, Corporate resources,  
Customer needs

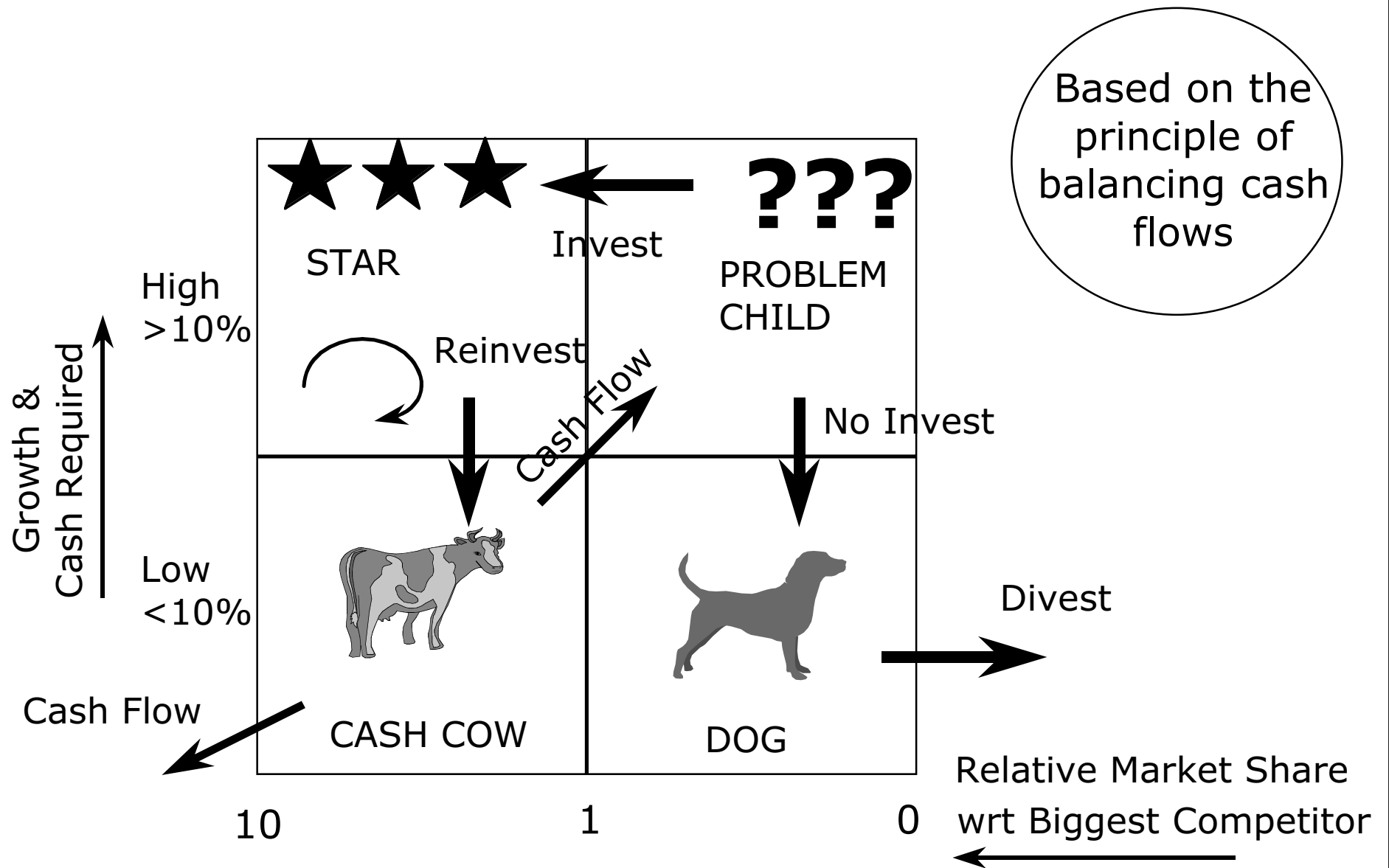
# The Strategic Business Unit

- A SBU is a single business or group of related businesses that can be planned independently from other company businesses (distinct mission, customers, competitors, resources or technologies, responsibility for profitability)
- Criteria for definition:
  - common consumer need or similar consumer characteristics
  - common technology or manufacturing process
  - same channels of distribution, etc.
- Guided by the corporate mission and objectives, the firm must select a collection of businesses or products, known as the “business portfolio”

# Portfolio Analysis: The BCG Matrix



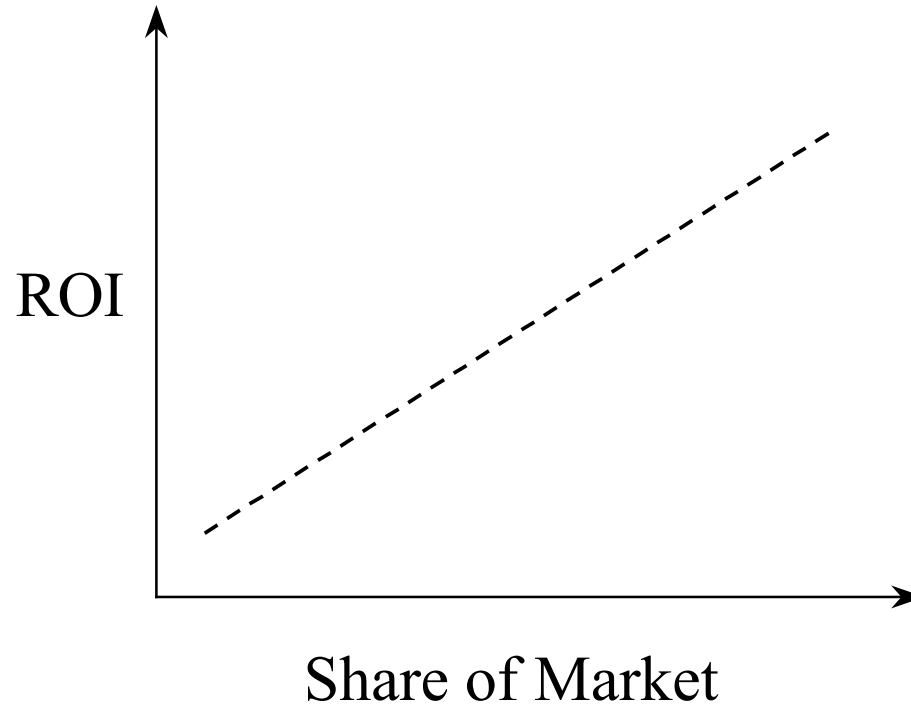
# Portfolio Analysis: The BCG Matrix



# The BCG Growth-Share Matrix

		High	Low
<b>Market Growth</b>	High	<p><b>STARS</b></p> <ul style="list-style-type: none"> <li>* Market leaders</li> <li>* Fast growing</li> <li>* Require investment to Grow</li> </ul> <p>STRATEGY</p> <ul style="list-style-type: none"> <li>* Protect share</li> <li>* Reinvest earnings through price cuts, product improvement, more efficiency</li> <li>* Obtain large share of new users</li> </ul>	<p><b>PROBLEM CHILDREN</b></p> <ul style="list-style-type: none"> <li>* Rapid growth</li> <li>* Poor profit margins</li> <li>* Enormous demand for cash</li> </ul> <p>STRATEGY</p> <ul style="list-style-type: none"> <li>* Invest to aggressively build share</li> <li>* Buy existing share by acquiring</li> </ul>
	Low	<p><b>CASH COWS</b></p> <ul style="list-style-type: none"> <li>* Profitable products</li> <li>* Generate more cash than needed for share maintenance</li> <li>* Slow sales growth</li> </ul> <p>STRATEGY</p> <ul style="list-style-type: none"> <li>* Maintain market dominance</li> <li>* Invest in process technology improvement and price leadership, R&amp;D in other product markets</li> </ul>	<p><b>DOGS</b></p> <ul style="list-style-type: none"> <li>* Many products may fall in this category</li> <li>* Cost disadvantage - few growth opportunities at Reasonable Cost</li> <li>* Markets not growing</li> </ul> <p>STRATEGY</p> <ul style="list-style-type: none"> <li>* Focus on a specialized, defensible segment</li> <li>* Harvest: cut back maintenance support</li> <li>* Divest (sell); abandon (Delete from line)</li> </ul>
		High	Low
		<b>Relative Market Share</b>	

# Relationship Between Market Share and ROI



----- 200 Companies with over 3000 Businesses

- Inc in MS => Inc in ROI, but not 'right' to chase MS
- Cost of attracting new customers...at the cost of profit...monopoly issues...

# The G.E. Multifactor Portfolio Model

		Firm's Position		
		High	Medium	Low
Market Attractiveness	High	<i>Grow</i>	<i>Build</i>	<i>Build Selectively</i>
	Medium	<i>Reinforce</i>	<i>Support</i>	<i>Limited expansion or Harvest</i>
	Low	<i>Maintain</i>	<i>Harvest</i>	<i>Divest</i>

## *Market Attractiveness*

- \* Market Size
- \* Growth Rate
- \* Cyclicality, Seasonality
- \* Competitive Intensity
- \* Rate of Technological Change
- \* Barriers to Entry
- \* Economies of Scale
- \* Regulatory Environment

## *Firm's Position*

- \* Market Share
- \* Product Quality
- \* Price Competitiveness
- \* Brand Image
- \* Production Strength
- \* Financial Resources
- \* Technological Skills
- \* Sales Effectiveness
- \* Distribution Capability

# Growth Strategies

## Markets

Existing

New

## Products

Existing

New

<p><u>Market Penetration:</u></p> <ul style="list-style-type: none"> <li>* Increase market share</li> <li>* Increase product usage             <ul style="list-style-type: none"> <li>- frequency of usage</li> <li>- more usage</li> <li>- new uses</li> </ul> </li> </ul>	<p><u>Market Development:</u></p> <ul style="list-style-type: none"> <li>* Expand markets for existing products             <ul style="list-style-type: none"> <li>- geographical expansion</li> <li>- target new segments</li> </ul> </li> </ul>
<p><u>Product Development:</u></p> <ul style="list-style-type: none"> <li>* Product line extensions</li> <li>* New products for same market</li> </ul>	<p><u>Diversification:</u></p> <ul style="list-style-type: none"> <li>* Vertical integration:             <ul style="list-style-type: none"> <li>- forward integration</li> <li>- backward integration</li> </ul> </li> <li>* Diversify into related businesses</li> <li>* Diversify into unrelated businesses</li> </ul>

# “Core Competence” of the Corporation

- Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology
  - Honda (engine design)
  - Sony (miniaturization of consumer electronics)
  - Amazon (leveraging the internet for information)
- Identifying core competencies
  - provides potential access to a wide variety of markets.
  - makes a significant contribution to the perceived customer benefits of the end product
  - difficult for competitors to imitate
- Core competencies v/s Strategic Business Units

# Sources of Competitive Advantage

## Skills:

- specialized knowledge of segment needs
- customer service orientation
- design expertise
- trade relationships
- ability to utilize relevant technologies
- systems design capabilities
- fast and flexible response capabilities

## Resources:

- distribution coverage
- financial structure and access to capital
- shared experience with related business
- low-cost manufacturing and distribution systems
- production capacity
- control of raw material sources

# “Sustainable” Competitive Advantage

- Resources need to pass the market test of value:
  - Is resource hard to copy?
  - How quickly does resource depreciate?
  - Who captures the value that resource creates
  - Whose resource is really better?
- Implications:
  - need to invest in resources
  - need to upgrade resources
  - need to leverage resources
- Managers typically
  - over-estimate transferability of specific skills and assets
  - over-estimate ability to compete in highly profitable industries
  - assume competitive advantage in one industry transfers to others regardless of competitive dynamics

# Fit & Sustainability: Southwest Airline's Activity System

15 min. gate

turnarounds

No seat  
assignments

No meals

No baggage  
transfers

No connections  
with other airlines

**Frequent,  
reliable  
departures**

**Limited  
passenger  
service**

**Short haul,  
point-to-point  
routes between  
midsize cities,  
secondary  
airports**

**Lean, highly  
productive  
crew**

**Very low  
ticket  
prices**

**High  
aircraft  
utilization**

Limited use  
of travel agents

Flexible  
union  
contracts

High level of  
employee  
stock ownership

Standardized  
fleet of 737  
aircraft

Automatic  
ticketing  
machines

# Company Analysis: Summary

- The objective of corporate strategy is to develop and maintain fit between the company's resources and goals and market opportunities
- Need to develop corporate strategy by looking inward *and* outward
  - Sustainable Competencies combines both
  - Other models are also useful (BCG Matrix, GE Multi Factor Model)
  - Strategic approaches and frameworks reflect the business environment and change over time
- Need to develop corporate strategy for present *and* future

# Virgin Group: Video Case

- Mission Statement
- Core Competence
- Portfolio Management