STRATEGIC MARKETING

Decision-making and Planning

FIFTH EDITION

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PETER **REED**

MICHAEL **BAIRD**

CENGAGE

Strategic Marketing: Decision-making and planning
5th Edition
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BRIEF CONTENTS

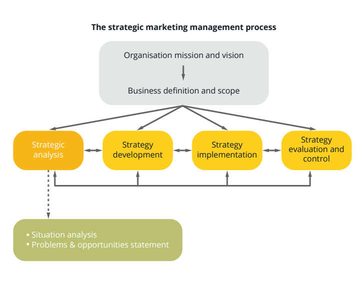
CONTENTS

Guide to the text

As you read this text you will find a number of features in every chapter to enhance your study of strategic marketing and help you understand how the theory is applied in the real world.

CHAPTER FEATURES

Understand how key processes described in each chapter are connected to the strategic marketing process as a whole by reviewing the strategic marketing management process diagram at the start of Chapters 3–10.



Gain an insight into how strategic marketing theories relate to the real world through the **vignette** at the beginning of each chapter.

Wesfarmers' bet-your-company growth strategy

If the founding fathers of the Westralian Farmers Co-operative were alive today, they would hardly recognise the organisation in its present form. From a modest beginning as an agricultural merchandising and exporting business in 1914, the cooperative has evolved over the years to become one of the 20 largest corporations in Australia.

It is as if there is a penchant for growth in the DNA of this organisation. Within a few years of its founding the cooperative began to distribute oil, LPG and gas appliances throughout rural Western Australia. It also became the proprietor of Western Australia's first public radio station.

In 1984 the organisation was restructured to become a publicly listed company, Wesfarmers Ltd. In the same year the newly incorporated company acquired the fertiliser manufacturer and distributor, CSBP & Farmers Ltd, in what was then the largest corporate takeover in Australian history. Over the next two decades Wesfarmers continued its growth by an acquisition program, moving into coal mining, rail transport, insurance and hardware/home improvements (Bunnings), while at the same time broadening its agricultural base.

By the 1990s Wesfarmers had grown to become a significant mid-sized Australian company. But the biggest growth spurt was yet to come. On 2 July 2007 Wesfarmers struck a $22 billion deal to acquire Coles Group Ltd, comprising Coles Supermarkets, Target, Kmart, Officeworks and Harris Technology. The acquisition, the largest in Australia's corporate history, was a massive 'bet-your-company' gamble.[2] Wesfarmers took on massive debt to finance the deal to acquire a group of companies that were in almost total disarray. Coles Group had been floundering for many years, and past efforts to improve the performance of its companies had failed dismally. In 2001 the company had embarked on a five-year turnaround strategy, but by 2007 sales growth had declined to a seven-year low on the back of continuing poor performance of two of its largest companies, Coles Supermarkets and Kmart.

Identify the key concepts that the chapter will cover in the **Focus of this chapter** and **Learning objectives** section at the start of each chapter.

Focus of this chapter

Strategic analysis is the foundation upon which successful strategies are developed and implemented. It is a process that involves the systematic and continuous collection of past and present data for the purpose of identifying trends, forces and conditions that have the potential to influence both the short- and long-term performances of the organisation. As Henry Mintzberg pointed out many years ago, 'Strategies cannot be created by analysis, but their development can be helped by it'.[6]

Learning objectives

The aim of this chapter is to provide information regarding the steps involved in strategic analysis and to highlight its importance to strategic marketing.

After reading this chapter you will have an understanding of:

- the two preliminary decisions made when commencing strategic analysis: the strategic style and organisation's mission and vision (3.1)
- the steps involved in conducting a comprehensive and thorough situation analysis and developing a problems and opportunities statement (3.2)
- a variety of sources of marketing information that can be used to build a robust situation analysis (3.3).

Important **Key terms, linked to glossary definitions**, are marked in bold in the text when they are used in the text for the first time.

VISION STATEMENT

Mission statements sometimes also include a vision statement, defined by Bennis and Nannus as follows:

> A vision articulates a view of a realistic, credible, attractive future for the organisation: a condition that is better in some way than what now exists … a clearly articulated vision of the future is at once simple, easily understood, clearly desirable and energising.[11]

A vision statement is a means of communicating management's view of the futuristic world the organisation will compete in and how it should compete in that world. In this way it can act as a powerful force in helping to forge a common understanding throughout the organisation of the challenges that lie ahead. That is, it can play a role in shaping organisational culture – of developing a shared understanding of the (market-oriented) strategic direction that the organisation must take for it to prosper in the future.

A similar motivational view is advocated by Gary Hamel and C.K. Prahalad in what they describe as strategic intent. They argue that many of the companies that have risen to global leadership in the 1970s and 1980s began with ambitions that were out of proportion to their resources and capabilities. These companies were obsessed with winning and overcame resource constraints to build leadership positions based on a management system that included 'focusing the organisation's attention on the essence of winning; motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations'.[12] Strategic intent emphasises a long-term vision (i.e. five years plus) of the business that should not be limited by current resource capabilities.

At the end of each chapter you will find several tools to help you to review, practise and extend your knowledge of the key learning outcomes.

END-OF-CHAPTER FEATURES

Review your understanding of the key chapter topics with the **Summary**.

SUMMARY

- This chapter has discussed the processes involved in developing strategies that are designed to create, communicate and deliver customer value. These decisions are an extension of the high-level segmentation, targeting and positioning (STP) strategies discussed in Chapter 5.
- The starting point for these deliberations is to develop an understanding of what customers currently value and what they are likely to value in the future. The customer value framework developed by Smith and Colgate provides a useful model for this purpose. After identifying the value dimensions that are the most important to the organisation's targeted customers, the next step is to determine how well or how poorly the organisation has performed in delivering on those value dimensions – including an assessment of why the organisation has succeeded or not succeeded in this regard.
- Armed with information about what the target customers most value and the organisation's performance in delivering on that value, the strategists are then able to either refine existing value creation, communication and delivery strategies or to develop new strategies. A most important input for these deliberations is the construction of a touchpoint map that plots all the various points of interaction or engagement that customers or potential customers may have with the organisation and its go-to-market partners as they progress through each of the pre-purchase, purchase and post-purchase stages of buyer behaviour.
- The touchpoint map allows the strategists to consider the appropriate mix of marketing tools and other organisational processes and activities to be used to create, communicate and deliver value for the organisation's customers.

Confirm your knowledge and consolidate your learning through the **Discussion questions**.

DISCUSSION QUESTIONS

1 Referring to the discussion of NAB's brand positioning strategies in the opening vignette of this chapter, what lessons can be learnt from the way NAB mishandled the brand promise?
2 Have the concepts of the 4Ps and 7Ps passed their use-by dates? Discuss.
3 Should every B2C company advertise and sell online? What about B2B companies?
4 The CEO of a company that charters and sells private jet aeroplanes has asked you for advice on its social media strategy. Which social media platform would you suggest as being most appropriate to advertise its service/product to its target market?
5 Does privacy exist in an online world? Should we be worried about the amount of personal information that organisations can gather from our online activities, including online shopping and social media?

Examine how theoretical concepts have been used in a real world business context through the **Strategy in Practice** cases.

STRATEGY IN PRACTICE

The rebirth of a British icon – from chavs to couture

Towards the end of the 1990s the iconic British garment company Burberry was in trouble. For the financial year ending 31 March 1998, profits plunged from £62 million to £25 million. The owners of Burberry, Great Universal Stores, were advised to sell off their ailing subsidiary. Fast forward to the financial year 2011/12 when Burberry was named the fourth-fastest-growing global brand in surveys conducted by both Interbrand and BrandZ.[18]

The turnaround of Burberry commenced in 1997 with the appointment of a new CEO, Rose Marie Bravo, recruited from the position of President of Saks Fifth Avenue. The challenges facing Bravo at that time were enormous. She found that because of a strategy of expansion over several decades, the Burberry brand had been trashed. Burberry products could be found in over 60 different stores in central London alone, but not in any of the prestige department stores such as Harrods, Selfridges or Harvey Nichols. An out-of-control licensing strategy had resulted in product design, quality and

By then the road to recovery was well underway, and the turnover and profit decline had been halted by 2004. In 2002/03 turnover had climbed to £593.6 million and earnings before interest and taxes were £116.7 million.[19]

The stage was now set for the second phase of Burberry's revitalisation. In 2006, after a six-month transition, Bravo handed over the CEO reins to Angela Ahrendts, the former Vice President of Liz Claiborne. Ahrendts' vision was to elevate Burberry to the position of a major player in the global luxury brand market. To achieve this, she identified a market segment that she believed had been largely untapped by any of her competitors: millennials – the luxury customers of the future.

One of Ahrendts' first actions was to promote Christopher Bailey to the position of chief creative officer. With 23 licences around the world, Burberry products had become ubiquitous and out of touch with the image requirements of a luxury brand. Bailey was introduced as the 'Brand Czar' and staff

Challenge the theory you have learned by considering the **Ethical issue**, perhaps in group discussion.

ETHICAL ISSUE

Do the major supermarket chains in Australia have too much power over how food is produced, distributed and marketed?

Guide to the online resources

FOR THE INSTRUCTOR

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The Instructor's manual includes:

- Focus of this chapter (outline of key points)
- Chapter overview
- Teaching tips and warm up activities (Suggestions for teaching)
- Answers to discussion questions
- Answers to ethical discussion
- Notes on the marketing plan activity

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PREFACE

This is the 5th edition of *Strategic Marketing: Decision Making and Planning* and the first in the MindTap interactive eBook format.

The format is new but the raison d'être of the book remains the same: to provide course participants with a thorough understanding of the decision-making processes involved in the field of strategic marketing. *Strategic Marketing: Decision Making and Planning* focuses on providing a framework for marketing decision making as part of a broader-based or holistic approach to strategic management. It is ideally suited for those studying a capstone course in marketing, typically in courses called strategic marketing, strategic management, marketing strategy or strategic marketing planning. It is equally suitable for both case-based and project-based courses.

FEATURES

- Extensive coverage of concepts and theories that underpin strategic thinking and planning
- A framework, templates, worksheets and step-by-step instructions to guide course participants through the process of strategic marketing planning
- Company-specific chapter opening vignettes
- Strategy in Practice cases
- End-of-chapter discussion questions and ethical issues

TEXT ORGANISATION

Chapter 1 provides an overview of the dynamic nature of marketing thought and practice, serving either as a refresher for those who have completed a marketing introductory course or as an introductory discussion for others. Likewise, the aim of Chapter 2 is to provide an overview of the strategic planning processes and the role of marketing within the context of these organisation-wide processes of strategic thinking and decision making. Chapters 3 to 11 discuss in detail the three main phases of strategic management: strategic analysis (Chapter 3), strategy development (Chapters 4–10), and strategy implementation, evaluation and control (Chapter 11). Chapter 12, a new addition to this book, discusses the ethical aspects of strategic planning, while Chapter 13 provides guidelines for writing and presenting strategic marketing plans and reports.

ABOUT THE AUTHORS

Strategic Marketing: Decision Making and Planning started out in life in 1992 as book written by Peter Reed for business executives and marketing students involved directly or indirectly in the strategic marketing planning process. Since that time the processes of strategic marketing planning discussed in the book have been thoroughly road tested in the real world via numerous consulting assignments for a variety of business organisations in the classroom at both the undergraduate and MBA level of instruction.

Dr Peter Reed is the former MBA Director at Monash University and Associate Professor of Marketing. His areas of expertise cover strategic marketing, marketing planning, brand positioning and integrated marketing communications. He has extensive experience in the marketing field as a marketing practitioner and consultant, and as an academic. In 2004 Peter was awarded the Monash University Faculty of Business and Economics Dean's Teaching Award and the University's Vice-Chancellor's Award for Distinguished Teaching in 2005. In 2009, under Peter's leadership, the Monash MBA was ranked number one in the world in the category of personal development and educational experience in the *Economist* worldwide survey of MBAs.

Dr Michael Baird is a senior lecturer in the School of Marketing at Curtin University. Michael commenced teaching at Curtin in 2004 and has since taught more than 10 different marketing and advertising units in the Curtin Business School in Perth, Sydney, Singapore, Malaysia and Hong Kong. Michael has been the Unit Coordinator for the third year units Strategic Marketing, a core marketing unit, since February 2014, and Business Capstone, a core business unit, since December 2014. Michael received a CBS Learning and Teaching award in 2015 for Programs that Enhance Student Learning. Michael has a Bachelor of Commerce with First Class Honours, a Masters by Research and a PhD in Marketing, and is an Australian Marketing Institute Certified Practising Marketer.

ACKNOWLEDGEMENTS

A number of people have contributed a great deal to the production of *Strategic Marketing: Decision Making and Planning*, including academics, students, colleagues and reviewers. All have provided invaluable feedback over the many years since the book was first published. We sincerely appreciate the thoughtful comments and constructive feedback received from the following reviewers of the previous edition of *Strategic Marketing*: Ranga Chimhundu, University of Southern Queensland; Hafizul Islam, Victoria University; Vishal Mehrotra, Bond University; Carol Osborne, Murdoch University; Delane Osborne, Curtin University; Roman Peretiatko, La Trobe University; Shara Ranasinghe, University of Canberra; and Fandy Tjiptono, Monash University.

PETER'S THANKS

Having written, revised, refined and updated *Strategic Marketing* for over a quarter of a century as a solo effort, I am delighted that Michael Baird has come aboard to co-author this 5th edition with me. Michael has brought in some new ideas to help clarify some concepts for today's generation of students, as well as providing a number of new examples and cases that keep the book fresh. It has been a pleasure to work with Michael and to explore and exchange a number of new ideas, concepts and techniques that have been incorporated into this new edition of the book.

A special thanks to my wife Simone, who has provided tremendous support over many years for my writing endeavours.

MICHAEL'S THANKS

First and foremost I must thank Peter Reed for being so welcoming to me as a co-author. Knowing Peter's history with the book I was a little cautious and apprehensive initially coming in, but Peter made me feel comfortable straight away and welcomed any input I had to offer. Peter and I were able to work very well together and we were never afraid to agree or disagree on what would be best for the students of today; we both agree that this 5th edition of the book has benefited from our collaboration.

A special thanks must go to Rosanne Sparks, the Cengage Sales Manager in Perth who put my name forward as a potential co-author in the first place. Thanks must also go to Graham Ferguson in the School of Marketing at Curtin University, who at many points throughout my writing helped me bounce around ideas and has been a good mentor for me in general.

A final thanks must go to my wife Angela, who was extremely helpful and supportive during the writing process.

COMBINED THANKS

The authors are indebted to the dedication of the support team at Cengage, especially Michelle Aarons (senior content manager) and Jessica Brennan (content development manager), for the faith they had in undertaking another edition of the book, and for the tremendous work provided by Sutha Surenddar (project editor) and Jade Jakovcic (copy editor).

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PART

1

INTRODUCTION

> Every organisation, whether a business or not, has a theory of business – a set of assumptions that shapes an organisation's behaviour, dictates what decisions it makes, and most importantly, defines the results expected.
>
> **Peter Drucker**[1]

Theories matter – they represent the body of knowledge in a field of study. They are also used to make predictions about future events and situations and to serve as a basis for action. 'There is nothing so practical as a good theory'.[2]

Developing a good understanding of the theories that underpin marketing thought and practice is essential for those involved in the process of developing marketing strategies for their organisations.

Part 1 discusses:

- the changes that have occurred in the way marketing is practised and conceptualised (Chapter 1)
- the role of marketing within the broader organisational context of strategic planning (Chapter 2).

CHAPTER

1

THE CHANGING WORLD OF MARKETING

No organization can avoid coming to grips with the rapidly evolving behavior of consumers and business customers. They check prices at a keystroke and are increasingly selective about which brands share their lives. They form impressions from every encounter and post withering online reviews … these changes present significant organizational challenges, as well as opportunities. The biggest is that all of us have become marketers: the critical moments of interaction, or touch points, between companies and customers are increasingly spread across different parts of the organization, so customer engagement is now everyone's responsibility.

Tom French, Laura LaBerge and Paul Magill[3]

From doom and gloom to a marketing-led economic revival

It is not often that marketing can be credited with saving an entire industry, let alone helping to rescue a country from economic disaster. This was the situation facing the Swiss watchmaking industry in the late 1970s. Faced with a dramatic increase in the Swiss franc and intense competition from watchmakers in Japan and Hong Kong, the Swiss share of the world watch market plunged from over 50 per cent in the 1960s to just 15 per cent.[4] Worse still, the success of competitors in Japan and Hong Kong was largely due to their use of quartz technology – an invention introduced by the Swiss Horological Electronic Center, but basically ignored by Swiss watchmaking organisations.

The sudden decline in the Swiss watchmaking industry had major ramifications for the entire Swiss economy. In 1970 there were over 1600 Swiss watch companies employing over 90 000 people; but by the late 1970s this number had plummeted to 600 companies employing fewer than 30 000 people.[5] If that was not enough, two of the largest Swiss watchmaking organisations, AUSAG and SSIH, were facing bankruptcy.[6]

Nicolas Hayek, a Swiss-based management consultant, was asked to oversee the liquidation of AUSAG and SSIH and their eventual merger in 1983, which formed SMH – the Swiss Corporation for Microelectronics and Watchmaking Industries. Hayek oversaw the restructuring of the new company and in 1985, with a group of Swiss investors, took a majority shareholding of it.

The restructuring of SMH coincided with the 1983 launch of a new product developed by a team of watch engineers from ETA SA (a subsidiary of AUSAG) headed by Elmar Mock and Jacques Muller and directed by CEO Dr Ernst Thomke. The product was initially launched at the 1979 Basel Watch Fair as a luxury high-priced gold watch named the Delirium Tremens – the world's slimmest quartz watch. The team then set its sights on using this technology to produce a low-cost plastic quartz watch. The result was a technological masterpiece; a watch made totally from synthetic materials that reduced the number of parts inside the watch from over 100 in a traditional quartz watch to just 51. Most importantly, they were able to fully automate the production process, which lowered the cost of production by over 80 per cent.[7] Nichole Lopez devised a name for the new product – Swatch – a contraction of the words 'second watch'.

Despite the technological breakthrough and the attractiveness of the Swatch's design, some of the managers of SMH were worried that competing at the low end of the market would damage the reputation of the high-end Swiss watches. However, Hayek dismissed these concerns because he could see the enormous potential that the Swatch watch held for the company. The rest, as the saying goes, is history.

The Swatch went on to become a runaway success. From 1983 to 1993 SMH (renamed Swatch Group Ltd in 1985) sold over 100 million Swatches. The company's revenues had grown to just under $2 billion, with earnings around US$300 million. The investors who paid Sfr100 a share in 1985 were rewarded with their shares trading at Sfr1500 in 1993. The success of Swatch played a decisive role in the recovery of the Swatch Group as a whole and also for the entire Swiss watch industry, which regained its leading worldwide position in 1984.[8]

The success of the Swatch can be attributed to a number of factors but, undoubtedly, the main driver was brilliant marketing. Lower-end quartz watches had traditionally been marketed on the basis of their functionality, fulfilling a basic psychological need for safety – that is, the ability to tell the time accurately. The Swatch changed all that by appealing to higher-order needs. It reflected the wearer's identity, fulfilling needs for self-esteem and belongingness – a different Swatch for a different day. It was positioned as a fun fashion accessory.

Swatch invested heavily in advertising, promotion and sponsorship of youth-oriented events such as snowboarding, skateboarding, skiing, motocross, beach volleyball and breakdancing. The company also supported avant-garde musicians, fashion events and art exhibitions. A Swatch members club was developed to foster brand loyalty, and it became so successful that limited-edition Swatch watches became highly sought-after collectors' items.

During the mid-to-late 1980s Swatch Group invested in restructuring the other brands in the group, streamlining and globalising the production systems and developing a new marketing strategy. From 1985 to 1995 Swatch Group focused on rationalising the distribution system, and from the mid-1990s attention was directed towards the development of a brand repositioning strategy characterised by brand differentiation and market segmentation. Sub-brand Omega was positioned as a luxury consumer good to compete against Rolex, Longines was repositioned to compete in a less expensive segment with an image of classical elegance, while Rado was repositioned to compete as a global futuristic styled brand.

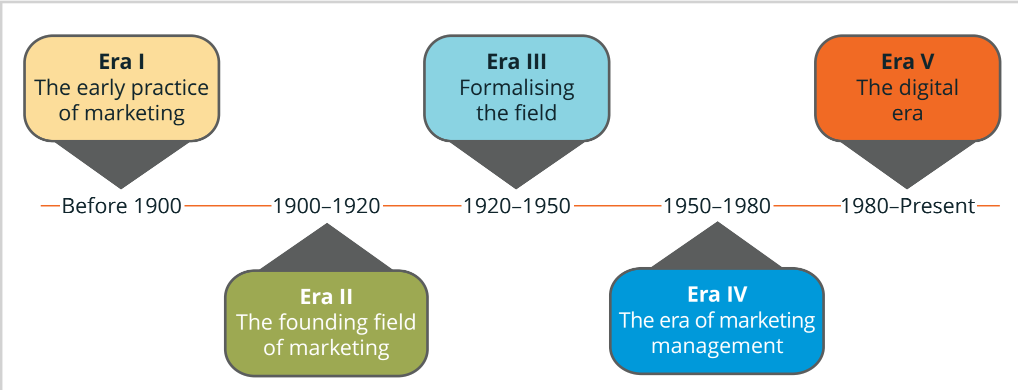
In 2016 Swatch Group, in the face of increasing competition from Apple and other smartwatch brands, announced that it would focus its smartwatch technology on its plastic Swatch brand. Plans were for two models to be initially marketed – a model with near-field communication (NFC) capabilities to allow the wearer to make payments and open hotel doors, and another with Bluetooth to display alerts and news from a smartphone.[9] In March 2017 Swatch announced that it would take on Apple and Google with its own smartwatch and that it was working with the Swiss research institute CSEM to launch an ecosystem for connected objects by the end of 2018.[10]

Focus of this chapter

There is a well-known saying that those who do not learn history are doomed to repeat it. The purpose of this chapter is to provide you with the contextual background to better understand the changing marketing world at a time of fundamental economic, technological and social change. This chapter will provide an overview of the changes that have occurred over the years in the way marketing is conceptualised and practised, the forces that have driven these changes, and how current thinking and the environment we practise within have revolutionised marketing.

It is a common erroneous understanding that the field of marketing is a relatively recent business phenomenon that came to life in the 1950s. However, the theoretical underpinning of marketing can be traced back to the Industrial Revolution, and some argue that it was practised even earlier than this. In this brief overview of the historical context of marketing, five eras of marketing thought and practice, as shown in Figure 1.1, are discussed: Eras II to V are aligned with four eras of marketing thought development identified by William Willkie and Elizabeth Moore.[11] In this chapter the early practice of marketing is added to Wilkie and Moore's periodisation in recognition of the fact that marketing was practised well before it was founded as an academic field of study in the early 1900s.

FIGURE 1.1 Five eras of marketing thought and practice



Source: Adapted from W.L. Wilkie and E.S. Moore, 'Scholarly research in marketing: Exploring the 4 eras of thought development', *Journal of Public Policy and Marketing*, vol. 22 (2) 2003, pp. 116–146.

Learning objectives

The aim of this chapter is to provide information regarding the technological and socioeconomic driving forces of change that have underpinned the way marketing is practised and conceptualised.

After reading this chapter you will have an understanding of:

- the changes that have taken place over five major eras of marketing thought and practice
- the way academic thought has fragmented into several different schools of thought and the impact of these perspectives on the way marketing is defined
- the changing role of marketing within the organisation.

1.1 Era I: The early practice of marketing (before 1900)

Marketing has been practised since antiquity. Marketing historians also argue that since the time of the ancient Greek philosophers up until the great 18th and 19th century economists, marketing-related phenomena, such as 'the concepts of markets, marginal analysis, value, production, humans as social and economic entities, competition and the role of governments', have been raised and extensively debated.[12]

However, the catalyst for modern marketing thought and practice was the Industrial Revolution, which brought about the most sweeping and far-reaching changes in the history of humanity. The Industrial Revolution began in the UK during the latter part of the 18th century and spread to Europe and North America during the 19th century. It brought about rapid and significant economic, societal and cultural change and disruption as new inventions and technological innovations led to the creation of factories, large-scale machine production, a population shift from rural to urban locations and an unprecedented supply of goods for world markets.

There were two significant driving forces of change that created the conditions in the UK for the Industrial Revolution: the Agricultural Revolution and the growth of the UK's economic power.

The Agricultural Revolution began at the start of the 18th century. It was marked by an increase in agricultural efficiency that resulted in greater prosperity for the UK and the ability to feed a rapidly growing population, which doubled from 7.1 million to 14.2 million in just one century (1721–1821). These factors resulted in the migration of farm workers from rural to urban areas in search of employment opportunities. This created a pool of workers for the new manufacturing industries that would be formed during the Industrial Revolution.

The UK emerged as the dominant economic and naval world power at the end of the Seven Year' War between the great European powers in 1763. The UK ruled a global trading empire that included colonies in North America and Africa and a major interest in India via the East India Company.

At the beginning of the 17th century the UK's largest export industry was the production of cloth made from wool. Encouraged by the growing popularity of cotton cloth in Europe, a small cotton-based textile industry started up in Lancashire. A turning point was reached in 1664 when the East India Company began to import cotton cloth from India. Faced with this competitive threat, the wool-based textile producers lobbied for protection and legislation was passed (the Calico Acts) which banned the importation of calico fabrics for clothing and domestic purposes. The Acts were repealed in 1774 but one of the unintended consequences was that the ban on imported cotton cloth provided the opportunity for the Lancashire cotton-based textile industry to grow.

Technological innovation

The growth of the textile industry during the 17th century was a catalyst for technological innovation as textile producers searched for ways to improve their productive capacity and efficiency. The most significant inventions that were developed were the flying shuttle (1734), the spinning jenny (1764), the water frame (1768) and the spinning mule (1779).

The flying shuttle and the spinning jenny were inventions that improved the productivity of the thousands of spinners, weavers and dyers working in cottages and small workshops (cottage industries) throughout the countryside in the north of England.

The pivotal invention of the Industrial Revolution, however, was Richard Arkwright's water frame in 1768; a machine powered by a waterwheel to produce cotton thread. Its invention marked the transition from goods being manufactured by human or animal power to being manufactured by machine power. This technology paved the way for the development of the water-powered mill, the forerunner of the modern factory system. The first water mill was built by Arkwright and his partners at Crompton, Derbyshire in 1771, and after that cotton water mills were developed near fast-flowing rivers and streams in Northern England. In 1779 the technology of the water frame was enhanced by Samuel Compton's invention of the spinning mule, which combined the technology of the spinning jenny and the water frame to improve the speed, quality and efficiency of yarn production.

At around the same time water mills started to flourish, another technological innovation was developed that would later take the mechanisation of industry to a more advanced level – the Boulton and Watt high-pressure rotative steam engine, developed in 1775 by engineer James Watt and entrepreneur and manufacturer Matthew Boulton. Although Watt did not invent the steam engine, the improvements that he made to Thomas Newcomen's original engine were of monumental importance. The first steam-powered factory was built in 1782 by Joseph Wedgewood, and by the end of the 18th century Boulton and Watt had produced 496 steam engines.

The development of the Boulton and Watt steam engine spurred the development of the steamboat and steam train. The first commercial steamboat service in the world was built in the US in 1807, and the first public steam train railway system was built in the UK in 1825. Within a few years railway systems were being built all over the UK in a boom and bust period known as 'Railway Mania'. Substantial amounts of capital were made available to the newly formed railroad companies as investors became increasingly caught up in speculative fervour. The speculative bubble burst in the 1840s and many investors were financially ruined. Despite this catastrophic event, the net result was the creation of a railway system that had profound economic, social and cultural consequences.

By the mid-1850s the technological innovation that had characterised the Industrial Revolution had slowed down, marking the end of the first Industrial Revolution. By this stage, the first-mover advantage that the UK had enjoyed as the pioneer of the Industrial Revolution had diminished as industrialisation spread to Western Europe, the US and Japan. In the latter third of the 19th century the take up of industrialisation in these countries, along with the development of new technology, led to the evolution of the second Industrial Revolution, or Technological Revolution, lasting from the early 1870s to the beginning of World War I in 1914.

During the second Industrial Revolution there was an enormous expansion of the railroad and telegraph networks in the US underpinned by the 1856 invention of the Bessemer Converter that had revolutionised the manufacture of steel by massively reducing the cost while greatly increasing the scale and speed of production. In the countries being industrialised during this period, major infrastructure systems such as gas, water and sewage systems were established, along with the significant technological developments of electricity and the telephone.

Marketing practice

With rising incomes and growing prosperity, particularly among the middle classes, a consumer society was being created as the Industrial Revolution evolved. Consumer demand grew rapidly for basic goods such as textiles, clothing, shoes, food and household utilities. At the same time demand for luxury and aspirational goods such as fashionable clothing and personal and household possessions began to develop, providing an opportunity for entrepreneurs, such as Josiah Wedgewood, to grow their businesses.

Wedgewood, who has been dubbed 'the father of modern marketing', transformed a small local pottery business into a global phenomenon by creating demand for his products. Along with his business partner, Thomas Bentley, Wedgewood recognised the importance of market segmentation and the practices of celebrity endorsement, aspirational branding and advertising. In 1765 he was commissioned by Queen Charlotte, the wife of King George III, to produce a tea and coffee set and associated earthenware pottery. He obtained permission to brand his cream-coloured earthenware 'Queen's Ware' and to promote Wedgewood as 'Potter to the Queen'. In no time at all Queen's Ware became a must-buy for the nobility of England and Europe, driving sales of Wedgewood products through the roof. Leveraging the high-end demand for his products, Wedgewood produced a range of cheaper sets of earthenware for the mass market. In 1768 he opened a showroom in London to market the full range of Wedgewood products, and in 1771 he built a factory called Etruria to keep up with the ever-increasing demand for his products. In 1782, this factory became the first in the world to install a steam-powered engine.

Wedgewood was also a pioneer of many other marketing techniques, including the use of direct mail, money-back guarantees, travelling salespeople, catalogue advertising, buy-one-get-one free, self-service and free delivery.

In the second half of the 19th century many more modern-day marketing practices were established. In the 1860s the use of trademarks as a means of branding was extended to consumer products (e.g. Pears Soap in the UK and Ivory Soap in the US). In 1882 Procter & Gamble started to systematically advertise Ivory Soap.[13] From the early 1900s American advertising agencies, in addition to creating and placing advertisements for their clients, provided services such as marketing advice, marketing research studies, and assistance in product and packaging design.[14] Personal selling had become increasingly sophisticated in its approach, and formal training in selling was practised in Germany during the latter part of the 19th century. A similar approach was adopted by US manufacturing organisations around the turn of the 20th century. What is described today as database marketing was practised in Germany in the 1870s by a publishing company, Bibliographisches Institut, which 'used genealogical and nobility directories to compile mailing and call lists for lifestyle-defined market[s]'.[15]

Marketing thought

In addition to the various marketing practices developed during the Industrial Revolution, the notion of exchange, a core marketing concept, also evolved. The theory of marketing exchange can be traced back to the 17th- and 18th-century doctrine of economic liberalism – the foundation of modern economics. Economic liberalists believed that national wealth and social order depended on individual initiative and competitive market forces. This was the basic social philosophy of Adam Smith, who systemised economic liberalism and is credited as the founder of the discipline of economics. In his landmark 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations,*[16] Smith argued that the greatest wealth for both individuals and society as a whole would be brought about by individuals being left free to advance their own interests. He stated:

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantages.[17]

This was the premise of Smith's concept of the 'invisible hand'; that is, self-seeking humans are unknowingly and unintentionally led by a driving force of self-interest. In striving to become wealthy, individuals need to exchange what they own or produce with others who sufficiently value the product offering. This process of marketing exchange works to advance the interest of society as a whole. Smith also believed that competition would act as a protective mechanism to regulate an economy. He argued that because human beings have an inherent passionate desire to better their condition – 'a desire which comes from the womb, and never leaves us to the grave' – competition among producers leads to the lowering of prices to a 'natural level'. Finally, Smith argued that, because human beings have a 'propensity to truck, barter and exchange one thing for another', they are therefore dependent on one another. That is, the process of exchange is driven by individual wants and needs.[18]

It should be noted that exchange theory extends beyond just marketing exchange. Anthropologists and sociologists have long been interested in the central role of exchange in social life. Bronisław Malinowski, for example, argued that mutual exchange forms the basis of social cohesion,[19] Marcel Mauss emphasised the obligatory and interested nature of gifts and other forms of exchange,[20] and Peter Blau emphasised the role of exchange in the creation of power relationships.[21] Exchange theorists conceptualise social interaction as an exchange of tangible and intangible goods and services, ranging from food and shelter to social approval or sympathy.

Marketing exchange in economics and social exchange in sociology belong to an overall class of theories known as 'theories of rational choice'. Sociologists Ruth Wallace and Alison Wolf argue there are four basic propositions underlying rational choice theory:

- Individuals are rational profit-maximisers, making decisions based on their tastes and preferences.
- The more of something an individual has, the less interested he or she will be in obtaining more of it.
- The prices at which goods and services will be sold in the free market are determined directly by the tastes of prospective buyers and sellers. The greater the demand for a good, the more 'valuable' it will be and the higher its price. The greater the supply, the less valuable it will be and the lower its price.
- Goods will generally be more expensive if they are supplied by a monopolist than if they are supplied by a number of organisations in competition with each other.[22]

These theories of rational choice and marketing exchange, developed by early 17th- and 18th-century economists, became the foundation on which the underlying assumption of marketing was built.

MARKETING AND SOCIETY

Smith's notion that the 'process of market exchange advances the interest of society as a whole'[23] reflects a long-held concern about the broader issues regarding the relationship between marketing and society.[24] The marketing historian Eric Shaw argues that the genesis of this idea can be found in 'the first dialogue in macromarketing, narrated by Plato the great Greek philosopher of the 4th century B.C. in *The Republic*'.[25] As Shaw explains:

> The earliest analysis of the socioeconomic foundations of the marketing system is found in a dialogue written 24 centuries ago by Plato. Describing the basis of society in terms of human needs, Plato addresses the most efficient means of satisfying these needs. A chain of reasoning is created linking division of labor to comparative advantage to efficiency in production to a rationale for market exchange.[26]

1.2 Era II: The founding field of marketing (1900–1920)

The world economy at the beginning of the 20th century was booming. Living standards in Europe and North America increased at a pace never seen before, and global trade flourished with the freest flow of goods, services and capital since the beginning of time.

The momentum of industrialisation had shifted to the US during the latter third of the 19th century, a period of rebuilding (the era of Reconstruction) after the Civil War ended in 1865. The second Industrial Revolution, or Technological Revolution, that took place during this time involved the development of large-scale steel production, the expansion of railroad networks, and technological change that led to the introduction of electricity, telephones and the telegraph.

At the turn of the 20th century the US accounted for over half of the world's manufacturing output and was by far the world's largest agricultural producer. The oil, steel, textile, food and railroad industries were booming in this period of rapid industrialisation, and the rise of big business and the emergence of giant industrial corporations began.

Throughout the 18th and 19th centuries the vast amount of manufacturing enterprises were organised as single-unit organisations owned by a single individual or a partnership, operating in a local or regional market and producing a single product line. Towards the end of the 19th century multiunit organisations began to emerge, displacing single-unit organisations in several industries. A *multiunit organisation* is 'a firm that controls and manages from a central administrative organization the production decisions of establishments or plants in at least two different localities'.[27]

The business historian Alfred Chandlers contends that the rise of the multiunit organisation was an epochal event in this history of the modern world because it signalled the growth of managerial capitalism. It also gave rise to the growth of middle management. He argued that the first modern business enterprises were developed in the railroad and telegraph industries due to the complexity that was involved in managing geographically dispersed operations. He also argued that managers in these organisations developed most of the modern accounting and statistical practices.[28]

Technological innovation

The development of assembly line production was one of the most significant technological innovations of the 20th century. The concept of continuous processing can be traced back to Assyrian and medieval times. During the 14th century ship builders in Venice equipped their war galleys using moving lines of prefabricated parts. In 1804 the British Navy developed a steam-powered roller conveyor system to automatically make biscuits.[29]

While the concept of assembly line production was quite well known at the turn of the 20th century, the first major application of the process was developed by Ransom E. Olds, who built and patented a stationary assembly line to manufacture the first mass-produced motor car, the Oldsmobile Curved Dash. This innovation allowed Olds to quintuple the production of his cars from 425 in 1901 to 2550 in 1902.

An even more significant development emerged in 1913 when Henry Ford launched an improved version of assembly line production – a moving assembly line driven by conveyor belts. The productivity improvement of this innovation was breathtaking, reducing the total assembly time for a single Model T motor car from 12.5 hours to just 93 labour minutes. Consequently, Ford was able to slash the price of the Model T from \$600 in 1913 to \$360 in 1916. The combination of falling costs and prices along with the increasing economy of scale enabled Ford to not only realise his dream of 'building a motorcar for the great multitude' but to revolutionise the entire manufacturing industry.[30]

Marketing thought

Economists at the turn of the 20th century tended to focus on *production* as the creator of economic value, paying little attention to the changes that were occurring in the marketplace, in particular the area of market distribution. The time was ripe for marketing to emerge from the field of economics and to take on its own distinct identity. Marketing historians generally agree that the beginning of marketing as an academic discipline can be traced to courses that were provided by universities and other institutions. Jones and Monieson contend that the first courses in marketing may have originated in Germany towards the late 1890s. However, other historians tend to cite a course offered by E.D. Jones in 1902 at the University of Michigan as the first, which was not actually titled 'Marketing' but 'The distributive and regulative industries of the US'.[31] The first course to use the title 'Marketing' was provided by Ralph Starr Butler at the University of Wisconsin in 1910.[32] By that time academics in the Midwestern American land grant universities had begun to study agricultural markets and improvements that could be made in market distribution.[33]

Developing an understanding of the distribution systems that were evolving at that time was a key concern for pioneering academics. Accordingly, they focused their studies on three interrelated components of a distribution system:

- the *functions* performed by intermediaries or participants in the marketing process
- the *institutions* – specific marketing agencies, such as wholesalers and retailers involved in the distribution process
- *Commodities* – how different classes of goods were marketed. The commodity stream largely consisted of the development of classification schemes of goods.

These three areas of study comprise what marketing historians Eric Shaw and Brian Jones have classified as the *traditional school of marketing thought*.[34]

The economic training of the pioneering marketing academics had two very important implications for the founding of the discipline. The first was that these academics had an implicit interest in the impact of the marketing system on society; that is, from the outset of the founding of the academic discipline, attention was paid to what can be termed as issues of *marketing and society.* Wilkie and Moore suggest that it is helpful to think about issues of marketing and society in terms of an *aggregate marketing system,* which they define as 'a huge, powerful, yet intricate complex operating to serve the needs of its host society'. They contend that there are three primary sets of actors within the system: consumers, marketers and government entities.[35] Towards the latter half of the 1960s, interest in marketing and society re-emerged, in the 1970s it was a powerful marketing philosophy, and in the 1980s the role of marketing and society became the central focus for the newly developed *macromarketing school of thought.*

The second implication largely consisted of the collection and cataloguing of facts rather than the development of academic theory. The emphasis of the German Historical School was on solving real-world economic problems. It was distinctive for its historical perspective, the use of statistical methodology, its pragmatism and its emphasis on ideals rather than theoretical or conceptual ideas. It has been argued that the German Historical School's pedagogy lay the foundation for the development of the case study method of teaching introduced by the Harvard Business School in 1908. The case study method is considered to be one of the most important tools that led to the early development of marketing as a discipline.

1.3 Era III: Formalising the field (1920–1950)

The third era was one of boom and bust sandwiched in between the end of World War I and the duration of World War II. The 1920s, described as the 'Roaring Twenties' or 'Jazz Age', was generally a decade of political stability and economic prosperity. It was a decade of consumerism, with a multitude of new products, such as motor cars, radios, washing machines and vacuum cleaners, appearing on the market, supported by new advertising techniques (newspaper and radio) and the availability of easy credit. The US dominated the world economy, and from 1922 to 1927 its economy grew by 7 per cent, the largest increase it had ever achieved in such a short time. During this time American corporations started to invest in Europe with the establishment of subsidiaries, branches, joint ventures and acquisitions. General Motors, for example, bought the British motor car manufacturer Vauxhall Motors and the German company Opel. At the end of the 1920s General Motors made a strategic decision to become an international manufacturer, to compete in markets wherever they existed, and to build manufacturing plants and other essential infrastructure to market and service its vehicles. Consequently, many European organisations found it increasingly hard to compete in their own home markets against American companies.

Business environment

The heady days of economic growth ended abruptly with the beginning of the Great Depression triggered by the 'Black Thursday' US stock market crash on 24 October 1929. A global economic crisis followed, and the ensuing economic hardships led to the destabilisation of European politics, which in part led to the outbreak of World War II in Europe.

By the end of World War II in 1945, the wartime devastation was massive in most European countries, as well as Japan, the Soviet Union and China. However, after just two difficult post-war years the economies of Europe and Japan started to recover to such an extent that their pre-war output levels were regained by the early 1950s. This marked the beginning of a period of sustained rapid worldwide economic growth that continued through to the 1970s.

This era is characterised by the introduction of two highly significant management practices, the *multidivisional organisational structure* and the *product management organisational structure,* as well as the rapid growth of *multinational corporations.*

MULTIDIVISIONAL ORGANISATIONAL STRUCTURE

Not long after his promotion to president of General Motors in 1923, Alfred Sloan began to systematically organise what was then a chaotically managed company into 'a smooth-running, industrial behemoth of such scope and profit that it was seen as a proxy for American economic might at large'.[36] The restructuring of General Motors was first proposed by Sloan in 1920 through the establishment of a decentralised divisional organisational structure to be centrally serviced by shared functional activities, including centralised treasury services and capital allocation mechanisms.

The automotive divisions created by Sloan were based on the principle of 'a car for every purse and purpose'; that is, each division targeted a specific demographic and socioeconomic market segment, commencing with the Chevrolet for the working masses, followed by the Pontiac, Oldsmobile, Buick and up to the top-of-the line Cadillac. Enticed by new mass-marketing techniques, people bought new cars and moved up General Motors' brand ladder. Sloan also introduced the concept of *annual product cycles* and *planned obsolescence*.

PRODUCT MANAGEMENT STRUCTURE

In the early 1930s Neil McElroy, a junior executive at Procter & Gamble, was tasked with managing the advertising for Camay soap. However, he found that Camay soap, introduced in 1924, was competing not only against soaps from Lever and Palmolive, but against the company's own flagship brand, Ivory soap. In 1931 he wrote a three-page memo arguing the case for the appointment of a brand manager to assume responsibility for each of the company's brands. The brand manager (or 'Brand Man' as originally described by McElroy), along with an assistant and other support staff, would market each brand as if it were a separate business. In that way, the qualities of each brand could be distinguished from one another and targeted to different consumer markets. McElroy's now legendary memo marked the beginning of the brand management system that would later be adopted by consumer goods companies throughout the US and the world.[37]

MULTINATIONAL CORPORATIONS

In the wake of World War I, the international economy began to stabilise by the mid-1920s. Encouraged by President Calvin Coolidge, large US companies began to invest in Europe in the form of foreign subsidiaries, branches and joint ventures. The investment of US multinational corporations (MNCs) in Europe rose from around $700 million in 1920 to $1.35 billion by 1929, almost double the amount.[38]

Technological innovation

The economic boom of the 1920s was powered by the rapid growth of three new industries: electricity, motor vehicles and chemicals. By 1920 over 50 per cent of mechanical power in US factories was provided by electric motors, up from about 5 per cent at the end of the 19th century.[39] Electricity had also begun to power homes, which sparked a raft of new household inventions including refrigerators, vacuum cleaners, cookers and washing machines. Production of refrigerators, for example, grew from 5000 in 1921 to more than 6 million within a decade in the US alone.[40]

The rapid expansion of electricity also enabled growth of the radio broadcasting industry. Commercial radio broadcasting began in the US in 1920 and, after a fairly slow start, developed into an advertising-supported medium by 1928. The stage was then set for the beginning of the 'Soap Opera' – radio plays targeted at housewives that were sponsored and even produced by soap companies to market their household and cleaning products.

The commercial airline industry began in the US in 1918 primarily as an airmail delivering service for the post office.[41] In the aftermath of World War I and with decreasing demand for military aircraft, the US Government directed its efforts toward development of the commercial airline industry by providing subsidies to several large airline carriers.[42] The subsidies induced demand for airline services, which in turn created demand for aircraft manufacturing and a concomitant stimulus for the development of new aircraft design. In 1931 the first all-metal stressed-skin aircraft was built, followed by the launch of the first modern airliner in 1933, the Boeing B277. From this time on the industry started to grow despite the Great Depression and World War II. At the conclusion of World War II demand for air travel exploded as the 'golden days' of air travel began.

Marketing thought

During this era, despite the boom and bust economic times, the groundwork was prepared for marketing to develop as an academic field of study. The 1922 publication of Fred E. Clark's textbook, *Principles of Marketing*, is seen as a starting point. Until then marketing academics had been working in relative isolation from one another; Clark's book provided a means for the dissemination of mainstream academic thought at that time. This was followed in 1925 by the launch of the first academic journal in marketing, the *Journal of Retailing*.

The next step was the creation of the National Association of Teachers in Marketing and Advertising in 1924. The stated aim of the Association was to increase the field of marketing and advertising knowledge, to improve teaching and to publish valuable information. In 1930 a practitioner-focused body, the American Marketing Society, was established, and in 1936 and 1937 the two groups merged to form what would become the most influential body in the marketing discipline, the American Marketing Association (AMA). The merger also led to the publication of the *Journal of Marketing*, which to this day is widely acknowledged to be the most important 'broad-based scholarly journal of the marketing discipline'. In 1935 (a year before the merger took place) the National Association of Teachers in Marketing and Advertising published the definition of marketing as: 'the performance of business activities that direct the flow of goods and services from producers to consumers'.[43]

The publication of this definition was an important milestone event for the field of marketing because it articulated the scope and content of the field, a description of its subject matter and the boundaries of its coverage. The definition represented the prevailing traditional school of marketing's focus on distribution activities. What is not so clearly stated is that issues relating to the social domain of marketing continued to be a major focus for the academics of this era. This is evidenced by the substantial number of marketing and society topics published in the marketing textbooks of this era and in the *Journal of Marketing*.[44] This definition was revisited and ratified by the AMA in 1948 and again in 1960, and remained in place until the publication of a new definition in 1985 (outlined later in the chapter).

1.4 Era IV: The era of marketing management (1950–1980)

The world economy grew rapidly between 1950 and the early 1970s in a period described as the 'Golden Age of Capitalism'. From 1950 to 1973 the annual gross domestic product (GDP) growth for developed economies was 8 per cent, and around 5 per cent for developing economies. At the beginning of this period the US was the dominant world economic power, but by the early 1970s Europe and Japan had grown rapidly to also become major economic powers.

But once again, in a boom and bust scenario, the good times had were ending due to rising inflationary pressure and a commodity price boom from 1972 to 1973. This was followed by the 'oil price shock' from 1973 to 1974, brought about by an economic recession in many industrial countries. By the mid-1970s economic growth resumed for most of these countries, until a second major oil price increase in the early 1980s triggered another worldwide economic recession.

Business environment

The business environment of this era was characterised by the following major developments:

- *The rise of big business* – from the mid-1950s to the 1970s a wave of merger and acquisition activity took place that saw the rapid development of the conglomerate form of business organisation – corporations made up of different and seemingly unrelated businesses. Gulf + Western, a small car parts corporation, rose to become the 34th-largest industrial corporation in the US in 1968 following an intensive decade of merger and acquisition activity where it acquired over 80 companies in a diverse variety of industries, such as aerospace, musical products, baking, zinc, railroad equipment, sugar, industrial machinery and supermarkets.[45] The management of these newly created industrial behemoths was extremely challenging, and in response the concept of the *strategic business unit* (SBU) and *strategy planning* evolved in the early 1960s. (Both concepts are discussed in more detail in Chapter 2.)

- *The expansion of MNCs* – during this period American MNCs continued their expansion into Europe. From 1950 to 1965 the number of US manufacturing subsidiaries in Europe increased nearly fourfold. The growth continued throughout the 1970s despite a political backlash against what was described as blatant American imperialism. Concern was expressed that many MNCs had grown so large and powerful that they had become states unto themselves, beyond the control of any single nation. Europe was not the only target for the expansion of American MNCs; for example, General Motors began manufacturing Holdens in Australia in 1954.
- *The computer revolution and the dawning of the Information Age* – this period began in the early 1950s with the installation of the first large-scale computer, the UNIVAC, for the US Census Bureau. By the 1970s computers were being used in just about every large business, government and university in the world.
- *The television phenomena* – at the beginning of the 1950s only a few wealthy individuals had televisions in their homes. By the end of the 1960s it had become one of the greatest and most influential inventions of the 20th century. Television has had a profound impact on society and on business, helping to shape the way that individuals view the world. It has brought world events into lounge rooms, creating what Marshall McLuhan described as a *global village*. Commercial television accelerated the growth of consumerism by providing business-to-consumer (B2C) companies with the means to stimulate demand for their products. At the same time, commercial television spurred the growth of advertising agencies, many of which grew to become large MNCs.
- *Air travel* – the Jet Age at the beginning of the 1950s marked the beginning of mass air travel, which accelerated during the 1960 and 1970s. Faster, lower-cost air travel provided further impetus for the development of the global village.

Marketing thought

At the conclusion of World War II, pent-up demand for manufactured goods and a scarcity of supply meant that manufacturers generally focused on the production aspect of their businesses. However, by the early 1950s competition had started to intensify in some industries and attention once again shifted to the demand side of the business equation. Driven by the pent-up demand for consumer goods, an explosive growth in population brought about by the post 1945 baby boom, and the rapid growth of television, the era of mass marketing had well and truly begun.

As business leaders attempted to cope with the burgeoning demand for their products, attention was focused on how their companies should be organised and managed. For General Electric (GE), the need to elevate the importance of the role of marketing had become very clear, as the following extract from the company's 1952 annual report highlights:

> Our philosophy introduces the marketing man at the beginning rather than the end of the production cycle and would integrate marketing into each phase of the business. Thus marketing, through its studies and research, will establish for the engineer, the

> designer and the manufacturing man what the customer wants in a given product, what price he is willing to pay, and where and when it is wanted. Marketing would have authority in product planning, production scheduling and inventory control, as well as in sales distribution and servicing of the product.[46]

The publication of GE's annual report was the start of what was to be defined as the *marketing management school of thought* – the concept that marketing is the principal function of the organisation, along with innovation. During the 1950s and 1960s the concept was articulated to the world at large by prominent business and marketing thought leaders such Peter Drucker (1954), John B. McKitterick (1957), Wroe Alderson (1957), Theodore Levitt (1960), Robert Keith (1960), E. Jerome McCarthy (1960) and Philip Kotler (1967), as outlined in Box 1.1.

The marketing management school of thought focused primarily on the role of the marketing manager, with an emphasis on how the organisation should market its products and services. This school of thought was destined to dominate marketing practice and mainstream marketing thought for the next two to three decades.

BOX 1.1

Marketing thought leaders

Peter Drucker

Peter Drucker's book *The Practice of Management*, published in 1954, is one of the most influential business books of the 20th century. In this book Drucker argued that an organisation has two purposes: to create a customer and to be innovative. Moreover, he contended that the role of management is to build a company by creating customers. He said:

> If we want to know what a business is we have to start with its purpose. And its purpose must lie outside of the business itself. In fact, it must lie in society since a business enterprise is an organ of society. There is only one valid definition of business purpose: to create a customer ...
>
> It is the customer who determines what a business is ... Because it is its purpose to create a customer, any business enterprise has two – and only these two – basic functions: marketing and innovation. They are the entrepreneurial functions ...
>
> Marketing is not only broader than selling, it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise.[47]

John B. McKitterick

John B. McKitterick was manager of marketing research and services at GE in 1957 when he wrote to a marketing practitioner audience in an AMA publication. McKitterick pointed out that the use of advanced marketing techniques was not enough:

> If business enterprises are to compete successfully in the quicksilver of modern markets, something more than sophistication in means of doing marketing work is going to be required. Indeed, to plan at all, and think adequately of what the competition might do and its possible effects before committing multi-million dollar resources, requires knowledge of the customer, which penetrates the level of theory. So, the principal task of the marketing function in a management concept is not so much to be skilful in making the customer do what suits the interests of the business as to be skilful in conceiving and then making the business do what suits the interests of the customer.[48]

Wroe Alderson

Wroe Alderson's book *Marketing and Executive Action*, published in 1957, was a breakthrough in the development of marketing theory and thought because it transformed marketing thought away from

(1) a distribution focus to a marketing management perspective, (2) a dominant reliance on economics to a broader behavioural science perspective and (3) a descriptive approach to theory building. Alderson's theory of marketing was based on a functionalist framework that incorporated systems theory, organisational behaviour, anthropology and social psychology. He described the fundamental elements of his theory as 'organised behaviour systems' consisting of business organisations that produce and distribute products and services, and households that accumulate those goods and services to sustain their lifestyles. Commenting on the significance of Alderson's work, the marketing historian Eric Shaw and his colleagues asserted: 'No other scholar in marketing has had a more powerful effect on developing and diffusing theory as the scientific basis for the marketing discipline than Wroe Alderson'. He was recognised for his 'contributions to marketing science' by his peers twice, in 1955 and posthumously in 1967.[49]

Theodore Levitt

One of the most acclaimed articles of its time was Theodore Levitt's famous 1960 *Harvard Business Review* article, 'Marketing myopia'. Levitt asserted that every business should be defined in terms of satisfying its customers' needs rather than in terms of the products it sells. That is, customers' needs must be the central focus of an organisation's business definition:

> The entire corporation must be viewed as a customer-creating and customer-satisfying organism. Management must think of itself not as producing products but as providing customer-creating value satisfactions. It must push this idea (and everything it means and requires) into every nook and cranny of the organization. It has to do this continuously and with the kind of flair that excites and stimulates the people in it. Otherwise, the company will be merely a series of pigeonholed parts, with no consolidating sense of purpose or direction.[50]

He supported his argument by citing the example of railroad companies in the US. These companies failed to realise that they were in the business of satisfying their customers' need for transportation (passenger and freight). If they had defined their business in terms of their existing product offering, they would have considered new technology in the form of trucks, buses and aeroplanes to be competitive products rather than just a more efficient means of satisfying their customers' needs. Therefore, rather than embracing the new technology, the railroad companies fought it and lost in the long term.

Robert Keith

Robert Keith's four-page *Journal of Marketing* article, 'The marketing revolution', rivals 'Marketing myopia' for its impact on the marketing world. Keith, then Executive Vice President of consumer products and a director of the Pillsbury Company, proposed that business thinking had evolved over a number of 'economic eras'. Pillsbury, Keith argued, started out as a 'production-oriented' company when it commenced operations in 1869. But from the 1930s to 1950s management recognised that customers were important to their business, and from the 1950s to the 1960s there was recognition that the marketing function should direct and control all other functions. However, at that point in time (1960) Keith believed a marketing revolution was taking place. Drawing on the analogy of the Copernican revolution, Keith stated that companies were no longer at the centre of the business universe – customers had taken their place. Pillsbury, Keith said, was entering a fourth era of evolution where 'marketing will become the basic motivating force for the entire corporation'.[51]

The point does need to be made that Keith's notion of a marketing revolution and the existence of economic eras was, as Marion points out, 'at best a hypothesis for an empirical process seeking to check it out, at worst a mythical construction, and not the representation of real practices'.[52]

E. Jerome McCarthy and Philip Kotler

The publication of GE's annual report and the journal articles and books cited previously were essentially one-off landmark events that significantly promoted the marketing concept. In addition to this work, and, for that matter, many other proponents of the marketing concept, the significance of the continuous promotion of the marketing concept by best-selling textbook authors E. Jerome McCarthy and Philip Kotler should not be overlooked. Since the publication of McCarthy's first edition of his textbook in 1960[53] and Kotler's first edition in 1967,[54] hundreds of thousands of marketers and marketing educators throughout the world have learnt marketing the McCarthy or Kotler way. McCarthy's concept of the *4Ps framework* of the marketing mix is synonymous with the *marketing management school of thought* to this day.

FRAGMENTATION OF MARKETING THOUGHT

Despite the dominance of the marketing management school of thought, three driving forces of change were beginning to coalesce that would in time lead to the fragmentation of mainstream marketing thought:

- *Revolution in business school education* – October 1959 might well be thought of as turning point for business school education in the US. This was the month when two highly critical reports of the state of US business education were published. Robert Gordon and James Howell, the authors of *Higher Education for Business,* sponsored by the Ford Foundation, declared that business school education was based on a weak scientific foundation; that it was structured on a narrow, simple-minded and weak curriculum. They asserted that the calibre of business school academics and their students was largely unimpressive, and the academics, they asserted, were more like quacks than serious-minded scholars. Frank Pierson, the author of *The Education of American Businessmen*, sponsored by the Carnegie Corporation, was likewise scathing in his criticism. In his review of business school education, he found there was too much engagement with cases, too much practice, too little research and too little theory. Both reports called for the adoption of a research-driven model of professional business education founded on basic social science.[55]

  The call for action marked the beginning of a period of structural and cultural change that swept through US business schools during the 1960s and 1970s. With the adoption of a scientific, research-driven model of education, marketing departments within business schools began to recruit mathematically trained academics from the social sciences and from other disciplines such as science and engineering. Policies were developed that were designed to reward academics for their ability to attract research grants and to publish in respected scholarly journals. These recruitment practices and polices became major influence in shaping the culture of marketing academic departments and in turn mainstream marketing thought.
- *Emergence of the consumer behaviour school of marketing* – interest in the study of consumer behaviour grew in response to the evolution of consumerism in the 1950s and the increasing influence of television advertising. Academics from the disciplines of psychology were attracted to the marketing field and subsequently a new field of marketing thought emerged as models of buyer behaviour, and concepts such as attitude formation and change, learning and personality were developed.
- *Marketing and society* – scholarly interest in marketing and its relationship with society attracted interest in the 1950s. The 1953 publication of Howard R. Bowen's book, *Social Responsibility of the Businessman,*[56] marked the beginning of the production of modern literature on this subject, which during the 1960s came to be defined as *corporate social responsivity* (CSR). However, by the mid-1960s a strong new interest emerged in the social domain of marketing, largely driven by the social unrest that characterised that decade. Interest tended to coalesce in the work of academics interested in a systems approach to marketing.

1.5 Era V: The digital revolution (1980–present)

The 1980s marks the beginning of significant technological, economic, sociological, cultural, political and industrial change. The changes that have taken place since that time have had a profound impact on the way marketing is practiced and conceptualised. A dramatic change in economic policymaking took place in the 1980s, when industrial economies adopted a new classical philosophy of economics where governments were expected to play an indirect role in guiding their economies and to establish the preconditions to achieve sustainable growth. Governments were not expected to assume direct responsibility for ensuring full employment or high economic growth.

The new economic philosophy fostered a spirit of entrepreneurship throughout emerging markets such as China, Korea, Mexico and Poland while at the same time encouraging governments in the industrialised world to forego short-term stabilisation policies and to develop longer-term strategies based on deregulating private economic activity and containing inflation.

The most notable achievement of the new economic direction was the virtual end of inflation as an international phenomenon. By the mid-1980s most of the industrialised countries had returned to economic growth. The 1980s was also a decade when the world financial system was transformed. In the wake of massive financial instabilities that occurred towards the end of the 1970s and early 1980s, exchange-rate stabilisation became a major focus for countries in Europe, North America and Japan. These decades ended with a worldwide recession triggered by a stock exchange crash that commenced in the US on 19 October 1987, known as Black Monday.

The 1990s was a decade of economic change characterised by:

- intensified globalisation marked by the rapid expansion of international trade in goods, services and financial capital
- the collapse of the Soviet Union in 1991 and the subsequent development of 25 transition economies that abandoned centralised planning in favour of market capitalism
- strong economic growth in the US brought about by low inflation, rising productivity, steady job creation and a surging stock market. Economic growth from 1993 to 1999 was the highest in three decades
- the rapid economic growth of China and, to a lesser extent, India
- a financial crisis towards the end of the decade in the emerging markets of South East Asia, Russia and much of Latin America
- the lost economic decade of Japan following an asset bubble collapse towards the end of 1991
- the rapid growth and usage of the internet by businesses and consumers, which that fuelled the beginning of the dot.com boom in 1997, driven by excessive speculative investment in newly founded dot.com (internet-based) companies. This was highlighted by the technology-dominated NASDAQ index rising from just under 1000 up to 5048 in March 2000 when the dot.com bubble finally burst. The US economy slowed at that point of time, and in March the US went into a recession that lasted until November 2001. Several but not all countries followed the US into recession, but overall the world economy slowed in 2001.

In 2003, a global recovery began with the world economy experiencing a solid and broad-based growth until the Global Financial Crisis (GFC) came to a head in September 2008 as a result of the US government allowing the investment bank Lehman Brothers to go bankrupt. A global recession followed, although it was mainly concentrated in the developed economies of the world, particularly North America and Europe. Newer-developed economies suffered far less impact, while the economies of China and India experienced only a mild slowdown in economic activity without recession. The recession ended in 2009 and the global recovery evolved better than was expected with world economic output growing to over 5 per cent in 2010. However, global activity weakened and became more uneven in 2011, with global growth moderating to about 4 per cent in 2012. An uneven global recovery continued over the next few years until midway through 2016 when a global cyclical upswing began. Accelerating growth was experienced in Europe, Japan, China and the US, with financial conditions remaining buoyant across the world. By 2018 the rate of global expansion appeared to have peaked in some major economies and world growth had become less synchronised. Global growth was projected by the International Monetary Fund to reach 3.9 per cent in 2018 and 2019.[57]

Technological innovation

The digital revolution consisted of three waves of innovations that together brought about a fundamental change in society.[58] The first wave took place in the 1980s with the rapid adoption of personal computers (PCs). PCs were first introduced in the mid-1970s, primarily for the consumer market; but the real breakthrough came in 1981 with the launch of the IBM PC for the business market. Shipments soared dramatically from 609 000 to 1.6 million that year, and double-digit figures remained constant for the next 20 years. By 2007, approximately 1 billion PCs had been shipped worldwide, of which about 75 per cent were used for business-related work and 25 per cent for personal or home use.[59]

The second wave began in the early 1990s when the internet came to life with the introduction to the public of the World Wide Web (WWW).[60] The launch of the internet (via the WWW) was the pivotal technological innovation of the digital revolution.[61] During the 1990s the WWW was mainly used as a read-only information source with a limited amount of interaction between the content creators and their receivers. This phase of development was described as Web 1.0: *Web-as-an information source*.

The 1990s was also the decade when mobile phones were introduced to the market. The mobile phone was invented in the 1970s, but it took another the two decades of technological development for it to become commercially viable. The first analogue phone call was made in 1991, and in 1992 telecom networks (2G) were commercially launched. SMS messaging became available on mobile phones by the mid-1990s and by 1999 full internet services were offered for the first time. At this time, the estimated number of worldwide mobile phone subscriptions had grown in leaps and bounds from 34 million in 1993 to 492 million in 2017.[62]

The third wave began in the early 2000s, when the internet was transformed into a *participatory platform* that facilitated interactivity and collaboration among users. Web 2.0, as it was named, was essentially a marketing-based term that represented changes to the way the internet was used rather than technical innovation. Content had started to become user generated rather than just company generated, and social media sites were just beginning to take hold with the launch of sites such as Friendster (2002), LinkedIn (2003), Myspace (2003), Facebook (2004), YouTube (2005) and Twitter (2006). The introduction of Wikipedia in 2001 was the catalyst for the development of crowdsourcing – the practice of crowdsourced collaboration via the internet.

The introduction of iTunes and the iPod in 2001 was another significant technological innovation that formed part of the third wave. The iTunes and iPod combination invented a new category of digital music player which disrupted the entire music industry – one of the first of many industries that were to be disrupted during the digital revolution.

While the development of the internet was the pivotal technological innovation of the digital revolution, the definitive technology was the introduction of the Apple iPhone in 2007. As Steve Jobs announced at the launch of iPhone at MacWorld in January 2007: 'Today Apple is going to reinvent the phone'.[63] That was an understatement; the iPhone in a very short time turned out to be a game-changer that redefined mobile computing and in so doing changed the lives of billions of people worldwide who now live in a connected world where they can access information anywhere, anytime. The mobile revolution continued with the launch of the first commercial Android smartphone in 2008, the launch of Apple's iPad in 2010 and the growing acceptance of cloud computing services driven by Microsoft's SkyDrive introduced in 2008 (renamed OneDrive in 2014) and the launch of Apple's iCloud in 2011.

It was around 2011 that the interest in analytics and big data, the Internet of Things (IOT) and artificial intelligence (AI) began to capture the attention of the business world. Big data, the process of gathering, storing and analysing large amounts of information, quickly rose to prominence when business leaders began to realise the critical importance of data and analytics to the success and long-term growth of their businesses. In a survey of executives conducted by The Economist Intelligence Unit in 2011, 39 per cent of respondents stated that they believed data had become an important tool that drove strategic decisions in their organisations. In a follow-up survey conducted in 2015 it was found that 58 per cent of respondents saw big data as a game-changing asset or at least an important decision-making tool.[64]

The IoT consists of a network of physical devices embedded with sensors and actuators that enable the devices to communicate seamlessly with one another over the internet or cloud. Smart devices could be anything from an automobile to home appliances, including home security systems to medical devices (such as a heart monitor implant) to an endless amount of business applications. Since 1999, when the term 'Internet of Things' was first coined, smart devices have become standard in the home and in industry. The next push is towards self-driving cars, drone-delivery services, as well as a variety of other advanced applications. McKinsey estimate that the IoT could have an economic impact of US$3.9 to US$11.1 trillion by 2025 across a range of different settings, including factories, cities, retail environments and the human body.[65]

The idea of computer-based artificial intelligence (AI) began in the 1950s, but it took another half century for the technological development of computers and advances in fields such as deep learning for interest to intensify. As noted by McKinsey, these advances provided a means for machine learning to be scaled up since 2000 to the stage where they were able to drive deep learning. AI makes it possible for machines to learn from experience, adjust to new inputs and perform human-like tasks.[66] AI technology systems include robotics and autonomous vehicles, computer vision, language, virtual agents, and machine learning (i.e. deep learning), and underpins many recent advances in the other AI technologies.[67] In a report examining the status of the AI industry in 2017, McKinsey found that investment in AI was growing rapidly and was dominated by digital giants such as Google and Baidu. The report concluded that AI 'is poised to unleash the next wave of digital disruption, and companies should prepare for it now'.[68]

Business environment

At the beginning of the 1980s large bureaucratic and hierarchical corporations dominated the business landscape. These corporations were typically organised on the multidivisional organisational structure characterised by multiple layers of management, functional specialisation, SBUs and centralised strategy planning practices.

Organisational change had become an imperative for many of these corporations – many of which were MNCs – because they had become costly to run and were slow to respond to the fast-changing global business environment they were now competing in. With the objective of creating more flexible and efficiently run business operations, new forms of organisational relationships were developed in the 1980s, such as the formation of strategic alliances, joint ventures, dynamic networks and shamrock organisational structures.

In the late 1990s a more radical approach to change management was introduced in the form of business process re-engineering (BPR), a process that involves a ground-up redesign of an organisation's business processes, with the objective of dramatically improving its level of customer service, slashing its operational costs and becoming a world class competitor.

Customer relationship management (CRM) came of age in the, mid-1990s moving out of the Rolodex card-filing era to the digital age, when CRM software was developed and marketed by companies such as Siebel and Oracle.

Another significant development came in the 1990s with the introduction of the concept of a *business ecosystem*, the brainchild of the business strategist James Moore. He described it in the following terms:

> Successful businesses are those that evolve rapidly and effectively. Yet innovative businesses can't evolve in a vacuum. They must attract resources of all sorts, drawing in capital, partners, suppliers, and customers to create cooperative networks … To extend a systematic approach to strategy I suggest that a company be viewed not as a member of a single industry but as part of a business ecosystem that crosses a variety of industries. In a business ecosystem, companies co-evolve capabilities around a new innovation: they work cooperatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations.[69]

Apple, as Moore explained, was the leader of an ecosystem that crossed over the personal computer, consumer electronics, information and communications industries in addition to an extended web of suppliers that included Motorola, Sony and a large number of customers in a variety of market segments.[70] The ecosystem metaphor provided a means for strategists to think of new ways to create scale and the ability to serve markets beyond the capacity of an individual organisation. In the 2000s the emergence of digital ecosystems began to play a key role in enabling technical platforms that would allow devices, applications, data, products and services to work together.[71] The digital revolution also brought about the downfall of the traditional client–advertising agency relationship and the evolution of an interconnected marketing ecosystem.

The trend of flattening the organisational structure continued into the 2000s with an added emphasis on aligning the organisation with the evolving digital world. In 2001 the concept of *agile organisations* was born with the development of the Agile Manifesto, the outcome of a meeting of IT professionals in Snowbird, Utah. The agile movement was developed to provide software developers with a way to quickly build and implement working software. The roots of agile go back in time to principles of lean manufacturing, Kanban and, in particular, the concept of the scrum – an analogy based on a rugby game where players in a team work in concerted effort toward a common goal.

By about 2010 the concept of agile innovation was extended to the broader concept of an agile organisation, which was defined by McKinsey as 'the ability of an organisation to quickly reconfigure strategy, structure, processes, people, and technology toward value-creating and value-protecting opportunities'.[72] However, in a survey conducted by McKinsey in 2017 it was found that while only 4 per cent of respondents had stated that their companies had fully implemented an organisation-wide agile transformation, another 37 per cent said that a company-wide transformation was in progress. The researchers claimed that the results indicate that 'organizational agility is catching fire'.[73]

The practice of marketing

The changes that were occurring in the business environment had a significant impact on the way marketing was being practised. Marketing, until the late 1970s, was typically organised as a centralised management function consisting of a team of specialists in areas such as brand management, advertising, market research and sales. Towards the end of the 1970s and early 1980s, as the concepts of SBUs and strategic planning gained widespread popularity, the distinction between marketing and strategic planning became blurred. Higher-level marketing-related strategic decisions tended to be made at the strategic planning level because marketing was increasingly positioned as a functional department providing a range of specialised marketing services.

The 1980s was also the time when services marketing rose to prominence in the worlds of business and academia. Academic interest in services marketing coincided with the rapid growth of the services sector and the adoption of marketing practices in services organisations. Textbooks devoted to services marketing started to appear and services marketing courses were added to the curriculum for Master of Business Administration courses and specialised marketing and executive programs. By the 1990s services marketing had evolved from its status as a niche business function and area of study to become a mainstream organisational function and field of academic study.

During the 1990s the impact of the digital revolution was just starting to become apparent. Marketing departments operating within functional silos were ill-suited to the new fast-changing business environment. While the need for change was clear, a research study conducted in 2014, *Marketing2020,* revealed that chief marketing officers (CMOs) around the world were struggling with the problem of how to undertake organisational redesign. The survey of 10 000 marketing executives globally found that high-performing organisations excelled in their ability to leverage customer insight, to communicate a social purpose and to deliver a rich customer experience. These organisations exhibited superior cross-functional collaboration, strategic focus, organisational agility and training. Flexible organisational structures were in place to facilitate these capabilities.[74]

Marketing thought

The fragmentation of mainstream marketing thought that began in the previous era continued unabated in the digital era due to the changes that were occurring in the business environment and within academia. During this time, the AMA reviewed the definition of *marketing* on three separate occasions: 1985, 2004 and 2007. The 1985 definition was the first change in 50 years since the original definition was released in 1935 (and subsequently ratified in 1948 and 1960). The new definition was:

> [Marketing is] the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.[75]

The 1985 definition represented a shift from the 1935 definition's focus on supply and distribution to the managerial school's focus on exchange and the concept of the marketing mix (4Ps) that had dominated marketing thought and practice since the early 1960s.

However, the times were changing rapidly, and with the benefit of hindsight the AMA was slow in catching up with changes and disruption occurring in marketing practice and academia. Marketing was under attack both from both outside and within the academic community. Frederick Webster, a leading thought leader in marketing, argued that the changes that were occurring in the business environment were so significant that a reconceptualisation of marketing as a field of study and practice was called for.[76]

Disputes broke out within the marketing community that exacerbated the fragmentation of marketing thought. In the early 1980s the *Journal of Marketing,* for example, declared that it would only publish 'scholarly articles'. While the editors maintained that they would 'strive to serve the gap between the scholarly and practical' the new editorial policy signalled the end of practitioner involvement in marketing's leading and most influential academic journal.[77] Those holding a theory and science perspective of marketing versus a practical viewpoint clearly held sway in the dispute. Similarly, heated debate broke out in the consumer behaviour school of marketing between positivist researchers and interpretivist researchers. Positivist researchers follow a controlled and structural approach to research through a process of hypothesis construction and selection of an appropriate research methodology, whereas interpretivists avoid rigid structural frameworks by adopting a suitable and flexible research approach to capture meanings in human interaction.

This tumultuous period saw the emergence of several new concepts and perspectives. Of particular importance was the emergence of the macromarketing school of thought as a major force in the academic field of marketing and the development of the concepts of market orientation, relationship marketing, brand equity, customer lifetime value and customer equity, customer value creation, co-creation and service-dominant logic.

MACROMARKETING

Interest in the societal domain of marketing re-emerged during the 1980s with the launch of the Macromarketing Society's *Journal of Macromarketing* in 1981 and the AMA's *Journal of Public Policy and Marketing* (JPP&M) in 1982. Both organisations and their journals provided the essential infrastructure for academics interested in issues concerning marketing and society. The goal of the *Journal of Macromarketing*, as stated by the founding editor, was to 'provide a forum in which people can debate and clarify the role of marketing in society'.[78] The societal domain of marketing was also boosted with the 1984 publication of R. Edward Freeman's book *Strategic Management: A Stakeholder Approach*. Freeman argued that shareholders were not the only stakeholders of a business and that for a business to be successful it must create value for its customers, suppliers, employees, communities, financiers, shareholders, banks and others who can affect or be affected by it.[79] Stakeholder theory gained momentum throughout the 1980s, capturing the attention of academics and others working in a variety of fields, including strategic management, accounting, business ethics, law, public policy, healthcare and marketing.

MARKET ORIENTATION

In 1990 the findings of two exploratory research studies that looked at the concept of market orientation were published in the *Journal of Marketing*. Ajay Kohli and Bernard Jaworski set out to clarify the domain of the market orientation construct and to provide a working definition that could be used to measure how market oriented an organisation was. They defined market orientation as:

> … the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it.[80]

As can be seen in this definition, the constructs of market orientation are the organisation-wide generation of market intelligence, dissemination of that market intelligence and an organisation-wide responsiveness to that market intelligence. Kohli and Jaworski also identified three antecedent factors that would either foster or hinder an organisation from becoming market oriented: senior management factors, interdepartmental dynamics and organisational systems.[81]

The researchers John Narver and Stanley Slater also set out to explore the concept of market orientation, with an emphasis on validating the impact of market orientation on performance. Their first step was to develop a valid measure of market orientation. From their review of the extant literature on market orientation Narver and Slater hypothesised that market orientation consists of three behavioural components and two decision criteria: customer orientation, competitor orientation and interfunctional coordination, and long-term focus and profitability. They also hypothesised that each of the five dimensions could be measured reliably with a multi-item scale.[82]

Their research finding supported their hypothesis that market orientation is an important determinant of profitability. And this finding was further supported by two independent reviews of empirical studies published in the market orientation literature. Based on their mega-analysis of 114 market orientation empirical studies (published before 2004) Kirca, Jayachandran and Bearden concluded that:

> Overall, the results demonstrate that market orientation has a positive impact on organizational performance … even though the implementation of market orientation may demand resources, it generates profits over and above the costs involved in its implementation while growing revenues'.[83]

Similarly, in their review of 36 empirical studies of market orientation (conducted between 1995 and 2008) Liao, Chang, Wu and Katrichis found that the evidence showed decisively that there was a positive relationship between market orientation and financial performance.[84]

Shelby Hunt argues that market orientation is a theoretically successful marketing theory and that it explains and predicts numerous marketing phenomena.[85] He contends that the 'fundamental, normative imperative [of the notion of market orientation] strategy is to achieve competitive advantage and, thereby, superior financial performance'.[86] According to Hunt, the foundation of the theory of market orientation is based on the following eight premises:

- Organisations have orientations (e.g. a production orientation and a financial markets' orientation), which constitute basic ways of understanding organisations, managing organisations and competing with other organisations. To varying degrees, these orientations may become, over time, embedded in an organisation's culture.
- One organisation orientation is given the label 'market orientation' by both business practitioners and academics.
- A market-oriented organisation has a capability that enables it to systematically:
  - gather market intelligence pertaining to current and future customers (e.g. their needs, wants, tastes and preferences) and current and potential competitors (e.g. their strengths, weaknesses and market offerings)
  - disseminate the intelligence across departments
  - respond to the intelligence in terms of market offerings (e.g. goods and services).
- Major antecedents of market orientation include, among other things, three sets of factors: top management factors (e.g. 'walking the walk' as well as 'talking the talk'), interdepartmental factors (e.g. interaction and coordination) and organisational systems (e.g. reward systems and training).
- As a result of being market oriented, there will be favourable customer consequences (e.g. customers' satisfaction, loyalty and perceptions of quality).
- As a result of being market oriented, there will be favourable employee consequences (e.g. organisational commitment, team spirit, customer orientation and job satisfaction).
- As a result of being market oriented, organisations will achieve a marketplace position of competitive advantage (as long as the costs of being market oriented are not excessive and competitors are less market oriented).
- As a result of being market oriented, there will be favourable organisational consequences (e.g. financial performance and innovativeness).[87]

RELATIONSHIP MARKETING

The roots of the concept of relationship marketing can be traced to the interaction/network approach to industrial marketing that originated in Sweden in the 1960s before spreading to marketing scholars in other Northern European countries. The *Nordic School*, as the perspective became known, was based on the premise that marketing is an interactive process in a social context where establishing and maintaining relationships between sellers and buyers and other parties in the marketplace are vital cornerstones. Christian Grönroos, a thought leader in this perspective, defined *relationship marketing* in the following terms:

> Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises.[88]

He contended that the traditional 4Ps marketing mix concept was too clinical because it was based on an outdated assumption that the seller plays an *active* role in the exchange process with the buyer while the consumer only plays a *passive* role. He argued that marketing deserved new perspectives 'which are more market-oriented and less manipulative, and where the customer is the focal point as suggested by the marketing concept'.[89]

Proponents of the relationship marketing school of thought were also highly critical of the marketing department organisational structure that placed responsibility for marketing in the hands of marketing specialists. They argued that customers of service and business-to-business (B2B) organisations interact with personnel other than those in the marketing department and that these interactions play a crucial role in the development of long-term customer relationships. As Grönroos explained, 'In relationship marketing interactive marketing becomes the dominant part of the marketing function'.[90]

BRAND EQUITY

The 1980s marked a turning point in the recognition of the role played by brands in an overall business context. While marketers had long since recognised the importance of brand management, as was discussed earlier in this chapter, the financial value of brands came under increasing attention during the 1980s. Driven by a realisation that size and scale of operation were prerequisites for success in the fast-evolving globalised world of business, a wave of takeovers, mergers and acquisitions took place during this decade and has continued through to present times. Many of the acquiring companies were willing to pay price earnings ratios much higher than those that had traditionally been the norm, not just to acquire bricks and mortar and other tangible assets but also to obtain brands that were established household names. Nestlé, for example, bought Rowntree for 26 times its earnings, and Groupe Danone bought Nabisco Europe for a price earnings ratio of 27 when the norm up to that point in time had been a scale of 8 to 10 times earnings. The reason for the high prices? The strength of the company's brands.[91]

David Aaker and Kevin Lane Keller were two of the most prominent advocates of the concept of brand equity. Aaker defined brand equity as 'a set of brand assets and liabilities linked to a brand, its name or symbol, and/or to that firm's customers'.[92] while Keller defined customer-based brand equity as 'the differential effect of brand knowledge on consumer response to the marketing of the brand'.[93]

CUSTOMER LIFETIME VALUE AND CUSTOMER EQUITY

During the 1980s, as interest in services marketing was gathering pace, the issue of customer retention became a major focus for several researchers working in this field. The significance of customer retention was first quantified by Frederick Reichheld and W. Earl Sasser in 1990.[94]

The focus of this research and other studies conducted by Reichheld, a fellow of Bain & Company, was on the impact of customer retention on company profitability.[95] From this work the concept of customer lifetime value (CLV)[96] took hold as researchers directed their attention to identifying linkages between customer retention and customer satisfaction, service quality and market share.

The work on CLV became the catalyst for the development of the concept of customer equity, a term coined by Robert Blattberg and John Deighton in 1996.[97] Blattberg and Deighton argued that growing a business should be framed in the context of 'getting customers and keeping them so as to grow the value of the customer base – to its fullest potential. In these terms, setting a marketing budget becomes the task of balancing what is spent on customer acquisition with what is spent on retention'.[98] They supported this argument in their 1996 *Harvard Business Review* article by providing details of how optimal levels of acquisition spending and retention spending could be calculated.[99]

The CLV and customer equity concept, according to Rust, Lemon and Zeithaml, has challenged the brand equity concept, which they argue is 'a fundamentally product-centred concept'.[100] They define customer equity as 'the total of the discounted lifetime values summed over all the firm's current and potential customers'.[101] They argue that customers and customer equity are more central to many organisation than brands, representing a shift from a product-based strategy to a more appropriate customer-based strategy.

CUSTOMER VALUE CREATION

In 1997 two articles published in the October edition of the influential *Journal of the Academy of Marketing Science* served as a catalyst for a shift in thinking away from the traditional exchange paradigm of marketing to that of value creation. Bob Woodruff, the author of the first article, argued that customer value would be the next main source of competitive advantage, stating that:

> Driven by more demanding customers, global competition, and slow-growth economies and industries, many organizations search for new ways to achieve and retain a competitive advantage. Past attempts have largely looked internally within the organization for improvement, such as reflected by quality management, reengineering, downsizing, and restructuring. The next major source for competitive advantage likely will come from more outward orientation toward customers, as indicated by the many calls for organizations to compete on superior customer value delivery.[102]

The author of the second article, Stanley Slater, in support of Woodruff's call for change, argued that marketing scholars had overlooked the importance of organising their theoretical frameworks into a comprehensive theory of the organisation – the foundation and focal point for marketing dialogue and research. Marketers, he contended, 'should be committed to the proposition that the creation of customer value must be the reason for the firm's existence and certainly for its success'.[103]

The Woodruff and Slater articles served as a catalyst to focus the debate within marketing circles to shift the worldview of marketing away from the prevailing exchange/marketing mix/customer satisfaction philosophy to the creation and delivery of customer value.

CO-CREATION

In 2000 the argument for a shift in the worldview of marketing to the creation of customer value gained further traction when the highly influential management academics C.K. Prahalad and

Venkat Ramaswamy introduced the concept of co-creation.[104] They argued that organisations must no longer think of individuals as passive receivers of value but should actively seek to engage those individuals as active co-creators of value everywhere in the system. As they stated:

> Consumers have become increasingly engaging themselves in an active and explicit dialogue with manufacturers of products and services. What's more the dialogue is no longer controlled by corporations … The market has become a forum in which consumers play an active role in creating and competing for value … Customers are stepping out of their traditional roles to become co-creators as well as consumers of value.[105]

In 2004 Prahalad and Ramaswamy elaborated on the concept in the publication of what was to become a top-selling book, *The Future of Competition*, and an article, 'Co-creation experiences: The next practice in value creation', published in the *Journal of Interactive Marketing*.[106]

SERVICE-DOMINANT LOGIC

In 2004 Stephen Vargo and Robert Lusch introduced the concept of the service-dominant logic (SDL) view of marketing. They argued that a new logic, a fundamental shift in the worldview of marketing, had taken place, where the focus had moved away from tangibles 'toward intangibles such as skills, information, and knowledge, and toward interactivity and connectivity and ongoing relationships. The orientation has shifted from the producer to the consumer'.[107] The core concept of SDL is that customers and business organisations jointly create value and build relationships. Moreover, due to the fact that customer's desires change continuously, business organisations must be responsive to these changes and change accordingly – because 'change is at the heart of the SDL'.[108]

In the same year the concept of SDL was introduced the AMA released an updated definition of marketing. The new definition was developed by a team led by Robert Lusch, the co-author of the concept of SDL. Unsurprisingly, the theoretical underpinning of the new definition was based on the concept of SDL. The new definition, unveiled at the AMA's Summer Conference in Boston in August 2004, was:

> Marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.[109]

The announcement of this definition created considerable debate in the marketing world. Critics argued that: (1) the new definition incorrectly positioned marketing as a marketing departmental function as opposed to an organisation-wide process, (2) the role of marketing in society was overlooked, (3) the historical central construct of exchange in defining marketing had been overlooked, (4) marketing creates value for non-customers as well as customers, and (5) the new definition went too far in elevating the importance of customer relationship management.[110]

In the face of this criticism the AMA created an ad-hoc subcommittee in May 2006 to review the official definition. In March 2007 the committee conducted an internet-based survey of the AMA's membership to canvas their views of the 2004 definition. Over 2500 members responded and, while the overall view was mildly positive, 23 per cent rated it as 'very poor'. A draft definition was developed based on input received from the survey respondents and a second survey was distributed in May 2007 requesting feedback on the revised definition.[111] The new definition was submitted to AMA Board of Directors in June 2007, but after formal consideration was subsequently rejected. A revised version was drafted, but once again the board did not reach a quorum of votes to approve the definition before the deadline of 30 June was reached. Four months later, in October 2007, the Board of Directors finally approved the revised definition, which was released in December 2007:

> 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.[112]

The new definition restored the exchange concept; deleted the reference to customer relationships; removed any explicit recognition that the role and purpose of marketing is to provide a means of meeting organisational objectives or to create a benefit to the marketing organisation, function and a set of process; and added the phrase 'society at large' to acknowledge the importance of societal issues.

According to Michael Lotti, the Chairman of the AMA at the time, the changes made to the definition were representative of a very inclusive view of marketing, while 'it also recognizes explicitly the roles of non-marketers to the marketing process, whether they are customers, channel partner or government agencies who regulate marketing'. He added that the new definition highlights 'that marketing is also a science, an educational process [and] a philosophy, not just a management system'.[113] In an article published in the AMA's *Journal of Public Policy and Marketing* Gregory Gundlach and William Wilkie concluded that the new definition made 'not only an important statement about marketing and its values but also an important commitment to inspire values among others. We applaud the efforts of all those involved in this central issue for the field'. [114]

However, despite claims that the new definition was symptomatic of an academy that had lost its way, the release of the new edition did much to highlight the fragmentation of marketing thought that had built up over the preceding decades. This was highlighted in a guest editorial, 'Is marketing academic losing its way?' published in the AMA's *Journal of Marketing* just over 12 months after the 2007 definition was released. David Reibstein, George Day and Jerry Wind, the authors of the article, made their thoughts on the matter very clear:

> There is an alarming and growing gap between the interests, standards, and priorities of academic marketers and the needs of marketing executives operating in an ambiguous, uncertain, fast-changing, and complex marketspace. This has gone beyond the familiar dilemma of academic research pitted against practical relevance. Our contention is that this widening divergence has become detrimental to the long-term health of the field … Our concern centers on the following question: Why do marketing academics have little to say about critical strategic marketing issues and emerging issues, such as the impact of networked organizations, the impact and marketing of emerging technologies, the value of open innovation, the blurring of value chains, unethical marketing practices, the role of brands in global markets, the role of marketing when the customers are empowered, and the constant struggle of marketing practitioners to get a seat at the corporate strategy table?[115]

While supporting the overall view that marketing was troubled, the prominent marketing thought leader Shelby Hunt argued that a successful resolution to the issues confronting the discipline of marketing could be found by advancing the area of strategic marketing. He stated: 'Indeed, it may be argued that the success of the marketing discipline as a whole in the future depends crucially on the success of the area of strategic marketing. If the area of strategic marketing does not flourish, then neither will the discipline of marketing'. He also added that advances in the field of strategic marketing within the marketing discipline will 'contribute to enhancing the discipline's impact beyond the narrow confines of its own journals'.[116]

Conclusion

The overview of the changing world of marketing presented in this chapter highlights the symbiotic relationship that has existed between the development of marketing thought and practice. New concepts, processes, practices and business models have been developed over the years in response to the changing technological, socioeconomic and business environments.

The overview also highlights the cumulative knowledge that has built up over the years as new concepts and business practices were developed, tried and tested. The market concept, for example, emphasised that the purpose of a business is to create customers. The concept of market orientation provided a framework for the implementation of the marketing concept while emphasising the fact that having a customer orientation or being customer-centric is not enough. Market-oriented organisations need to be fully aware of their competitors' product offerings and capabilities and how those are viewed by their customers. The concept of relationship marketing emphasised the imperative for marketers to stop thinking about marketing as a series of one-off transactions and to think about establishing, maintaining and enhancing long-term relationships with their organisation's customers. The concepts of relationship marketing, co-creation and service-dominant logic highlighted the interactive nature of marketing, the importance of customer engagement and the notion that customers and business organisations jointly create value and the building of relationships. In the digital age these concepts are of paramount importance.

Finally, the concept of customer value brought about a significant shift in the worldview of marketing, away from the prevailing exchange/marketing mix/customer satisfaction philosophy espoused in the marketing concept, over to the creation, communication and delivery of customer value – the reason for an organisation's existence and for its success.

The concept of market orientation provides a framework for organisational decision-makers to develop strategies, processes and systems to give the organisation the ability to create, communicate and deliver superior value for its customers, thereby creating a sustainable competitive advantage and superior financial performance. To achieve this the organisation will need to have the following capabilities:

- *Market intelligence* – become data-driven to systematically gain deep insight into current and future customers' buying behaviour and perceptions of value, and to gain a deep understanding of current and potential competitors' product offerings and capabilities, and how those are viewed by their customers. The use of big data and advanced analytics are increasingly being used by organisations at the leading edge of the digital revolution.
- *Dissemination* – specifically of market intelligence, so that it flows across departments to organisational decision-makers, as well as all those involved in the customer value creation, communication and delivery processes within the organisation, and the organisation's go-to-market partners (i.e. wholesalers, distributors and retailers).
- *Responsiveness* – break down traditional organisational silos and develop cross-functionality to create ways of serving the organisation's customers more effectively and in a timely fashion while enhancing the customer engagement and experience processes. Customer

touchpoint analysis should be conducted to identify the points of contact between customers and potential customers and the organisation and its go-to-market partners to ensure that processes and systems are put in place to enable the organisation to transform the customer end-to-end experience.
- *The Chief Marketing Officer (CMO)* – in the digital age of one-to-one marketing, empowered customers, big data, analytics and the increasing importance of digital media, the role of the CMO has never been so important. As the 'voice of the customer' across the organisation, the CMO is well positioned to play a leading role in helping the organisation develop the strategies, structures and capabilities to enable it to successfully compete in the fast-changing business environment. The CMO must also manage a team or an ecosystem of marketing specialists, located both inside and outside of the organisation, to provide skills and expertise in areas such as customer service/engagement, advanced analytics/big data, brand management, digital services, creative services, and content management system (CMS) services.

SUMMARY

- The genesis of marketing thought and practice can be traced back to the days of the Industrial Revolution. The forerunners of modern-day marketing practices such as market segmentation, product differentiation, brand image, celebrity endorsement and catalogue advertising were developed by entrepreneurs such Josiah Wedgewood. Likewise, the foundational construct of marketing theory can be traced back to the notion of market exchange articulated by Adam Smith in his landmark book, *Wealth of Nations*.
- Marketing as a field of academic study developed in the US in the early 1900s – a time of momentous technological, industrial, socioeconomic and political change. It was a time that marked the rise of the multiunit organisation, which signalled the growth of managerial capitalism. It was also a time that saw the introduction of assembly line production, one of the most significant technological innovations of the early 20th century.
- The initial interest of the pioneering academics in marketing was devoted to developing an understanding of the functions and the role of institutions in the emerging distribution systems and the commodities (products) that were being distributed. In the 1930s the infrastructure to support marketing as a field of study were laid with the creation of the American Marketing Association, the publication of the first textbooks in marketing and the debut of two academic journals – the *Journal of Retailing* and the *Journal of Marketing*. The first definition of marketing was also published during this era.
- The fourth era (1950–1980) was dominated by the marketing managerial school of thought. This was a period of booming economic and business growth and the ascension of marketing as an important organisational function. Despite the dominance of the managerial school of marketing, a paradigm shift in mainstream

marketing began during this era. The catalyst for change was the adoption of a scientific, research-driven model of business school education (triggered by the Ford and Carnegie Foundation reports), the emergence of the consumer behaviour school of thought and an increasing interest in the social domain of marketing.

This era was also characterised by the rapid growth and ascendancy of the multinational corporation (MNC).

- The fifth and current era heralded the beginning of the digital era – marking a period of significant technological, industrial, socioeconomic and political change, just as the preceding industrial revolutions had done. The digital revolution has brought about change to every facet of human existence and is continuing to do so with the development of the Internet of Things, artificial intelligence and robotics.

The business landscape at the beginning of this era was dominated by large bureaucratic and hierarchical corporations which had grown to become so large and cumbersome that they were unable to compete against smaller, more nimble competitors. Change management became the order of the day for many of these organisations with the introduction of new processes such as business process re-engineering (1990s) and the concept of agile organisations (2000s). The concept of business ecosystems was also introduced in this era (1990s).

The fifth era has been a time in which many important marketing concepts have been introduced, including market orientation, relationship marketing, brand equity, customer value creation and co-creation. It is also a time when the fragmentation of marketing thought has intensified to the extent that prominent marketing academics believe that the marketing discipline has lost its way and become disconnected from the practical world of marketing.

DISCUSSION QUESTIONS

1. The AMA's 2007 definition of marketing removed the following two references from its previous (2004) definition: (a) the management of customer relationships and (b) organisational objectives that provide benefit to an organisation. Were these deletions justified? Why or why not?
2. What is the difference between 'satisfying customer wants and needs' and 'creating, communicating and delivering value for customers'?
3. Provide three examples of how consumers (or customers) co-create value. Does this concept hold for all purchase situations?
4. Are the concepts of mass marketing and market segmentation still relevant in the digital age?

STRATEGY IN PRACTICE

Costco – transforming the retail world

In 2009, Costco entered the Australian market with the opening of its first warehouse store in Docklands, Melbourne. Costco is the largest wholesale club operator in the US and operates over 460 warehouse stores internationally, serving over 90 million members in 2017. Following the 1993 merger of the two founding companies, Price Club and Costco, the new organisation grew from $0 to US$3billion in under six years, the first company in history to do so.[117]

The membership business model pioneered by Costco is based on the simple operating philosophy of keeping costs down and passing the savings on to members. It is a no-frills membership club where members in Australia pay a $60 annual fee. As the company proudly proclaims on its website, members can find everything from groceries and electronics to designer clothing and cleaning supplies.

In 2011, Costco expanded nationally in Australia with the opening of a warehouse store in Auburn, Sydney. In 2013 three more warehouse stores were added in Ringwood, Melbourne; Casula, Sydney; and North Lakes, Brisbane. The expansion continued with warehouse store openings in Kilburn, Adelaide (2014); Moorabbin, Melbourne (2015); and Marsden Park, Sydney (2017). In August 2017, the company announced plans to extend its Australian operations into an online business as it has already done in the US, Canada, United Kingdom, Mexico, Taiwan and Korea.[118]

The rationale for Costco entering the Australian market, according to the company's managing director, Patrick Noone, was because of the demographic similarities of consumers in Australia and the US. Market analysts were sceptical of Costco's chances of success, arguing that it would have to change the shopping culture of Australians, that payment of a membership fee might not be acceptable and that the Costco discount promotional tactic of using coupons for grocery purchases would also necessitate a change in buyer behaviour.[119]

Despite these reservations, the first-year results for Costco were outstanding, well exceeding the company's expectations. More than 100 000 members had been signed up and the Melbourne store had generated revenues of A$165.9 million compared to A$145 million for an average North American store.[120]

The Australian supermarket and grocery store market is one of the country's most fiercely competitive markets, and Costco will undoubtedly have to work hard to succeed. The rapid growth of ALDI over the past decade has provided a significant challenge to the dominance of the two major players, Coles and Woolworths, while smaller supermarket chains such as IGA have struggled to compete. ALDI's discount private-label product strategy has forced the major players to cut their prices and expand their own private-label product ranges. In 2017 Kaufland, the German hypermarket, rival to Aldi, purchased two large sites in Adelaide and Melbourne, signalling plans to enter the Australian market. Kaufland operates a large warehouse style of retailing more akin to the Costco approach than to a typical supermarket. The competition intensified further towards the end of 2017 when Amazon launched an online website in Australia. While grocery products were not included in the initial online range of products, it was anticipated that it was only a matter of time before Amazon moved into that space. It will be interesting to see how Costco fares among these new entrants in the years to come.

1. Is the Costco business model relevant in Australia today?
2. What are the critical success factors that underpinned Costco's stunning performance?
3. Can Costco succeed in what has become a very competitive market?

STRATEGIC MARKETING PROJECT

Learning by doing is one of the most effective ways to master new concepts and develop new skills. It is one thing to read about the processes involved in developing a strategic marketing recommendation or strategic marketing plan, but another thing to actually prepare one. To facilitate practice, an *action-learning* project for teams of students to complete over an extended period of time is provided. This is a project based on a simulated real-world situation for which students will form teams and assume the role of either a company-based strategic marketing team or of a marketing consultant. They will then develop a strategic marketing plan or paper for a chosen company.

There are two key factors for students to consider when choosing a company. The first is access to public domain information. A search of the internet will quickly reveal the amount of useful information that can sourced from business media, case studies, academic journals, and industry and company reports such as those published by *IBISWorld*, stockbroking and other financial institutions. In some cases the company you have selected may also be willing to provide some additional information. However, in the past students have developed some very well-prepared strategic marketing plans based entirely on public domain information. The information that you will need to obtain is discussed in detail in Chapter 3, which addresses the requirement for the first stage of the strategic marketing management process: strategic analysis.

The second factor to consider is the strategic scope of the project. As a general rule it is more productive for you to choose a company, or more specifically a product line of the company, facing intense competition and/or a major marketing challenge such as a declining market, a dramatic loss of market share, impending product obsolescence or changing consumer buying behaviour. A product line rather than a single product provides scope for you to consider options such as extending the product line, brand leveraging, entering new markets or developing a new product either for an existing or new market for the company.

After selecting a company, the next stage is to come to a decision concerning the format of the strategic marketing plan or document. In Chapter 2 you will find, under the heading, '2.4 The strategic marketing management process – a framework', a brief discussion about the different ways that marketing strategies are developed and different types of formats for preparing strategy recommendations. The format alternatives are discussed in much further detail in Chapter 13: The strategic planning report.

Once the company has been selected, the format of the strategic marketing document has been decided and, in most cases, approved by your instructor, you are ready to commence work on the project. *Strategic Marketing* has been designed to take you progressively through each stage of the process.

ETHICAL ISSUE

Is marketing a force for good or for evil? Discuss.

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- customer satisfaction
- customer value creation
- co-creation
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CHAPTER 2

STRATEGIC THINKING AND STRATEGIC DECISION-MAKING

Strategic thinking … is about *synthesis*.
It involves intuition and creativity.

Henry Mintzberg[1]

Wesfarmers' bet-your-company growth strategy

If the founding fathers of the Westralian Farmers Co-operative were alive today, they would hardly recognise the organisation in its present form. From a modest beginning as an agricultural merchandising and exporting business in 1914, the cooperative has evolved over the years to become one of the 20 largest corporations in Australia.

It is as if there is a penchant for growth in the DNA of this organisation. Within a few years of its founding the cooperative began to distribute oil, LPG and gas appliances throughout rural Western Australia. It also became the proprietor of Western Australia's first public radio station.

In 1984 the organisation was restructured to become a publicly listed company, Wesfarmers Ltd. In the same year the newly incorporated company acquired the fertiliser manufacturer and distributor, CSBP & Farmers Ltd, in what was then the largest corporate takeover in Australian history. Over the next two decades Wesfarmers continued its growth by an acquisition program, moving into coal mining, rail transport, insurance and hardware/home improvements (Bunnings), while at the same time broadening its agricultural base.

By the 1990s Wesfarmers had grown to become a significant mid-sized Australian company. But the biggest growth spurt was yet to come. On 2 July 2007 Wesfarmers struck a $22 billion deal to acquire Coles Group Ltd, comprising Coles Supermarkets, Target, Kmart, Officeworks and Harris Technology. The acquisition, the largest in Australia's corporate history, was a massive 'bet-your-company' gamble.[2] Wesfarmers took on massive debt to finance the deal to acquire a group of companies that were in almost total disarray. Coles Group had been floundering for many years, and past efforts to improve the performance of its companies had failed dismally. In 2001 the company had embarked on a five-year turnaround strategy, but by 2007 sales growth had declined to a seven-year low on the back of continuing poor performance of two of its largest companies, Coles Supermarkets and Kmart.

By this stage the Coles Board was openly discussing the possibility of selling off companies within the group or the group as a whole. The private equity giant Kohlberg Kravis Roberts (KKR) had been stalking Coles for over a year and in early 2007 put forward a bid of $14.50 per share to the Coles Board. This was rejected, as was a subsequent offer of $15.25 per share.[3] In May 2007 KKR announced that it was no longer interested in the takeover, leaving the way open for Wesfarmers to go ahead with its takeover plans. Wesfarmers put forward an offer of $17.25 a share, which was accepted by the Coles Board. To finance the deal Wesfarmers drew on $4.3 billion of its cash reserves and an issue of 308 million new shares, which at the close of trading on 2 July were priced at $45.73.[4]

At the time of the takeover, investment analysts and some shareholders were critical of the cost of the deal and the negative impact that it would have on shareholder value. However, the managing director of Wesfarmers, Richard Goyder, was extremely confident that the Coles Group of companies could be turned around. He believed that the group was top heavy and that its strategy of centralisation of support services such as supply chain management, information technology and human resource management was ineffective. His first item on the agenda was to restructure the company, putting into place what he described as the Wesfarmers independent management model – a classical strategic business unit (SBU) approach. The underlying philosophy was to hire the right people to manage each division and to provide them with the resources to get on with the job. As Goyder stated in a press interview: 'If you are a divisional manager you will be well rewarded for good performance and there will be consequences for poor performance'.[5]

In total, eight autonomously managed SBUs were created comprising: Coles (food, liquor and petrol retailing); home improvements and office supplies (Bunnings and Officeworks);, Target; Kmart; insurance; resources; chemicals, energy and fertilisers; and industrial and safety. The Wesfarmers Board and its executive management team (comprising the chief operating decision-makers) assumed responsibility for monitoring the performance of each SBU and for making decisions about resource allocation and performance assessment.

Timing is everything, and trouble was just around the corner for Wesfarmers in the form of the onset of the Global Financial Crisis in 2008. At the depth of the crisis, Wesfarmers shares plummeted from their high of $45.73 at the time of the Coles acquisition to a low of around $14 late in 2008.[6] However, undaunted by this setback the company went resolutely ahead with its strategy of strengthening existing businesses through a combination of operational excellence and providing value for its customers. By 2012, just five years after the Coles Group acquisition, Wesfarmers posted earnings (before interest and tax) of $3.5 billion on operating revenue of $58.1 billion. Much of the resurgence in Wesfarmers' performance was due to the strong earnings performance of the once struggling Coles division. Shares rose to $33.57 at the announcement of these results.[7]

In January 2016 Richard Goyder introduced another big-bet decision when he announced plans for Bunnings to enter the UK market with the takeover of a struggling home improvement retailer, Homebase, for $705 million with plans to spend another $1.03 billion in rebranding and refurbishing the 265 stores it had acquired.[8] The first store was opened in February 2017, the same month that Richard Goyder announced that he would retire from Wesfarmers towards the end of the year. In November 2017 he handed over the CEO reins to Rob Scott, a Wesfarmers insider.

In February 2018 Wesfarmers reported a first-half loss $165 million for its UK Bunnings operations plus a pre-tax impairment of $931 million.[9] In March 2018 Scott announced plans to spin Coles off into a separate company and to create a new top-30 ASX-listed company. Wesfarmers planned to retain up to 20 per cent shares in the new Coles company, while existing Wesfarmers shareholders would receive shares in the new company propionate to their existing shareholdings.[10] Shares in Wesfarmers jumped 7 per cent to $44.21 upon the announcement – $1.52 below the price of the shares at the time of the acquisition 10 years prior. In May 2018 Scott announced that Bunnings foray into the UK market was over. The Homebase stores that it had acquired for $A705 million were to be sold to Hilco Capital for just £1.[11]

In the space of just a few months since taking up the position of CEO at Wesfarmers Rob Scott had shown that he was also capable of making big and tough decisions – not just big bets as his predecessor had made.

Focus of this chapter

Strategic planning is arguably one of the most controversial and misunderstood management concepts of all. Strategic planning was introduced in the 1960s, and during the 1970s it became a 'must-have' business process for most leading US business organisations. However, during the 1980s strategic planning fell out of favour. The period of post-World War II growth and US industrial dominance had come to an end and the much-vaunted US management style was being blamed for the country's economic downfall. With the advantage of hindsight, it can be observed that the American style of management from the 1950s to the 1970s was primarily based on the military model of 'command and control'. Strategic planning was largely a top-down process whereby the job for senior managers was to set a number of objectives for the organisation to achieve and to formulate strategies for the next layers of management to implement.

The development of the concept and practice of strategic planning during the 1960s and 1970s coincided with the growing popularity of the marketing concept (as was discussed in Chapter 1). Consequently, during the 1960s, the process of marketing became more important as increasingly organisations attempted to become 'customer oriented'. However, marketing's moment of glory proved to be short-lived, as testified by two pre-eminent marketing academics, George Day and Robyn Wensley. In a 1983 article in the *Journal of Marketing*, Day and Wensley observed:

> In retrospect, the 1960s was the era of marketing's greatest influence and promise, when a marketing orientation was accepted as an essential element of profitable progress in growing markets … During the 1970s the influence of marketing noticeably waned, while strategic planning was in ascendance … Increasingly, the marketing plan was restricted to a tactical support role at the brand level … (Hopkins 1981), and thereby lost its earlier strategic focus.[12]

During the 1980s marketing's role was increasingly seen to be twofold: strategic (longer-term and holistic decisions concerning the future direction for an organisation) and tactical (short-term, such as quarterly or annual, decisions). In many organisations this meant that higher-level marketing decisions such as product mix considerations, brand positioning, market segmentation and targeting were made either by strategic planners or by a senior management team. Marketing departments were required to provide specialist functional expertise in areas such as marketing communication and market research. Marketing planning increasingly became a tactical support role rather than being at the forefront of providing strategic direction for the organisation.

Learning objectives

The aim of this chapter is to provide information regarding the role of marketing within the context of the broader discipline of strategic planning or, as it is often referred to, strategic management.

After reading this chapter you will have an understanding of:

- how strategy planning/management evolved as a business practice and as an academic field of study, and the concept of the strategic business unit (SBU) (2.1)
- the process of strategy planning at the corporate, SBU and operational or functional level of the organisation (2.2)
- different perspectives (school of thought) that have influenced the way strategic planning is practised and conceptualised (2.3)
- a model of the strategic marketing management process that forms the framework that underpins the structure of this book (2.4).

2.1 Strategy planning and strategic management – an overview

The genesis of the concept and practice of strategic planning can be traced back to ancient times. The term 'strategy' derives from the ancient Greek word *strategos*, meaning the art of the general. In this sense the term was used to describe the deployment of military forces by a commander. The word had disappeared from usage until the 18th century, when it was revived by military theoreticians such as the Prussian general Carl von Clausewitz (1780–1831). Clausewitz's famous book *Vom Kriege* (*On War*) became the bible of strategy and has significantly affected military thinking since the time of its publication. He defined *strategy* as the employment of battles to gain the end of war. Late in the 19th century, as society grew more complex, the concept of strategy was broadened to describe the management of national policy. Terms such as 'grand strategy' and 'higher strategy' were used in the early 20th century to describe the art of employing national resources for the achievement of national aims or objectives.

The term 'plan' originates from the Latin word *planus*, meaning plane, referring to a level or flat surface. It was adopted into the English language during the 17th century in reference to maps, drafts, blueprints and drawings on flat surfaces.

The evolution of strategic planning as a business process

While the terms 'strategy' and 'planning' were commonplace many years ago, it was not until the late 1950s and early 1960s that strategic planning evolved as a business process. During the World War II planning became a highly developed field of endeavour, and this expertise was transferred to business in the US in the form of annual budgeting during the 1950s. This form of planning provided a means for control whereby all facets of an organisation's operations were reduced to the level of a financial problem. The focus for these companies was towards projected earnings growth rate and other financial objectives. The next phase was the extension of annual budgeting to long-range forecasting; five-year planning was popularised. Like budgeting, forecast-based planning (also referred to as long-range planning) was essentially an extrapolation of past trends. Initially these forecasts were internally focused, but by the 1960s advanced forecasting techniques such as trend analysis and regression models were increasingly being used.

At about the same time managers were becoming increasingly aware of the impact of external forces on organisational performance. In 1957 Philip Selznick, in a book that was to become the forerunner of strategic planning, introduced the notion of distinctive competence and also the need for organisations to match their internal states with external expectations. This concept was further popularised in the early 1960s by Edmund Learned, Kenneth Andrews and other academics associated with the Harvard Business School with the introduction of the famous SWOT model (strengths, weaknesses, opportunities and threats), which was to become a key platform in the evolution of strategic planning practices.

In the same period the word 'strategy' came into the vocabulary of business with the publication of A.D. Chandler's seminal book, *Strategy and Structure*, in 1962. At that point in time various business functions were conducted independently from one another. Chandler argued that these functions needed to be integrated and that organisations should adopt a long-term coordinated strategy to provide structure, direction and focus. He captured this argument succinctly with three words that have become one of the most quoted business mantras: 'structure follows strategy'.[13]

Next came arguably the most significant early work of all – Igor Ansoff's book *Corporate Strategy,* in 1965. This book became a bestseller and, very soon after its publication, strategy planning became so popular that it was, as Michael Porter commented, 'a virtual religion'. As he explained, 'There was a general feeling that a new, important management discipline had been created. Chief executives could say they practised strategic planning, corporate planners were in demand, and strategic consultants thrived.'[14]

Strategy planning became a centralised head-office function in large conglomerate organisations during this era, and implementation of the strategies devised by these 'high priests of the business world' was typically left to managers of newly formed SBUs, a concept that was developed during the late 1960s by McKinsey & Company in its work for General Electric. This concept built on the earlier divisional organisational structure that was originally pioneered in 1921 by Alfred Sloan, the CEO of General Motors Corporation.[15]

BOX 2.1

Strategic business unit defined

A strategic business unit was defined as a free-standing business within a larger organisation meeting the following criteria:

- has a unique business mission
- is independent of other SBUs
- has a clearly definable set of competitors who are competing in external markets
- can carry out integrative planning processes relatively independently of other SBUs
- can manage resources in key areas
- is large enough to justify senior management attention, but small enough to serve as a useful focus for resource allocation.[16]

In practice it was found that the designation of an SBU was quite subjective and subsequently many organisations simply described their divisions or branches as SBUs.

Strategy planners in the 1960s and 1970s had a range of newly developed tools and techniques to assist them in the formulation of their strategic recommendations. These included product life cycle theory, product portfolio models (of which the Boston Consulting Group [BCG] model developed in 1960s and the GE/McKinsey matrix developed in 1970 were the most popular), Ansoff's product-market and strategic gap analysis models and the PIMS study (which examined the link between profit and marketing strategies). Peter Drucker's concept of management-by-objectives (MBO) focused attention on the process of setting objectives and monitoring the organisation's performance from top to bottom.

Issues with the strategic planning process

The strategy planning models that evolved in these early years were highly prescriptive. Strategy planning was considered to be a highly formalised process based on elaborate models and extensive checklists and techniques. This approach was the dominant model throughout the 1970s, but questions were being raised about a number of premises underpinning the process of strategy planning. The following six problems with strategic planning were commonly cited:

- rational process of strategy formation
- the organisational structure
- uncertainty
- failing to promote strategic thinking
- lack of substantive analytical data
- gap between planning and action.

RATIONAL PROCESSES OF STRATEGY FORMATION

A starting point for what became a long-running debate about how strategies are developed is Charles Lindblom's often-cited article 'The Science of "Muddling Through"', published in 1959. Lindblom argued that rational/technical approaches to organisational decision-making were not possible and that, alternatively, strategic decisions were made by 'baby steps' or by 'muddling through'. He contended that, in most circumstances, decisions were evolutionary rather than revolutionary.[17] This issue was reignited two decades later by James Brian Quinn in his 1978 journal article, 'Strategic change: Logical incrementalism'. Quinn argued that external or internal events, over which management had no control, would often precipitate urgent piecemeal decisions to be made that would have major impacts on the future direction of the organisation. He contended that:

> The processes used to arrive at the total strategy are typically fragmented, evolutionary, and largely intuitive … real strategy tends to *evolve* as internal decisions and external events flow together to create a new, widely shared consensus for action among key members of the top management team.[18]

The arguments put forward by Lindblom and Quinn were supported by several longitudinal case studies and other research investigations during the 1970s and 1980s.[19]

THE ORGANISATIONAL STRUCTURE

It was argued that strategy planning was structured as a top-down planning process controlled by strategy planners who were often considered to be arrogant and remote from the real work of running the organisation's business, lacking in business experience – particularly line-management experience – lacking in industry-specific knowledge, being over-reliant on analytical techniques and lacking in creative skills.

It was also argued that centralised strategy planning emanating from a conglomerate head office was too remote and detached from the day-to-day activities and realities of the various businesses (SBUs) for which the plans were being developed. Line managers, who were given the responsibility to implement strategic plans developed by strategic planners, had little if any input into the strategy formation process. Accordingly, they often felt alienated or at least had no sense of commitment to the strategic plans handed down to them. That is, strategy planners were content to set a number of objectives and strategies for line managers to achieve with little consideration given to the practicalities of implementation. Strategic plans invariably lacked consideration of the aspects of implementation and performance evaluation.

UNCERTAINTY

At the heart of strategic planning is a premise that the future is predictable. Economic and market forecasts provide a foundation upon which strategies are developed; but as Mintzberg argues, 'The evidence, in fact, points to the contrary. While certain repetitive patterns, such as seasons, may be predictable, the forecasting of discontinuities, such as technological innovation or a price increase, is virtually impossible'.[20]

FAILURE TO PROMOTE STRATEGIC THINKING

A most damning criticism was that the process of strategic planning did not promote strategic thinking. This was a major thrust of a highly publicised article, 'The fall and rise of strategic planning', by Henry Mintzberg. He argued that 'Strategic planning, as it has been practiced, has really been *strategic programming*, the articulation of strategies, or visions, that already exist'.[21] That is, a distinction needs to be made between planning and strategic thinking. He contended that planning is based on analysis, while strategic thinking is based on synthesis. The grand fallacy of those who advocate a formal approach to strategic planning, he argued, is that they fail to recognise the essential differences between the two processes. As he stated:

> Because *analysis* is not *synthesis*, strategic planning is not strategy formation [bold emphasis as per original]. Analysis may precede and support synthesis, by defining the parts that can be combined into wholes. Analysis may follow and elaborate synthesis, by decomposing and formalizing its consequences. But analysis cannot substitute for synthesis. No amount of elaboration will ever enable formal procedures to forecast discontinuities, to inform managers who are detached from their operations, to create novel strategies. Ultimately, the term 'strategic planning' has proved to be an oxymoron.[22]

LACK OF SUBSTANTIVE ANALYTICAL FOUNDATION

The conceptual foundations of strategic planning, such as SWOT analysis and Chandler's strategy and structure framework, were criticised for lacking a substantive analytical foundation. Further, Michael Porter pointed out that techniques used for strategic planning, such as the experience curve, product life cycle theory and portfolio planning, were based on oversimplified concepts of competition and quick-fix solutions. He also contended that many of the important determinants for corporate success were often left out of considerations.[23]

Porter set out to provide the analytical foundation with the publication of the first of his epic works, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, in 1980. In this book Porter extended the earlier concept of SWOT analysis by providing a detailed description of the steps involved in industry and competitor analysis. He also introduced his famous *five forces model*, which to this day is one of the most widely used business tools. He also introduced his concept of competitive advantage, which he elaborated on in his 1985 publication, *Competitive Advantage: Creating and Sustaining Superior Performance*. Both books acted as catalyst to revive interest in strategic planning/management, and the concepts he introduced of industry analysis, generic competitive strategies and value-chain analysis were not only widely acclaimed and adopted by industry, but also acted as a stimulus for researchers to systematically investigate the links between effective strategies and business performance.[24]

GAP BETWEEN PLANNING AND ACTION

In many cases strategies were developed by planners who often had little if any industry experience – 'the high priests of the business world', as they were referred to earlier in this chapter. To exacerbate this problem, strategies were often developed with little or no input from those who were charged with the responsibility for executing the plans handed down to them. In response to this criticism the concept of strategy planning was reborn in the form of strategic management – the process of linking strategic planning to operational decision-making. Gluck, Kaufman and Wallack argue that this is largely accomplished by:

- creating a planning framework that cuts across organisational boundaries and that facilitates strategic decision-making about customer groups and resources
- a planning process that stimulates entrepreneurial thinking
- a corporate value system that reinforces managers' commitment to the company's strategy.[25]

A key requirement is that line managers and others charged with the responsibility for executing the strategic plan must be involved in the process of developing the plan from start to finish. The objective is to ensure that those who are involved in creating the plan will be committed to seeing it through to execution.

A wake-up call for US industry

The problems concerning the practice of strategic planning were not the only problems facing US industry – their post-World War II economic dominance was ending. US productivity growth had declined both absolutely and in comparison to European and Japanese growth, and US business confidence had been shattered in the wake of Japanese car and consumer electronics companies usurping their US rivals on a worldwide scale. US car manufacturers simply could not match the more fuel-efficient, cheaper and better-quality Japanese cars. Consequently, Japanese cars gained over a third of the US domestic market. In the consumer electronics industry the Japanese market supremacy had a devastating effect to such an extent that out of 25 US manufacturers of colour televisions, only three would survive into the 1980s. The Japanese international success came from continually pushing miniaturisation and driving down manufacturing costs through innovations in the manufacturing process.

Not surprisingly, the double whammy of a global economic slowdown and a rapid loss of international competitiveness in the 1970s has a large impact in the US. Business confidence was at an all-time low and critics were lining up to sound the death knell of US industry. The most significant example of this was an article, 'Managing our way to economic decline', published in the *Harvard Business Review* in July 1980. The authors, Robert Hayes and William Abernathy, both

Harvard Business School professors, argued that the root cause of the problems lay with the failure of the US system of management. In their words:

> American management, especially in the two decades after World War II, was universally admired for its strikingly effective performance. But times change. An approach shaped and refined during stable decades may be ill suited to a world characterized by rapid and unpredictable change, scarce energy, global competition for markets, and a constant need for innovation. This is the world of the 1980s and, probably, the rest of this century … The conclusion is painful but must be faced. Responsibility for this competitive listlessness belongs not just to a set of external conditions but also to the attitudes, preoccupations, and practices of American managers. By their preference for servicing existing markets rather than creating new ones and by their devotion to short-term returns and 'management by the numbers', many of them have effectively forsworn long-term technological superiority as a competitive weapon. In consequence, they have abdicated their strategic responsibilities.[26]

Hayes and Abernathy's work served as a wake-up call for US industry. With the problem of inappropriate management practices identified, attention was now firmly focused on finding a solution. The scene had now been set and, in a very short time, two management books hit the market to become bestsellers. Two of these books, published in 1981, set out to explain why the Japanese had been so successful and as a corollary why the US was slipping so far behind. Professor William Ouchi's 1981 book, *Theory Z: How American Business Can Meet the Japanese Challenge*, proposed that a modified approach to management was called for that combined the best characteristics of Japanese and US management practices. Ouchi argued that the Japanese style of management that focused on a strong company philosophy, a distinct corporate culture, long-range staff development, and consensus decision-making should be incorporated into US management practices. He contended that a strong homogeneous culture was the secret of success for Japanese companies and he advised corporate America to redirect attention to the human relations side of business.[27] Richard Pascale and Anthony Athos's 1981 book, *The Art of Japanese Management*, also pointed out that the main reason for Japan's success was its superior management techniques. This included an emphasis on developing shared values, a holistic approach towards managing people and a long-term vision for the direction of the business.[28]

In 1982 Terrence Deal and Allan Kennedy built on this theme in their book *Corporate Cultures: The Rites and Rituals of Corporate Life*,[29] and in the same year *The Mind of the Strategist*, written by Kenichi Ohmae, the head of McKinsey & Company's Tokyo office, captured the attention of US managers. Ohmae pointed out that Japanese organisations typically did not have formal processes for strategic planning and that their success was due to the intuitive understanding that Japanese managers had of their markets. The emphasis was on creativity and developing a competitive advantage.[30]

But the best was yet to come. In 1982, a book that was to become one of the top-selling management books of all time captured the attention of corporate America. *In Search of Excellence: Lessons from America's Best Run Companies*, written by two McKinsey & Company associates, Tom Peters and Robert Waterman, was based on a research study of 43 of the best-run companies in the US. The strength of the book was that it was inspirational because it showed that, despite the overall criticism of US management practices, there were many companies that could be considered excellent.[31] These excellent companies exhibited eight common attributes, and these attributes could be used as a model for others to follow. Box 2.2 provides a summary of these characteristics.

BOX 2.2

Eight attributes that characterise excellent companies[32]

1. A bias for action. Getting on with it – active decision-making.
2. Close to the customer. Learn from the people you serve.
3. Autonomy and entrepreneurship. Fostering innovation and encouraging practical risk taking.
4. Productivity through people. The rank and file are the root source of quality and productivity.
5. Hands-on, value-driven. Company values guide everyday practice.
6. Stick to the knitting. Stay close to the business you know.
7. Simple form, lean staff. Simplify organisational structures and minimise top-level staff.
8. Simultaneous loose–tight properties. Push autonomy down to the shop floor (loose control) but focus on core values (tight control).

In Search of Excellence also included the famous McKinsey 7-S model, which was developed in 1980 by Peters and Waterman along with their fellow McKinsey & Company colleague, Julien Phillips, as a diagnostic tool to examine organisational effectiveness.[33] The 7-S model combines seven essential forces: strategy, systems, structure, skills, style and staff, which are all united by shared values (organisational culture). The model, discussed in further detail in Chapter 3, has proven to be one of the most enduring management tools to this day, providing organisational strategists with a framework for analysing organisational effectiveness.

2.2 Strategic planning at different organisational levels

During the 1980s, US management practices changed dramatically. As discussed in Chapter 1, new forms of business organisation started to evolve and processes such as business process reengineering (BPR), just-in-time (JIT), total quality management (TQM), and customer service delivery all encouraged a more integrative or holistic approach to management, including the removal of rigid hierarchical organisational structures. Decision-making started to become decentralised, in line with a notion that became known as a 'hierarchy of strategies'.[34] It was contended that in large and complex organisations (conglomerates) decision-making and planning should be made at three distinct organisational hierarchical levels: (1) the total organisational level (usually described as the corporate level), (2) the SBU level, and (3) the functional level within each SBU. As Webster observed, a trend had developed during the 1980s for conglomerates 'to delegate more of the strategic planning process from corporate headquarters to the individual business units'.[35] The following sections summarise the decisions that are made at each of the three levels.

Corporate level

This level concerns the overall business portfolio of a diversified organisation. At this level of strategy, the main emphasis is on building and maintaining a portfolio of high-performing businesses. This generally involves decisions regarding the following:

- determining a corporate mission statement – management's vision of how the organisation should compete in the future

- setting short- and long-term performance objectives – for the entire group, such as profit, return on investment (ROI) and earnings per share (EPS) and the profit, ROI and cash flow contributions for each SBU
- determining strategies to enhance the performance of existing SBUs
- determining strategies to maximise synergies between related SBUs
- resource allocation – investment priorities – for existing and new SBUs
- determining strategies for establishing and maintaining a source of sustainable competitive advantage for the group, such as financial strength
- determination of corporate development strategies, including acquisitions, mergers and divestments.

At the corporate level, strategy marketing's role is to:

- assess the current and future attractiveness of the existing markets that the various SBUs of the corporation compete in and potential new markets
- assist in the development of the organisation's overall value proposition
- inculcate a market orientation throughout the organisation.

Corporate development strategies by way of acquisitions and mergers were all the rage for many companies in the post-WWII period due to low interest rates that helped to finance leveraged buyouts and the large number of buying opportunities that emerged as stock markets fluctuated between being bullish and bearish. The 1960s was a boom-time for conglomerates as large corporations sought to reduce their investment risk by creating a capital market within the group or by creating synergies across multiple SBUs by sharing administrative, distribution and marketing activities and/or costs (economies of scale).

The strategies that were pursued ranged from a low level of diversification, where an organisation generated between 70 to 95 per cent of its revenue from its core business, to a very high level of diversification resulting in the creation of a collection or portfolio of SBUs operating in a number of unrelated industries with less than 70 per cent of revenue derived from anyone business.

By 1980 less than 25 per cent of the Fortune 500 largest corporations in the US generated their revenue through a single industry category. As Michael Porter observed:

> Corporate strategy, the overall plan for a diversified company, is both the darling and the stepchild of contemporary management practice – the darling because CEOs have been obsessed with diversification since the early 1960s, the stepchild because almost no consensus exists about what corporate strategy is, much less about how a company should formulate it.[36]

However, the 1980s also marked the beginning of the end of the popularity of the conglomerate business model. The value of forming several weakly related businesses under a single management was queried in financial circles. It was argued that investors should diversify, not organisations.[37] As reported in the *Economist* in 1991, conglomerate mergers were '"almost certainly the biggest collective error ever made by American business", a "colossal mistake" that had left American industry uncompetitive relative to international rivals'.[38]

SBU level

This level of strategy is primarily concerned with the way in which the business unit competes in its chosen industry. The main emphasis is the development of strategies concerning product-market positions and the establishment of a sustainable competitive advantage for the SBU. Business (or SBU) strategic plans generally include:

- business mission – focusing on the product markets the SBU should compete in within its industry
- performance objectives – including profit, ROI and cash flow
- strategies to achieve those objectives
- sources of sustainable competitive advantage, such as low-cost leadership, differentiation or focus strategies
- resource allocation – to functions and product lines
- focus for senior managers – how to compete in the organisation's chosen industries
- the role for marketing – the development of value creation, communication and delivery strategies, which concerns segmentation, targeting, positioning and value creation mix decision-making.

A business (SBU) strategic plan might also include strategies concerning the establishment of joint ventures or other forms of strategic alliances.

Operational or functional level

This level concerns strategies involving each of the organisation's functions, including production, finance, marketing, research and development, and personnel (for a manufacturing organisation). The strategic emphasis at this level is on the development of functional/departmental strategies to support the SBU level plan. A distinction needs to be made at this level between strategic plans (longer-term) and annual or operational plans.

2.3 The new era of strategy development

By the 1990s, strategic management had matured as an academic discipline and as a business process. In the formative years of the discipline there was a profusion of concepts developed by academics and management consultants working with a variety of different and often opposing paradigms or schools of thought. In a landmark study of the field, Mintzberg found that 10 separate schools of thought had evolved from the early 1950s to the 1990s, as summarised in Box 2.3.

BOX 2.3

Mintzberg's 10 schools of thought[39]

Group 1 – Prescriptive school of thought

- *The design school* – evolved in the late 1950s and early 1960s out of the work of Selznick, Chandler and the Harvard SWOT model of strategy formation. This school of thought considers strategy to be a conceptual process. The simple model of the design school gave way to the planning school.
- *The planning school* – commenced in 1965 with the publication of Ansoff's *Corporate Strategy*, which was to become a major catalyst for the development of strategic planning as a management discipline. This school of thought advocated strategy planning as a highly formalised process based on elaborate models and extensive checklists and techniques. It was

the dominant school throughout the 1970s but came under strong attack in the early 1980s and was largely discredited in the 1990s.

- *The positioning school* – commenced in 1980 with the launch of Michael Porter's *Competitive Strategy*. While this school of thought was led by Porter, in the 1980s two other streams of work evolved within the positioning school: military maxims (business strategies based on the military strategies of Sun Tzu, Clausewitz and Liddell Hart) and consulting imperatives (models such as the BCG and profit impact of market strategy – PIMS – developed in the 1960s which prescribed strategic behaviour).[40]

Group 2 – Descriptive school of thought

- *The entrepreneurial school* – although this school of thought evolved during the 1980s, it originated in the much earlier work of Schumpeter (1934), Strauss (1944) and Cole (1959), who argued that initiatives taken by visionary leaders are the keys to economic growth.[41] In the 1980s this earlier work became the foundation for concepts such as strategic vision[42] and leadership in organisational start-up and turnaround life-cycle situations.
- *The cognitive school* – evolved in the 1980s mainly owing to psychologically-oriented academics and practitioners who believe that strategy formation is a mental process; for example, they probed the minds of strategists in order to understand strategic vision. The school draws on concepts in the field of cognitive psychology relating particularly to perception (how strategists become informed), concept attainment (how strategy itself is formed), reconception (how strategy changes or why it does not change) and strategic style (how strategists differ in their cognitive orientation). The 3M Company, for example, uses strategic stories to underpin its business-planning processes.[43]
- *The learning school* – strategy is viewed as an emergent process. Strategists learn over time and strategies emerge as strategists, sometimes individually but more often collectively, come to understand a context and their organisation's capabilities in dealing with it. Interest in 'learning organisations' and 'intelligent organisations' heightened during the 1990s and this continues to attract strong support.[44]
- *The power school* – evolved during the 1970s and interest in it remained through to the 1990s. Proponents consider strategy formation a power process (as politics is considered to be the exploitation of power). They are particularly interested in the role of bargaining and negotiation in the process of strategy formation. Interest in this school of thought is moderate but continues to grow because of the impact of globalisation and resultant organisational change.
- *The cultural school* – proponents focus on the influence of culture in maintaining strategy, indeed, in actively resisting strategic change. Interest in organisational culture evolved in the early 1980s in the wake of the enormous success Japanese businesses had in competing with US businesses. Ouchi's *Theory Z* and Ohmae's *The Mind of the Strategist* are prominent examples of this approach.[45] In the mid-1980s a small body of literature (particularly by Scandinavian academics and practitioners) began to appear that focused on the relationship between strategy and culture. Interest in organisational culture remains high, particularly in the field of marketing, with the growing emphasis on the need to establish a market-oriented organisational culture.
- *The environmental school* – evolved in the late 1970s based on the notion that organisations are passive and strategy formation is dictated by external conditions rather than internal processes.

Group 3 – Holistic school of thought

- *The configurational school* – in this school of thought strategy formation is considered to be a process of transforming an organisation from one type of decision-making structure to another. An organisation adopts a particular strategy configuration or style for a period according to the context or strategic situation at that point in time. The school recognises that periods of stability are interrupted occasionally by some form of transformation. This school of thought attempts to bring together the previous nine schools of thought in a number of well-defined contexts.

Towards the end of the 1990s, interest in some of the schools outlined in Box 2.3 had started to diminish; and, as Teece, Pisano and Shuen argue, the field had narrowed to four main paradigms:

1. competitive forces approach
2. strategic conflict approach
3. resource-based view (RBV)
4. dynamic capabilities.[46]

The following sections cover each of these paradigms.

Competitive forces concept

Porter's competitive forces concept, which was the dominant paradigm in 1980s and early 1990s, was based on the notion that the structure of an industry is largely dictated by the competitive rules of the game. As a consequence, this dictates the strategic options that are available for an organisation to pursue.[47] In 2004 and 2005 Kim and Mauborgne extended Porter's competitive forces approach with the introduction of their blue ocean strategy. They argued that, rather than focusing on ways of developing a competitive advantage in existing markets (a red ocean), an organisation should focus on creating a new market space (a blue ocean) by identifying customers' unmet needs.[48]

Strategic conflict approach

The second paradigm, the strategic conflict approach, is based on *game theory*. Instead of accepting market-defined rules of the game (as in the competitive forces approach), a competitor should seek to rewrite the rules based on its own particular strengths.[49] Under this approach strategists would focus their attention on devising ways that their organisation could influence the behaviour and actions of its competitors. As a consequence of this action, the market environment would also be changed.[50]

Game theory originated in a business context in the mid-1950s in the field of industrial organisation, but it wasn't until the late 1980s that it was reintroduced as a new approach to business strategy.[51] Interest in game theory grew during the 1990s into the 2000s as the stability of the business environment became increasingly stormy and characterised by market upheavals, shakeouts and technology shifts.[52]

Game theory models seek to provide a range of possible outcomes arising from actions taken by the organisation and its existing or new competitors, while taking into consideration a number of assumptions such as competitive cost structures, customer demand, market growth and technological change. Different scenarios are constructed to model the impact of competitive actions such as price cutting, a change of distribution or new product introductions against a variety of changes to the external environment. While game theory modelling is still in an early stage of development, the main value of this approach is that it provides a framework for strategists to focus on the dynamic nature of the markets in which they compete and the possible outcomes of different strategies designed to influence the behaviour of their competitors.[53]

Resource-based view

The third paradigm, the resource-based view (RBV), is an extension of the earlier concept of distinctive competence discussed earlier in this chapter, and also Prahalad and Hamel's notions of core competence, strategic intent and strategic architecture.[54] The RBV approach views organisations that have superior systems and structures as capable of achieving lower cost structures than their competitors (due to such factors as economies of scale, supply chain efficiency or operational efficiency) and/or to produce superior-quality products or services. These organisations may also have superior resources such as strong intellectual property or a well-established and dominant brand. Proponents of this approach consider that competitive advantage is achieved by virtue of their superior resources rather than by competitive positioning. That is, the organisation's resources form the basis for the development of a unique value-creating strategy.[55]

Dynamic capabilities paradigm

The fourth paradigm, dynamic capabilities, was developed in recognition that a resource-based strategy is inappropriate for an organisation competing in a rapidly changing business environment. According to the authors of the concept, David Teece, Gary Pisano and Amy Shuen, the term *dynamic* refers to the capacity of an organisation to renew competences that are required to compete successfully for the changing business environment. The term *capabilities* 'emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment'.[56] The task for strategists in this situation is twofold: first they need to develop sensing capabilities – to be able to accurately sense changes occurring in the business environment brought about by such factors as technological innovation, the changing competitive landscape (including global and online competition), changing customer preferences, changing government and legal regulation, and economic change (including the growth of developing economies). The second task is the ability of the organisation to respond appropriately to the changing environment – the capability to adapt, integrate and reconfigure the organisation's resources and skills. As Teece and his colleagues contended: 'Winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences'.[57]

The dynamic capabilities approach is clearly appropriate for organisations competing in a rapidly changing business environment. Kodak, for example, might have survived if management had recognised that film was doomed with the onset of digital photography. However, not all organisations compete in such a volatile business environment, and a more traditional model such as the competitive forces approach or strategic conflict approach would be more appropriate for strategists to use. In the spirit of the configurational school discussed earlier, Martin Reeves, Claire Love and Phillip Tillmans of the BCG propose that a key decision for strategists is to develop a strategy for making strategy;[58] that is, to find the right strategic style for the conditions facing the organisation. They argue that there are two critical factors to consider:

- *predictability* – the extent to which the future can be accurately and confidently predicted
- *malleability* – the extent to which the organisation or a competitor can influence the dynamics of the market.

This process is discussed in further detail in Chapter 3.

Strategy decision-making outside of formal planning cycles

During the early 2000s it became apparent that strategic decisions were increasingly being made outside of formal planning cycles. In an online study of nearly 800 executives conducted in 2006, McKinsey & Company found that only 23 per cent of companies made major strategic decisions within their formal strategic planning processes. The study also found that 45 per cent were satisfied with the strategic planning process and that 79 per cent believed that formal strategic planning processes played a significant role in strategy development.[59] In a larger study conducted in 2010, of 2135 executives, it was found that the primary trigger for business-unit strategy decision-making was 'the regular planning cycle' (45%) followed by 'issues as they arise' (35%). Fifty-six per cent of respondents reported that decision-making about business unit strategy was more frequent than five years earlier, while only 35 per cent reported 'about the same'.[60]

It had also become apparent that the circa-1970s problem of disconnection between strategy development and strategy implementation had re-emerged as a major concern. This led to the creation of a new position of chief strategy officer (CSO) in a number of organisations such as Kimberly-Clark, Motorola and Yahoo. CSOs were expected to ensure that strategic decisions were effectively translated into action and also to assist the CEO and the senior management team in the strategy development process.[61] However, as was found in the 2006 McKinsey survey, the role of the CSO differs from organisation to organisation. While 52 per cent of managers reported that important strategic decisions were confined to a small group of senior managers in their organisations, only 39 per cent believed that the CEO leads the organisation's strategy development process, while 34 per cent believed the CSO or a strategy group lead the process. Interestingly, 46 per cent of C-suite executives, consisting of board members, CEOs, CFOs and other top executives reported that the CEO (or the person holding an equivalent position) leads the process.[62]

What has been learnt?

What guiding principles can be gleaned from the developments in the field of strategic management discussed thus far? To evolve processes for strategy development and effective implementation, there are 10 principles that incorporate key marketing concepts and techniques that should be kept in mind:

- Distinguish between planning and strategy – as Mintzberg points out, 'Organisations engage in formal planning, not to create strategies but to program the strategies they already have, that is, to elaborate and operationalise their consequences formally'.[63] *Strategy* is therefore the starting point of planning, and *strategy development* is a long-term, future-oriented process.
- Clearly integrate strategy development, implementation, evaluation and control.
- Implement strategic decisions based on need – they may also, of necessity, be made outside of the formal strategic planning processes. Therefore, the process of strategic management needs to be ongoing. Organisations need to be flexible and able to respond in a timely fashion to changes in the business environment.
- Choose the right approach – in line with the configurational school of thought, strategists need to choose a strategic approach that is appropriate for the business environment in which they currently compete and are likely to compete in the future. Strategy formation is a process of transforming the organisation from one type of decision-making structure to another.

- Strategic thinking is a creative process – including intuitive and other non-rational and rational thought processes.
- Strategic thinking consists of both top-down and bottom-up considerations – provision needs to be made to include bottom-up input into the strategy development process.
- Strategic decisions are made within and outside of formal planning cycles.
- Models of the strategic management process provide a framework for decision-making, not a straitjacket that inhibits creativity and innovation.
- Marketing plays a key role in strategy planning and management processes – strategic thinking invariably involves consideration of marketing-related issues – creating, communicating and delivering, and exchanging offerings that have value for its customer and other stakeholders.
- Marketing operates at three levels in the organisation: corporate, business unit (SBU) and functional or departmental levels – at the top two corporate and business unit levels, the role for marketing is to:
  - foster a market-oriented culture throughout the organisation; that is, focus on establishing and maintaining a sustainable competitive advantage, emphasising the organisation's value proposition
  - provide input into the strategic visioning process – the determination of what business the organisation is in
  - provide in-depth input into key marketing strategy considerations, including the identification, evaluation and targeting of market segments, and the development of brand positioning and value creating strategies, including the value creation mix
  - identify market growth opportunities
  - provide in-depth input into the process of resource allocation
  - ensure that key marketing metrics are incorporated into the organisation's monitoring, evaluation and control processes.

2.4 The strategic marketing management process – a framework

At the top level of strategic decision-making, CEOs, CSOs and other members of the top management team (the C-suite) are required to consider a wide range of factors, including those that are marketing related. It is therefore important that marketing has a strong voice in top management strategy planning decision-making processes. This is the role of the chief marketing officer (CMO), as was discussed in Chapter 1.

Approaches

Marketing strategies may be developed in several ways according to whether strategic decisions are made inside or outside of formal strategy planning processes, and whether marketing strategies are developed as a part of the broader strategic planning or separately. Accordingly, there are four different ways that marketing strategies may be developed:

1. as part of a broader-based formal strategy planning or strategic management process that culminates in the preparation of a strategy planning document, which may be produced in

either a comprehensive or an abbreviated format (see Chapter 13 for a discussion of format options)

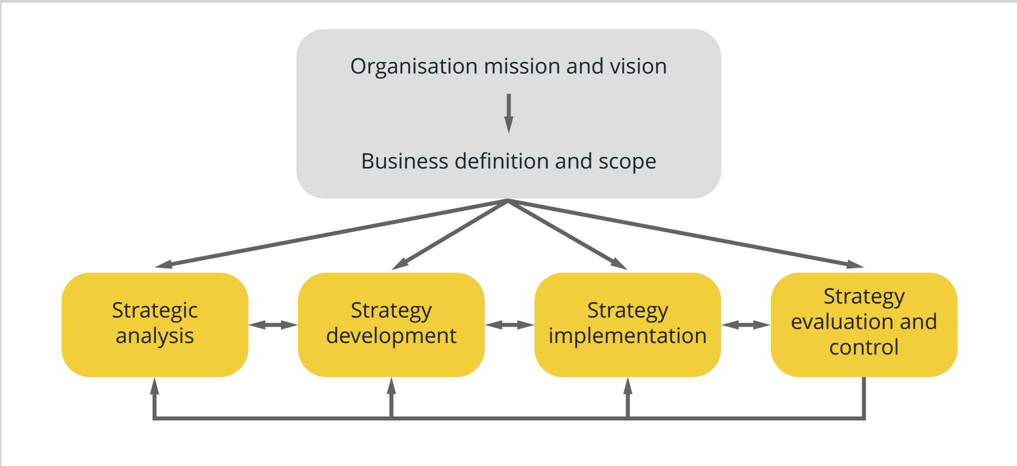
2 as part of a broader-based set of strategy deliberations that are made outside of a formal strategy planning process, culminating in several recommendations, which may be articulated in a paper or a report
3 as a separate strategic marketing plan that may be presented in either a comprehensive or an abbreviated format
4 as a paper or report containing marketing strategy recommendations.

Irrespective of these different approaches, the process of strategic marketing management is part of a broader process of strategic management, as discussed in the next section.

Strategic marketing management process

The process, as depicted in Figure 2.1, consists of four interdependent stages: strategic analysis, strategy development, implementation, and evaluation and control. The organisation's mission and vision inform each stage of the process.

FIGURE 2.1 The strategic marketing management process



MISSION AND VISION

The starting point of the strategic marketing management process is the organisation's mission and vision. The mission statement sets out the core purpose of the organisation – its reason for being. It also sets out the core values of the organisation – its inner self-beliefs and important values such as corporate social responsibility, concern for the environment and sustainability. A well-prepared mission statement provides a sense of direction for strategists; that is, the strategic scope. The mission statement may include management's vision of the futuristic world the organisation will compete in, and how it should compete in that world. In many cases this is contained in a separate vision statement. Irrespective of how this is presented, the importance of developing a vision statement is that it requires management to contemplate the dynamic nature of the business environment that most organisations compete in. As was discussed previously, it is essential that the strategic style selected is appropriate for the situation the organisation is facing or is likely to face in the future.

Mission and vision statements are often expressed in broad terms, and the next step is to prepare a business definition and scope statement. The objective is to develop a more precise statement that specifies the nature and parameters of the market (or markets) the SBU competes in and the products it competes with. Mission, vision, and business definition and scope are discussed in further detail in Chapter 3.

STRATEGIC ANALYSIS

The purpose of the strategic analysis is to review the current situation facing the organisation and, most importantly, to arrive at assumptions about the future situation. Strategic analysis comprises two major areas of activity: (1) conducting a situation analysis and (2) preparing a summary of this work in the form of a *problems and opportunities statement*. It is an ongoing process of collecting, analysing and dissemination information as it becomes available. Strategic analysis is discussed in further detail in Chapter 3.

STRATEGIC DEVELOPMENT

Strategic development is a pivotal stage of the entire strategic marketing management process and involves high-level business and marketing decision-making. The strategy development process is broken up into two components: strategic thinking and decision-making. Strategic thinking combines both top-down and bottom-up inputs, and both left-brain (intuitive or creative) and right-brain (analytical- or rational-thinking) processes. The outcome of the strategic thinking process is the generation of strategy alternatives that need to be evaluated and selected in the decision-making phase. The outcome of this process is the development of five high-level marketing strategies: strategic positioning, marketing objectives, product-market strategies, segmentation and targeting, and positioning strategies. These high-level marketing strategies are discussed in detail in Chapters 4 to 10.

STRATEGY IMPLEMENTATION

Strategy implementation is a process of transforming strategy recommendations into reality. The effective and efficient execution of strategy is a critical part of the strategic marketing management process and, to achieve this, the organisation must have resources, structure, organisational culture, processes, systems, policies and procedures. Implementation strategies are discussed in Chapter 11.

STRATEGY EVALUATION AND CONTROL

Just as considerable care must be exercised in implementing marketing strategies, equal care must also be given to establishing an effective evaluation and control system. The task here is to determine what is to be evaluated, how it is to be evaluated (internal or external data, including primary and secondary data), who is to supply the data (the suppliers of information, such as external research organisations) and when it is to be evaluated. The objective is to provide a mechanism for tracking the strategies articulated in the marketing strategy document to ensure that the long-term objectives will be achieved. This includes a triggering system to provide an early warning when performance starts to wander off-track. Evaluation and control of performance strategies are discussed in Chapter 11.

SUMMARY

- Marketing operates, or should operate, at three levels within organisations: at the higher level of strategy management at both the corporate and business levels in an organisation, and at the departmental or functional level of operations.
- At the higher level, the chief marketing officer (CMO) participates as a member of the senior management team for the purpose of developing and sustaining a competitive advantage for the organisation to meet its long-term financial objectives.
- At this level, the main role for the CMO is to ensure that the organisation is market-oriented, which involves an organisation-wide approach for creating, communicating, delivering and maintaining the organisation's value proposition. That is, marketing is essentially the organisation's orientation towards the marketplace, providing a deep understanding of the customer and competitive environments.
- It also needs to be understood that marketing strategies are developed as part of an integrated business-planning approach involving all of the functional areas of the organisation. These marketing strategies may be articulated as part of a holistic business plan or strategy paper, or in the form of a standalone strategic marketing plan.
- It should also be recognised that strategic thinking is not a once-every-three-years planning event, because great ideas often emerge in response to evolving external or internal events. Therefore, the strategy-planning processes need to be flexible in order to cater for both deliberate and emergent strategy decision–making.[64]
- The strategic marketing processes outlined in this chapter are discussed in much greater detail in the remaining chapters of this book. These processes are presented within a framework that is intended to provide marketing strategists with a means for developing marketing strategies within a context of an organisation-wide strategic management approach.

DISCUSSION QUESTIONS

1. What role should the CEO, CSO, CMO or others in the C-Suite play in the strategy planning process? Who else should participate?
2. Should the process of strategy planning be regarded as an ongoing process rather than a once-every-three-year type of event? Is there a better way to foster decision-making and to incorporate a process of continuous decision-making? Discuss.
3. Is diversity among the strategy-planning team a good thing or not? Discuss.
4. If a strategic business unit prepares a strategic plan, is there any point in developing a strategic marketing plan?
5. As Mintzberg highlighted in his review of the 10 schools of thought (as summarised in Box 2.3), proponents of the cultural school focus on the influence of culture in maintaining strategy and its influence in actively resisting strategic change. Should more attention be given to this aspect of strategy planning? Why or why not?

STRATEGY IN PRACTICE

The value-adding role of management consultants

Bruce Henderson, Clayton Christensen, Tom Peters and Kenichi Ohmae are four of the most influential thought leaders in the field of management and strategy. They all have one thing in common – they were members of one of the two top management consulting firms in the world – Henderson and Christensen, the Boston Consulting Group (BCG), and Peters and Ohmae, McKinsey & Company. By having access to confidential client information across a large variety of industries, management consulting firms occupy a privileged and central position in the 'management knowledge industry'.[65] They have been at the forefront of developing many of the major concepts, tools and techniques that have advanced the theory and practices of management over the past 100 years.

Arthur D. Little and Edwin G. Booz are generally acknowledged to be the pioneers of the management consulting industry. In 1909 Little, a chemical engineer, founded A D. Little Inc., with the objective of providing technical research and consulting services for the American chemical industry. In just a few years he found that client demand for his expertise extended beyond technical analysis to providing research services designed to help managers solve their business problems. Booz, a graduate in economics and psychology from Northwestern University's Kellogg School of Management, began his consulting career as an analyst. His first venture, The Business Research Service, was founded in 1914 but was interrupted when he was drafted into the army in 1917 to work in personnel systems. He rose to the rank of major, helping the army to reorganise its business methods. In 1919 he returned to the business world and established the company Edwin G. Booz Business Engineering Service, providing business surveys and recommendations for a variety of clients. He expanded the work of his company to provide executive recruitment services.

During the 1920s both organisations grew rapidly, and in 1925 a new competitor entered the scene when James O. McKinsey, a professor of accounting at the University of Chicago, founded McKinsey & Company. McKinsey's objective was to provide finance and budgeting consulting services for his clients, but he was frequently called on to provide advice on management and organisational issues. During the next decade, the fledgling management consulting industry grew rapidly, largely because of legislation introduced in 1933 that changed the dynamics of the banking and finance industry. In that year, the *Glass–Steagall Act* was enacted and prohibited banks from engaging in consulting and reorganisational work. At about the same time the US Securities and Exchange Commission (SEC) acted to prevent accountants, lawyers and engineers from acting as consultants. As a result, several new management consulting firms entered the market, while established firms expanded rapidly.

McKinsey's policy during this time of rapid expansion was to hire experienced business managers aged in their mid-forties. He also hired several academics, with one of the early appointments being Andrew Thomas Kearney, a former Associate Professor of marketing at Pennsylvania State University. Kearney was appointed to the position of partner and head of the firm's Chicago office. In 1937 James McKinsey died unexpectedly, and in 1939 the company split. Kearney formed his own company, A.T. Kearney & Associates, operating out of the Chicago office, while another partner, Marvin Bower, continued the operations of McKinsey in New York. Bower had a different philosophy to his predecessor and introduced what was then a radical new approach for the hiring of staff, by recruiting recent graduates from America's top business schools. He argued that consulting was a 'thinking activity' and therefore educational smarts were more important than just street smarts. Under Bower's leadership McKinsey rose to become the most respected and well-known management consulting firm in the US.

The 1950s and 1960s were a period of expansion for the industry, and several of the larger firms started to open offices in Europe and other parts of the world. In 1963 another notable new player entered the market when Bruce Henderson, the head of Arthur D. Little Inc., was headhunted by the Boston Safe Deposit and Trust Company to start up a new management consulting company, the BCG. In common with the view held by Marvin Bower, Bruce Henderson emphasised the importance of recruiting graduates from the top business schools. Due to Henderson's efforts, the BCG very quickly established a very strong reputation for excellence to become a major challenger to McKinsey at the top end of the market. In 1966 Henderson developed the concept of the experience curve (based on the notion that unit costs of production decrease over time) and, in 1968, the famous BCG Product Portfolio Model. Not to be outdone, in 1971 McKinsey developed an alternative portfolio model, a nine-box matrix that was to become known as the McKinsey GE Multifactor Portfolio Model. This was followed in 1980 with the introduction of the 7-S framework of organisation effectiveness, developed by Bob Waterman, Tom Peters and Julien Phillips.

McKinsey and BCG both devoted considerable time and resources to the dissemination of knowledge. In 1964 McKinsey launched the *McKinsey Quarterly*, while the BCG started to mail a series of essays that were the forerunner of the publication of *Perspectives*. Staff of both companies had numerous articles published in business magazines such as the *Harvard Business Review*. In the 1980s McKinsey consultants turned their hands to book writing. In 1982 Peters and Waterman's *In Search of Excellence* was a runaway success, occupying the top spot on the *New York Times* bestseller list for more than two years. In the same year Kenichi Ohmae's *The Mind of the Strategist* was also highly acclaimed, as, later in the decade, were Richard Foster's 1986 book *Innovation* and Ohmae's 1987 book *Beyond National Borders*.[66]

During the 1980s the management consulting industry grew rapidly, driven by a demand by companies to help develop and implement their national and global strategies. The demand continued in the 1990s, driven by the need for information technology consulting. In 1992 IBM seized on this opportunity and established the IBM Consulting Group, later rebranded IBM Global Business Services. The Big Eight (now the Big Four) accounting firms also developed management consulting offshoots during this decade. However, in the wake of the Enron and other corporate and accounting scandals in the late 1990s and the subsequent enactment of the *Sarbanes–Oxley Act* in 2002 the consulting divisions were required to be legally separated from their parent companies. PricewaterhouseCoopers decided to quit the management consulting industry in 2002, selling its consulting arm off to IBM Global Business Services. The Enron disaster also marked a time when the management consulting industry came under increasing public attack. Management consultants' lack of accountability and their declining reputation caused job losses because of their perceived tendency to recommend downsizing strategies. Even more damaging was a growing discontent about the close personal relationships that existed between management consultants and business leaders and politicians.[67] This was highlighted in 2011 when two high-profile former employees of McKinsey, Anil Kumar and Rajat Gupta, were found guilty of insider trading.[68]

1. Why do organisations hire management consultants?
2. How important is the role that management consultants play in the dissemination of knowledge?
3. Do management consultants put their own interests ahead those of their clients?

STRATEGIC MARKETING PROJECT

After reading the section of this chapter headed '2.4 The strategic marketing management process – a framework', go to Chapter 13 for a discussion about the format options for writing a strategic marketing document. Discuss with your team members and decide on the most appropriate format for presenting your work to an assumed senior management group.

You will most likely need to obtain your instructor's approval for your chosen format, so be prepared to present a convincing argument to support your case.

ETHICAL ISSUE

Is unethical corporate behaviour a consequence of competitive pressure?

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- game theory
- resource-based view
- dynamic capabilities
- blue ocean strategy.

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PART

2

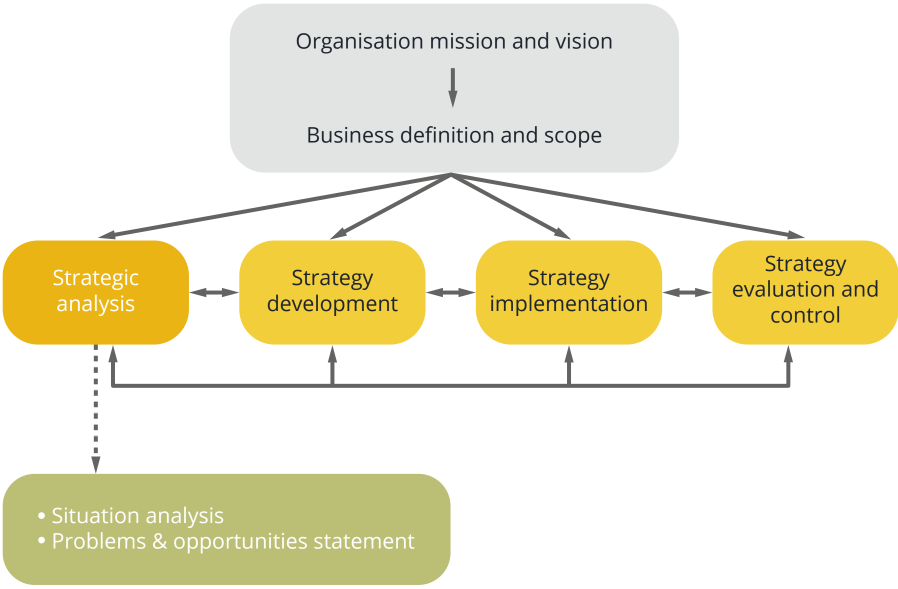
IDENTIFYING STRATEGIC OPPORTUNITIES

Chapter 3 Strategic analysis

The future of an organisation is dependent on its ability to identify the forces of change that are likely to impact on the business environment in which it operates and the organisation's ability to effectively respond to these changes.

Chapter 3 provides a detailed description of the processes involved in strategic analysis – the foundation upon which successful strategies are developed and implemented.

The strategic marketing management process



CHAPTER

3

STRATEGIC ANALYSIS

Facts are the bricks with which you will lay a path to your solution and build pillars to support it. Don't fear the facts.

Ethan M Rasiel[1]

Target's big data targeting

The American department store Target was in the news in the early 2000s when a father marched into one of its stores in Minneapolis to complain about an advertising mailer his school-aged daughter had received for maternity clothing, baby clothes and cribs. The store manager could not explain how this mix-up could have occurred and apologised to the father for the error. The manager rang a few days later to reiterate his apology. However, this time the father was the one to apologise as he had subsequently learnt that his teenage daughter actually was pregnant.[2]

This is a classic example of the use of predictive analytics used by organisations such as Target to determine their customers' future purchase behaviour. Target collects a vast amount of data about its customers purchasing habits, including information about what and when they have purchased in-store and online, and information gleaned from touchpoints such as surveys, calls to the customer help-line and emails. Additionally, Target builds a personal profile for each customer by collecting demographic data (i.e. age, marital status and number of children), estimated household income, their address, their credit cards and visits to the company's website. Target is also able to buy commercially available data such as information about each customer's educational background, occupation, media habits, cars owned and much more. Capturing and storing such information is one thing, but the success of the exercise is the ability of the company to analyse this information and to make sense of it. In this case the marketers at Target had developed a strategy to market baby-related products to women before their babies were born. Women in the second trimester of pregnancy were more likely to be in the market to purchase products sold by Target such as cots, bassinets, changing tables and baby clothes. The analysts at Target determined that there were 25 products such as lotions and magnesium and zinc supplements that women in the second trimester of pregnancy were likely to buy. Using this information, the analysts were able to construct a 'pregnancy predictor' score indicating the likelihood of pregnancy and the estimated due date.[3]

Target was an early user of big data, and today the vast majority of large organisations have followed suit. Netflix, for example, uses big data most effectively to choose programs to air. Big-data analytics revealed that Adam Sandler was very popular in Latin America, and for that reason Adam Sandler movies keep getting made, with four getting the green light in 2015. Closer to home, American Express claims that it can predict 24 per cent of accounts that will close in Australia within the next four months based on its analysis of big data.[4]

The cost equation for consumers is still there. It may be loyalty cards giving rewards to consumers (e.g. financial discounts) in exchange for data on what they purchase, so the company can then offer them customised marketing; or it could be something as simple as free Wi-Fi at a shopping centre or airport so that marketers can track, through visitor analytics, where the consumer visits and for how long.

The benefits to companies are significant and include allowing a better understating of customers and their purchase/usage behaviours, as well as better optimisation of business processes such as supply chain or delivery routes. Consumers also benefit directly from big data, not just via the receipt of customised marketing offers but also from wearable devices such as smartwatches or smart bracelets, which can analyse calorie consumption, activity levels and/or sleep patterns.[5]

Focus of this chapter

Strategic analysis is the foundation upon which successful strategies are developed and implemented. It is a process that involves the systematic and continuous collection of past and present data for the purpose of identifying trends, forces and conditions that have the potential to influence both the short- and long-term performances of the organisation. As Henry Mintzberg pointed out many years ago, 'Strategies cannot be created by analysis, but their development can be helped by it'.[6]

Learning objectives

The aim of this chapter is to provide information regarding the steps involved in strategic analysis and to highlight its importance to strategic marketing.

After reading this chapter you will have an understanding of:

- the two preliminary decisions made when commencing strategic analysis: the strategic style and organisation's mission and vision (3.1)
- the steps involved in conducting a comprehensive and thorough situation analysis and developing a problems and opportunities statement (3.2)
- a variety of sources of marketing information that can be used to build a robust situation analysis (3.3).

3.1 Getting started

There are two critical issues to be considered at the outset of the strategic planning process. The first is to develop a clear understanding of the strategic style that is appropriate for the organisation to use. The second issue is to ensure that the organisation's core values and core purpose, as expressed in the organisation's mission statement, are brought to the forefront of the strategic planning processes.

Choosing the appropriate strategic style

There is not and should not be a 'one-size-fits-all' approach to strategic planning. As was briefly discussed in the preceding chapter, aligned with the configurational school of thought, the strategy-making style needs to be tailormade to meet the specific demands of the business environment in which the organisation competes. Martin Reeves, Claire Love and Phillip Tillmanns of the Boston Consulting Group have developed a model which provides a most useful tool for strategists to use for this purpose.[7] They argue that because strategy usually begins with an assessment of the industry the organisation competes within, the choice of strategy style should begin there as well. They further argue that the criteria for industry assessment can be narrowed down to just two critical dimensions:

- *predictability* – the extent to which the future can be accurately and confidently predicted
- *malleability* – the extent to which your organisation or a competitor can influence the dynamics of the market.

Figure 3.1 shows a matrix based on these two dimensions.

FIGURE 3.1 Choosing the right strategic style

Predictability \ Malleability	Low	High
Low	**Adaptive** If the industry is unpredictable and can't be changed	**Shaping** If the industry is unpredictable but can be changed
High	**Classical** If the industry is predictable but can't be changed	**Visionary** If the industry is predictable and can be changed

Adapted from M. Reeves, C. Love and P. Tillmanns, 'Your strategy needs a strategy', Harvard Business Review, September 2012.

The *classical strategy* is appropriate for organisations competing in a relatively stable and predictable environment where it would not be possible for a competitor to influence the market dynamics. Mature markets in categories such as commodities, fast-moving consumer goods (FMCG), pharmaceuticals and consumer services (i.e. household insurance typifies this type of situation). Strategists typically may adopt a strategy style based on the positioning school of thought (i.e. Porter's concept of competitive advantage approach, Kim and Mauborgne's concept of blue ocean, the concept of marketing warfare and product portfolio models), the strategic conflict approach/ game theory approach, or the resource-based view (including Hamel and Prahalad's concept of competing in the future that focuses on making the most of the organisation's core strengths or on gaining advantage through operational excellence).[8]

The *adaptive strategy* is appropriate for organisations competing in an unpredictable environment brought about by such factors as the impact of global competition, technological change, social change and economic uncertainty. In this environment it would also not be possible for a competitor to influence the dynamics of the market. Organisations faced with this situation need to focus on flexibility and have the capacity to constantly change and refine goals and tactics as events unfold. An organisational learning approach is an appropriate style for this situation. Winners develop an overall direction through experimentation and rapid change and can act quickly and creatively in response to an event. Planning cycles would need to be short term or even be produced on a continual basis. Mintzberg and Peters and Waterman are prominent proponents of this approach.

A *shaping strategy* is appropriate for organisations competing in an unpredictable and malleable environment such as new and high-growth industries; for example, the early days of the digital revolution. In such an environment Facebook was able to overtake Myspace by open sourcing its social networking platform, which allowed it to provide a wide range of applications for its customers to use. A shaping strategy is also appropriate for a mature and fragmented industry. This was the situation that Apple faced with the launch of the iPhone in 2007 – a typical blue ocean strategy. Apple reshaped the entire mobile phone industry and did the same to the tablet market with the launch of the iPad in 2010.

The *visionary strategy* is appropriate for a situation where the business environment is predictable and malleable. This is a strategy deployed by entrepreneurs to create an entirely new market or by corporate leaders who revitalise a company with an entirely new vision. For example, as early as 1994 UPS saw the potential of e-commerce and redefined its core business to cater for the growth of online shopping. Six years later when the market for e-commerce delivery was gathering momentum, UPS had established a position of market dominance with more than half the market share. For the leaders of UPS, the goal was to take advantage of an emerging business opportunity.

In comparison, the goal for Lou Gerstner, the incoming CEO of IBM in 1993, was survival. The previous leaders at IBM had failed to recognise the changes that were occurring in the information technology (IT) industry and the company was on the brink of collapse when Gerstner was appointed. However, to Gerstner the future was clear; he initiated changes that were designed to take advantage of the opportunities that he believed were forthcoming – a typical dynamic capabilities strategy approach.[9]

These four strategy situations provide a framework for strategists to choose the most appropriate strategy style or combination of styles for their organisation. This style may vary from business unit to business unit within a conglomerate organisation, or even within a business unit for different product lines competing in different market situations. Concepts, models and frameworks developed within different schools of thought are not necessarily opposed to one another. In many cases they are complementary and combine to provide a greater depth of understanding of how a sustainable competitive advantage can be created.

Mission statement

A *mission statement* defines the fundamental, unique purpose of an organisation that sets it apart from its competitors. It reflects management's vision of what the organisation is trying to do and how the organisation should compete in the present and in the future. Mission statements are, essentially, philosophical statements that provide a sense of purpose and direction for the organisation.

Mission statements typically consist of two core principles: core values and core purpose. *Core values* represent the organisation's inner self-beliefs, such as Walt Disney's focus on imagination and wholesomeness, P&G's focus on product excellence and 3M's focus on innovation. *Core purpose* is the organisation's reason for being.

Since the 1980s the growing influence of stakeholder theory (discussed in Chapter 1) and the concept of corporate social responsibility (CSR) has meant that the core purpose of many organisations has been broadened to encompass the interests of several stakeholder groups rather than just the interests of shareholders. CSR holds that an organisation has a social obligation to its stakeholders – those affected by its policies and actions. CSR theory was extended with the introduction of the concept of creating shared value (CSV) in 2011.[10] The fundamental premise of this concept is that the health of an organisation and the health of the communities in which it operates are mutually dependent. (CSV is discussed in further depth in Chapter 4.)

Core values and core purpose represent an enduring philosophy that does not change over time. They should represent the values and purpose as it really is, not as a made-up wish list or advertising slogan of how the organisation would like to be viewed by the public. These values need to be discovered and they need to be meaningful for the organisation's employees.

VISION STATEMENT

Mission statements sometimes also include a vision statement, defined by Bennis and Nannus as follows:

> A vision articulates a view of a realistic, credible, attractive future for the organisation: a condition that is better in some way than what now exists … a clearly articulated vision of the future is at once simple, easily understood, clearly desirable and energising.[11]

A vision statement is a means of communicating management's view of the futuristic world the organisation will compete in and how it should compete in that world. In this way it can act as a powerful force in helping to forge a common understanding throughout the organisation of the challenges that lie ahead. That is, it can play a role in shaping organisational culture – of developing a shared understanding of the (market-oriented) strategic direction that the organisation must take for it to prosper in the future.

A similar motivational view is advocated by Gary Hamel and C.K. Prahalad in what they describe as strategic intent. They argue that many of the companies that have risen to global leadership in the 1970s and 1980s began with ambitions that were out of proportion to their resources and capabilities. These companies were obsessed with winning and overcame resource constraints to build leadership positions based on a management system that included 'focusing the organisation's attention on the essence of winning; motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations'.[12] Strategic intent emphasises a long-term vision (i.e. five years plus) of the business that should not be limited by current resource capabilities.

Business definition and scope

The *business definition and scope statement* operationalise the organisation's mission statement, transforming what is generally an abstract statement into a more precise form to specify the nature and parameters of the market or markets that the strategic business unit competes in and the products it competes with. The purpose of this statement is to set out clearly and unambiguously the organisation's reason for being and its strategic domain or scope. It is a critical step in the entire strategic marketing management process because the way a business is defined determines:

1. the nature of the markets the business competes in (present and future)
2. the products and substitutes that currently service that market, and new products and substitutes that may service that market in the future (i.e. to satisfy existing and future wants and needs of customers in that market)
3. the nature of the competition
4. the capabilities the business needs to have to compete successfully in that market.

In other words, these decisions involve choices concerning where to compete, how to compete and what to compete with. Accordingly, the way a business is defined determines the scope of that business in terms of its strategic domain – what it will and will not cover. It also determines the strategic time horizon and the geographic domain. The following is a suggested format for preparing a business definition and scope statement:

1. *Specification of the organisation's mission statement (including vision)* – due to the significance of this statement or statements, it is important to restate the organisation's mission and vision right at the start of the strategic development process. This ensures that everyone involved in the strategy development process has a clear understanding of the organisation's core ideology and its aspirations for the future.
2. *Market definition* – the mission of the organisation is to satisfy customer needs, but who are these customers and what are their needs? The objective of this section is to define the customers in terms of the existing market segments that the organisation targets and potential new market segments. Ideas about what segments will be targeted will evolve as the strategic analysis and strategy development phases of the work proceeds. For example, during the strategic analytical phase an emerging market segment may be uncovered that will necessitate a later decision for the organisation to target that segment, in which case the business definition and scope statement would need to be modified accordingly.
3. *Product definition* – ace involves listing the product categories to be targeted and the organisation's products/brands that compete in each of those product categories. This is not as straightforward a task as it may at first appear. The classical definition of a product category is that competing products will have similar characteristics and features. For example, some toothpaste products are marketed on their ability to whiten teeth, provide relief for sensitive teeth, provide cavity protection, fight bad breath, or as being suitable for children. These are essentially sub-categories of the product category described as 'toothpaste'. But toothpaste itself is also a sub-category of a broader category labelled 'oral care' or 'oral hygiene' consisting of sub-categories such as toothbrushes, mouthwash, dental floss and denture cleaning products. To take the example one step further, 'oral care' is a sub-category of 'personal care', consisting of sub-categories such as: hair care, skin care, deodorants, shaving products, toiletries and so on. During the strategy development phase a decision may be made to redefine a product category to broaden its scope. For example, a narrowly defined product category such as toothpaste could be broadened to oral care.
4. *Competitors* – involves identification of competitive products/brands in the organisation's product categories.
5. *Scope* – this involves two key decisions. First, the strategic timeframe or planning cycle. For organisations competing in a business environment that is reasonably predictable, a timeframe

of three to five years would be appropriate; that is, for organisations choosing a classical style of strategy. This timeframe might also be appropriate for organisations using a visionary strategy if there is a clear enough view of the future. For most other situations, the planning cycle would need to be much shorter or even continuous for organisations competing in a situation that calls for either an adaptive or shaping strategy.

The second key decision concerns the geographic domain of the intended strategy. A strategy should be developed for a specific market context, such as for an individual country, or a region or state within a country. Extending a strategy beyond a local or domestic market is difficult because different environmental factors are involved. For example, different economic, social, political and legal conditions will exist from country to country. Additionally, there are different market conditions such as market size and the nature and intensity of competition in different countries.

3.2 Situation analysis

The purpose of the situation analysis stage of the process is to lay a foundation upon which strategic decisions can be developed. Strategic analysis comprises two major areas of activity: conducting a situation analysis and synthesising this analysis in the form of a *problems and opportunities statement*.

The focal point for strategic analysis is to determine the forces that are likely to impact on the market (i.e. existing and potential customers) and the marketplace (i.e. existing and potential competitors and distributors). The key questions to address are:

- What will the market be like three to five years from now?
- Who will the customers be?
- What will their needs and preferences be in three to five years' time?
- What will their likely shopping behaviour be (including all the touchpoints along the value chain)?
- Who will the main competitors be and how will they compete?

According to a model developed by academics at Harvard, there are five areas of analysis that underlie marketing decision-making. The five Cs (5Cs) of analysis are:

- *Context* – what cultural, technological and legal factors limit what is possible?
- *Customer needs* – what needs do we seek to satisfy?
- *Competitors* – who competes with us in meeting those needs?
- *Collaborators* – who should we enlist to help us and how do we motivate them?
- *Company skills* – what special competence do we possess to meet customer needs?[13]

All the 5Cs are incorporated and expanded in the framework of the situation analysis discussed in the following. The situation analysis is essentially a process of assessing the current situation facing the organisation, arriving at a set of assumptions about the future, and identifying key strategic issues that are likely to confront the organisation. That is, the aim of the situation analysis is to:

- identify forces that are the potential drivers of change
- determine the likely impact of these forces of change on the markets and the marketplace being targeted so that assumptions can be made about the future environment the organisation will compete in
- determine how the organisation is positioned to compete successfully in the future.

There are four phases of work involved in undertaking a situation analysis: (1) reviewing the external environment (remote and near), (2) determining critical success factors, (3) reviewing internal capabilities and (4) preparing a problems and opportunities statement. Each of these phases is discussed in the following sections.

Reviewing the external environment

The purpose of the external environment analysis is to arrive at a view of the future. For strategists, even in reasonably predictable business environments, it is necessary to understand that forecasting or 'predicting the future' is at best a hazardous exercise. In the heyday of strategic planning in the 1970s (and before that, long-range planning in the 1960s), accurate forecasting was an essential part of the process. However, time has shown that forecasting is notoriously fallible no matter how sophisticated the modelling technique. At best, strategists can develop a scenario or alternative scenarios of what is plausible about the future. These scenarios or key assumptions about the future become the platform upon which judgements are made concerning the likely impact that these developments will have in terms of opportunities and threats for the organisation. The review of the external environment is broken down into two main parts: the remote (or macro) environment and the near (or industry) environment.

REVIEW OF THE REMOTE ENVIRONMENT

The remote environment (also described as macro environment) impact on society as a whole, including the industry and the marketplace that the organisation operates in. The remote environment comprises five main elements, which are driving forces of change or uncontrollable variables, including: economic, sociocultural, political–legal, technological and natural environmental forces (including ecological factors). These have the potential to bring about change in the nature, shape and size of the market (customer buying behaviour and market demand) and the marketplace in which the organisation competes. For example, an upturn in the economy can underpin a surge in consumer spending (market demand), which in turn could lead to a change in consumer preferences such as increasing demand for premium products or services (the nature of market demand). A change of government policy (political–legal forces) such as industry deregulation can underpin massive changes to an industry (e.g. the removal of market entry barriers to pave the way for new competitors to enter the market). Each of the remote environmental forces has the potential to significantly impact the future nature, size and shape of the market and the marketplace in which the organisation will compete.

The purpose of the remote review is for those involved in the strategy development process to contemplate the future and to determine the opportunities and threats that each external environmental factor is likely to create over the period of the strategic time horizon. As was discussed in Chapter 2, there are three steps involved in the review process:

1 Analysis – the process of decomposition or breaking the whole into a number of constituent parts to investigate their nature, functions and relationships.
2 Diagnosis – a decision or opinion resulting from the analysis; to recognise and identify the nature of the item investigated.
3 Prognosis – the process of determining what is likely to happen; a forecast or a scenario including the implications for the organisation in terms of opportunities and threats.

In preparing a situation analysis it is suggested that the review of each environmental factor (discussed in the following) should likewise consist of two parts: (1) the scenario (or key assumptions) of the future and (2) the implications of these scenarios for the planning unit. It is recommended that these implications should be presented in a tabular format that not only identifies each opportunity and each threat but also provides an assessment of its significance and the probability of its occurring within the strategic timeframe. A double-digit five-point rating scale, such as that shown in Figure 3.2, is useful for this purpose. An assessment of 5–5 indicates that a specific opportunity or threat is extremely significant and is extremely likely to occur. On the other hand, an assessment of 1–1 shows that the opportunity or threat is not very significant and has a low probability of occurring. This type of assessment has the advantage of enabling the analyst to sort out the valuable from the worthless.

FIGURE 3.2 Example of a double-digit five-point rating scale

RATING	DEGREE OF SIGNIFICANCE OF THE OPPORTUNITY OR THREAT	RATING	PROBABILITY OF OCCURRENCE
5	Extremely significant	5	Extremely likely
4	Quite to highly significant	4	Highly likely
3	Significant	3	Quite likely
2	Reasonably significant	2	Moderate
1	Not very significant	1	Low probability

The following is a summary of the five key factors to be considered in the review of each of the remote environmental forces.

Economic factors

The objective of this review is to determine changes in economic conditions and policies and to determine how these changes will affect the planning unit's future operations; that is, the likely impact of the economy on society as a whole, the organisation and the industry it competes in, and the buyer behaviour of the market segments targeted, or to be potentially targeted, by the organisation. The most common oversight in analysis of the economy is to overlook the impact of the economy on the lives of individuals comprising the planning unit's target markets.

The major economic indicators to consider are gross domestic product (GDP), the local and the global business cycle trends (which range from depression to recession to recovery to prosperity), inflationary or deflationary trends, monetary policies, interest rates, credit availability, foreign currency rates, government spending and taxing policies for organisations and individuals, balance of payments, foreign investment, saving rates, and the levels of unemployment and employment.

Economic trends need to be analysed in terms of the immediate or short-term impact through to a longer-term timeframe.

The most significant economic trends include:

- evolution of the global economy
- shifts occurring in global economic power
- emergence of global competition and global strategies
- end of post-World War II rapid economic growth in Western economies and ultimate stagnation

- decline of manufacturing and the growth of services
- evolution of the post-industrial information (or digital) age
- transition of economic power from the West to the East
- impact of the Global Financial Crisis (from 2008–2013) – which has created levels of uncertainty and credit shortages in the business environment rivalled only by the Great Depression of the late 1920s.

As McKinsey directors Lowell Bryan and Dina Farrell advised in December 2008: 'Uncertainty of this magnitude will leave some leaders lost in the fog. To avoid impulsive, uncoordinated, and untimely ineffective responses, companies must evaluate an unusually broad set of macroeconomic outcomes and strategic responses and then act to make themselves more flexible, aware, and resilient'.[14]

The focus of economic analysis is to develop scenarios of possible economic outcomes and the likely impact that changing economic conditions will have on the market and the marketplace in which the organisation competes. In some cases, a small change in one or two economic variables will be highly significant, while in others, unless there are huge changes, a shift in economic circumstances will not make much of a difference on market demand. For example, an increase in interest rates could underpin a decrease in demand for high-end luxury goods, but unless the increase was significant it would not have much of an impact on market demand for everyday commodity goods, although there might be a shift from premium to value-for-money brands.

The point to note is that some economic variables will be highly relevant for some organisations and of lesser consequence for others. Therefore, strategists should select the economic indicators that are the most relevant for the specific situation facing their organisation.

Sociocultural factors

This review combines three elements that are concerned with people and behaviour: demographic, sociological and cultural. They have been grouped together because of the logical fit, but in some circumstances it may be preferable to treat each factor separately. The main objective of the review of sociocultural trends is to determine the significance of population and sociological changes on the nature of the planning units' customers and their purchase behaviour. This should include analysis of changing demographic patterns and changing social values, attitudes and lifestyles impacting (or likely to impact) on the markets targeted (or potentially targeted) by the planning unit – as was defined in the business definition and scope section of the strategic plan. Key trends to consider include population (i.e. size, growth rates and ethnic composition), age and gender structure, family structure, levels of income and education, and various breakdowns of occupation (i.e. type of work, full-time and part-time hours, working women), ethnicity and geographic location. In addition to this demographic type of information, changing societal values and attitudes need to be determined.

Of importance is the identification of emerging trends, including those long-term trends that are likely to 'come of age' during the timeframe of the strategic plan, for example, baby boomers (born between 1945 and 1961) reaching the empty-nest stage of life and/or retirement during the planning timeframe. Some of the more recent sociocultural trends that have impacted on consumer marketing include the ageing population; the evolution of a multicultural, fragmented society (along with the demise of market homogeneity); the rising number of working women, including working mothers; the emergence of the 'new woman'; and the division of society into 'haves' and 'have-nots'. Additionally, several newer segments have been given labels such as yuppies (young upwardly mobile professionals), dinks (double income, no kids), muppies (middle-aged urban professionals), woofies (well-off older folks), Generation X (those born from 1961 to 1981), Generation Y (those born from 1976 to late 1980s) and millennials (the generation born after 1982). For business-to-business (B2B) marketers, the review of sociocultural trends may consider these consumer trends for their end markets. For example, a supplier of components for the automotive industry would need to consider the impact that consumer trends may have on the level and type of automotive sales. B2B marketers should also review their customer profile under this section (perhaps using a more appropriate heading), considering the number, size and type of customers, and their location and distribution. The review should also include any significant business cultural influences that may exist in the organisation's industry. For example, the entry of multinational companies into an Australian market may lead to a greater level of sophistication in the industry or different ways of conducting business.

Analysis of sociocultural trends is one of the most important facets of strategic analysis, particularly from a marketing point of view. In many cases emerging trends may be in the form of relatively weak signals indicating shifts in social attitudes and behaviour that may lead to changes in customer preferences and buying behaviour for the organisation's products and services. It is important to look for signs of emerging segments of the population who have unmet or unfilled needs concerning the product categories competed in, now or in the future (blue oceans). Since the 1990s many leading organisations have drawn on the services of a breed of researchers known as coolhunting agencies to provide observations and predictions about emerging trends, particularly concerning the youth market and fashion industries.

Political–legal factors

The major concern here is to determine if there is any proposed legislation or other regulatory processes that are likely to impact on the industry of the organisation within the strategic timeframe. Legislation may be imposed at the federal, state/territory or local government level, and by various government instrumentalities such as the Australian Competition and Consumer Commission (ACCC). It is therefore necessary to monitor the policies of political parties (particularly the main parties) and the various regulatory agencies and instrumentalities. Changes in legislation can alter an industry overnight. For example, legislation concerning compulsory employer contributions to superannuation stimulated growth in the financial advisory and superannuation industries in Australia during the early 2000s. It is therefore important, if not essential, for the organisation to monitor the political–legal environment so that strategic plans can be developed to cater for changing conditions.

Political trends that have impacted on industry over the past few decades include the adoption of policies based on economic rationalism; the move towards free markets and the removal of trade barriers, which has made way for the opening up of global competition; deregulation of financial markets and the telecommunications and airline industries; the move towards commercialisation/privatisation of government instrumentalities; and an overall slow pace of essential micro-economic reform.

Technological factors

The impact of technological change on society and industry cannot be overstated. As discussed in Chapter 1, technology is ubiquitous because it impacts just about every facet of social and business life. In order to focus your analysis of technology, the focal point is to consider the impact that technological change may bring about to each stage of the value chain, starting with the downstream activities consisting of the market (customer behaviour) and the marketplace (competitors and intermediaries). For example, technology has changed the way individuals seek information about products and services (i.e. only via independent peer reviews), the way they purchase (i.e. directly via the internet), and the way they receive and send marketing communication – with many more changes to come as the digital revolution progresses, particularly the continuing trend towards the use of mobile devices.

IT has brought about major change in the distribution channels in many industries, with end-user customers able to bypass intermediaries such as travel agents or sharebrokers. New business models have evolved to take advantage of the opportunities provided by IT innovation. Moving upstream in value chain activities, it is obvious that technology has changed the way goods are produced and where they are produced, just as it has shortened the length of product life cycles and the overall tempo of business. It has also helped to bring about changes in supplier–buyer relationships.

The natural environment

The natural environment, including ecological factors, can impact on the availability and quality of supply (raw materials), energy supply and cost (e.g. water, electricity or gas), and government policies concerning such factors as pollution, recycling and genetically modified food products. The impact of weather conditions, for example, can significantly affect demand in many industries. Extreme summer or winter conditions or unfavourable weather conditions can affect consumer markets such as ice-cream, confectionery, clothing and fashion. Agricultural production is, of course, vulnerable to weather conditions, and supply shortages or excesses are a common problem for this industry.

Since the 1980s sustainability management has increasingly become a major issue for organisations of all shapes and sizes. A global survey conducted by McKinsey & Company in 2011 found that 63 per cent of the 2956 companies surveyed had taken actions to actively reduce energy use in their production processes, 61 per cent in reducing waste, 51 per cent in managing corporate reputation for sustainability, 46 per cent in responding to regulatory constraints or opportunities and 43 per cent in reducing emissions from their operations. However, it was also found that very few companies were leveraging the sustainability of their existing products to find new growth opportunities. Nor had many companies committed their research and development (R&D) resources to develop new sustainable products.[15]

REVIEW OF THE NEAR ENVIRONMENT

Turning from the broader aspects of the remote environment, this phase of the situation analysis moves towards a more specific review of the **near environment**. There are five interrelated factors to be considered in this review: future market demand and attractiveness, the competitive landscape, distribution channels and buyers (intermediary customers), end-customer buying behaviour and preferences, and supply.

Future market demand and attractiveness

Market demand and attractiveness are central components of the near environment review. The future nature, size and attractiveness of the market are influenced by the remote environmental forces previously discussed and also by end-customer buying behaviour, marketplace forces (competitors and distributors), and in some cases supply considerations such as an over- or undersupply of products or services in the product categories that serve the market.

Market demand

This is the focal point of strategic analysis. The purpose of the market review is twofold:

- to arrive at assumptions about future market demand; that is, an estimate of the total market sales in terms of value and volume for each year within the strategic timeframe, including a breakdown of total market sales by product category
- to arrive at a view of future market attractiveness.

Once again, the term 'assumptions about the future' is used to emphasise the point that the future is unknowable. It is possible to develop assumptions about what the future might hold, but it is important to remember that no matter how sophisticated our approach may be to forecast the future, this is an imprecise science. The process of arriving at assumptions about future market demand commences with an examination of historical data through to the most recently available (current) information. This information provides the marketing strategist with a starting point for making judgements about the future growth or otherwise of the market. There are several market forecasting techniques that can be used to assist in making this judgement. These fall into three main categories:

1. *Formal modelling techniques* – specify an explicit mathematical model, relying on 'hard' data to build and implement the model. There are three categories of formal models:
   a. *Sales trend/time series models* – forecasts are made based on statistical analysis of past data. The assumption is that historical trends indicate the future. Various techniques can be used to search for regularities or patterns of change in a sales series. Trend analysis is used to uncover growth trends over a preselected future period. It is useful for forecasting annual sales over a period of several years. However, if annual growth fluctuates significantly then several techniques can be used to 'smooth out' the short-term fluctuations. These include long-run averages, moving-averages, curve fitting techniques (searching for linear or non-linear trends), exponential smoothing, the Box–Jenkins time series analysis and decompositional methods. Time-series techniques are used to uncover factors that may cause short-term fluctuations to the long-term trend; for example, a cyclical effect on sales that are medium-length, sales that are up and down or have wavelike movements around the trends, or short-run seasonal effects on sales (within one year) due to predictable events such as seasonal conditions or irregular events such as sudden economic downturns or physical events such as earthquakes, storms or heatwaves.
   b. *Causal methods/descriptive models (econometric analysis)* – whereas time series analysis is unsuitable for long-term forecasting and for market conditions that are unstable, causal methods express demand as a function of several factors that will determine its outcome. The most typical methods used are regression analysis and input–output models.
   c. *Customer aggregation models* – these models break down sales into their major components. Each component is then forecast and the results are multiplied together to get a sales estimate. That is:

   $$S = N \times L \times R$$

   where S = estimated future product sales, N = the number of people (or organisations) in the target market, L = the likelihood that the typical person (or organisation) in N will make a purchase in the forecast period, and R = the quantity purchased during the forecast period.
2. *Judgemental techniques* – these do not require an explicit model; rather, they use 'soft' data or opinions. For example, a jury of executives may be formed to make judgements about the future. Or a more formal method such as the Delphi model may be used, whereby a group of experts or company executives make individual judgements about the future. They come together in a facilitated group and individual judgements are then compared. Individual judgements are then modified until a group consensus is formed.

3 *Market and product analysis* – formal market research tests are used, such as a survey of 'buyer intentions' as a determinant of future market growth. In the case of new product categories, product testing or test market research may be conducted.

Whether formal modelling techniques, judgemental techniques or market and product research techniques are used, a most useful decision-making aid is an industry analytical technique developed by Porter.[16] Box 3.1 consists of a summary of 14 'potential driving forces of a market' that can be used for making a judgement about the future. It is suggested that these 14 factors should be used as a checklist for the task of contemplating the future size and shape of a market. The shape of a market comprises the product categories that make up the total market. The objective is to choose from this checklist the forces that are most likely to have a significant impact on the future size and shape of the market. These forces will vary from industry to industry and over time. Generally, only about three or four of these potential forces are likely to be significant.

BOX 3.1

The potential driving forces of a market[17]

- *Long-run changes in growth* – changes in the long-term growth rate are driven by demographic shifts, changing customer needs, changes in the relative position of substitutes, changes in the position of complementary products, market saturation and product innovation.
- *Changes in buyer segments served* – new buying segments develop; for example, scientific calculators were first sold to engineers and scientists but later were bought by business people, students and other buyer segments.
- *Buyer learning* – as buyers become more familiar with a product category, the mystique is removed and the product comes to be treated as a commodity.
- *Reduction of uncertainty* – in the early stages of a market's development, uncertainty as to the potential size of the market and other marketing information leads the various players in the market to experiment with different marketing strategies. As the market grows, the uncertainty is reduced and strategies that have proven to be successful are imitated by most of the players. As the uncertainty dissolves, new types of competitors may enter the market, stimulating competitive activity.
- *Diffusion of proprietary knowledge* – as technology becomes more established and less proprietary, the advantages the pioneer enjoyed due to technological superiority diminish.
- *Accumulation of experience* – the learning curve results in a reduction of the unit cost of manufacturing in some industries. Prices may fall as a result.
- *Expansion (or contraction) in scale* – as a market grows, it increases in scale, and this often leads to a growth in absolute size of the leading competitors. This may provide the larger players with the ability to gain economies of scale in production, establish captive distribution channels or captive service organisations, and gain cost-efficiency advantage in advertising.
- *Changes in input costs and exchange rates* – changes in the cost or quality of inputs to manufacturing (e.g. wages and material costs and the cost of capital), distribution (e.g. transport costs) or marketing (e.g. media costs) can increase or decrease the cost of the product, thereby affecting demand.
- *Product innovation* – can widen the market and therefore promote industry growth and can give a player a competitive advantage resulting from product differentiation.
- *Marketing innovation* – innovative marketing in areas such as advertising or the use of new distribution channels can attract new users of the product and reduce price sensitivity (by raising product differentiation). More efficient marketing and distribution can lower costs.
- *Process innovation* – innovations in the manufacturing process can lead to a lessening

of capital intensity, an increase or decrease in economies of scale, and other factors that impact on the industry structure. This could lead to a broadening of the base for the use of the product category.

- *Structural change in adjacent industries* – the structure of the suppliers' and customers' industry can impact on the market. For example, the trend towards a concentration of ownership of supermarket outlets in Australia led to changes in their bargaining power. Manufacturers supplying supermarkets had to adjust their marketing methods and, in many cases, their profit expectations.
- *Government policy change* – changes in government policy can affect key variables such as entry into the industry, competitive practices and profitability. Changes can also affect marketing strategies and performance in areas such as product quality, packaging and labelling requirements, pricing strategies and promotion strategies.
- *Entry and exit* – new players to a market and the exit of existing competitors affect the structure of the industry. Barriers to entry and exit therefore play an important role in the market entry or exit process.

A product life cycle (PLC) type of chart is an ideal descriptive tool for portraying historical market data and scenarios of the future. The PLC concept is based on the premise that, like people, markets advance through several evolutionary stages ranging from birth (introduction) to growth and maturity to decline and eventual demise. This concept has proven to be a most useful tool for portraying the evolutionary course of a market, but has not been without its critics. The concept is discussed more fully Chapter 4, but the point needs to be made here that the issue is an empirical one, not a theoretical debate. A PLC can be graphed and, if it follows the S-shaped pattern, it is reasonable to assume that the concept holds. If the graph does not follow the S-shaped pattern, the concept probably is not a useful tool for that market.

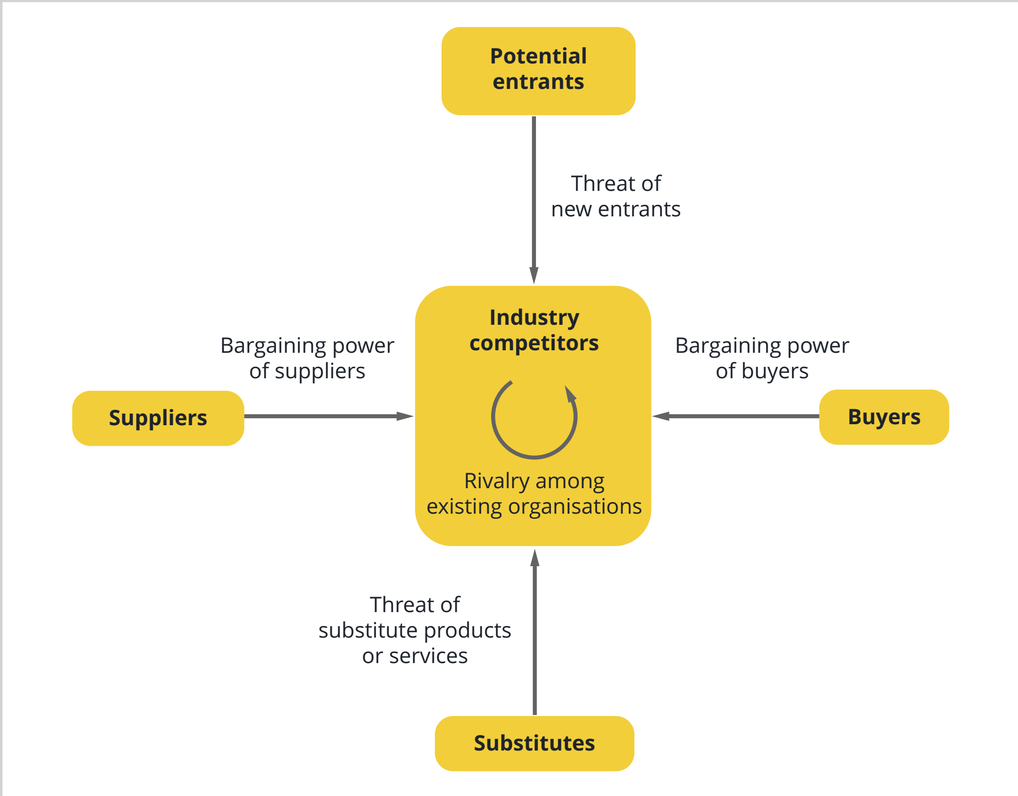
Future market attractiveness

The second objective of the market analysis is to arrive at a view concerning future market attractiveness (at the end of the strategic timeframe). Porter's five forces model, shown in Figure 3.3, provides an invaluable analytical tool for this purpose. It is suggested that the analysis of market attractiveness should cover two points in time: the current level of market attractiveness based on currently available data, and market attractiveness at the end of the planning period based on assumptions about changes that may take place.

Porter argues that the competitive intensity within an industry, and hence industry profitability, depends on the collective effect of five forces. At the centre of the model is competitive rivalry – the intensity of rivalry among existing competitors. The greater the intensity, the less attractive the industry may be as margins come under pressure from a combination of price-cutting activities and high marketing costs that typically occur in competitive situations. Several factors contribute to these situations of intense competition, including the existence of numerous or equally balanced competitors, slow industry growth, lack of differentiation, low buyer switching costs, high fixed costs, a demand/supply balance that can often lead to overcapacity, perishable products (and especially services) and high exit barriers.[18]

Porter also suggests that when there are high strategic stakes involved, or when the competitors are diverse in their strategies or in their backgrounds or personalities, the greater the likelihood of intense competition.[19] Intensity of competition is also affected by the other forces shown in Figure 3.3.

FIGURE 3.3 Porter's five forces model: forces driving industry competition



Source: M.E. Porter, 'Industry structure and competitive strategy: Keys to profitability', *Financial Analysts Journal*, vol. 36, no. 4, July–August, 1980, p. 33. CFA Institute.

A threat of new entrants can make an industry unattractive. Such a threat can occur when the barriers to industry entry are low (i.e. when economies of scale are not important), there are no cost advantages for existing competitors (i.e. large-scale R&D investment), there are few strong brands (i.e. a lack of product differentiation), capital requirements for industry entry are relatively low, there is relatively easy access to distribution channels, or there is no form of government protection for the existing competitors.

When the bargaining power of buyers is high, the industry can also be unattractive. This can occur when there are only a few large buyers in the market, the buying volume is large, there is low differentiation between competitive products (i.e. with commodity types of products), the value of the industry product is low, the seller's quality of product is relatively unimportant to the quality of the buyer's products or services, there are low switching costs for the buyer, there are high switching costs for the seller, the buyer is a low-profit earner, the buyer has access to full market information, or there is a possibility of the buying organisation purchasing a company that supplies the industry product (i.e. to integrate backwards and therefore become a competitor). Much the same is true when the bargaining power of suppliers is high. This can occur when there are only a few large suppliers, the supplier's product is highly differentiated or unique, the supplier sells the same product to other industries (and is therefore not reliant on this industry), or the suppliers could forward-integrate and enter the market as a competitor. Finally, the availability of substitutes makes an industry unattractive when substitute products are close in performance and price to the industry's product, there are low switching costs, and switching is a commonplace occurrence.

It should also be noted that each of the remote environmental forces can directly impact upon one or more of the five forces. For example, industry deregulation can remove barriers for entry and change the intensity of competition. Likewise, technological change can alter the operation of the supply chain and the buying power of intermediaries and end-user customers. Technological advances lead to the creation of new product categories and the demise of others, which, by impacting on the size of the market, can underpin competitive intensity. When conducting a review of the five forces it is therefore essential to consider the remote environmental forces.

The competitive landscape

As was discussed in Chapter 1, market-oriented organisations focus on customers and competitors. Therefore, a significant part of the strategic marketing management process is the analysis of the marketing strategies of all existing and potential competitors. This analysis must extend beyond the basics, and an attempt must be made to understand the logic behind each key competitor's strategy – how they think and their likely future moves. The objective is to get inside the competitors' heads – to be able to anticipate rather than just react to their strategic actions.[20] Sun Tzu's famous quote from *The Art of War* (500 BC) exemplifies this approach: 'Assess opponent's conditions, observe what they do, and you can find out their plans and measures'.[21] To do this, the strategists need to obtain the following information pertaining to their main competitors:

- the geographic markets they compete in; that is, whether their operations are confined to one or a few local markets, or whether they compete on a national, regional or international level
- their current marketing performance, including sales (by volume and value) and market share, categorised by appropriate market segments
- their competitive position – whether they are on the move and getting stronger, well entrenched and able to maintain their position, stuck in the middle of the pack, attempting a turnaround from a weak position, struggling and losing ground, or retreating to a defensible position (i.e. a small niche in the market)
- an analysis of their current corporate and marketing objectives and strategies, and an assessment of whether they would be satisfied with their current position and performance in the market. Are they an offensive or defensive player? Are they an aggressive risk taker or a conservative follower?

  A most useful tool for this type of assessment is to characterise each competitor according to a classical typology provided by Raymond Miles and Charles Snow.[22] In this typology competitors are classified into four strategic types: prospectors, analysers, defenders and reactors, based on their intended rate of product-market development. Refer to Box 3.2 for a description of each competitor type. Each competitor analysis should also include information concerning that competitor's customer base, their overall strategic approach and their customer value creation mix strategies
- the analysis of the corporate strategy, which should determine the competitive strategy being pursued. Just as it is important for the strategists to determine the strategy style that is most appropriate for their organisation, it is also important to attempt to identify the strategy style used by each of the main competitors
- the likely future goals and strategies of each significant competitor
- the capabilities; that is, the internal strengths and weaknesses of each significant competitor

BOX 3.2

Characteristics of competitors – as identified by Miles and Snow[23]

- *Prospector* – operates in a broad product-market that undergoes periodic redefinition, is a 'first-mover' in launching new products and in entering new markets (which are not always highly profitable), responds rapidly to opportunities, and competes primarily by stimulating and meeting new market opportunities
- *Defender* – attempts to locate and maintain a secure position in stable product or service areas, has a limited range of products or services, competes with lower prices or higher quality or better service vis-à-vis its competitors, and is usually not at the forefront of technological innovation or new-product development
- *Analyser* – an intermediate type who makes fewer and slower product-market changes than prospectors, attempts to maintain a stable limited line of products or services, is seldom a first-mover and is more often a second or third entrant with a lower-cost or higher-quality offering
- *Reactor* – lacks any well-defined competitive strategy, does not have a product-market orientation, is not a risk taker in introducing new products or in market development, and is not aggressive in marketing established products. Responses of this competitor are dictated by environmental pressures.

- the vulnerabilities of each significant competitor
- moves that could be made that may provoke the most effective retaliation by each significant competitor. Game theory models provide strategists with a useful tool in this regard.

Distribution channels and buyers

The main emphasis of this part of the industry-level review is to determine the following criteria:

- the way the distribution channels operate for this industry
- where the power lies in the distribution channels
- emerging trends such as moves towards strategic alliances between competitors and intermediaries
- potential strategic alliances for the organisation (collaborators)
- the use of technology, particularly the internet, electronic data interchange (EDI), product barcoding, just-in-time (JIT) inventory management and quick response (QR) automatic ordering mechanisms.

The review should include an analysis of the distribution structure (the number and type of distributors serving the total market, including a breakdown of sales by the various intermediary types), historical trends in the distribution channels that includes a scenario of future developments, the key players in the distribution chain, and the power base of the buyers (refer to the previous discussion of the bargaining power of buyers in relation to Porter's five forces model). Trends concerning physical distribution (i.e. transportation and warehousing technology) should also be reviewed. Most importantly, the review should include information concerning the wants and needs of the intermediaries. These organisations are customers of the planning unit and it is essential that their wants and needs, objectives and trading conditions are fully understood – in particular, the margins applied by the various intermediaries, promotional requirements, policies concerning new line fees, stock delivery and inventory management requirements.

End-customer buying behaviour and preferences

This review is, of course, a most critical area of analysis for market-oriented organisations. This is because insufficient knowledge of customer behaviour and attitudes (as well as a failure to segment a market in the most advantageous way) is one of the most common mistakes made in marketing. In previously discussed sections of the situation analysis (namely, the business definition and scope and the market review sections) the various market segments within the total market were identified. In this section information is provided about the people who comprise those market segments. In other words, information is provided on customer buyer behaviour, including such issues as: Who are the buyers (or potential buyers)? Who is involved in the purchase decision process (i.e. initiators, influencers, decision-makers, buyers and users)? What do they buy? Why and how do they buy (i.e. what is the complexity of the purchasing process and the degree of involvement in the purchasing process)? Where do they buy? What trends are emerging regarding buyer behaviour? What are their changing needs and preferences? How do current customers and prospective customers rate each of the competitors regarding product quality, price, availability, brand reputation, customer service/customer engagement and value?

This review needs to go beyond mere demographic information to provide socioeconomic, lifestyle and psychographic profiles of the key market segments. For B2B marketers, end-user customers are organisations and the individuals within them that are involved in the purchase process. See Chapter 5 for a further discussion of the market segmentation process, including a summary of the various ways both consumer and B2B markets can be segmented.

There are a variety of market research tools that are available to help marketing strategists gain insight into the wants and needs of their customers and buying preferences. In addition to quantitative methods, such as the big data and predictive analytics discussed at the beginning of this chapter, and survey research, there are traditional qualitative techniques available such as focus group research, personal interview research and ethnographic research. There are also some recently introduced techniques, which include:

- *Coolhunting* – coolhunting marketing agencies are commissioned by marketers targeting a youthful demographic to uncover emerging and declining trends using a combination of research techniques such as focus group research and online surveys.
- Real-time experience tracking (RET) – developed by MESH Planning, a US market research company, to provide marketers with information that captures customers' brand experience almost immediately. Members of a purpose-built consumer panel are required to send text messages each time they come across a specified brand or one of its competitors over a one- to four-week period. They are required to report on the brand involved, the type of touchpoint (i.e. television ad, online ad, tweet or retail sighting), how positive they felt about the brand and how persuasive the touchpoint was. They are also required to add further information online and complete a pre- and post-survey to establish changes in brand attitude.[24]
- *Social media intelligence gathering* – based on the premise that people who have expert knowledge about markets and have the power to shape perceptions about them use social platforms to exchange data and viewpoints with others. Social media intelligence gathering consists of identifying these key experts and using web-based analytical tools to obtain meaningful strategic information gathered from appropriate social media sources such as blogs, Facebook, Twitter, YouTube and LinkedIn. The process involves the development of dynamic maps that allow the analysts to pinpoint where the information and the experts reside, and to capture and track real-time data.[25]

- *Google Analytics* – a service provided by Google that generates data concerning web usage. A wide variety of analytical tools is available, ranging from standard reporting to custom reporting covering areas such as content, mobile, conversion and advertising analytics.[26]

Supply

The issue of industry-level supply is of interest to strategic marketing planners if there is a likelihood of supply shortage or excess industry capacity. Supply shortages can occur in industries such as food processing, where crop failure or an outbreak of disease might adversely impact on individual competitors or the entire industry. A first-mover in an industry might also tie up supply as a means of creating entry barriers or, at least, of securing a major competitive advantage; something that Bunnings Warehouse, for example, has done very successfully. In some industries, usually where there is intense competitive rivalry, even slight excess capacity can trigger a price warfare and a corresponding reduction of profitability for all competitors.

The review of supply should also take into account the power of suppliers, previously discussed as a part of Porter's five-forces model, and the likelihood of change occurring concerning the nature of supply; for example, motor car manufacturers dealing with suppliers of plastic bumper bars instead of suppliers of steel or aluminium bumper bars. Technology is often a driving force of change concerning the nature of supply.

COMPLETING THE EXTERNAL ENVIRONMENT REVIEW

To conclude the discussion of external environmental analysis, it needs to be reiterated that the objective of this review is to:

1. Analyse the key external factors at both the remote and near levels that will impact on the whole organisation and its marketing performance.
2. From the analysis of each factor, diagnose the opportunities and threats that each of these items will present to the organisation.

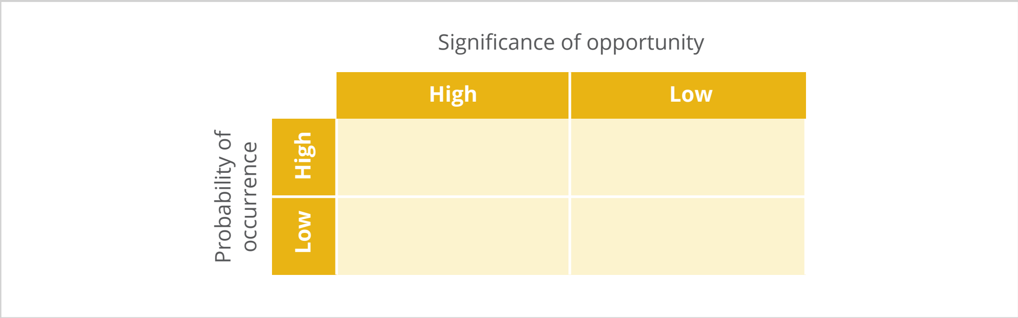
Some of these opportunities and threats will need to be addressed at a higher level of business strategy development, while others will become specific issues to be addressed as a part of the strategic marketing management process.

The final task to complete the environmental analysis – for both the remote and near levels – is to compile a ranking of the opportunities and a ranking of the threats; that is, sort all the opportunities into an order starting with listing the factors with a 5–5 rating, as shown in the double-digit five-point rating scale shown in Figure 3.2. Repeat this procedure for the threats. The result will be a ranked listing of the threats and a ranked listing of the opportunities that exist, or are expected to exist, in the external environment. It is suggested that this information be presented in a matrix format, as shown for opportunities in Figure 3.4. Those factors, listed in the top-left quadrant because they are highly significant and have a high probability of occurrence, are highlighted and brought to the attention of those responsible for the development of marketing strategies. This matrix should then be repeated showing the threats that were revealed in the external environment review.

Determining critical success factors

Upon completion of the external environment review, the marketing strategists can step back and contemplate the prerequisite skills and resources that an organisation (in a similar competitive position to the planning unit) must have to perform successfully in this industry. Critical success

FIGURE 3.4 Summary of opportunities



factors (CSFs) – also described as key success factors (KSFs) – are those skills and resources (internal capabilities) 'that exert the most leverage on positional advantage and future performance'.[27] George Day and Robin Wensley argue that there are two means of gaining positional advantage: 'the provision of superior customer value or the achievement of lower relative costs'.[28] That is, CSFs are those skills and resources that do the most to either lower costs or create superior customer value.

The notion of CSFs is relatively simple, but unfortunately the task of identifying the prerequisite skills and resources for success is not. There are two ways the task can be undertaken: executive judgement and analytical approaches. The former involves judgements made by management and/or those involved in the strategic marketing management process or by industry experts. Analytical approaches involve attempts to identify causal relationships between organisational capabilities and outputs or performance. For example, a study of industry winners and losers might be conducted with the objective of unearthing factors that contributed to the success of the winners. Alternatively, analytical attempts might be made to discover causal relationships between controllable variables (e.g. size of the salesforce) and outcomes (e.g. cost of sales per unit). However, the identification and isolation of causal variables is problematic, and attempts to scientifically deduce CSFs have generally not been successful.

Whatever the approach used to determine CSFs, a most useful decision-making aid is the value chain model developed by Porter.[29] The concept of the value chain is based on the identification of the variety of primary value-adding activities that are involved from start to the end of the process, from transforming a raw material or raw idea through to the delivery of a finished product or service to a customer, including the continuation of a relationship with that customer.

This process of disaggregation or decomposition allows the strategist to examine each of the organisation's activities and the value creation role played by each of its key functions (purchasing, R&D, production, administration and marketing). Each of these functions or activities is influenced by the combined effect of the CSF. In some industries, having access to limited raw material supply may be the number one critical success factor. In others, it may be to achieve economies of scale in production or in distribution, or in other areas of marketing activity such as sales-force or the ability to fund an appropriate infrastructure to service various customer touchpoints effectively and efficiently. Several of these CSFs are of concern at an organisation-wide level (i.e. financial strength, production capabilities and R&D superiority) and would therefore be addressed in a broader strategic planning context rather than through strategic marketing planning. Marketing-related CSFs typically include such factors as brand image (to create and sustain selective demand among both end users and intermediary customers), uniqueness of product, quality of product, depth of product range, power in the distribution channels and distribution coverage – including all the customer touchpoints along the value chain. The significance of each factor will vary according to the type of industry, position within the industry and the strategy being pursued. For example, economy of scale is generally critical for the achievement of a low-cost leadership position, whereas consumer franchise (strength of the brand name) might be the most significant factor in a differentiation strategy.[30]

Reviewing internal capabilities

The objective of the review of internal capabilities stage of the situation analysis is to determine the organisation's capabilities compared to its competitors, and its ability to compete successfully in each of its chosen product-market segments; that is, how well the planning unit is placed to meet existing and future challenges presented in the external environment in which it operates. This is the marketing activity identified as *company* in the 5Cs of marketing. Of particular importance are the planning unit's capabilities regarding the CSFs identified in the preceding step. The review of internal capabilities focuses on two main areas of activity: organisation-wide capabilities and marketing capabilities. The review of each activity within each of these categories commences with an analysis of the organisation's current and predicted status for that factor, followed by a diagnosis of what this implies for the organisation in terms of its strengths and weaknesses.

It is suggested that each individual strength and weakness should be rated on the single-digit five-point scale rating shown in Figure 3.5.

FIGURE 3.5 Single-digit five-point scale

RATING	DEGREE OF SIGNIFICANCE OF STRENGTH OR WEAKNESS
5	Extremely significant
4	Quite to highly significant
3	Significant
2	Reasonably significant
1	Not very significant

ORGANISATION-WIDE CAPABILITIES

The objective of this phase of the situation analysis is to determine the financial position of the organisation and its ability to meet performance expectations; that is, an analysis of organisation effectiveness. In most cases this review is developed as a part of a broader strategic planning operation for the whole business unit. Where this is the case, this part of the situation analysis consists of a summary of the pertinent findings from the higher-level business unit review.

Financial position

The financial position of an organisation is of paramount importance not only for the development of corporate and business strategies but also for the development of marketing strategies. The availability of sound financial resources should be considered a prerequisite for any marketing strategy and should be taken into account before marketing strategies, particularly those that call for market or product expansion, are considered. Analysis of financial factors should include consideration of:

- *profitability ratios* – return on equity, return on total assets, sales growth, gross profit margin, net profit margin and expense ratios
- *liquidity ratios* – working capital, current ratio and quick ratio
- *operational efficiency ratios* – asset turnover, inventory turnover, average collection period and sales per employee
- *leverage ratios* – debt to equity, debt to total assets and times interest earned.

A cash flow analysis and sources and uses of funds analysis should also be undertaken to give an in-depth understanding of the organisation's financial position. After analysing the organisation's financial position (current and forecasted), a diagnosis of what this means in terms of strengths and weaknesses needs to be completed. Two of the most important financial strengths or weaknesses to look for are the cost and investment positions of the organisation relative to its main competitors and its overall financial ability to support its current and future strategies. The appendix at the end of this chapter provides a summary of some of the main financial ratios that can be used in analysing the financial position of the organisation.

Economic moat

An economic moat, a term coined by the legendary investor Warren Buffett, refers to the competitive advantage an organisation holds over its competitors that will allow it to protect its long-term profits and market share from competitors. The moat, just like one that surrounded a castle in medieval times, serves to protect those inside (and their riches) from all those outside.[31]

The concept of an economic moat represents an organisation's sustainable competitive advantage. It is a key concept used by the global investment research and investment management organisation, Morningstar, as the foundation of its stock-investing philosophy and methodology. To possess a moat an organisation must have a competitive advantage derived from at least one of the following sources:

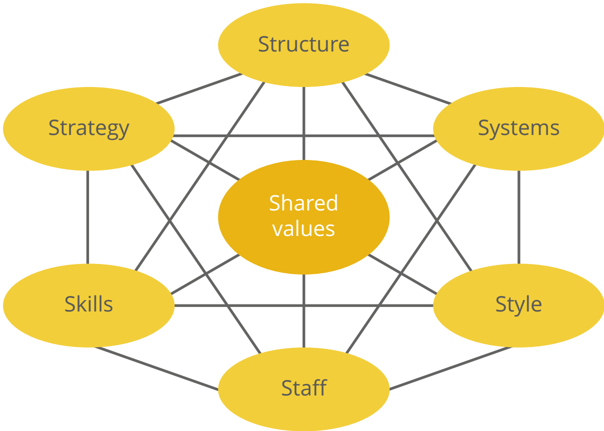
- *Cost advantage* – being able to produce goods or services at lower costs to undercut competitors or achieve higher profitability.
- *Intangible assets* – a form of protection such as patents, brand identity or regulatory licenses that prevent competitors from duplicating a company's products.
- *Switching costs* – obstacles that prevent customers from switching from one competitor to another.
- *Efficient scale* – operates in a market that only supports one or a few competitors, limiting rivalry between the organisations.
- *Network effect* – the increase in value of a product or service as more people use it.[32]

According to Morningstar, an organisation that has a competitive advantage expected to last more than 20 years has a *wide* economic moat rating. An organisation that can fend of its rivals for 10 years has a *narrow* moat. And an organisation that has no competitive advantage or one that will quickly dissipate has *no economic moat*.[33]

Organisational effectiveness

The McKinsey 7-S model of organisation effectiveness, briefly discussed in Chapter 2, provides an excellent framework for analysis of the organisation's internal capabilities. The model combines seven essential forces: structure, strategy, systems, skills, style and staff, which are all united by

FIGURE 3.6 The McKinsey 7-S model of organisation effectiveness



Based on R.H. Waterman Jr, T.J. Peters and J.R. Phillips, 'Structure is not organization', *Business Horizons*, June 1980, pp. 14–26.

shared values (i.e. organisational culture). Three of these forces – structure, strategy and systems – are categorised as being *hard*, while four – style, staff, skills and shared values – are categorised as *soft*. The underlying premise of the model, shown in Figure 3.6, is that all forces must be aligned and mutually reinforcing for the organisation to succeed.

Structure

As discussed in Chapter 1, a trend towards organisational change evolved during the 1980s and gathered momentum in the form of business process re-engineering in the early 1990s. Since that time organisations have experimented with all sorts of ways to break down hierarchical functional organisational structures (functional silos) with matrix structures, process-based teams, flat structures, network structures, collaborative structures and, more recently in the digital age, virtual structures. This review emphasises *collaborator* activities of the 5Cs of marketing; in particular, the marketing-related downstream activities of the value chain, which are generally of more concern at the business level of strategy planning. Regardless of the organisational structure, the key consideration is to determine the organisation's ability to coordinate its inter-functional resources to create and maintain superior customer value for both end users and intermediaries, and to respond to changes in the external environment ahead of its competitors. That is, to achieve operational excellence and, in particular, be able to respond efficiently and effectively to customers' needs over a multitude of touchpoints.

This review of structure should also include analysis of the innovation record of the organisation. How successful has it been in developing new products and new processes compared to its main competitors? How is R&D organised – is it market-driven or technologically driven? What is the level of funding for R&D and the overall standing of the organisation's R&D team in the industry? And a critical question to ask is: What is the organisation's strike rate in successfully launching new products over the past three to five years compared to that of its main competitors? Effective R&D may lead to an organisation having strengths in technological innovation, being a pioneer in introducing successful new products, and continuously improving and upgrading existing products. Conversely, the organisation may be falling behind in the market because of a weakness in R&D.

Of significance for marketing is the positioning of marketing in the organisation. Is the chief marketing officer (CMO) a member of the organisational leadership team, and how marketing oriented is the senior leadership team? This aspect of the organisation's structure is discussed in the next section addressing the organisation's marketing capabilities.

Strategy

One of the most critical factors for the assessment of an organisation's capabilities is its competitive position; that is, its standing in the market. As Porter contends, 'In analysing its own position, a company must move from the vague notion of strengths and weaknesses to a central (and precise) concern with its competitive advantages and disadvantages'.[34] The analysis of competitive advantage includes determination of the organisation's position in each of the markets it operates in, and its intended position for any new markets (blue ocean strategies). What is the competitive strategy that the organisation is pursuing? Is it attempting to be the cost leader in the mass market, to differentiate itself in the mass market, or is it pursuing a focus strategy (with either a cost leadership or differentiation strategy for a market niche)? What is the organisation's position in each market? Is it the market leader, one of the top two or three, in the middle of the pack or a struggler? That is, is it in a strong, average or weak position in each market? Are those positions sustainable? What are the organisation's capabilities for defending itself against any of the competitors or any of the industry forces, especially the impact of digitalisation? The review of the competitive position should include an analysis of the organisation's costs relative to those of its competitors, taking into consideration such factors as economies of scale, prices paid for raw materials, labour, differences in internal operating costs, technology employed, marketing costs and logistics costs. The objective of this review is to assess the organisation's competitive position in relation to that of its competitors and to determine the extent of any competitive advantage (a strength) or disadvantage (a weakness).

Systems

How efficient and effective are the back-office support functions such as IT, accounting, finance, human resources, logistics and all the other processes and procedures that make the organisation work?

A most critical aspect of this review of systems is to determine the current and future production capabilities of the organisation – in relation to the needs of the market regarding the capabilities of its competitors and the recommended marketing strategies. For example, there are obvious production requirements resulting from a strategy of market leadership based on low-cost production compared to a strategy based on product quality differentiation or a strategy based on serving a niche in the market (a focus strategy). The analysis would need to consider the physical production facilities (i.e. location and size of factory, state of plant and equipment, and quality of labour), production techniques including the use of total quality management and benchmarking techniques, productivity levels and quality of production. Obsolete facilities represent a weakness, as would a future supply problem (leading to product shortages or large price rises). Strengths can be found in factors such as cost advantages, economies of scale, production quality, proprietary technology, superior technological skills, superior manufacturing processes and a lead in the experience curve. Service organisations could consider using the term 'process management' as an alternative for this categorisation.

Style

The objective of this review is to assess the effectiveness and efficiency of management practices and the leadership capabilities within the organisation. As John Kotter points out, management in large organisations is about coping with complexity – good management achieves a 'degree of order and consistency of key dimensions like the quality and profitability of products'.[35] In order to deal with complexity, managers:

- *plan* – set goals for the future and establish detailed steps to achieve those goals
- *budget* – allocate resources to achieve the goals
- *organise* – create organisational structures and set jobs to accomplish the plans
- *control* – monitor performance and take appropriate action to ensure plans are accomplished.

Assessment of management capabilities therefore needs to consider how effective and efficient these management practices are in regard to those of competitors. On the other hand, leadership is about coping with change and the achievement of a vision. Kotter argues that this requires the ability to motivate and to inspire – to keep 'people moving in the right direction, despite major obstacles to change, by appealing to basic but often untapped human needs, values and emotions'.[36] Assessment of leadership capabilities needs to be considered against the background of change revealed in the external environment review that is likely to face the organisation in the future. The greater the challenges facing the organisation, the greater the importance of effective leadership.

From a strategic marketing management perspective, a key concern is the extent to which top management is committed to a market orientation; that is, the extent to which management attempts to shape understandings within the organisation of the need to focus on customers and competitors (as discussed in Chapter 1). As George Day points out, market-driven behaviour is more likely when there is a committed and involved top management team, when reward systems are based on external market performance, and when the organisation structure facilitates decision-making that is close to the customer and is based on processes that focus on customer value creation.[37]

Staff

The analysis of this factor should cover consideration of workforce levels and productivity performance, skill requirements, training, career plans, union influence, current and future availability of people, working conditions and workforce morale, including an assessment of organisational culture. Typical weaknesses in this area include shortages of skills, low morale, staff shortages and union unrest. In services marketing people are key to competitive advantage, particularly in providing effective customer service at all the various customer touchpoints. Factors such as friendliness, prompt response, ability to quickly fill orders and handle payments, ability to keep the line moving and the capacity to be enthusiastic and to stay calm are all keys to a service organisation's success.

Skills

One of the most important prerequisites for an organisation to gain a competitive advantage is having superior skills and resources to those of its competitors. This part of the analysis commences with a determination of the current skill-set requirement and one for the future. In the digital age, new skills in all sorts of areas are required for all sorts of functions such as IT support, digital marketing expertise, customer service provision, data analysis, strategy planning, accounting and finance. The next task is to determine what skill gaps exist.

Shared values

Shared values were originally titled *superordinate* (i.e. higher order) values when the McKinsey 7-S model was first published in 1980. Shared values are meant to be the 'glue that binds the organisation together'. Waterman, Peters and Phillips, the authors of the 7-S model, argued that shared values are not present in all or most organisations but that they are evident in most of the superior performers.[38] Therefore, the fundamental question is to determine how truly the espoused core values of the organisation are shared within the organisation. If this is found to be the case, the next step is to determine if these core values are represented in the organisation's structure, strategy and systems. If they are not, what needs to be changed?

Marketing capabilities

The analysis and diagnosis of the marketing element of the organisation's internal factors is a critical stage of the strategic marketing management process. An assessment of the planning unit's marketing capabilities needs to consider the way marketing is managed within the organisation and performance in the marketplace. This involves a review of the following factors.

Marketing management

The first part of the review of marketing capabilities is to determine the extent to which marketing decision-making and implementation are practised throughout the organisation; that is, how efficient is the marketing operation within the organisation?

To accomplish this, four major areas of marketing management are recommended to be included in the review: marketing organisation, market intelligence generation and dissemination, marketing planning and marketing control.

Marketing organisation

The objective of this review is to determine the importance attached to marketing. The key issues are to: (1) identify the role that marketing plays in the organisation, and (2) determine if this role is appropriate to maximise the organisation's overall performance in creating, communicating and delivering value to its chosen customers.

Is marketing of central importance to the organisation in terms of strategic direction? Does the organisational structure provide for an optimal focus on customer value creation, communication and delivery? That is, are customer-related activities conducted throughout the organisation and by other value chain partners? Are these activities managed effectively and efficiently? Is there a focus on competitive activity? How are marketing-related decisions made within the organisation? What is the role of the marketing department?

Market intelligence generation and dissemination

Does the organisation receive timely and insightful market intelligence concerning external–remote and near-level environmental information? In particular, is there a high level of timely and insightful information concerning customer (both end-user and intermediary customers) needs and preferences and competitor activities in the product-markets being served now and in the future? An important distinctive capability of a market-oriented organisation is its ability to 'sense events and trends in their markets ahead of their competitors'.[39] To achieve market-sensing superiority, Day proposes a four-step process of gathering, interpreting and using market information:

1. *Open-minded inquiry* – this involves information concerning trends, events, opportunities and threats in the market. It consists of:
   a. *active scanning* – management is systematically informed by front-line staff of customer and competitor activity such as customer complaints, requests for new services and consequences of competitor activity
   b. *self-critical benchmarking* – the study of attitudes, values and management processes of world best practices in any industry
   c. *continuous experimentation and improvement* – the systematic planning and observation of the results of ongoing changes made towards improving productivity and customer satisfaction leading to the adoption of processes that improve performance
   d. *informed imitation* – the study of direct competitors so that successful moves can be emulated before the competitors move too far ahead. The emphasis of the study is on determining how and why the competitor succeeded, including a probe of what the competitor achieved in terms of superior performance and features and identification of any problems or shortcomings that customers might raise.
2. *Synergistic information distribution* – information is widely distributed and there are no blockages preventing information getting to those in the organisation who need it.
3. *Mutually informed interpretations* – in many cases managers have a distorted, incomplete or unfounded personal view or mental model of the market in which they operate (i.e. how the market works and how competitors and suppliers would react to their marketing programs). Market-oriented organisations use scenarios and other devices to force managers to articulate, examine and eventually modify their mental models.
4. *Accessible memory* – this involves the sharing of information and collective learning and memory of successes and failures so that managers do not have to relearn what should be known. IT can play an important role in providing a mechanism for the retention of this knowledge.[40]

Marketing planning

How effective is the marketing planning process? That is, do the marketing planning practices provide the planning unit with the ability to develop and implement proactive and effective marketing strategies? Or is the process cumbersome, time-consuming and largely ineffective?

Marketing control

Does the planning unit monitor performance to ensure that marketing objectives (annual and longer-term objectives) will be met? That is, does the monitoring system provide insightful and timely information to detect problems in performance in time to take corrective action – to enable strategic marketing planners to modify objectives caused by changes in the external environment and to modify strategies in light of this information (an adaptive control system)?

Marketing strategies and performance

Whereas the first part of the review of marketing capabilities emphasises the efficiency of the marketing operation, this part of the review emphasises effectiveness aspects. The review commences with consideration of the alignment of the organisation's customer value creation activities and the organisation's overall strategic positioning. The importance attached to these activities would differ substantially, for example, between an organisation pursuing a focused differentiation strategy based on brand image and that of an organisation pursuing a market-wide low-cost strategy. (Strategic positioning is discussed more fully in Chapter 4.)

The next step is to consider specific aspects of the customer value creation mix commencing with activities that focus on the creation of customer value. These are primarily product management activities addressing such issues as: Is the product strategy in line with the organisation's overall strategic positioning strategy? Is the product-line width and depth appropriate for this strategy? Are there gaps in the product mix (the number of product lines) or within individual product lines? Do individual product lines need to be extended or should they be pruned? How do individual products compare with competitors' products in terms of quality, features and benefits? How well are the product lines and individual brands positioned in the marketplace?

A useful device for reviewing the overall performance of the organisation's product lines and/or products within a product line is to construct a product portfolio model such as the BCG model discussed in Chapter 4.

The next step is to consider the effectiveness of the organisation's activities designed to communicate customer value. These are primarily integrated marketing communication (IMC) and brand management activities. How effective has the organisation been in communicating value to its customers and potential customers? What is the level of brand awareness? Is the brand a market leader, challenger or follower in each of the market segments it competes in?

The final step is to consider activities designed to deliver customer value. These are primarily customer management activities. Does the organisation have a deep understanding of its customers' buying behaviour and preferences or the customers' value equation? How effective is the organisation's customer engagement strategy? Does it meet the needs of the targeted customers? What are the organisation's customer acquisition and customer retention rates? What is the level of customer satisfaction and customer loyalty? How quick has the organisation been in responding to opportunities that have arisen in the marketplace? How effective are the organisation's current go-to-market strategies? Does the current distribution strategy reflect the changes in customer buying behaviour that have taken place in the digital age? Do the current go-to-market partners provide the required level of customer support or engagement at critical touchpoints?

Preparing a problems and opportunities statement

Upon completion of the situation analysis, the next and most critical stage is to interpret the information; that is, to draw conclusions about the organisation's situation. This phase is one of synthesis – putting all the parts broken down in the previous stages of analysis back into a whole that captures the strategic challenges facing the organisation, and sorting out what were the main issues identified and highlighted. The following is a suggested procedure for undertaking this task:

1 *Determine the organisation's capabilities in relation to the critical success factors* – list the CSF (determined prior to the commencement of the internal capabilities review) in order of importance. Next to each CSF, enter the assessment of the organisation's capabilities in

this area (i.e. by referring to the listing of internal strengths and weaknesses and the ratings assigned for the appropriate factors). Identify any problems that are apparent. These will need to be addressed when the strategic decisions are made. Some of these problems will be outside the domain of marketing and are more appropriately addressed in the broader strategic-planning activities. For the purposes of marketing strategy development, the focus, of course, is on marketing-related issues. The key issue in this regard is how vulnerable the organisation is likely to be regarding specific problems that are highlighted. The more vulnerable it is, the greater the need for having this attended to. Identify the CSFs where the organisation has particular strengths. These are potential areas for the establishment of a sustainable competitive advantage.

2. *Identify opportunities for the organisation where it has capabilities* – it is suggested that a listing be prepared of the significant opportunities revealed in the external environment review (e.g. all those items rating a 5 and a 4). A listing of the organisation's most significant internal strengths should also be prepared, and then the two lists should be matched to see what external opportunities can be complemented by internal strengths or distinctive competencies.
3. *Identify opportunities the organisation currently does not have the capabilities to exploit but may be able to in the future* – match the listing of significant opportunities to the lesser internal strengths and weaknesses to determine if any of these could be turned around. That is, the organisation may be able to devote resources to turn an internal weakness into a strength and exploit an outstanding opportunity.
4. *Identify the most significant threats* – from the listing of external environment threats (for both the remote and near levels), identify the most significant (those with ratings of 5) and determine which of these will need to be attended to when a strategy is developed. The previous steps will enable the marketing strategists to prioritise the most important external and internal factors that will impact on the future success or otherwise of the organisation. This will help to ensure that marketing strategies are developed in accordance with the organisation's capabilities, and that a competitive advantage can be developed or maintained. The process is also intended to avoid many of the pitfalls that have resulted from the overenthusiastic development of marketing strategies that have disregarded essential business fundamentals (i.e. capabilities regarding financial resources, management and leadership abilities, human resources and production capabilities).
5. *Determine the strategic implications of the previous four factors* – to do this, identify and prioritise the strategic issues or challenges confronting the organisation. Next, state what each of these issues or challenges means in terms of the marketing strategies the organisation will need to develop to address these issues or challenges.

SWOT analysis

A useful way to summarise the information contained in the problems and opportunities statement is to present the findings in the form of a SWOT analysis. The SWOT (strengths, weaknesses, opportunities and threats) analysis is one of the simplest, yet most effective tools for presenting such a wide array of information in an easy to read and understandable format.

Figure 3.7 shows how the information contained in problems and opportunities statement can be presented in a SWOT format.

FIGURE 3.7 SWOT analysis

Strengths List the organisation's strengths in relation to critical success factors (Step 1)	**Weaknesses** List the organisation's weaknesses in relation to critical success factors (Step 1)
Opportunities List the opportunities where the organisation has current capabilities (Step 2) List the opportunities where the organisation has future capabilities (Step 3)	**Threats** List the most significant threats (Step 4)
Strategic implications: Highlight the key findings (Step 5)	

3.3 Sources of marketing information

Information is required for the external environment analysis and the internal capabilities review. In summary, some of the main information sources are:

- the remote external environment
- the near external environment
- internal capabilities.

Remote external environment

Secondary data sources for the review of the remote environment include the Australian Bureau of Statistics (for information concerning the economy; visit http://www.abs.gov.au); sociocultural (demographic–sociological–cultural) studies and reports from various government instrumentalities, including the Commonwealth Department of Treasury and the Reserve Bank of Australia; universities and other centres for research, such as the Institute of Public Affairs; banks (for information concerning the economy); and business publications (print and online newspapers and magazines). These sources of information are available in hard-copy format and via websites. Most university libraries provide access to the relevant websites for authorised users.

As discussed previously, some organisations use environmental scanning techniques to monitor and interpret the remote environment. Environmental scanning is a formal process of monitoring current events and developing future scenarios to help predict potential developments that may present opportunities or threats to the organisation. Scenario writing is a technique used by some organisations as a means of looking into the future. In scenario writing, experts in various areas, such as economic, social and political fields, are asked to write a scenario of future trends in their particular area. An elaboration of scenario writing is the Delphi model discussed earlier in this chapter.

Near external environment

At the near-environment level, information is required about the size, structure, future trends and nature of the market, market share of competitors, competitive activity and the situation regarding suppliers and distribution channels. Some industries, such as fast-moving consumer goods (FMCG), are very well catered for with extensive market data. Roy Morgan Research (https://www.roymorgan.com/) and the Nielsen Corporation (http://www.nielsen.com/au/en), for example, provide online market data for the grocery industry, and VFACTS (https://www.fcai.com.au/), produced by the Federal Chamber of Automotive Industries, provides new passenger vehicle sales information. Mintel Australia (http://www.mintel.com/) provides reports on a number of product markets and industries such as financial products and services, consumer food products, clothing-related products and a number of subscriber-generated studies. IBISWorld (https://www.ibisworld.com.au/) is a most comprehensive provider of Australian market information with a database of over 500 industry sectors (based on the Australian Standard Industrial Classification [ASIC] codes), including information covering the top 2000 Australian companies. IBISWorld industry and risk-rating reports are available in electronic formats to subscribers of this service.

The Australian Bureau of Statistics (http://www.abs.gov.au) and several government agencies also provide a wide variety of industry reports, reviews and surveys, in hard-copy and electronic formats. These include reports issued by ASIC, the Productivity Commission (formerly the Industry Commission), the Bureau of Industry Economics, the Bureau of Agricultural and Research Economics, the ACCC, and the two bodies that amalgamated to become the ACCC – the Prices Surveillance Authority and the Trade Practices Commission. Publications for international agencies, such as the Organisation for Economic Co-operation and Development (OECD), the European Union (EU) and the United Nations (UN), also provide useful sources of information. The Economist Intelligence Unit's (EIU's) Viewswire (http://viewswire.eiu.com/) service provides reports highlighting over 250 important economic, political and market developments for 205 countries. Standard and Poor's *Financial Reports*, Dun & Bradstreet's reports, Jobson's *Year Books* and the *BRW's* annual survey reports of the top 500 companies are other useful sources of company information. Online databases such as FACTIVA (https://www.dowjones.com/products/factiva/), Business Source Premier (https://www.ebsco.com/products/research-databases/business-source-premier) and Orbis (https://www.orbis.com/au/) provide information that can be searched by a variety of means such as by company, product or industry. In addition, a wealth of information can be found online, and the power of an internet search cannot be overestimated.

Where secondary data are not available, which is often the case in B2B markets, many of the previously mentioned organisations and other market research agencies may be able to conduct a primary research study to obtain market and other marketing information. (Note that 'market information' is data relating to market size and trends and so on, while 'marketing information' refers to all other strategic marketing data, covering buyers, products, prices, distribution and marketing communication.) Trade magazines and industry publications provide another good potential source of information. Trade associations often commission surveys of their industries, and access to these surveys can be most useful. Company annual reports, stock exchange information (including analysts' reports), company brochures and other literature are often good sources of competitor information. Internal salesforce reports should also be used for competitive analysis.

Internal capabilities

The bulk of information on internal capabilities comes from internal data sources, including the accounting/financial system, the management information system, corporate and business strategic plans, functional strategic plans (i.e. for finance, human resources, R&D and production), customer satisfaction surveys, market research surveys, salesforce reports, front-line employee feedback reports and other internal reports (including auditors' reports). However, additional information will be required, such as industry statistics (sometimes available from industry bodies), to provide benchmark comparisons for the organisation's performance.

SUMMARY

- Preparing a situation analysis is a significant task that can take anywhere from several weeks to several months. The timeframe depends on the complexity of the organisation and the industry it competes in, the availability of information, and the organisation's preparedness to commit the necessary resources. A less detailed situation analysis can be prepared in a much shorter timeframe, which may be enough for first-up planning purposes.
- The quality of strategic decision-making depends on the quality of the information upon which the decisions are based. Every effort should be expended in developing a thorough situation analysis and putting into place a marketing information system for the ongoing collection of necessary marketing information.
- The following is a step-by-step summary of the process of strategic analysis:
  1. Determine the appropriate strategic style for the organisation – a classical, adaptive, shaping or visionary strategy, based on an assessment of the degree of predictability and malleability of the industry in which it competes.
  2. Develop a business definition and scope statement based on the organisation's mission and vision. This considers the business domain in terms of the markets and products that the strategic plan addresses. It also involves decisions concerning the strategic-planning process itself (i.e. whether a strategic plan is to be developed for a strategic business unit, product line or single product). This should also include a statement of the timeline of the strategic plan.
  3. Commence the situation analysis with a review of the external environment so that the internal capabilities of the organisation can be assessed according to the nature and extent of the challenges presented. If the review is expected to take an extended time to complete, the internal capabilities review may be undertaken simultaneously to avoid delay.
  4. During the external environment review, analyse and diagnose: the remote environment (i.e. economic, sociocultural, political–legal, technological and ecological factors), the near environment (i.e. market review, competitive review, distribution channels) and buyers, end-users and supply. Establish a scenario for each of the factors, stating assumptions about the future for each, acknowledging the source of the information upon which the assumptions are made.
  5. Diagnose threats and opportunities for each external environment factor (remote and near). State: (a) the scenario of what is likely to occur over the timeframe of the strategic plan, and (b)

the implications of this scenario for the planning unit. Rate the significance of each opportunity and threat on a five-point scale ranging from 5 (extremely significant) to 1 (not very significant). Then assess the probability of occurrence for each factor, again on a five-point scale ranging from 5 (high probability of occurrence) to 1 (low probability of occurrence).

6. Present a ranked summary of the opportunities in the form of a matrix as shown in Figure 3.4. Repeat this for the threats.
7. Determine the critical success factors that an organisation in a similar competitive position in the planning unit's market must have to succeed.
8. Conduct an internal capabilities review, analysing and diagnosing organisation-wide capabilities, including the organisation's financial position and an assessment of organisational effectiveness based on McKinsey's 7-S model: structure, strategy, systems, style, staff, skills and shared values.
9. Review the organisation's marketing capabilities, including an assessment of: (a) marketing management capabilities (i.e. marketing organisation, market intelligence generation and dissemination, marketing planning and marketing control systems), and (b) marketing strategies and performance. The objective is to determine the capabilities to compete successfully in the future.
10. Use a five-point scale to rate the intensity of each strength and weakness, then use the same scale to determine the degree of significance.
11. The final and most important stage is to summarise the situation analysis into a problems and opportunities statement. This includes an assessment of the organisation's capabilities with regard to the critical success factors (for building or maintaining a sustainable competitive advantage), the identification of opportunities where the organisation has capabilities, the identification of opportunities where capabilities could be developed, and the identification of the most significant threats facing the organisation. It concludes with a statement of the strategic implications confronting the organisation. When this has been completed, a foundation will have been laid for the next stage of the process – the development of marketing strategies.

DISCUSSION QUESTIONS

1. Select three different industries and then consider which of the remote and near environmental forces discussed in this chapter are most likely to impact favourably or unfavourably on each of these industries. How could a market challenger (a company with the second-highest market share) in each of these industries respond strategically to the changes that are likely to occur?
2. Factor X, an unpredicted event impacting on the economy, could potentially render an external environment review obsolete overnight. For example, the 1997–1998 'Asian currency meltdown', the bursting of the dot-com bubble in 2001 and the Global Financial Crisis that commenced in 2008 turned economic forecasts on their head. The entire outlook for many industries changed dramatically as news of economic doom and gloom emerged in the wake of each crisis. Given the uncertain nature of forecasting the future, how reliable is any review of the external environment?
3. Commenting on the internal capability review process, a marketing consultant claimed that he had 'never seen a review

that did not speak glowingly about the ability of the company, even though in many cases the company was obviously being murdered by its competitors'. What can be done to stop this type of bias occurring?

4. The CEO of the airline company you work for is asking about the difference between the McKinsey 7-S model of organisation effectiveness and the SWOT analysis. Explain this difference, highlighting some pros and cons of each model, and give your recommendation on which should be used for your company.
5. When searching for marketing information in the remote external environment and the near external environment, a colleague finds conflicting information to data you have found. What is the next step to handle this conflict, and how do you inform the organisation of this information?

STRATEGY IN PRACTICE

The crash and reboot at IBM[41]

There comes a time when even the most successful companies take their eyes off the road ahead and run into serious trouble. Such was the case in the early 1990s when one of the all-time giants of American industry was on the brink of collapse. After recording losses of US$16 billion from 1991 to 1993, IBM Corporation was on the brink of collapse and plans were being prepared to break the company up.

So how did a company that only a few years before was the second most profitable company in the world spin out of control so quickly? In IBM's own words, 'We became complacent. We took our eye off the marketplace. We were too slow to exploit new technologies. But more than anything, it seemed that over the past decade the industry had moved away from our kind of computing and our way of working with customers'.[42]

IBM made its fortune during the heyday of the mainframe computing era of the 1960s and 1970s by leasing expensive computers to its business customers and by providing an integrated service to ensure that everything worked. But the seeds of destruction had been sown in the 1970s when personal computers (PCs) came onto the market, at first appealing to the consumer market and later, as they became increasingly powerful, to the small business market. IBM made two fundamental mistakes. First, when it introduced the IBM PC in 1981 its strategy of open architecture paved the way for IBM compatibles and clones to enter the market and eventually outshine IBM with cheaper and often superior computers. Second, IBM was too slow to respond to the changing IT environment when PCs became networked and took over much of the work previously performed by mainframe computers. IBM stood and watched as Cisco, Dell, Intel and Microsoft grew to dominate the industry.

The biggest dangers are the ones companies do not see coming and, while the signs were there, IBM overlooked the seriousness of the situation. Many Wall Street analysts started to write off IBM as a company and, by 1991, IBM's share price had plummeted to the lowest it had been since 1983. The number of employees dropped from 400 000 in 1986 to just over 200 000 in 1994. However, all was not lost. In 1993 Lou Gerstner was appointed CEO and, just a few months into the job, began a process of change based on a dynamic capabilities style of strategy that was to transform IBM from a producer and seller of hardware to a broad-based IT solutions provider. The key components of a dynamic capabilities strategy are the ability of a company to sense and seize opportunities and to be able to reconfigure the organisation's structure and competencies to implement the strategies. Gerstner recognised that the market was shifting and that the application of technology would become the future driver of growth for the company. 'The next big thing' would be a network computing revolution. As IBM employees were informed:

> Few companies get a chance to step forward and change the world in meaningful ways. A second chance is nearly unheard of. Yet, with the rise of a networked world, that's the opportunity we've been given.[43]

Over the next two decades IBM shifted its business mix by exiting its consumer, network hardware, business, application software, storage and PC businesses and by investing heavily in the higher-value services (IBM Global Business Services and IBM Global Technology Services) software and integrated solutions. In 1993, when Gerstner became the CEO, services accounted for 27 per cent of revenue and software did not exist. By 2001, services and software had grown to the value of $35 billion and $13 billion respectively – businesses representing 58 per cent of the company's total revenue. Market capitalisation increased nearly sixfold from $30 billion to $173 billion, and the share price increased sevenfold.

Sam Palmisano, who took over from Gerstner as CEO in 2002, continued the transformation of the company and, by 2006, software and services represented 70 per cent of revenue. Palmisano's goal was to re-establish IBM as a standard-setting company, and he did this by moving into new unique businesses with high profit margins and potential for innovation. Palmisano led IBM's sale of the PC group to Lenovo in 2005, a move that drew criticism due to IBM's invention of the PC in the 1980s. Nonetheless, IBM became the largest IT company in the world in 2009.

In 2012 Ginni Rometty succeeded Palmisano as CEO and became the first woman to head IBM. Rometty's tenure has seen IBM partner with many companies, including Apple, Twitter, Facebook and Microsoft, and in 2015 acquire Merge Healthcare for $1 billion and all digital assets from The Weather Company. But in 2018 it was reported that IBM's turnover had shrunk by $28 billion in just six years.[44]

1 Given IBM's history, should it have sold its personal computer group strategic business unit to Lenovo? Can any company afford to hold onto its past?
2 Do some research on IBM's current position and find out if there is a fear of history repeating at IBM? Outline what you discovered.

STRATEGIC MARKETING PROJECT

Following the steps outlined in this chapter, conduct a strategic analysis of the organisation selected for your project and prepare a report on your findings.

ETHICAL ISSUE

Are the practices of predictive analytics and big data an invasion of an individual's privacy?

SEARCH ME! MARKETING

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- big data
- real-time experience tracking
- social media intelligence gathering
- predictive analytics.

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APPENDIX TO CHAPTER 3: FINANCIAL ANALYSIS

The following is a summary of the main accounting ratios that provide insight into the financial health of an organisation. It should be noted that accounting methods vary from organisation to organisation, and care needs to be exercised in comparing the results or benchmarking financial performance from one company to another. There is also considerable discussion in the accounting profession as to the merits of the various approaches to the measurement of financial performance. Finally, there are several significantly more complex and sophisticated tools and techniques available for assessing financial performance such as DuPont ratio analysis and value-based analysis (discussed briefly in Chapter 4) and the balanced scorecard (BSC) approach (discussed briefly in Chapter 11).

PROFITABILITY RATIOS		
The ability of an organisation to generate revenue in excess of expenses		
Return on equity (ROE)	(%)	Profit After Tax/Shareholders' Funds
Return on total assets	(%)	Earnings Before Interest and Tax (EBIT)/ Total Assets
Sales growth	(%)	(Current Year's Sales – Previous Year's Sales)/Previous Year's Sales
Gross profit margin	(%)	(Sales – Cost of Sales)/Sales
Net profit margin	(%)	Profit After Tax/Sales
Expense ratios	(%)	Expense/Sales
Note: % = × 100		
LIQUIDITY RATIOS		
The ability of an organisation to meet its short-term financial obligations		
Working capital turnover	(times)	Sales/(Current Assets – Current Liabilities)
Current ratio	(ratio)	Current Assets/Current Liabilities
Quick ratio	(ratio)	Quick Assets*/Current Liabilities
		*(Cash + Short-term Marketable Securities + Accounts Receivable)
Note: ratio = relationship e.g. 2:1		
OPERATIONAL EFFICIENCY RATIOS		
The efficiency with which assets are utilised and the productivity obtained		
Asset turnover	(times)	Sales/Total Assets
Inventory turnover	(times)	Cost of Sales/Inventory
Average collection period	(days)	(Accounts Receivables/Sales) x 365
Sales per employee	(value)	Sales/No. of Employees

LEVERAGE (GEARING) RATIOS		
Measures the extent to which non-equity capital is used by the organisation (financial risk)		
Debt–equity ratio	(%)	Total Debt/Shareholders' Funds
Debt to total assets	(%)	Total Debt/Total Assets
Times interest earned	(times)	Earnings Before Interest and Tax (EBIT)/Interest Paid
INVESTMENT RATIOS		
Measures the performance of the company in relation to the investment made by its shareholders		
Earnings per share (EPS)	(value)	Last Reported Profit After tax/Number of Shares
Price–earnings (P/E) ratio	(times)	Current Price Per Share/Earnings Per Share
Market value of organisation	(value)	Current Share Price × Number of Shares
Accounting (book) value of organisation	(value)	Total asset value as per last reported balance sheet
Market to book ratio	(%)	Market Value of Organisation/Accounting (book) Value of Organisation
Dividend yield	(%)	Last Reported Dividends Paid Per Share/Current Share Price

What the ratios mean

RATIO	MEASURES	BENCHMARK	NORMAL RANGE	EXPECTED DIRECTION
PROFITABILITY				
Return on equity	Overall performance	Competitors	10–25%	Increase
Return on total assets	Asset productivity	Competitors	15–30%	Increase
Sales growth	Sales performance	Competitors	5–15%	Increase
Gross profit margin	Operating performance	Competitors	30–50%	Increase
Net profit margin	Business performance	Trend	3–12%	Increase
Expense ratios	Expense trends	Trend	Various	Decrease
LIQUIDITY				
Working capital turnover	Ability to support sales	Trend	5–8%	Increase
Current ratio	Ability to pay debts	Trend	2:1	Hold at optimum
Quick ratio	Ability to survive	Trend	1:1	Hold at optimum
OPERATIONAL EFFICIENCY				
Asset turnover	Asset efficiency	Trend	4–6%	Increase
Inventory turnover	Inventory movement	Trend	5–10%	Increase
OPERATIONAL EFFICIENCY				
Average collection period	Debtor's creditworthiness	Credit policy	30–120 days	Reduce
Sales per employee	Employee efficiency	Competitors	Various	Increase

LEVERAGE (GEARING)				
Debt–equity ratio	Gearing of the organisation	Industry	10–50%	Hold at optimum
Debt to total assets	Asset financing	Industry	10–50%	Hold at optimum
Times interest earned	Interest coverage	Trend	5–10%	Increase
INVESTMENT				
Earnings per share (EPS)	Shareholder earnings in last reporting period	Trend	Various	Increase
Price–earnings (P/E) ratio	Market expectations of earnings growth	Industry	10–30	Hold at optimum
Market value of organisation	Share market's valuation of the present value of expected future cash flows	Trend	Various	Increase
Accounting (book) value of organisation	Value of company as per the accounting records of past transactions	Trend	Various	Increase
Market to book ratio	Variation between market expectations and accounting transaction records	Industry	25–500%	Hold at optimum
Dividend yield	Return on investment	Competitors	5–20%	Increase
Note: The above normal range is generalised and is therefore not specific to individual companies or industries. Analysis should be based on specific industry data. Also, it should be noted that only the main benchmarking factor is stated in this table, whereas benchmarks should include such factors as competitor performance, past trends and industry standards.				

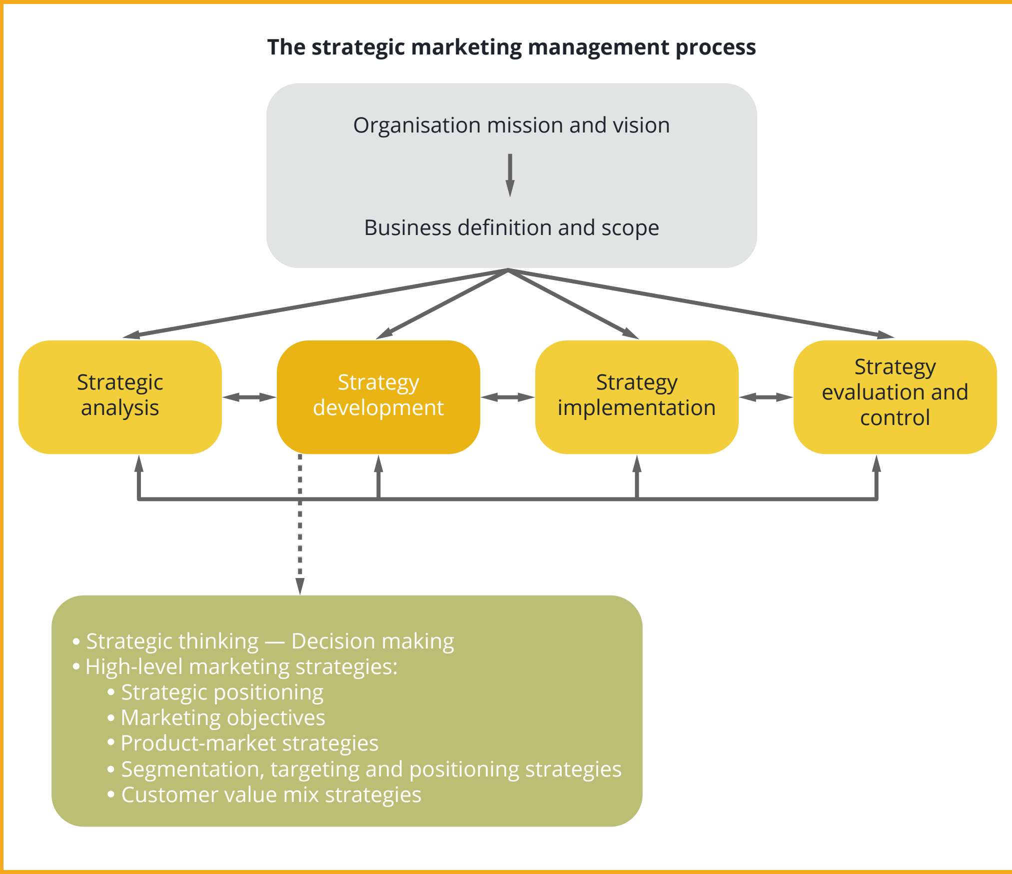
PART

3

STRATEGY DEVELOPMENT – HIGH-LEVEL DECISION-MAKING

The future of an organisation is dependent on its ability to capture and sustain value for its customers over time.

Part 3 focuses on the processes of creating, communicating and delivery of value for the organisation's customers commencing with a discussion of the overall process of strategy development (Chapter 4) before progressing to a discussion of the process of segmentation, targeting and brand positioning (Chapter 5) and developing the customer value creation mix (Chapter 6).


The strategic marketing management process
Organisation mission and vision
Business definition and scope
Strategic analysis
Strategy development
Strategy implementation
Strategy evaluation and control
• Strategic thinking — Decision making
• High-level marketing strategies:
• Strategic positioning
• Marketing objectives
• Product-market strategies
• Segmentation, targeting and positioning strategies
• Customer value mix strategies

CHAPTER

4

STRATEGY DEVELOPMENT – HIGH-LEVEL DECISION-MAKING

Planners shouldn't create strategies, but they can supply data, help managers think strategically, and program the vision.

Henry Mintzberg[1]

General Electric's transformation roller coaster

A few weeks into his appointment as CEO of General Electric (GE) in April 1981, Jack Welch met with the legendary management consultant and writer Peter Drucker. In this meeting Drucker posed two simple questions that reportedly were the spark that triggered a two-decade transformation of GE. The first question he asked was, 'If you weren't already in business, would you enter it today?' Drucker then asked, 'If the answer is no, what are you going to do about it?' Reflecting on these two questions, Welch concluded that every business under the GE umbrella would have to be either number one or two in the market, and if not, it needed to be fixed, sold or closed.[2]

Welch, who joined the plastics division of GE as a young PhD graduate in chemical engineering in 1960, had grown disenchanted with the highly-politicised, slow-moving bureaucratic management style that characterised GE during the 1960s and 1970s. His appointment to the position of CEO gave him the opportunity to realise his vision of transforming GE to become the world's greatest company. Welch's starting point for the turnaround was to develop a unified vision and strategy for the entire company encapsulated in what became to be his famous three-circle concept. All GE businesses had to fit into one of three categories consisting of core businesses (managed as cash cows), high-tech businesses (high growth with negative cash flow and high levels of investment) and services (cash generators with high growth, high returns and low investment requirements). Businesses in each category that were not first or second in the market were given two years to fix the problem – after that they were either sold or closed.

Over the next decade GE was transformed – more than 200 businesses were sold and 370 new businesses were acquired. Activities that were not regarded as core were outsourced and, via a process of downsizing and delayering, about 60 000 staff positions were eliminated. GE's much vaunted strategic planning system was scrapped and over 100 strategy planning positions out of 200 were eliminated.[3] A new 'real-time planning' process was introduced based on a five-page playbook of the following five key issues: market dynamics, recent competitor activities, the GE business response, the greatest competitive threat over the next three years, and the businesses' proposed response. Welch and his 14 key business leaders workshopped these issues.

By the late 1980s, the restructuring of GE had been largely completed and Welch believed that because the 'hardware' of the company was now in place, it was time to concentrate on getting the 'software' right. He turned his attention towards creating an open and transparent style of management, encouraging candour and the ability to face reality along with a corporate culture characterised by just three words: simplicity, speed and self-confidence. The objective was to create a culture akin to that of a small company. A program titled 'workout' was developed where groups of 40 to 100 employees would attend a three-day session to discuss ways of improving the business and to present proposals for how this could be achieved. About 80 per cent of these proposals were given on-the-spot 'yes' or 'no' decisions. At the same time, a training program was initiated to establish best-practice thinking throughout the organisation. Welch also turned his attention towards the issue of globalisation, and in 1987 he decreed that the objective to be either number one or two would, moving forward, be evaluated on a worldwide market position. His vision was now articulated in terms of GE becoming a company without boundaries.

In 1999, just one year before his retirement, Jack Welch's early vision of making GE the world's greatest company was finally realised. Revenue had grown to over $100 billion, with operating margins at an all-time high of nearly 17 per cent. In 2000, for the third year running, the *Financial Times* named GE the most respected company in the world.[4] Welch retired in late 2000 and received a severance payment of $417 million, having seen the company's value rise 4000 per cent.[5]

The next 10 years saw turbulent times for GE, with the 9/11 terrorist attacks affecting its insurance and aircraft engine strategic business units (SBUs) and the Global Financial Crisis (GFC) badly affecting its financial SBUs. Jeffrey Immelt, Welch's successor as CEO until 2017, took much of the blame for GE's fall from grace, which continued past the 2008 GFC. Some commentators blame Immelt for moving too slowly to realign GE for the modern era, while others say Immelt was doomed to fail after following Welch, who grew GE too much too fast.[6]

After Jeffrey Immelt retired, John Flannery became CEO. In 2018 it was announced that through a restructuring effort the GE business may be required to break up into three separate, publicly-traded units just to save it.[7]

Focus of this chapter

The strategic marketing management process comprises four main phases of work: the strategic analysis phase (which was discussed in Chapter 3), strategy development, strategy implementation, and strategy evaluation and control. This chapter addresses the second phase – the process of developing, or 'crafting', effective marketing strategies. It is a pivotal stage of the entire strategic marketing management process involving high-level business and marketing decision-making.

As is discussed throughout this book, marketing is not a standalone business function. It is a process by which organisations create, communicate and deliver value for their chosen customers. This process is of central importance for all organisations of all shapes and sizes, and therefore plays a major role in the development of corporate and business-unit strategy planning and strategy management.

Learning objectives

The aim of this chapter is to provide information regarding the development process of marketing-related strategies within a context of corporate and business-unit strategy planning decision-making.

After reading this chapter you will have an understanding of:

- the inputs to the strategic development process and the processes of strategic thinking, issue identification/problem solving and decision-making (4.1)
- strategic tools and concepts (4.2)
- a framework for the development of high-level marketing strategies – discussed in a broad overview sense and elaborated in greater detail in subsequent chapters (4.3).

4.1 Strategy development

Strategy development is a creative process. As Henry Mintzberg pointed out so many years ago, strategy development should be thought of as a craft rather than solely as a rational and orderly process. As he argued, 'Effective strategies can show up in the strangest places and develop through the most unexpected means' and 'Strategies need not be deliberate – they can also emerge'.[8]

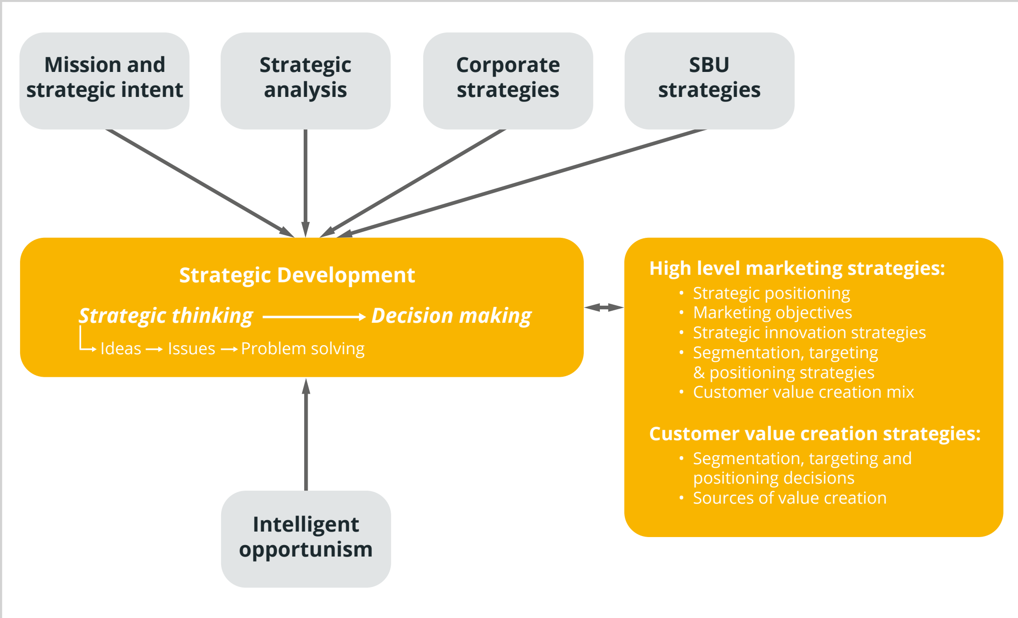
Figure 4.1 conceptualises the crafting nature of the strategy development process incorporating both rational and intuitive, or left- and right-brain, thinking processes. The central point of this model is strategic thinking. Ideas generated and issues arising from several top-down and bottom-up sources are thrown into the strategic thinking mix. The outcome of this process is the generation of strategic alternatives, which need to be evaluated and considered in the decision-making process. In turn, these decisions form the basis of the development of high-level marketing strategies. The sections that follow describe these processes briefly.

Mission and strategic intent

It is important that all those involved in the strategy development process have a very clear understanding of the organisation's current mission and strategic intent, as articulated (or at least as should be articulated) in the mission statement or in a separate vision statement.

However, this is not to say that the mission and strategic intent should simply be accepted without critical analysis. The key question to ask is: 'Does the current mission statement and the vision for the future reflect the reality of the situation facing the organisation?' This question is central to the entire strategic planning process and should be uppermost in the minds of the strategists during all phases of the strategic thinking and strategy development work.

FIGURE 4.1 The strategy development process



Strategic analysis

The situation analysis and the accompanying problems and opportunities statement provide the strategists with a view of how the external environment operates and of the organisation's capabilities to compete in that environment. The first task for strategists is to critically analyse the findings of the situation analysis. This approach is described by Jeffrey Pfeffer and Robert Sutton as evidence-based management. As they explain: 'evidence-based management, like evidence-based medicine, entails a distinct mindset that clashes with the way many managers and companies operate. It features a willingness to put aside belief and conventional wisdom – the dangerous half-truths that many embrace – and replace these with an unrelenting commitment to gather the necessary facts to make more informed and intelligent decisions'.[9] Strategists should look closely at the accuracy of the information presented, particularly the underlying assumptions, the explanations and conclusions, and gaps in logic.

This means that the strategists need to have a very good understanding of what strategy really means for their industry. That is, they should understand dynamics of the industry and the processes of value creation from the beginning of the value chain to the end, including interdependencies within the chain. They also need to understand industries that are adjacent or potentially adjacent to their own because there are many areas of convergence or future convergence that will impact on their organisation, particularly due to the irrepressible driving force of change brought about by digital technology. Strategists need to become experts at identifying potential game-changing disruptive innovation.

Corporate strategies

Corporate strategies are developed at the highest level of organisation. These strategies are designed to create and deliver sustainable long-term value for the organisation's stakeholders. In multi-business companies, the main emphasis is to build and maintain a portfolio of high-performing businesses. This aims to foster the development of strategies that deliver greater value than the sum of the individual business unit parts. The management consultancy McKinsey & Company maintains that the best corporate strategies are those that force multi-business organisations to make clear choices about their portfolios and the allocation of their resources.[10] This involves assessment of the long-term performance prospects of the whole organisation and the development of strategies for individual SBUs for one of four different purposes:

- to nurture existing businesses, such as by providing appropriate resource allocations
- to seed a new business for either organic start-up or acquisition
- to prune an existing business by either reducing resource funding or to sell off a portion of that business
- to harvest an existing business by either selling off underperforming businesses or businesses that no longer fit the portfolio.[11]

Unfortunately, according to the findings of an online survey conducted by McKinsey in 2010, only 20 per cent of executives reported that their companies fully addressed strategy this way.[12]

In recent years, creation of value for the organisation's stakeholders, as opposed to just for shareholders, has increasingly become a major concern for senior management and company boards. This reflects the increasing criticism in recent decades of publicly listed companies for emphasising shareholders' interests ahead of all other stakeholders. Since the GFC, in particular, there has also been mounting criticism of managers focusing on short-term financial performance rather than the long-term welfare of the company. Proponents of stakeholder theory and corporate social responsibility (discussed in Chapter 1) argue that in many organisations there has been a complete disregard for the wellbeing of customers, employees, suppliers and society as a whole. Business has also been widely blamed for bringing about social unrest, environmental damage and economic chaos and, as Michael Porter and Mark Kramer argue, the problem has become so severe that the entire system of capitalism has come under siege.[13] In response to this situation, Porter and Kramer have developed a concept of **creating shared value (CSV)** based on the proposition that the health of a company and the health of communities in which they operate are mutually dependent, not mutually exclusive. They contend that CSV can be achieved by companies adopting one or more of the following three strategies:

1. *reconceiving products and markets* – for example, producing nutritious as opposed to tasty but unhealthy food products, or the production of environmentally friendly products
2. *redefining productivity in the value chain* – for example, productivity gains that lower costs and energy usage
3. *building supportive industry clusters* – for example, developing clusters of related businesses and suppliers to drive innovation, productivity efficiency and employment opportunities for local communities.[14]

See the 'Strategy in practice' box at the end of the chapter for a discussion about how Nestlé developed a CSV strategy.

The concept of shared value does not diminish the need for companies to make profits, because the objective is to create economic value by the creation of social value. Indeed, the long-term survival and prosperity of the organisation is an essential requirement for all stakeholders. Accordingly, performance objectives consisting of the financial requirements for the organisation and other key result areas, which are critical for the organisation's long-term success, need to be established. These include profitability, return on investment (ROI), return on assets (ROA), earnings per share (EPS), total shareholder return (TSR), dividends and cash flow. If the organisation performs well financially, share prices are maintained or increased. If financial performance is below expectations, share prices drop, limiting the organisation's ability to attract equity financing to underwrite future operations and growth while also exposing the organisation to the danger of a takeover. Poor financial performance, particularly poor cash flow, also limits an organisation's ability to attain debt financing (borrowing).[15] See Ray Anderson's TED talk, 'The business logic of sustainability', for an example of a company becoming more profitable by becoming more environmentally sustainable (https://www.ted.com/talks/ray_anderson_on_the_business_logic_of_sustainability#t-159376).

One other contentious issue that concerns the setting of corporate performance objectives concerns the establishment of stretch goals, or BHAGS (big, hairy, audacious goals), that are designed to motivate managers and staff to perform at their highest levels. Jack Welsh's objective for GE's divisions to achieve either the number one or two position in the market is an example of this type of stretch goal. His successor, Jeffrey Immelt, followed suit in 2005 with an equally challenging objective by setting a goal for GE to achieve sustained organic growth of two to three times the global GDP. In 2006 this equated to about 8 per cent and it certainly was a very ambitious goal – no other company of the size of GE had ever achieved that kind of growth. As Immelt explained, the reasoning behind this stretch goal was straightforward; he stated: 'Another decade of 4 per cent growth, and GE will cease to be a great company. But if we can spur our growth rate without losing our productivity edge, GE will keep being the most admired company in the next century'.[16] However, critics argue that stretch goals can often be demotivating, overwhelming and unattainable. Furthermore, they can also encourage unethical behaviour and excessive risk taking.[17]

Strategic business unit strategies

Strategic business unit (SBU) strategies are primarily concerned with the way in which the business unit competes in its chosen industry. That is, *how* it is to compete (customer value creation strategies) and *where* it is to compete (product-markets). These high-level business unit decisions are referred to as strategic positioning strategies. As Michael Porter explains, 'strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company. It means performing *different* activities from rivals or performing *similar* activities in different ways'.[18] *Strategic positioning* involves broad-based decisions about how the business unit (or business in the case of a single-business organisation) is to be positioned within the industry in which it competes; for example, whether to compete at a market-wide or market-niche level of competition. Strategic positioning is all about being different and performing activities at an organisation-wide level to create, communicate and deliver customer value.

As discussed in Chapter 3, views on strategic positioning of the business unit are largely dependent on the prevailing school of thought within the organisation. For example, organisations competing in a relatively stable and predictable environment with little potential to influence dynamics of the market would generally adopt a classical style of strategy such as Porter's concept of competitive advantage, Kim and Mauborgne's blue ocean, the strategic conflict approach/game theory, and the resource-based view (RBV) paradigm. In a business environment that is largely unpredictable, organisations would more appropriately adopt either an adaptive or shaping style of strategy. The following provides further information about some of the most popular strategic concepts, tools and techniques.

Irrespective of the various underpinning views, there are four key factors that strategists need to consider in determining the organisation's strategic position:

- *The nature of the existing markets the organisation competes in and potential new markets* – Are these markets new and growing, maturing or declining? How attractive are these markets? How stable are these markets?
- *The competitive position of the organisation in the marketplace* – Is it a market leader, a challenger, a follower or a niche player?
- *The organisation's sources of advantage* – Does it have superior skills and superior resources to those of its competitors? What are the activities the organisation can perform that are different from those of our competitors?
- *Organisational culture* – Is the organisation customer focused? Does it foster an innovative and entrepreneurial environment or is it a bureaucratic type of organisation?

Intelligent opportunism

Creative ideas are not just a product of a formal strategy planning process. They arise at any time throughout the year and can be generated by a multitude of individuals, including employees throughout the organisation (front-line to senior management), suppliers, supply chain partners, customers, inventors, entrepreneurs and stakeholders such as shareholders and environmentalists. As Henry Mintzberg declared many years ago: 'Strategies grow like weeds in a garden. They take root in all kinds of places, wherever people have the capacity to learn (because they are in touch with the situation) and the resources to support that capacity'.[19] Great ideas can be serendipitous, arising from luck, by chance or by accident, such as the invention of Post-it Notes – the weak removable adhesive that is used in Post-it Notes was the product of a failed attempt to formulate a very strong adhesive.

Intelligent opportunism represents the development of emergent strategies that arise over time and are developed outside of formal strategic planning processes. Intelligent opportunism also represents ideas that are generated both within and outside of formal strategic planning processes by individuals both within and outside of the designated strategy planning team. For example, looking beyond the industry that the organisation competes in to a wider *business ecosystem* comprising several competitors for the purpose of co-developing innovative new products.[20] This is particularly relevant for organisations adopting a shaping strategy approach.

Strategic development

There are two interrelated phases in the strategic development stage of strategy planning: strategic thinking and decision-making. In a marketing context strategic thinking focuses on finding ways for the organisation to create value for its chosen customers. It is a synthesising process that blends right- and left-brain thinking – in other words, both rational and intuitive or creative thinking processes. There are two facets involved in the strategic thinking process:

1. *The generation and evaluation of creative ideas* – left-brain thinkers are essential innovators who, according to research conducted by INSEAD, excel in five skills: an ability to ask provocative questions, an ability to use the power of observation to discover new ways of doing things, a

tendency to network with people who are different from themselves, a passion to test new ideas and to try new experiences, and an ability to connect the unconnected to produce disruptive ideas.[21] These strategic thinkers consider big-picture issues, such as seeking new opportunities for the organisation within and outside of existing industry boundaries, changing the rules of the game and outwitting competitors.

2 *Identification of key issues* – right-brain thinkers focus on strategic analysis and the underlying assumptions behind the issues that were identified in the process, particularly those highlighted in the problems and opportunities statement. This involves the use of problem identification and problem-solving techniques.

The ideas generated and issues identified then need to be evaluated and prioritised in order of strategic viability and importance. The next task is one of problem solving – of developing potential strategies to address the prioritised (key) issues that have been identified and the prioritised creative ideas (opportunities). Then it is necessary to evaluate each of the strategy alternatives so that decisions can be made. The decisions should be based on the proposed strategy's capacity to create superior customer value that is hard for the organisation's competitors to imitate.

4.2 Strategic tools and concepts

In line with the configuration school of thought discussed in Chapter 2 and earlier in this chapter, the strategy style to be adopted needs to be appropriate for the business environment in which the organisation competes – now or in the future. The chosen strategic style may also comprise a combination of concepts, tools and techniques from a variety of schools of thought.

Strategic tools are like tools in a superhero's utility belt – to be successful they should not be used all at once, but rather the right tool be used for the job. And selecting the right tool is one of the key requirements of managers. Managers have a wide array of tools, some of which this section will discuss; but it must be remembered that these are just tools and they cannot make decisions or come up with strategies by themselves. Further, the tool is only as good as the information fed into it, hence the importance of the situation analysis. Each of the tools has its own assumptions and/or limitations, so this must be considered carefully when determining which tool to use.

When used correctly, with accurate and reliable information, any of the following strategic tools can be very helpful and can make complicated information manageable. They also provide ways in which a huge amount of information can be presented, to your CEO for example, in an easy-to-understand way. So, the advantages of using one or more of these tools far outweigh any potential disadvantages.

Some of these tools are quite old (i.e. 50, 60 or even 70 years old), but that they are still used today means something – quite simply that they work! Literature would not continue to include them and marketers would not continue to use them if there was no use or benefit gained from them. These tools include:

- product life cycle concept
- product portfolio models – including the Boston Consulting Group (BCG) matrix and General Electric (GE)/McKinsey model
- Porter's generic competitive strategies
- blue ocean strategy
- resource-based view
- marketing warfare
- financial performance models – including the DuPont ratio analysis model and value-based planning models.

4.3 High-level marketing strategies

The outcome of the strategic development phase is the determination of five interrelated high-level marketing strategies: strategic positioning; marketing objectives; strategic options; segmentation, targeting and positioning strategies; and the customer value creation mix. These strategies are broad-brushed and are based on marketing as an organisation-wide process rather than on a marketing-department functional perspective.

Strategic positioning

As was discussed in the previous section concerning SBU-level strategies, strategic positioning is all about *how* the organisation is to compete and *where* it is to compete. Strategy involves creating a fit among the organisation's customer value creation mix activities and its overall strategic positioning. That is, strategic positioning provides a context for the development of marketing strategies.

Marketing objectives

The organisation's long-term financial performance objectives provide a logical starting point for setting marketing objectives. These are usually expressed in metrics such as profitability, ROI, ROA, EPS, TSR, dividends and cash flow. These objectives are too high-level for marketing purposes and therefore need to be translated into metrics that are appropriate, such as top-line revenue growth. The case for focusing on the top rather than just the bottom line has been highlighted by McKinsey. In an extensive tracking study of 100 of the largest US public companies over the two business cycles of 1984 to 1993 and 1994 to 2003, McKinsey found that there was a very strong 'correlation between the future survival of a company and its past revenue growth ... A company whose revenue increased more slowly than GDP did was five times more likely to succumb, usually through acquisition, than a company that expanded more rapidly'.[22] Shareholder value can be enhanced in the short term by cost-reduction strategies such as downsizing and the reduction of product quality. In the long term this might cause customers to become dissatisfied with the organisation's products or services, which in turn could lead to a loss of market share, reduction of profitability and eventual decline in share price.[23] That is, a focus on short-term shareholder value can lead to the reduction of customer value with a resultant loss of competitive advantage and a decrease in long-term financial performance. The McKinsey study revealed that companies that failed to increase their revenues eventually ran out of ways to drive earnings and shareholder returns.

An essential prerequisite in setting marketing objectives in terms of top-line revenue growth is the inclusion of a gross margin target; that is, to factor in the costs (variable and direct) incurred to achieve the revenue.

Financial objectives represent *what* the organisation wants to achieve, so the next step is to determine *where* and *how* this is to be achieved. Once again, these strategies are developed at a high-level or helicopter view of the world, providing broad rather than detailed direction. The *where* concerns the markets the organisation is to compete in and the *how* – the broad strategic approach.

Strategic options

There are essentially four strategic options for the organisation's strategists to consider:

1. *Maximising market growth via the organisation's core marketing strategies* to increase market share or, in some cases, to maintain market share or to halt a decline. This can be achieved by winning customers from competitors and/or by increasing the product usage rate of existing customers (a typical objective of customer loyalty programs). Efforts to increase the rate of product usage among existing customers can also potentially have the effect of growing the total market. Core marketing strategies include modifications, improvements or updates made to the organisation's current product offerings and entry into adjacent market segments. (Core marketing strategies are discussed in further detail in Chapter 7.)
2. *Achieving growth via incremental innovation* – refers to new products that are developed as product line extensions or as standalone product additions. Strategists need draw on the new products that are in the organisation's NPD pipeline and to factor into their strategy deliberations the timing and the potential impact the new products will have on market share and the top line. (Incremental innovation and the NPD process are discussed in further detail in Chapter 8.)
3. *Achieving growth via entering new markets* – entry into new geographic markets and/or new marketing channels. A critical aspect of the market development process involves the identification of emerging market segments with growth potential. Market development takes time and, once again, the strategists will need to consider the timing of a new market entry and the likely impact it will have on market share and both top-line and bottom-line revenue growth. (Market development strategies are discussed in further detail in Chapter 9.)
4. *Achieving growth via radical innovation* – the creation of new products and new markets. It is an extreme strategy that either means boom or bust, and is therefore not for the faint hearted. It invariably involves large sums of expenditure on R&D for a project that is shrouded in uncertainty and investment risk. (Radical innovation is discussed in further detail in Chapter 10.)

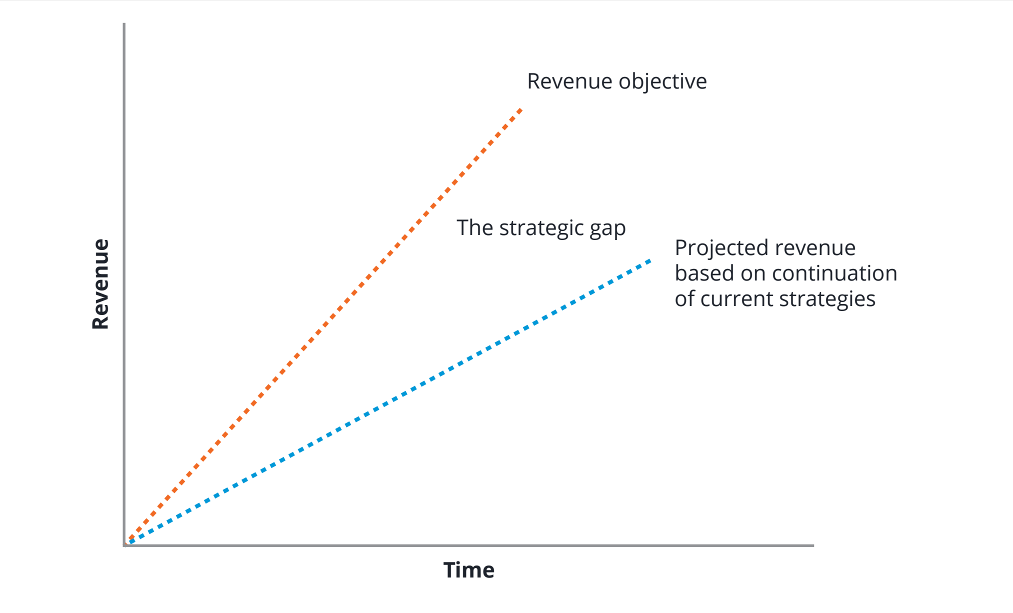
The four strategic options provide strategists with a framework for first-cut decision-making concerning potential revenue that can be achieved for each year of the strategic timeframe and the costs involved in achieving that revenue.

Strategic gap analysis

Another helpful technique that strategists have at their disposal is strategic gap analysis, as shown in Figure 4.2. This is a useful tool that can provide strategists with a means for determining the challenges ahead in terms of meeting the organisation's financial objectives. The starting point is to determine and plot on the graph the top-line revenue objectives over the strategic planning timeframe that the organisation needs to achieve to meet its financial objectives. The next step is to estimate and plot on the graph the revenue that would likely be achieved if the current strategies were continued; that is, by considering the overall market size, estimated market growth, the overall competitive environment and the organisation's market.

Invariably, this analysis will reveal that a gap will exist between what the organisation needs to achieve and what it is likely to achieve if the current strategies are continued. The next step is to determine how the gap can be closed by projecting the top-line revenue that can be achieved via incremental innovation and market development. Radical innovation would normally not be considered because it often falls well beyond strategy planning parameters and, in most cases, would result in a diversification such as the creation of a new business.

FIGURE 4.2 Strategic gap analysis



A modification based on a concept developed by D.T. Brownlie and C.K. Bart, *Products and Strategies*, MCB University Press, Bradford, Yorkshire, vol. 11, no. 1, 1985, p. 14.

Resource allocation

The next task is to consider resource allocation. According to the findings of a research study conducted by Deloitte Consulting partners Bansi Nagji and Geoff Tuff, better-performing companies, as reflected in share price performance, allocated their resources across core, adjacent and radical initiatives on a 70/20/10 per cent ratio. Nagji and Tuff recommended that individual organisations should deviate from this ratio according to the specific strategic challenges that they face, such as by taking into account the industry environment in which they compete, their competitive position and the stage of development they are in. They found, for example, that a leading consumer goods company allocated resources on an 80/18/2 per cent ratio, while a mid-stage technology organisation had allocated resources on a 45/40/15 ratio. They concluded that organisation strategists should determine the ideal ratio for their organisation to maximise its ROI (based on revenue growth and market capitalisation) and then devise a plan to work towards achieving that ratio.[24]

Segmentation, targeting and positioning strategies

Segmentation, targeting and positioning strategies are marketing-focused decisions that expand upon the broad-based strategic innovation and the business unit's strategic positioning discussed earlier. Segmentation and targeting strategies focus on the identification and targeting submarkets of customers within the organisation's existing and potential new markets. Positioning is all about determining a unique selling proposition (USP) – establishing a distinctive position in the minds of the targeted prospects.

Segmentation, targeting and positioning strategies are discussed in greater detail in Chapter 5 and are interwoven into much of the discussion of strategic issues throughout the remaining chapters of this book.

Customer value creation mix

The customer value creation mix is the source of value or the activities that need to be conducted for the organisation to create, communicate and deliver superior customer value. As was discussed in Chapter 1, the notion of the customer value creation mix extends the traditional 4Ps and 7Ps concept of the marketing mix to represent an organisation-wide or market-oriented perspective of the role of marketing rather than a narrow marketing functional-based view. These activities are discussed in greater depth in Chapter 6.

SUMMARY

- The strategy development phase of strategic management consists of three main areas of activity: strategic thinking and decision-making, the development of high-level marketing strategies and the customer value creation mix. The first two of these activities were discussed, highlighting the complexity of the strategy development and decision-making processes.
- It was argued that strategic thinking involves both right-brain (analytical) and left-brain (intuitive and creative) thinking processes. Accordingly, strategists draw on information from a variety of top-down and bottom-up sources, including the organisation's mission/strategic intent statement, strategic analysis, corporate and strategic business unit strategies, and intelligent opportunism (ideas and issues identified from employees throughout the organisation and from various other sources such as suppliers, collaborative organisations, intermediary customers – distribution partners, end-user customers, community groups and advocacy groups).
- The task for the strategists is to make sense of the ideas that are generated from the vast amount of information that they have to consider, along with issues that are identified in the process of strategic analysis. The way information is processed and interpreted is dependent on the prevailing school of thought or strategy approach within the organisation. Therefore, much thought needs to be devoted at the very beginning of the strategic management process as to what approach is the most appropriate for the organisation.
- The deliberations at this stage of the process lead to the development of the following high-level marketing strategies: strategic positioning; marketing objectives; strategic options; segmentation, targeting and positioning strategies; and the customer value creation mix (discussed in detail in the next two chapters).
- It should be noted that establishing marketing objectives and strategic innovation strategies at this stage of the strategic management process is tentative. It is an iterative process where these first-cut decisions will be revisited, re-evaluated and refined as the strategy development process progresses.

DISCUSSION QUESTIONS

1. At the beginning of 2010 Coles Supermarkets launched a 'down, down' pricing strategy, sparking a price war with its archrival Woolworths. With milk retailing at $1 per litre, dairy farmers were caught in the pricing crossfire between the two retailers and many were forced to quit the industry. The dairy farmers were not the only ones to feel the price squeeze; many suppliers to both Coles and Woolworths were forced to lower their prices to the detriment of their gross profit margins. Consumers were obviously the main beneficiaries of these price wars, but should both supermarket companies have considered the interests of other stakeholder groups?
2. Institutional investors wield tremendous power on share prices as they buy and sell shares; these include investment banks such as Macquarie Group, Citigroup Global Markets Australia Holdings and Goldman Sachs, and superannuation fund managers such as Colonial First State and AMP. Share prices rise or tumble overnight as these large institutional investors buy in or sell out of various company stocks. A problem with institutional investors that is often cited is their lack of long-term vision. Their focus on the short term makes it difficult for companies to embark on essential capital investment programs that do not show immediate returns. On the other hand, institutional investors argue that, apart from looking after the money entrusted to them by their investors (in superannuation funds, insurance and other forms of savings), they play an important role in influencing good corporate governance practices in the companies they invest in. What is your view of the power of institutional investors? What are the implications for publicly listed companies?
3. The Australian chief marketing officer of The Body Shop is asking for your advice on product portfolio models. Specifically, she wants to know the difference between the BCG matrix and the General Electric/McKinsey model, and which one you would recommend The Body Shop use, including reasons why.
4. Are concepts and tools such as the product life cycle, marketing warfare or Porter's concept of competitive advantage, which some call outdated, useful or harmful for developing marketing strategies?
5. Should marketing objectives be set in terms of market share objectives, top-line or bottom-line revenue?

STRATEGY IN PRACTICE

Nestlé: Creating shared value not corporate social responsibility

In January 2008 the chairperson of Nestlé SA, Peter Brabeck-Letmathe, attended the World Economic Forum, where the main subject was corporate social responsibility (CSR), emphasising the need for companies to 'give back to society'. At the closing plenary session Brabeck-Letmathe sent a shockwave through the forum when he stood up and stated that he did not agree with the notion that a company should give back to society. He argued that his company, Nestlé, had not stolen anything from society and therefore had nothing to give back. As he stated in an interview some years later, 'I personally believe that no CEO of a public company should be allowed to make philanthropy. I know this is shocking for the American environment, but I think anybody who does philanthropy should do it with his own money and not the money of the shareholders'.[25]

Nevertheless, Brabeck-Letmathe left the World Economic Forum feeling that the issue of CSR required further thought, and in early 2008 he contacted Michael Porter to discuss an article he had written about competitive CSR. During their subsequent discussions Porter and his colleague Mark Kramer were asked to conduct an independent analysis of the Nestlé value chain in Latin America. The outcome was the publication of a report, *The Nestlé Concept of Corporate Social Responsibility*, which introduced a new concept of creating shareholder value (CSV) as opposed to corporate social responsibly (CSR), which was a concept that sat more comfortably with Brabeck-Letmathe's business philosophy. Rather than focusing on philanthropy or externally imposed criteria, CSV focuses on the simultaneous creation of long-term shareholder and societal value. Brabeck-Letmathe moved quickly to embrace the concept of CSV. In 2008 a Nestlé CSV Advisory Board was established that included among its membership representatives from the most prominent non-governmental organisations in the world. The first of what was to become a series of annual Creating Shared Value Reports was published that year, and in April 2009 the first annual Creating Shared Value Forum was launched in New York, in which a Nestlé Creating Shared Value Prize was awarded with the aim of fostering innovative approaches to solve problems of nutrition, water and rural development.

CSV is embedded in the corporate culture of Nestlé and is operationalised in a process of evidence-based reporting where a comprehensive set of key performance indicators (KPIs) are established for each division, focusing on nutrition, rural development, water, environmental sustainability and people, human rights and compliance.[26] With this, the company made 39 commitments globally to meet by 2020 or earlier to support its philosophy of creating shared value (https://www.nestle.com.au/creating-shared-value/our-commitments). Some of these commitments include a reduction in greenhouse gas emissions by 35 per cent for every ton of product made, a reduction in water usage by 40 per cent across all products and a switch to 100 per cent sustainable palm oil.[27]

1. Most large companies in the world partake in some form of corporate social responsibility. Do you think they should partake in creating shared value instead? Why or why not?
2. Can Nestlé continue with creating shared value, or at some point will someone ask them to do more?

STRATEGIC MARKETING PROJECT

Continue working on the strategic marketing project. Establish tentative marketing objectives and high-level marketing strategies in terms of the product-market objectives to be pursued over the strategic time horizon.

ETHICAL ISSUE

Are concepts such as corporate social responsibility and creating shared value treated as window-dressing activities by most organisations?

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ENDNOTES

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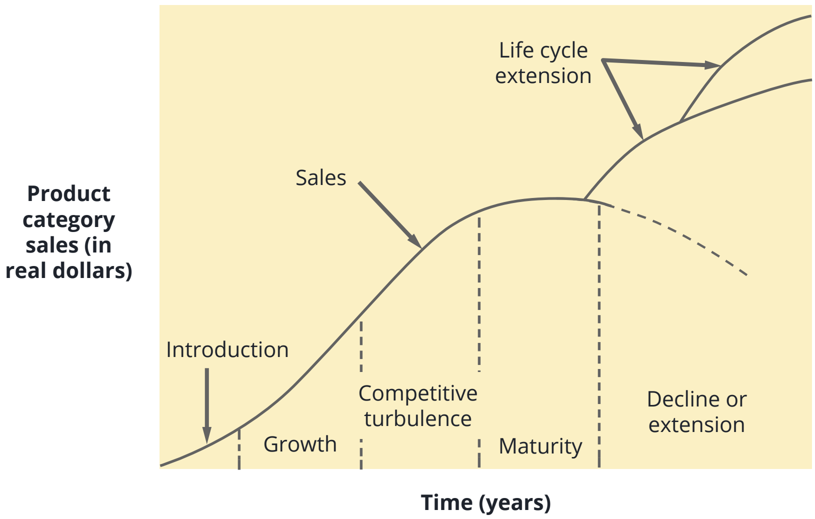
APPENDIX TO CHAPTER 4: PRODUCT LIFE CYCLE CONCEPT

The product life cycle (PLC) concept was developed during the late 1950s[1] and became prominent during the 1960s. The concept is quite simple because it suggests that products, like human beings, pass through several different stages of their life. In the case of products, the stages are described as introduction, growth, maturity and decline. An additional stage described as competitive turbulence or shake-out is also shown in some PLC models, as can be seen in Figure A4.1.

FIGURE A4.1 A typical product life cycle pattern



There are three levels of PLCs: the brand level, the product category (product subclass) level and the industry (product-class) level. The product category level is the most useful for providing guidelines for the development of marketing objectives and strategies.

The strategic implications of the PLC have been extremely popular subjects in marketing literature. Box A4.1 provides a summary of the typical characteristics of each of the PLC stages and the strategic marketing implications. Although there are some variations between the guidelines presented in the various PLC models, Box A4.1 represents what could be described as a typical model. These guidelines are general in nature and do not provide for differences in market position (i.e. different objectives for a leader, a challenger or a follower) or for markets that do not follow the typical S-shaped curve of the PLC model. The concept has been subjected to a good deal of criticism, which can be summarised as follows:

- It is difficult to define the appropriate market.
- The length of the stages differs for different products or industries, meaning it is often not clear what stage the product/brand is in.

BOX A4.1

Typical characteristics of the PLC stages and the marketing strategic implications

	INTRODUCTORY	GROWTH	COMPETITIVE TURBULENCE	MATURITY	DECLINE
Characteristic					
Sales	Low	Rapidly	Slowing	Peak sales	Declining
Prices	High	Lower than introduction	Low	Low	Falling
Profits (per unit)	Negative	High and rising	Declining	Average	Declining
Customers	Innovators + early adopters	Early majority	Early majority	Late majority	Laggards
Competition	Few	Growing number of imitators	Shake-out begins	Declining numbers	Further decline
Strategic implications – marketing objectives and strategies					
Marketing objective	Encourage trial Establish distribution	Market share penetration Attract new users	Protect and strengthen niches	Protect share Manage for earnings Keep loyal users Extend the PLC	Halt decline or reduce expenditure and milk for profit
Product	Basic	Offer extensions, features, service	Tighten line Improve quality	Diversity of brands and models Reposition brand if necessary	Phase out weak items
Price	Skimming or penetration	Maintain prices	Match or beat competitors	Defensive	Maintain profit margins
Distribution	Selective	Build intensive coverage	Strong dealer support	Intensive and extensive	Selective
Promotion	Create awareness Develop brand loyalty	Stimulate wider trial Emphasise brand loyalty	Maintain customer franchise	Stress brand differences and benefits	Phase out Maintenance weight only

- The S-shaped pattern does not always occur. Swan and Rink, for example, contend that there are as many as 10 different PLC curves.[2] Click here for some examples.
- The players can affect the growth curve by extending it in a variety of ways, such as repositioning and product innovation.

- Generalised strategic implications are questionable because of divergent patterns between industries such as competitive structure (which may vary during the stages) and the various strategies the competitors use such as price competition, advertising and research and development (R&D) expenditure.

Porter argues that industry takes many different paths and, therefore, the PLC pattern, which describes one pattern, does not always hold. Moreover, he contends that there is nothing in the concept that provides for a prediction of when the S-shaped pattern holds or when it does not.[3] Therefore, it should be noted that care must be taken when developing objectives and strategies based on PLC models. The suggested guidelines are a good starting point for the process of decision-making only.

Product portfolio models

A variety of portfolio models were developed during the 1960s and 1970s, with the most publicised being those produced by the BCG and GE in consultation with McKinsey & Company. Both models followed a similar process of evaluating the positions of an organisation's SBUs on a grid or matrix. These positions were plotted on two main dimensions: business strength (an assessment of the strength of each SBU relative to its competitors) and market attractiveness (of the industry the SBU competed in). These models are summarised in the following section, including a description of the steps to be taken in constructing each model and a summary of the strategic recommendations.[4]

During the early 1960s the notion of *product portfolio management* was introduced as a means for diversified organisations to make decisions concerning the allocation of corporate resources to their various SBUs. These models provided strategists with tools for evaluating the strategic positions of each SBU and appropriate strategic prescriptions. In practice, product portfolio models were also used by SBUs to evaluate the strategic positions of their various product lines and to formulate strategies for those product lines.

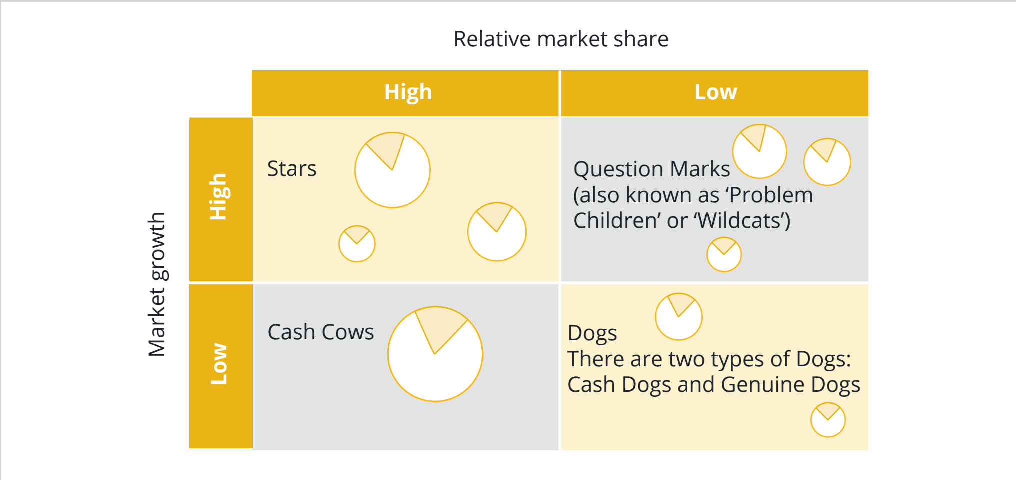
BOSTON CONSULTING GROUP GROWTH/SHARE MATRIX

The underlying concept of the BCG model, developed in the late 1960s, is that SBUs comprise a corporation's portfolio of investment opportunities. Each SBU's strategic position is plotted on a four-quadrant grid, which is shown in Figure A4.2. It is a two-dimensional model based on market growth, which forms the vertical axis of the matrix, and relative market share, which forms the horizontal axis. Market growth is essentially a proxy for market attractiveness and the stage the market has reached in its PLC. Relative market share is a proxy for the business unit's competitive strength and is computed by dividing the SBU's market share (in value or volume) by that of the largest competitor only.

Market growth is subdivided into two categories – high and low. Determining the cut-off point between these two categories is therefore a critical decision. Similarly, relative market share is divided into high and low categories and, accordingly, a decision also needs to be made about where this vertical line should be drawn. These two critical decision points are discussed at the end of this section.

Once the vertical (market growth) and horizontal (relative market share) lines are determined, the strategic position of each SBU can then be plotted on the grid. The relative size of the circle for each SBU is very important and should be drawn to represent sales volume (company contribution). A segment drawn within this circle can be shown to represent profit contribution.

FIGURE A4.2 The BCG product portfolio model



Categorising each business unit

The BCG model provides a means of categorising the strategic position of each business unit into four categories: *Stars*, *Cash Cows*, *Question Marks* and *Dogs*. Based on these classifications, the model is then used by strategists to consider the strategic implications, in terms of future earnings and cash flow, of investing the organisation's resources into each SBU. These categories are defined as follows:

- *Stars* – have high relative market share in high-growth markets. Stars are essential for the corporation's long-term success but, paradoxically, they are quite often net users rather than suppliers of cash. High-growth markets are those that are in the introductory or growth stage of the PLC, and business units in these markets are required to invest heavily in market and new product development (NPD) during these phases of market evolution.
- *Cash Cows* –have high relative market share in low-growth markets. They are former Stars from matured markets where growth has slowed. Cash Cows generate cash and enjoy economies of scale and reduced investment requirements as the emphasis turns to maintaining rather than establishing market leadership. Profit margins are relatively high.
- *Question Marks* – have low relative market share in high-growth markets. These SBUs are 'problem children' (also known as 'wildcats') because they have been unable to gain a strong position in their market. They are also often new to the market. These business units require large amounts of cash, and the objective is to shift them to the left quadrant to become a Star. Otherwise, when the market matures they will slip down into the Dogs category.
- *Dogs* – have low relative market share in low-growth markets. There are two categories of Dogs: Cash Dogs and Genuine Dogs. Cash Dogs are profitable, but Genuine Dogs are either unprofitable or very nearly unprofitable. Therefore, it is important to determine the type of Dog so effective strategic decisions can be made.
- *Unclassified* – if growth becomes negative for an SBU, it will fall below the Cash Cow/Dog and become unclassified. While an SBU in negative growth may be profitable, the BCG model does not classify it so as not to provide false pretences for management.

The aim is to have a balanced portfolio of businesses, which is achieved by following a success sequence in which cash generated by Cash Cows is invested in developing Question Marks so that

FIGURE A4.3 Suggested BCG objectives and strategies

	Market share objective	Strategies
Stars *"invest for growth"*	Hold/increase; that is, defend leadership or gain if possible. Accept moderate short-term profits and negative cash flow.	Consider geographic expansion, product line expansion and product differentiation Upgrade product introduction effort. Adopt an aggressive marketing posture, namely, selling, advertising, pricing, sales promotion and service levels as appropriate.
Question Marks/ Problem children "opportunistic development"	Increase or harvest/ divest.	Invest in selective products. Identify and target uncontested and/or emerging market segments. Pursue similar strategies as previously stated under 'invest for growth'
Cash Cows *'Manage for earnings'*	Hold, that is, maintain, market position and manage for earnings.	Maintain market position in most successful product lines and prune less successful product lines. Differentiate products to maintain share of key segments. Limit discretionary marketing expenditure. Stabilise prices, except where a temporary aggressive stance is necessary to maintain market share.
Dogs – Cash Dogs	Hold. Acknowledge low growth – do not view as a 'marketing problem.'	Identify and exploit growth segments. Emphasise product quality to avoid 'commodity' competition. Systematically improve productivity. Assign talented managers.
Dogs – Genuine	Harvest/divest.	Prune product line aggressively. Maximise cash flow. Minimise marketing expenditure. Maintain or raise prices at the expense of volume.
Unclassified *'Re-evaluate'*	Hold; maximise cash flow and acknowledge low growth or harvest/divest.	Consider promoting the entire industry to increase growth (and hence become a Cash Cow/Dog). Treat like a Genuine Dog.

Based on M. Christopher, S. Majaro and M. McDonald, Strategy Search: A Guide to Marketing for Chief Executives and Directors, Gower, Aldershot, UK, 1987.

they will become Stars. In turn Stars will one day change into future Cash Cows as the markets they compete in mature. Having too many SBUs in any single area increases the risk for the whole organisation (i.e. too many eggs in one basket).

It should be noted that the BCG model was originally developed to provide strategists at the corporate level of organisations with an analytical tool for developing strategies for a portfolio of business units. However, it is recommended that the model should also be applied at business unit level to review the portfolio of product lines and as an aid for developing strategies for those product lines. It can also be used at a product line level to review the strategic position of individual products and brands within the product line.

Guidelines for constructing a BCG model

The model is based on the underlying assumption of the learning or experience curve. That is, the unit cost of production declines as the organisation gains more cumulative experience in production, distribution and marketing. The model requires three calculations to be done in no particular order: *relative market share* (RMS), *growth* and *contribution*.

Relative market share

This is the ratio of the organisation's unit sales (or actual market share) to that of its largest competitor. To compute RMS, calculate:

$$\frac{\text{Your Market Share}}{\text{Largest Competitor Market Share}}$$

A ratio less than 1.0 means that you are not the market leader, a ratio of precisely 1.0 means that you are tied for the lead, and a ratio greater than 1.0 means that you are the market leader.

Note: because all that is required of this calculation is a ratio, mathematically it does not matter what you are comparing to your largest competitor (market share, sales etc.) because the ratio remains the same, as shown in the following:

	YOUR SHARE	LARGEST COMPETITOR SHARE	RATIO
Example 1	10	20	0.5
Example 2	10	10	1.0
Example 3	30	20	1.5

The relevance of relative market share is based on the experience curve concept – that is, the greater the market share, the greater the cost efficiency. Profit impact of market strategy (PIMS) studies show (generally) a strong relationship between market share and ROI, although there are several other factors that impact on ROI.

A log scale is normally used for the (vertical) relative market share axis. Relative market share is usually divided at the 1.0 (vertical) line so that 'high' signifies market leadership. However, this is not a fixed rule and the line could be drawn at a lesser value so that strong competitors ranked two and three in a good market position can be placed on the 'high' side (this would be noted in the model and/or data).

Market growth rate

This is a rough proxy for the PLC stages separating growth from maturity. Market growth can be calculated by:

$$\frac{\text{Period 2} - \text{Period 1}}{\text{Period 1}} \times 100$$

For example:

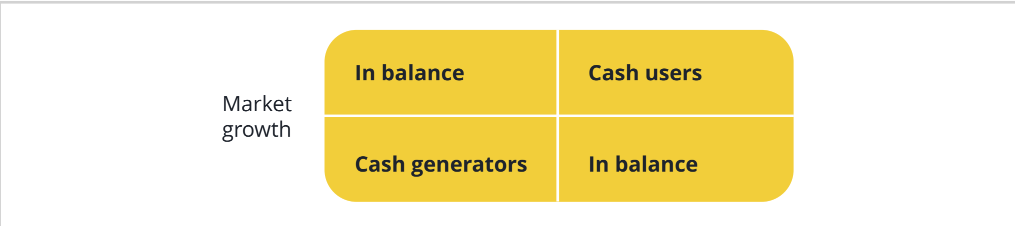
	SALES Q1 ($M)	SALES Q2 ($M)	GROWTH
Example 1	2935	3080	5%
Example 2	2250	2500	11%
Example 3	1300	1520	17%

The placement of the horizontal line is an important, yet arbitrary decision because it defines high versus low growth. Most examples illustrate it at 10 per cent because that has been shown to be an average growth rate across many industries (as per the vertical line, this would be noted in the model and/or data). As a guide, the line should be placed to show:

$$\frac{\text{Growth – Sustained Growth Above GDP}}{\text{Maturity – Approximately Equal to GDP}}$$

As a further consideration, the cash flow situation for a product placed in each of the four quadrants (assuming that the product holds its market share) should equate to what is shown in Figure A4.4.

FIGURE A4.4 Cash flow guidelines for the BCG matrix



Contribution

This is the contribution of the SBU to the organisation's overall operations, and within the matrix it determines the size of the circle. It is the final calculation, computed by:

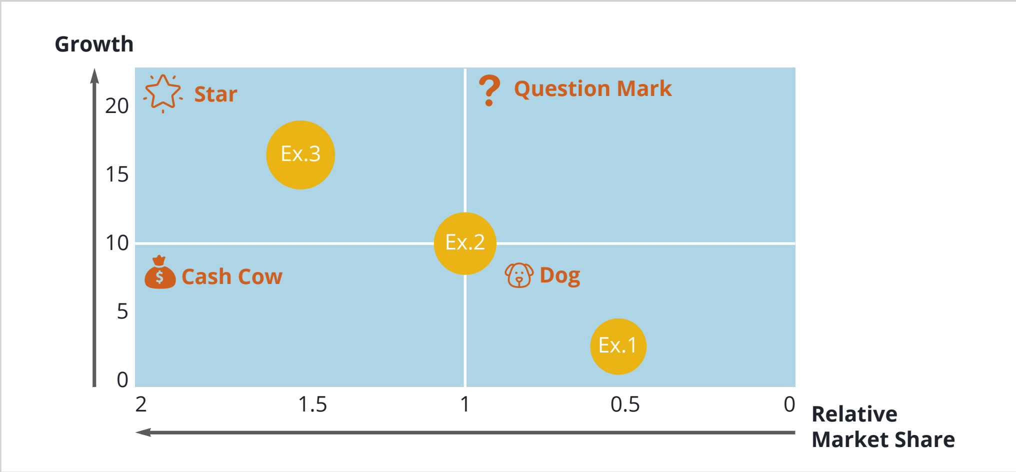
$$\frac{\text{SBU Sales}}{\text{Total Sales}} \times 100$$

For example:

	YOUR SALES ($M)	CONTRIBUTION
Example 1	150	15%
Example 2	350	35%
Example 3	500	50%

The total contribution of the organisation should always equal 100 per cent (give or take 1 per cent depending on rounding).

The final step is to put these three calculations together and draw the matrix. For our previous example it would look as follows:



Click here to complete your own BCG matrix examples.

Criticisms of the BCG model

Some of the criticism of the BCG model include the following:

- In many circumstances, factors other than relative market share and market growth influence cash flow (i.e. the model is overly simplistic).
- The assumption that relative market share is linked to profit, thereby indicating business strength, does not hold because there are many other factors that influence business position, including financial resources, marketing expertise and access to distribution channels.
- The assumption that market growth is an adequate indicator of market attractiveness is similarly flawed because there are many other factors that influence market attractiveness. These include the factors identified by Porter in his five-forces model (competitive rivalry, threat of new entrants, bargaining power of suppliers, bargaining power of buyers and threat of substitutes) discussed in Chapter 3. Additionally, legal and technological factors affect market attractiveness.

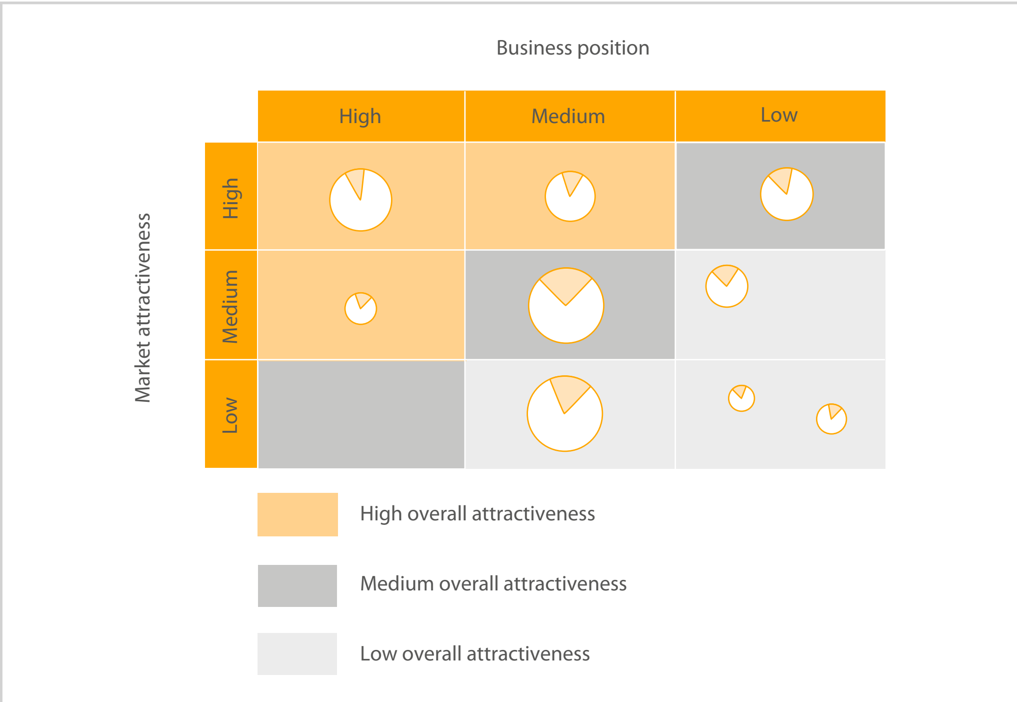
- Cash flow may be less important than ROI in determining the attractiveness of investing in one business unit or another.
- The model provides little insight into how one business unit might be compared with another in terms of investment opportunity. For example, is every Star better than a Cash Cow?
- The assumption that each business unit is independent from the others is flawed.
- The model has a high potential for misinterpretation because it is quite subjective in nature.

THE GENERAL ELECTRIC/MCKINSEY MODEL

In the early 1970s General Electric (GE) became interested in the portfolio management approach. However, GE management believed that the BCG approach overlooked several important factors that determine market attractiveness and business strength. Accordingly, they commissioned McKinsey & Company to develop an alternative model, which is shown in Figure A4.5. This model has become widely known as the GE/McKinsey market attractiveness/business assessment matrix, although it is also alternatively referred to as the GE/McKinsey screening grid.

The GE/McKinsey model, like the BCG model, is two-dimensional. However, instead of using a single factor to determine market attractiveness and a single factor to determine business position, the GE/McKinsey model uses a variety of factors; that is, it is a multifactor portfolio model. It uses a multifactor assessment of 'industry attractiveness' and 'business strengths' as the two main factors and expands the 'high' and 'low' dimensions into 'high',

FIGURE A4.5 The GE/McKinsey market attractiveness/business assessment matrix



'medium' and 'low', thereby creating nine strategic positions compared to the four strategic positions in the BCG model.

The GE/McKinsey multifactor portfolio model is a more complex model than the BCG model in that it takes a considerable amount of time and effort to construct. It involves judgements about determining factors that make a market attractive, and for determining the strength or otherwise of business in that market. Moreover, it requires strategists to rank and to weight the importance of each factor, which means that the model constructs are highly subjective.

The GE/McKinsey model was designed to be used as a tool for corporate-level strategists to assign investment priorities in their various business units and to provide a guide for resource allocation. As with the BCG model, it is recommended that marketing strategists should develop this model at both the corporate level and business unit level to review the strategic position of the whole business unit and the strategic positions of the product lines within the business unit.

Guidelines for constructing a GE/McKinsey multifactor portfolio model

Constructing a GE/McKinsey multifactor portfolio model consists of two main steps: (1) develop the criteria for the assessment of market attractiveness and business strength, and (2) assess individual SBUs/products against those criteria.

BOX A4.2

General strategic options for the GE/McKinsey matrix

PROTECT POSITION	**INVEST TO BUILD**	**BUILD SELECTIVELY**
• Invest to grow at the maximum digestible rate • Concentrate efforts on maintaining strength	• Challenge for leadership • Build selectively on strengths • Reinforce vulnerable areas	• Specialise around limited strengths • Seek ways to overcome weaknesses • Withdraw if indications of sustainable growth are lacking
BUILD SELECTIVELY	**SELECTIVITY/MANAGE FOR EARNINGS**	**LIMITED EXPANSION OR HARVEST**
• Invest heavily in the most attractive segments • Build up ability to counter competition • Emphasise profitability by raising productivity	• Protect the existing program • Concentrate investments in segments where profitability is good and risk is relatively low	• Look for ways to expand without high risk; otherwise, minimise investment and rationalise operations
PROTECT AND REFOCUS	**MANAGE FOR EARNINGS**	**DIVEST**
• Manage for current earnings • Concentrate on attractive segments • Defend strengths	• Protect position in most profitable segments • Upgrade product line • Minimise investment	• Sell at a time that will maximise cash value • Cut fixed costs and avoid investment in the meantime

Source: From G. Day, *Analysis for Strategic Market Decisions*, 1 edn. © 1986 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

Step 1: Develop criteria for assessment of market attractiveness and business strength

a *Determine the factors that would make any market attractive* – there are several factors that determine the degree of market attractiveness that can be drawn from external environment factors contained in the situation analysis, which might include:

- market factors
- competition
- financial and economic factors
- technological factors
- sociopolitical factors (in the SBU's environment).

There are several subfactors that need to be considered to expand each of these areas. For example, market factors would include the size of the market, growth rate, diversity of the market, sensitivity to price and several other factors. Box A4.3 provides a checklist of subfactors to consider for each of these main areas. This checklist was developed by William Rothschild, a specialist in strategic planning at GE. The checklist groups the factors for both market attractiveness and business strength into five categories: market, competitive, financial and economic, technological and sociopolitical.

Alternatively, market attractiveness can be determined by drawing on Porter's five-forces model; that is, the intensity of competition, buyer power, threat of new entrants, supplier power and the threat of substitutes.

BOX A4.3

Checklist of factors for determining market attractiveness and business strength

FACTORS CONTRIBUTING TO MARKET ATTRACTIVENESS	FACTORS CONTRIBUTING TO BUSINESS POSITION STATUS/POSITION OF YOUR BUSINESS
Market factors	**Market factors**
• Size (dollars, units or both) • Key segments • Growth rate per year: – Total – Segments • Diversity of market • Sensitivity to price, service features and external factors • Cyclicality • Seasonality • Bargaining power of upstream suppliers • Bargaining power of downstream suppliers	• Your share (in equivalent terms) • Your share of key segments • Your annual growth rate: – Total – Segments • Diversity of your participation • Your influence on the market • Lags or leads in your sales • Bargaining power of your suppliers • Bargaining power of your customers
Competition	**Competition**
• Types of competitors • Degree of concentration • Changes in type and mix • Entries and exits • Changes in share • Substitution by new technology • Degrees and types of integration	• Where you fit and compare in terms of products, marketing capability, service, production strength, financial strength and management • Segments you have entered or left • Your relative share change • Your vulnerability to new technology • Your own level of integration

Financial and economic factors	Financial and economic factors
• Contribution margins • Leveraging factors, such as economies of scale and experience • Barriers to entry or exit (both financial and non-financial) • Capacity utilisation	• Your margins • Your scale and experience • Barriers to your entry or exit (both financial and non-financial) • Your capacity utilisation
Technological factors	**Technological factors**
• Maturity and volatility • Complexity • Differentiation • Patents and copyrights • Manufacturing process technology required	• Your ability to cope with change • Depths of your skills • Types of your technological skills • Your patent protection • Your manufacturing technology
Sociopolitical factors	**Sociopolitical factors**
• Social attitudes and trends • Laws and government agency regulations • Influence with pressure groups and government representatives • Human factors, such as unionisation and community acceptance	• Your company's responsiveness and flexibility • Your company's ability to cope • Your company's aggressiveness • Your company's relationship with the broader community, external bodies, employees and unions

Source: Abell, D. and Hammond, J. S., *Strategic Marketing Planning: Problems and Analytical Approaches*, 1st Edition, © 1979. Reprinted with permission of Pearson Education, Inc. Upper Saddler River, NJ, p. 214.

b *Weigh the relative importance of each of these factors by assigning values that add up to 100* – the following example, for a hypothetical manufacturing company in the business-to-business area, shows the external factors that top management considered to be significant and the relative weighting they assigned each factor:

EXTERNAL ENVIRONMENT FACTOR	MARKET ATTRACTIVENESS WEIGHTING
Market	15
Competition	15
Financial and economic	30
Technological	25
Sociopolitical	15
Total	100

c *Determine the criteria for assessing the current business strength for any product* – the starting point for this assessment is to identify the business strengths that are necessary for any product to be successful. That is, what are the critical success factors for a product to succeed in its market?

One way of doing this is to use the same factors that were used to determine market attractiveness. However, a preferable alternative is to use the critical success factors (CSFs) that were identified in the problems and opportunities stage of the marketing planning process. This was discussed in Chapter 3 and a list of potential CSFs was identified: financial capabilities, production/manufacturing capabilities, supply, human resources, management, R&D

(technological leadership), competitive position, marketing, uniqueness of product/service, product/service quality superiority, product range, strength of brand name, superior customer service, distribution availability, price, image/reputation, sales-force superiority or advertising effectiveness. In most cases around five to eight CSFs would be identified as most significant.

d *Weight their relative importance in a similar fashion to the process described in (b) to weight the external factors* – again, using the example of our hypothetical manufacturing company, top management identified and assigned relative weightings of the following CSFs:

CRITICAL SUCCESS FACTOR	BUSINESS STRENGTH WEIGHTING
Manufacturing	20
R&D	20
Financial resources	10
Management	10
Distribution	10
Product quality	10
Salesforce	10
Image	10
Total	100

e *Reach agreement regarding the preceding assessment criteria before proceeding to the next stage* – otherwise, an endless round of arguments will ensue, and the criteria will become moving targets.

Once agreement has been reached, construct the screening grid, usually done by dividing the matrix into equal (one-third) shares for both market attractiveness (the vertical lines) and business strength (the horizontal lines).

Step 2: Judging individual products against assessment criteria

a *Judge the market attractiveness of each product* – it is suggested that a scoring system, ranging from 1.0 for high attractiveness to 0.5 for medium attractiveness to 0.0 for no attractiveness, be used.

Some organisations predetermine the potential score to be assigned; for example, for market factors it may be predetermined that size and growth will be the key determinants. Moreover, if a market has a turnover of 10 million or less it is 'low', 11 to 25 million it is 'medium' and over 25 million it is 'high'. Growth may range; for example, 3 per cent or lower may be 'low', 4 to 6 per cent 'medium' and over 7 per cent 'high'. The use of such a scoring system can add an objective element to the process of evaluation.

Using the example of our hypothetical manufacturing company, Product A's market attractiveness was judged:

EXTERNAL ENVIRONMENT FACTOR	SCORE FOR PRODUCT A
Market	0.5
Competition	0.1
Financial and economic	1.0
Technological	0.7
Sociopolitical	0.4

b *Combine the market attractiveness weighting determinants with the assessed score for the particular product* – this can be computed as follows for Product A:

EXTERNAL ENVIRONMENT FACTOR	WEIGHTING	SCORE*	RATING
Markets	15	0.5	7.5
Competition	15	0.1	1.5
Financial and economic	30	1.0	30.0
Technological	25	0.7	17.5
Sociopolitical	15	0.4	6.0
Total	100		62.5
*Scored: high = 1.0, medium = 0.5, low = 0.0			

In this example Product A has been assessed to be of medium market attractiveness (62.5).

c *Judge the business position for the product to determine the product's business strength in relation to that of its competitors* – market research may be used to assist in the assessment of marketing-related factors such as product quality, distribution (availability and customer service) and image.

CRITICAL SUCCESS FACTORS	SCORE FOR PRODUCT A
Manufacturing	0.2
R&D	0.5
Financial resources	0.6
Management	0.7
Distribution	0.3
Product quality	0.5
Salesforce	0.8
Image	0.4

d *Compute the rating for the product* – as shown in the following example:

BUSINESS POSITION FACTOR	WEIGHTING	SCORE*	RATING
Manufacturing	20	0.2	4.0
R&D	20	0.5	10.0
Financial resources	10	0.6	6.0
Management	10	0.7	7.0
Distribution	10	0.3	3.0
Product quality	10	0.5	5.0
Salesforce	10	0.8	8.0
Image	10	0.4	4.0
Total	100		47.0
*Scored: high = 1.0, medium = 0.5, low = 0			

Product A's business strength of 47.0 places it in the medium business strength box. Thus, product A has been found to be in a market of medium attractiveness and a medium business strength.

Note: When developing the grid, it is suggested that a circle is used to show each product's position. The size of the circle should represent the relative size of the current market that the product competes in. It is also useful to draw a segment within the circle to represent the product's current market share.

e *Consider the generic strategic option for the product* – Box A4.2 provides a summary of generic strategies that have been recommended by Day.[5]

Reference to this table shows that the product evaluated in the previous example should pursue a strategy of selectivity/management for earnings.

The previous steps should have been followed for determining the current position for each product. To determine the trend, the entire procedure outlined across both Steps 1 and 2 should now be repeated projecting the information criteria three to five years into the future; that is, for the planning horizon of the marketing strategic plan. This will enable the future position to be plotted on the grid. This is usually achieved by drawing an arrow pointing to the projected position.

Identifying the relevant factors

Different industries will have different emphases on what factors are important. As a guideline, the nature of the product and customer behaviour should determine the emphasis. For example, for highly differentiated products for which customers seek technical innovation or other special benefits, relative technological position may be the key to a strong business position. Patent protection may be the key to market attractiveness. For commodity products, low manufacturing costs and entry barriers may be the prime contributors to business position and market attractiveness.

Porter's generic competitive strategies

The concept of competitive advantage was championed by Porter in the 1980s and 1990s.[6] The basis of his argument was that a 'company could only outperform its rivals if it could establish a difference that it could preserve – by delivering greater value to its customers or by creating comparable value at a lower cost, or by doing both'.[7]

Porter's concept of *generic competitive strategies* provides managers with means to: (1) evaluate an organisation's competitive position, and (2) develop strategies to improve its current position. This model is based on two dimensions: the type of competitive advantage and the competitive scope. Porter argues that an organisation must choose between a low-cost or differentiation form of competitive advantage and between a broad (industry-wide) or narrow focus. That is, there are four generic strategies or routes to competitive advantage that an organisation can pursue:

- cost leadership at an industry-wide level of competition
- cost leadership at niche of focus level of competition
- differentiation at an industry-wide level of competition
- differentiation at niche of focus level of competition.

COST LEADERSHIP

Cost leadership strategies can be employed at a market-wide level (a broad competitive scope) or at a market-niche level (a focus or narrow competitive scope). With a cost leadership strategy, the objective is market share leadership based on a marketing strategy in which cost leadership is the main strategic tool. This strategy needs to be addressed at the business unit level (i.e. at an organisation-wide level) and not just at the marketing level. For it to be successful, the organisation needs to become the low-cost producer in its industry, which necessitates attention to non-marketing functions, particularly production, supply and R&D, in addition to marketing functions. Porter argues that cost leadership is appropriate where an organisation has economies of scale and has been able to reduce costs due to 'the experience curve' effect. As he elaborates:

> Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimisation in areas like R&D, service, sales force, advertising and so on.[8]

Porter contends that achieving a low overall cost position often requires a high relative market share or other advantages, such as having favourable access to raw materials or designing products that are easy to manufacture, spreading costs over a wide product line and serving all major customer groups. Having a low-cost position yields an above-average return.

DIFFERENTIATION

Differentiation strategies can be employed at a market-wide level (a broad competitive scope) or at a market niche level (a focus or narrow competitive scope). This strategy calls for differentiating a product or service from the competitor's products or services. *Differentiation* refers to a customer's perception of difference (uniqueness) and superiority in at least one physical or non-physical product characteristic.[9] The key to a successful differentiation strategy is to identify needs that customers believe to be important and to deliver value to those customers. Differentiators seek to command premium prices; therefore, their customers must be willing to pay the premium for the perceived value they will receive. The differentiation may be in the product form, brand image, product features, breadth of the product line, technology, customer service, pricing or distribution channels. At the heart of a successful differential strategy is the development of a customer franchise based on brand loyalty. The differentiator can increase margins and avoid the need to compete in the low-cost section of the market. This often implies a lower market share and is a strategy to be pursued when the low-cost leadership position is occupied by a strong competitor.

Porter argues that winners in a chosen industry single-mindedly pursue one of the four generic strategies. Each strategy requires a different managerial approach and different skills and assets. He warns that a strategy of being 'stuck in the middle' – where two or more generic strategies are pursued at the same time – will not achieve a competitive advantage:

> The firm in the middle is almost guaranteed low profitability. It either loses the high-volume customers who demand low prices or must bid away its profits to get this business away from low-cost firms. Yet it also loses high-margin business – the cream – to the firms who are focused on high-margin targets or have achieved differentiation overall. The firm stuck in the middle also probably suffers from a blurred corporate culture and a conflicting set of organisational arrangements and motivation systems.[10]

Figure A4.6 provides a useful matrix for analysing the cost leadership versus differentiation strategy direction pursued for the organisation's products and for analysing competitive strategies.

The low relative cost/low degree of differentiation position shown in quadrant 4 is where the market leaders would be expected to be found. This is generally a strategy that only the market leader or perhaps a strong number two or three could successfully pursue. The risk for competitors

FIGURE A4.6 Strategy options based on relative costs and differentiation alternatives

Degree of differentiation \ Relative costs	High	Low
High	1 Market niche	2 High differentiation/high margins
Low	3 Disaster area	4 Cost leadership

pursuing this strategy is that, as the industry matures, their cost leadership advantage could diminish. To offset this the organisation must keep abreast of technological innovation, reinvest in modern equipment, scrap obsolete assets and avoid product line proliferation. In some extreme cases the ideal position shown in quadrant 2 may be a strategic alternative. If the competitor has a low relative cost and a high degree of differentiation, it can achieve high margins by pricing either at or just above its competitors (who have higher relative costs). Quadrant 2 may also be occupied by competitors in the low-medium relative cost area who price higher than the cost leader but substantiate the premium price by their medium-to-high level of differentiation. These competitors must have customers who are willing to pay the additional price to receive the 'added value' for the product. The danger of this strategy is that, as an industry matures, the products tend to be increasingly regarded by the market to be generics or commodities. The value of paying a premium price for the added value (differential) diminishes and customers turn to the lower-priced alternatives.

Where neither of these two strategies is available, the competitor can choose to focus on a niche or single segment of the market as shown in quadrant 1. Prestige car manufacturers typically pursue this strategy by producing a relatively high-cost product that is highly differentiated. They appeal to a segment that is prepared to pay a high price to acquire a differentiated product. The final quadrant, to be avoided like the plague, is quadrant 3 – the high relative cost/low degree of differentiation strategy.

In 1996 Porter provided an elaboration of his earlier work on strategy.[11] First, he argues that a company can only outperform its competitors if it establishes a difference that it can preserve. This can be achieved only by delivering greater value to its customers, by creating comparable value at lower cost or by doing both. He argues that it is a mistake to confuse operational effectiveness with strategy. *Operational effectiveness* means to perform similar activities better than competitors perform them. *Strategic positioning*, on the other hand, means either to perform different activities from that of the competitors or to perform similar activities differently. While operational effectiveness is necessary, it can only provide a short-term advantage because competitors will soon catch up on the productivity front.

Second, Porter argues that competitive strategy is all about being different – 'deliberately choosing a different set of activities to deliver a unique mix of value'.[12] He argues that strategic positions emerge from three distinct but frequently overlapping sources:

- *variety-based positioning* – produces a subset of an industry's products or services
- *needs-based positioning* – serves most of the needs of a particular group of customers
- *access-based positioning* – segments customers who are accessible in different ways (essentially, a distribution-based strategy).

These three sources of strategic positioning expand the earlier concept of generic strategies by providing three possible sources of strategic positioning for each of the four generic strategies. For example, a low-cost, industry-wide competitor can choose a variety-based, needs-based or access-based positioning strategy or a combination of these.

Critics of Porter's concept of competitive advantage argue that low cost and differentiation are often compatible strategies. Porter states that a low-cost position often requires high market share, but critics contend that to achieve high market share it is necessary to pursue a differentiation strategy. It is also claimed that Porter's premise that differentiation is associated with uniqueness and premium prices is flawed. Many top-selling brands are higher in quality than their competitors and compete at a mid-price-point position in the market rather than at or below the market average price point or at the premium end of the market.

Blue ocean strategy

Kim and Mauborgne introduced the concept of blue ocean strategy with the publication of an article of the same name in the *Harvard Business Review* in 2004 and a book in 2005.[13] They argue that the business universe consists of two distinct spaces, which they describe by using the metaphor of red and blue oceans. A red ocean represents all the known industries competing today in what is the 'known market space', whereas a blue ocean is the unknown market space – industries not in existence today. They contend that: 'Competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create blue oceans of uncontested market space'.[14] In direct contrast to Porter's contention that strategy is a trade-off between the creation of value (differentiation) and low cost, they argue that a blue ocean strategy is created by an organisation pursuing differentiation and low cost simultaneously.

The blue ocean strategy focuses the reconstruction of market boundaries on six key areas that Kim and Mauborgne refer to as the 'six-paths framework':

- *Path 1: The industry* – this concept is directly related to the marketing myopia view promulgated by Theodore Levitt; that is, define the business you are in by customer needs rather than by the physical characteristics. For example, an airline is in the business of satisfying its customer needs for transportation – so this would look at the industry broadly known as transportation, not narrowly known as the airline industry.
- *Path 2: Look across the strategic group* – that is, look across product categories such as hair care, not just at one category such as shampoo.
- *Path 3: Look across the chain of buyers* – that is, look at the spectrum of initiator–influencer–decider–purchaser–user for the product, not just the purchaser.
- *Path 4: Look across complementary services and offerings* – for example, an airline providing airport transfers and hotel reservations.

- *Path 5: Look across functional/emotional appeals* – for example, the success of Swatch was due to appealing to the psychological needs of self-esteem and belongingness (a fun-to-have fashion accessory) as opposed to safety needs (functionality).
- *Path 6: Look across time* – consider the future needs and trends, not the current needs and trends of the market.

A major difference between the blue ocean approach and competitive advantage is that organisations adopting a blue ocean strategy focus on innovation and a continual process of searching for new untapped markets, as opposed to the competitive advantage viewpoint that innovation provides only a short-term advantage. In the long term, competitors will imitate the innovator, and once again the core business activity centres on competition among organisations. (Go to the following link for a short example on Marvel Comics: https://www.youtube.com/watch?v=sQF81YgfvTw). In reality, both red and blue strategies are important. In later chapters of this book, red ocean strategies are discussed in relation to strategies for existing products in existing markets (Chapter 7), existing products for new markets (Chapter 8) and new products for existing markets (Chapter 9). Blue ocean strategies are discussed concerning new products for new markets (Chapter 10).

Resource-based view

The concept of the resource-based view (RBV) of the organisation was defined by Birger Wernerfelt in 1984.[15] However, the concept made little impact in the academic and business worlds until 1990 when Gary Hamel and C.K. Prahalad took up the cudgel with the publication of what was to become a widely read article in the *Harvard Business Review*.[16] RBV theory views an organisation as a 'unique bundle of idiosyncratic resources and capabilities where the primary task for management is to maximise value through the optimal deployment of existing resources and capabilities, while developing the firm's resource base for the future'.[17]

Hamel and Prahalad argue that core competence – the combination of individual technologies and production skills underlying an organisation's product lines – is the essential building block of strategy.[18] For example, they say the core competence of Sony is miniaturisation, which has underpinned all their products, from the Sony Walkman to notebook computers.

Other notable concepts within the RBV school of thought include Stalk, Evans and Shulman's notion of capabilities-based competition, Kanter's idea of time-to-market or time compression strategies and Grant's concept of a knowledge-based theory of the firm. Stalk et al. argue that a focus on core competencies is not enough. For them, the key to success is 'capabilities-based competition'. In an increasingly dynamic business environment, they maintain that 'successful competitors move quickly in and out of products, markets and sometimes even entire businesses'. They argue that 'capabilities-based competitors identify their key business processes, manage them centrally, invest in them heavily, looking for a long-term payback'.[19] Kanter also argues the case for speed in what she terms time-to-market or time compression strategies – the ability to do things more quickly than the competitors.[20] She contends that a company can gain a competitive advantage by increasing the speed of getting new products to market (new-product realisation), manufacturing and distributing on a just-in-time (JIT) basis, providing quick response (QR) customer service, and responding more quickly to market trends and opportunities than their competitors. That is, she argues that strategists need to focus on internal processes.[21] Grant conceptualises organisations as institutions for integrating knowledge. He argues that information resides with individuals, and therefore the primary role for an organisation is the application of knowledge.[22]

The task for management is therefore to establish organisational structures that facilitate the transfer of knowledge from individuals within the organisation and its partners to decision-makers throughout the organisation.

DYNAMIC CAPABILITIES

The dynamic capabilities approach builds on the RBV, catering for a business environment of rapid and unpredictable change. In such a market the source of a sustainable competitive advantage is achieved by managing the dynamic capabilities of the organisation. That is, by the organisation's ability to 'integrate, build, and reconfigure internal and external competencies to address rapidly changing environments'.[23] The dynamic capabilities required include product development, strategic decision-making and alliancing.

In recognition that existing core competencies (as per the RBV approach) can potentially become less valuable over time due to competitors replicating them or changing customer preferences, the dynamic capabilities approach focuses on developing the ability to adapt and extend existing competencies to address a changing market situation. To develop this ability the organisation needs to focus on two critical capabilities: the ability to *sense* threats and opportunities that changes in the business environment are likely to present, and the ability to seize the opportunities or respond to these threats by reconfiguring both tangible and intangible assets. That is, organisational leaders need to have strategic insight and the ability to implement transformative or turnaround strategies (strategic execution).

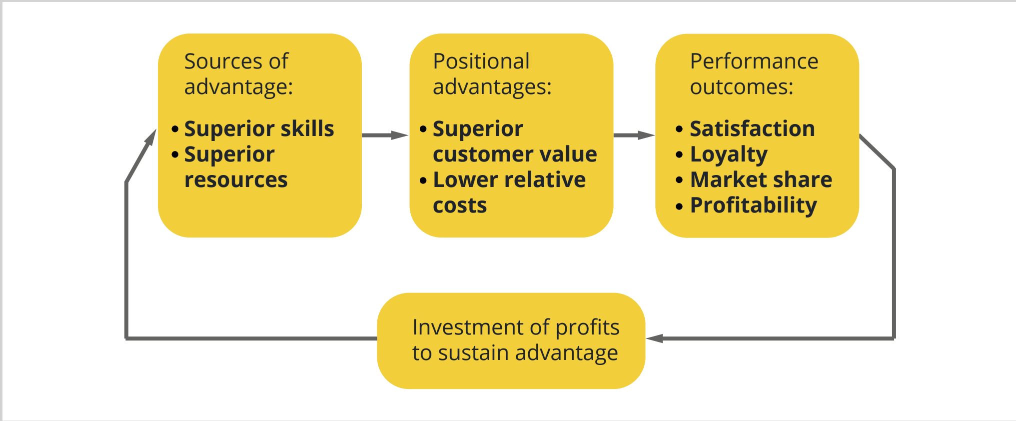
The dynamic capabilities approach is similar to the blue ocean approach in that both emphasise the need for an organisation to change over time and to compete in both existing and new markets. By emphasising the need to understand changing customer needs and preferences, both approaches also differ from the competitive advantage approach of beating the competitors.[24]

DRAWING EXTERNALLY AND INTERNALLY FOCUSED VIEWS OF COMPETITIVE ADVANTAGE TOGETHER

A focus on internal capabilities or core competencies contrasts with the view of competitive advantage proposed by Porter. George Day and Robin Wensley point out that there are two schools of thought as to what the term 'competitive advantage' actually means.[25] The first interpretation is that competitive advantage is analogous to 'distinctive competence' – the possession of superior skills and resources, as per the resource-based theory of the organisation. The second interpretation is that competitive advantage represents the achievement of positional superiority – lower relative costs (cost leadership) or superior customer value (differentiation). Day and Wensley argue that neither of these independently provides a complete picture of competitive advantage. They therefore propose that the two views need to be integrated to describe the state of advantage and how it is gained. Figure A4.7 shows the sequence proposed by Day and Wensley about how competitive advantage is created and sustained, and what this means in terms of performance outcomes.

Positional advantages and performance outcomes are a consequence of the sources of advantage that an organisation has – relatively superior skills and resources. Superior skills and resources provide an organisation with the ability to do more or do better (or both) than its competitors. Superior skills are the distinctive capabilities of personnel arising from their ability to perform individual functions more effectively than competitors. Superior resources can be found in the scale of operations, location, salesforce breadth, distribution coverage, availability of automated assembly lines and brand-name power. Superior skills and resources are the

FIGURE A4.7 Day and Wensley's elements of competitive advantage model



Source: Republished with permission of SAGE Publications, from *Journal of Marketing*, by G. S. Day and R. Wensley, vol. 52, April 1988, p. 3. Permission conveyed through Copyright Clearance Center, Inc.

antecedents of positional advantage, which are manifested in two forms: superior customer value and lower relative costs. Superior customer value (differentiation) is achieved when an organisation performs some value-adding activity that leads to a customer perception of superiority. Lower relative costs are achieved by an organisation performing most of its activities at lower costs than its competitors – while offering a parity product. The achievement of a sustainable competitive advantage is measured in terms of customer satisfaction, customer loyalty, market share and profitability (performance outcomes). Profits are invested in the acquisition or enhancement of the organisation's sources of advantage (superior skills and resources) to achieve or maintain a long-term sustainable competitive advantage.

Models of sustainable competitive advantage provide a means for analysing the organisation's strategic position and that of its competitors. Most importantly, the models can be used as decision-making aids for deciding future competitive positioning strategies. Closely related to these considerations is how the organisation will compete in its chosen markets in terms of its competitive stance.

Marketing warfare

The concept of marketing warfare was originally developed by Philip Kotler and Ravi Singh in 1981 and has been embellished by others since then. Its focus is on how the organisation is to compete in the marketplace from the point of view of a market leader, a market challenger/follower or a market-niche player.[26]

MARKET LEADERS

Market leaders can compete in the marketplace by pursuing one or a combination of the following:

- *Market expansion* – an attempt by the market leader to expand demand for the product category (market-driving strategies). Apart from stimulating primary demand for the product category, a market leader could attempt to broaden the market by expanding into related product or categories, or related market segments

- *Market-share protection* – an attempt by the market leader to protect its share of the market with strategies such as outspending its competitors in advertising, using consumer and trade sales promotions to maintain customer loyalty, extending the product line to cover all market segments, lowering prices and increasing distribution
- *Pre-emptive strike* – an offensive strategy that anticipates or discourages competitive entry; for example, tying up the distribution channels by providing attractive trade incentives, or launching a fighting brand designed to offset any competitive product
- *Counterattack* – attacking a competitor either by taking an individual competitor head-on or by mounting a flanking strategy such as by moving into an emerging market segment that the competitor has not entered
- *Reactive strategy* – an alternative strategy whereby the market leader might wait until it is attacked and then react to the competitive challenge by launching a new product to offset the attacker, matching or bettering the price offer, or using advertising or sales promotions.

MARKET CHALLENGERS/FOLLOWERS

Market challengers/followers are organisations that are a strong number two or three in the mainstream market and are perceived by customers to be an alternative to the leader. Generally, these organisations are innovative and aggressive and quite often seek market leadership. Their marketing objective would therefore be to increase their market share. These organisations are typically smaller and are usually around the midpoint of the market structure. Quite often they compete with value-for-money alternative products (based on being adequate in quality but at a lower price). They may not compete in all the mainstream markets but would cover the largest segments. In most cases their marketing objective would be to maintain or increase market share. Market challengers and market followers can choose between three proactive strategies (head-to-head competition, flanking strategies and encirclement) and one reactive strategy (follow the leader):

- *Head-to-head competition* – a dangerous strategy to pursue, and the organisation should be confident it has a competitive advantage based on product superiority and/or cost. This competitive advantage must not only be real but also be capable of being perceived by the customer to exist and to be significant
- *Flanking* – considered to be preferable to the riskier head-to-head strategy. Involves determining a need that the market leader (or leaders) has overlooked and responding by offering a product that satisfies that need. That is, a flanking strategy seeks to compete in an uncontested area
- *Encirclement* – involves an aggressive move against the market leader on several fronts. This may involve introducing a product range that surrounds the market leader or switching the customer's attention to benefits or attributes that the leader currently does not offer
- *Follow the leader* – this is a reactive strategy that minimises the risk of retaliation and is essentially a 'me too' approach.

As a cautionary note, there is a danger of using market share alone as an indicator of an organisation's competitive position. As Porter argues, a goal of becoming the market leader (or one of the leaders) can be harmful because market leadership is not a cause but an effect of competitive advantage: 'The strategic mandate to business units should be to achieve competitive advantage. A goal of leadership per se also embroils managers in endless debates over how an industry should be defined to calculate shares, obscuring once more the search for competitive advantage that is the heart of strategy'.[27]

MARKETING-NICHE PLAYERS

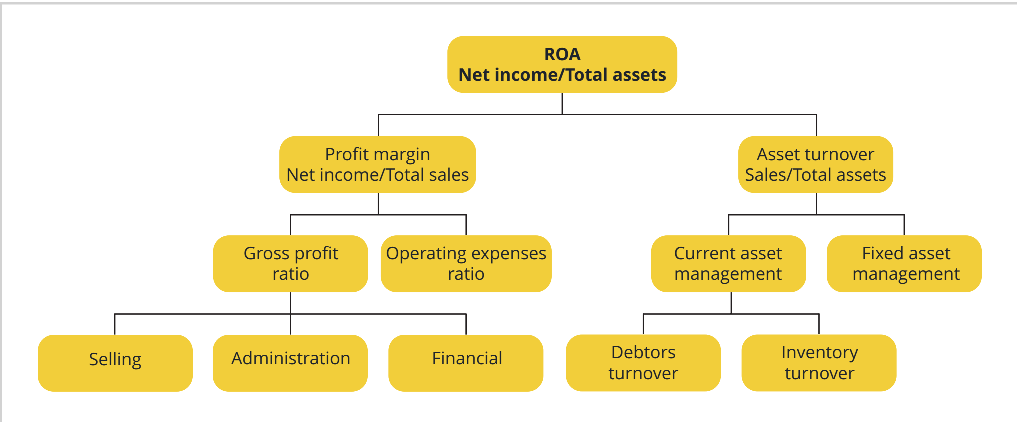
Marketing-niche players focus on a segment of the market and command a large share of that segment, but with a low share of the overall market. Their main marketing objective is to hold market share for their market niche. Market-niche strategies are those that are intended to avoid competition; this is possible because the market pursued is either too small or too specialised for the market leader or challengers to be interested. These market segments may be based on customer type, a price segment or a geographic area.

Financial performance models

DUPONT RATIO ANALYSIS

The DuPont model, as shown in Figure A4.8, is one of the most popular techniques used for the assessment of current and past financial performance. Financial managers use this model, originally developed by DuPont, to forecast their organisation's future value by determining the growth rate of earnings in terms of ROA. The model decomposes ROA into a series of constituent ratios that show how changes in a planned activity, such as an expense item of profit margin, will potentially impact on the organisation's ROA. There is also another version for arriving at return on equity (ROE).[28]

FIGURE A4.8 DuPont ratio analysis



VALUE-BASED PLANNING

Value-based planning techniques are designed to forecast the economic value to an organisation that a specific strategy or operating program will yield. There are several methods used, including:

- *Shareholder value analysis (SVA)* – a discounted cash flow approach. The most well-known approach to SVA is that proposed by Alfred Rappaport.[29] In this model shareholder value is derived by taking into account cash flow that would be generated by a proposed strategy, the cost incurred as cost of capital and the market value of the debt assigned to the organisation. Shareholder value is estimated by consideration of seven value drivers: sales growth rate, operating profit margin, income tax rate, fixed capital needs, working capital needs, the cost of capital and the planning period.

- *Market value added (MVA)* – a method of evaluating the extent to which an organisation performs its basic mission of creating wealth for its shareholders. MVA, as proposed by the New York consulting company Stern Stewart, is the difference between total market value (the value of an organisation's stock and debt) and invested capital (the capital an organisation has collected over its life from equity and debt offerings, bank loans and retained earnings).[30]
- *Economic value added (EVA™)* – a concept closely related to MVA that aims to measure the wealth created by an organisation each year. EVA™ estimates the amount of return a specific strategy or operating program will generate for an organisation in excess of its cost of capital. EVA™ is calculated by deducting from net dollar income (derived from operations) the cost of capital required to produce that income.

EVA™ = Net Operating Profit After Taxes – (Capital in Place × Cost of Capital)[31]

APPENDIX ENDNOTES

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2 J.E. Swan and D.R. Rink, 'Fitting market strategy to varying product life cycles', *Business Horizons*, January–February 1982, pp. 72 and 76.

3 For a good summary of the PLC and its problems see M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, New York, 1980, pp. 156 and 162.

4 For the reader requiring more detailed information concerning product portfolio models, the following sources are recommended: A.C. Hax and N.S. Majluf, 'The use of the growth-share matrix in strategic planning', *INTERFACES*, 13 February 1983, pp. 46 and 60; A.C. Hax and N.S. Majluf, 'The use of the industry attractiveness-business strength matrix in strategic planning', *INTERFACES*, 13 April 1983, pp. 54 and 71; M.H.B. McDonald, 'Some methodological comments on the directional policy matrix', *Journal of Marketing Management*, vol. 6, no. 1, 1990, pp. 59 and 68; D.F. Abell and J.S. Hammond, *Strategic Marketing Planning: Problems and Analytical Approaches*, Prentice-Hall, Englewood Cliffs, NJ, 1979, Chapter 4, pp. 173–227.

5 Refer to G.S. Day, *Analysis for Strategic Market Decisions*, West Publishing Company, New York, 1986, p. 204.

6 Refer M.E. Porter, 'How competitive forces shape industry', *Harvard Business Review*, vol. 57, March–April 1979, pp. 137–145; M.E. Porter, *Competitive Strategy*; M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York, 1985; and M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, pp. 61–78.

7 M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December, 1996, pp. 61–78.

8 M.E. Porter, *Competitive Strategy: Techniques for analyzing industries and competitors*, The Free Press, New York, 1980, p. 35.

9 Dickson and Ginter provide an excellent discussion of the use of the terms 'market segmentation' and 'product differentiation' and the implications of these concepts for marketing strategy. Refer to P.R. Dickson and J.L. Ginter, 'Market segmentation, product differentiation, and marketing strategy', *Journal of Marketing*, vol. 51, April 1987, pp. 1–10.

10 M.E. Porter, *Competitive Strategy: Techniques for analyzing industries and competitors*, The Free Press, New York, 1980, pp. 41 and 42. This is one of Porter's most controversial notions. The following are examples of articles criticising this aspect of Porter's work: A. Karnani, 'Generic competitive strategies – an analytical approach', *Strategic Management Journal*, vol. 7, 1984; A.I. Murray, 'A contingency view of Porter's generic strategies', *Academy of Management Review*, vol. 13, 1988; C.W. Hill, 'Differentiation versus low cost or differentiation and low cost: A contingency framework', *Academy of Management Review*, vol. 13, 1988; J. Hendry, 'The problem with Porter's generic strategies', *European Management Journal*, vol. 8, 1990; M. Cronshaw, E. Davis and J. Kay, 'On being stuck in the middle, or good food costs less at Sainsbury's', Centre of Business Strategy, London School of Business, 1990; and D. Faulkner and C. Bowman, 'Generic strategies and congruent organisational structures', *European Management Journal*, vol. 10, no. 4, 1992.

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12 Ibid, p. 64.

13 W.C. Kim and R. Mauborgne, 'Blue ocean strategy', *Harvard Business Review*, October 2004, pp. 76–84; and W.C. Kim and R. Mauborgne, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Harvard Business School Press, Boston, 2005.

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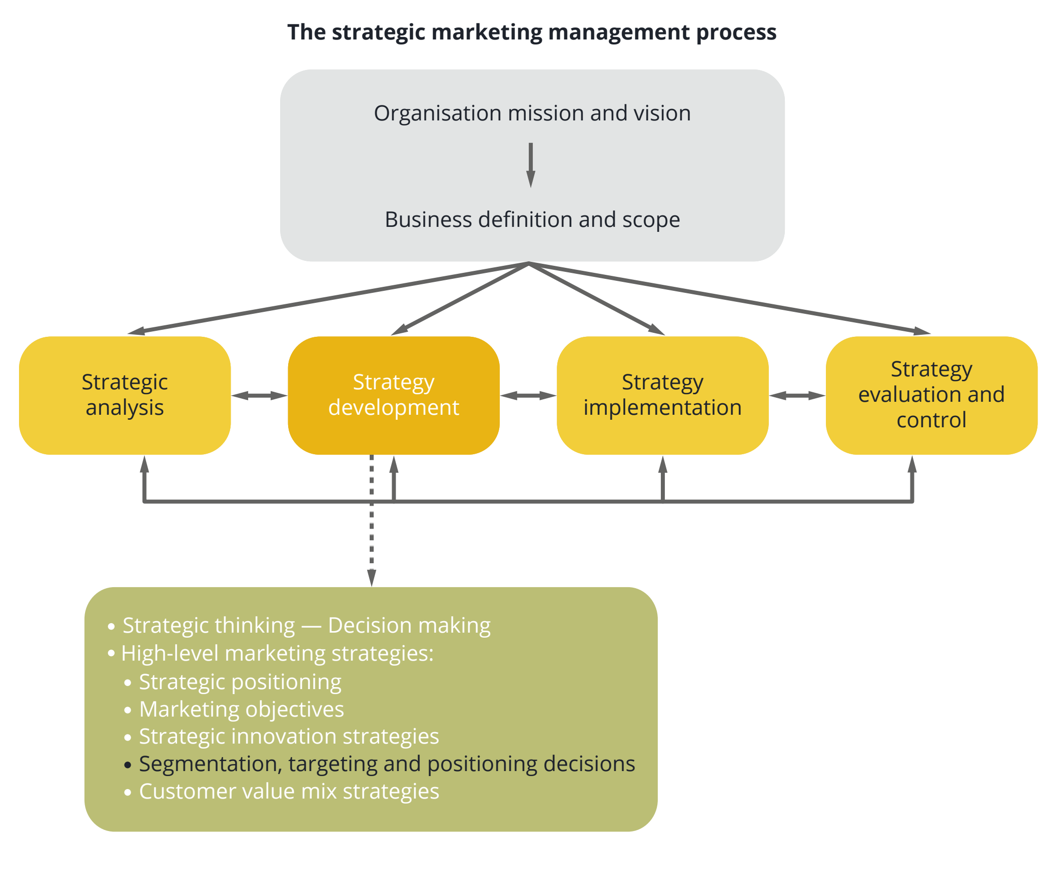

The strategic marketing management process
Organisation mission and vision
Business definition and scope
Strategic analysis
Strategy development
Strategy implementation
Strategy evaluation and control
• Strategic thinking — Decision making
• High-level marketing strategies:
• Strategic positioning
• Marketing objectives
• Strategic innovation strategies
• Segmentation, targeting and positioning decisions
• Customer value mix strategies

CHAPTER

5

SEGMENTATION, TARGETING AND POSITIONING STRATEGIES

In order to succeed, brand owners must become more sensitive to the needs and desires of informed and discerning customers who demand high degrees of engagement – and consistency. And increasingly, the capacity of brands to deepen existing relationships and develop new ones relies on their ability to leverage new technology in service of the human connection.

Jez Frampton, Global Chief Executive, Interbrand[1]

Positioning Australia

So where the bloody hell are you? That was the question Tourism Australia asked the rest of the world, and the world responded, 'Not in Australia'. It seems the proverbial Australian slang does not travel well, not even to our closest allies in the UK, US or Canada.

The $180 million advertising campaign, shown in some of Australia's biggest tourism markets in 2006, aimed to capitalise on Australian slang with a deliberate throwback to the Australian Tourist Commission's (ATC's) most famous advertising campaign – the 1984 Paul Hogan 'Come and say g'day' (shrimp on the barbie). However, the campaign that put Lara Bingle in the celebrity spotlight was judged as inappropriate in other countries for its use of 'bloody hell', which is seen as profanity to many, and ultimately was banned for various lengths of time.

So, is it true that any publicity good publicity? Tourism Australia reported a $1.8 billion increase in tourism spend in 2007.[2] Critics claimed this number was unrelated to the campaign due to the figures primarily coming from higher-spending, longer-staying visitors (although Tourism Australia stated that this was the primary objective of the campaign), and that there was no actual increase in tourist numbers. Although the adverts got people talking and have been remembered, for good or bad, the campaign was inevitably deemed a failure, even by Prime Minister at the time Kevin Rudd.[3]

Fast forward to 2018, and the Super Bowl in America, which is among the most watched television broadcasts in the US, with an estimated 103.4 million viewers in 2018 and over 100 million viewers a year on average for the past 10 years. Airtime for an advert during the game costs approximately US$5 million for 30 seconds.[4]

A series of teaser commercials were shown in the US in the lead-up to the Super Bowl starring Chris Hemsworth and Danny McBride hinting at a new movie, *DUNDEE: The Son of a Legend Returns Home. Crocodile Dundee* is still one of Australia's most successful movie exports to the world. Classic phrases from the movie are still recited all around the globe. On the day of the Super Bowl the truth was revealed; the series of movie trailers was not advertising a movie; rather it was Tourism Australia's new ad campaign.

The two-year, $36 million campaign aims to increase tourism from the US to approximately $6 billion per annum by the year 2020 – currently worth approximately $3.7 billion per annum to the Australian economy.[5] The adverts aimed to impress, with cameos by Hugh Jackman, Russell Crowe, Margot Robbie, Isla Fisher, Ruby Rose and Crocodile Dundee himself, Paul Hogan. It seems Tourism Australia is on a winner this time, so much so that both Chris Hemsworth and Danny McBride have stated they would be open to starring in a real movie together playing their characters, due to the amount of interest this ad campaign has generated.

So what, if anything, links these ad campaigns? While separated by 12 years, they are also absolute worlds apart. One relies on Australian slang, while the other relies on Hollywood star power. They both contain fantastic imagery of the country and play off Australian stereotypes. But what really connects these two ads, as well as Paul Hogan's 1984 adverts, is the positioning of Australia as a tourist destination – friendly, fun-loving and cheeky.

Tourism Australia was formed on 1 July 2004, taking over from the ATC. Its mission is to make Australia the most desirable destination on earth. To do this they must effectively position Australia in the right place in tourists' minds. The problem with trying to position Australia is that the country is so diverse and offers so many different experiences as a tourist destination, so the Australian personality becomes key.

The ATC's and Tourism Australia's brand positioning statement was:

> The people of Australia are friendly and straight-talking and open. Their sense of mateship and their 'no worries' attitude make all visitors feel welcome. They make it easy to enjoy adventures beyond imagination. Whether it's in Australia's wide-open landscapes, pristine oceans or vibrant cities, a holiday in Australia is an opportunity to experience a vast yet accessible adventure playground. You don't just visit Australia, you live it.[6]

This guided their brand personality, which for many years has consistently been high spirited, down to earth, irreverent and welcoming.

Tourism Australia divides itself into four main industry sectors: Youth (ages 15–29), Nature and Wildlife (travel undertaken to enjoy natural attractions and engage in nature-based activities), Cruise Industry (all of the world's leading cruise lines include Australia in their programs) and Business Events (promoting Australia internationally as a business events destination). A look at the Tourism Australia website (http://www.tourism.australia.com/en) shows a combination of quantitative and qualitative studies used to segment and target the market, with downloadable consumer and market profile fact sheets for the biggest visitor arrival markets. A quick review of these documents shows the difficult task and the importance of segmentation, targeting and positioning.

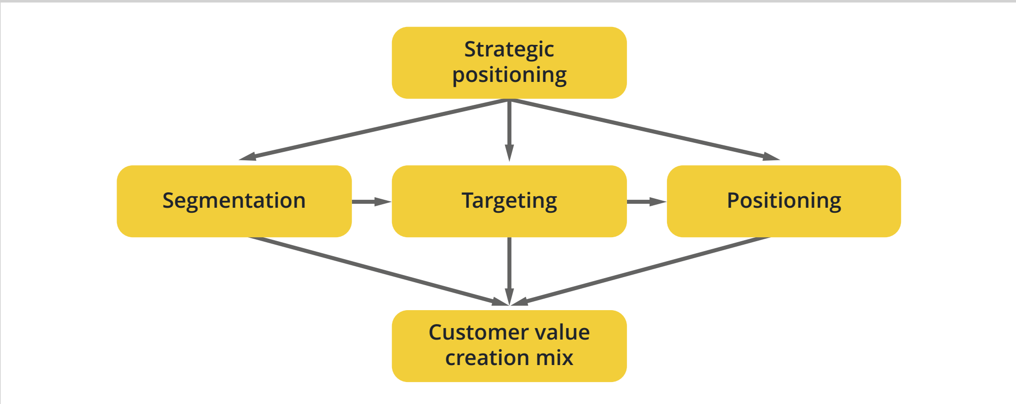
Focus of this chapter

In the previous chapter a framework for the process of establishing marketing objectives and high-level business unit and marketing strategies was discussed. The end product of this complex decision-making process is that top-line revenue objectives for the business unit are established. The process also involves the development of high-level product-market strategies specifying from where the revenue will be derived. The next stage of the process, the focus of this chapter, is to develop in further detail segmentation, targeting and positioning (STP) strategies, followed by a brief overview of value creation, communication and delivery strategies, which are discussed in greater detail in Chapter 6.

STP focuses on the identification of submarkets of customers within the total market, targeting specific market segments and differentiating the organisation's product offering from that of its competitors through the process of positioning. That is, 'selecting avenues for delivering superior value to customers and positioning the organization and its brands in the marketplace using distinctive competencies'.[7] These high-level marketing decisions then flow on to the development of customer value creation, communication and delivery strategies – the customer value creation mix.

Figure 5.1 shows the relationship between the first phase of the process of developing high-level marketing strategies (strategic positioning) and the following phases of segmentation, targeting and brand positioning decisions and customer value creation, communication and delivery strategies.

FIGURE 5.1 The process of developing high-level marketing strategies



The result of these deliberations should ideally be a clear statement of the recommended marketing strategies to be put into place over the strategic timeframe. The process of arriving at these decisions involves consideration of several complex issues that are discussed in this chapter and further elaborated in Chapter 6, which discusses processes and activities designed to create, communicate and deliver customer value.

Learning objectives

The aim of this chapter is to provide information regarding the role of STP within the context of marketing strategies. It is important to note here that STP decisions were traditionally regarded as 'marketing department decisions', but this is no longer the case because they are an integral part of high-level business strategy decisions.

After reading this chapter you will have an understanding of:

- how to successfully segment a market (5.1)
- the steps involved in the targeting process (5.2)
- the steps involved in brand positioning (5.3)
- numerous decision-making aids used to segment and position a brand in the market (5.4)
- an introduction to the customer value creation mix (5.5).

5.1 Segmentation

Market segmentation[8] is a strategy based on the partitioning of a market into segments of potential customers who have similar characteristics and similar needs, and because of this are likely to exhibit similar purchasing behaviour. The key to market segmentation is to identify distinctive groups of customers that have homogeneous (similar) characteristics, needs, wants and preferences for a product. The aim is to discover product features and benefits that are important factors in the customer's purchasing decision-making process. That is, to discover what customers value.

Partitioning a market into a number of discrete segments allows a marketer to develop a customised marketing strategy for each segment. For organisations pursuing a market-wide, multi-segment competitive strategy, the development of a customised marketing strategy for each segment is described as a differentiated marketing strategy. For organisations pursuing a focus (or marketing-niche) competitive strategy, the marketing effort is directed towards one segment of the entire market. This is described as a concentrated marketing strategy. Since the 1990s many marketing organisations have moved even further towards micromarketing or one-to-one marketing. This is where individual or potential customers can be targeted with highly individualised and personalised marketing. In the case of micromarketing, a very narrowly defined segment is identified and the marketing strategy is directed towards individuals in this segment. One-to-one marketing goes a step further by giving the customer the power to customise the product offering to his or her requirements. This is also described as mass customisation, a strategy most successfully implemented by Dell Computers.

Opposed to these two market segmentation approaches is the older strategy of undifferentiated marketing. This is where one marketing strategy is developed to service the entire market; that is, market segment differences are ignored. This strategic choice is defended on the grounds that developing a separate marketing strategy for several separate market segments is expensive. It is also argued that in many cases market segmentation is unwarranted because differences between market segments are not significant. However, apart from with commodity types of products, this mass marketing approach is generally considered to be unsuitable for most contemporary marketing situations.

Market segmentation provides a means for marketers to analyse and understand much more thoroughly the needs, wants and preferences of their customers and their patterns of purchasing behaviour. It also provides a means of identifying emerging needs and wants, and changing customer preferences, including their evaluation of all competitive product offerings. Based on this analysis of the market segments (within the total market), marketing strategists can then develop customer value creation, communication and delivery strategies that cater for the specific needs of the segments they choose to target.

There are several ways of dividing a market into different market segments. The following is a summary of some of the most commonly used variables (or descriptors).

Consumer markets

A useful basis for segmenting consumer markets is to categorise the various alternatives in terms of the 4Ws:

- *who* the customers are
- *what* they buy
- *where* they buy their product or services
- *why* they buy.[9]

It should be noted at the outset of this discussion that these categories and sub-categories are not mutually exclusive, and it is common practice for strategists to develop segments based on a combination of segment characteristics.

WHO THE CUSTOMERS ARE

Analysis of *who* the customers encompasses the following types of segmentation:

- *Demographic* – age, gender, marital status, family size and ethnicity.
- *Socioeconomic* – a combination of demographic data and social indicators such as social class, education, income and occupation. For example, the Australian Bureau of Statistics (ABS) provides socioeconomic indexes based on census data. ABS consultants can tailor indexes according to the needs of individual marketing organisations.
- *Stage of life* – examples of this segmentation are bachelors, full-nesters, empty nesters, Baby Boomers (born between 1946 and 1964), Generation X (born between 1961 and 1981) and Generation Y or Millennials (born early 1980s to the early 2000s).
- *Lifestyle* – the way people live. Popular labels include jugglers (working women who juggle work and family commitments), yuppies (young upwardly mobile professionals), muppies (middle-aged urban professionals), dinks (double income no kids) and woofies (well-off older folks)
- *Psychographic* – a combination of psychological and lifestyle criteria, based on the values people hold and their lifestyle. In this sense values are defined as goals that individuals seek in life. These include, for example, peace and happiness (terminal values) or the means or behavioural standards by which individuals pursue those goals (instrumental values) such as a sense of fair play or honesty. These values, in turn, underwrite the lifestyle of the individuals concerned. One of the most well-known classifications of psychographic profiling is VALS™ provided by Strategic Business Insights, a spin-off of SRI International (formerly the Stanford Research Institute). You can take the VALS™ survey at: http://www.strategicbusinessinsights.com/vals/presurvey.shtml. Roy Morgan Value Segments is a good Australian example of psychographic research; a detailed explanation is provided at http://www.roymorgan.com.au/products/values-segments.

Note: Values or personal values are beliefs that are deeply held and enduring – that is, fundamental values associated with beliefs and attitudes held by individuals. Milton Rokeach identified two categories of personal values: terminal (goals that an individual would like to achieve during his or her lifetime) and instrumental (preferable modes of behaviour or means of achieving terminal values).[10] The term 'values' (plural) differs from the term 'value' (singular).

WHAT AND *WHERE* CUSTOMERS BUY

What and *where* customers buy is behavioural or usage segmentation. It is extremely important to identify patterns of actual purchase behaviour. The following types of segmentation are used in this analysis:

- *Product category* – can be one of the following: convenience (purchased and consumed regularly), shopping (consumers take time to select), specialty (high-end luxury), emergency and impulse or unsought products.

- *Brand* – a marketer of luxury goods or services may choose this narrow form of segmentation as an appropriate market to target.
- *Product user* – heavy, medium or light users or non-product category users.
- *Rate of new-product adoption* – based on Rogers' diffusion of innovation concept. Consumers are categorised into the following five groups according to their adoption of a new product: innovators, early adopters, early majority, late majority and laggards/non-adopters.
- *Price point* – examples include premium price, value-for-money or cheap goods.
- *Type of distribution outlet frequented* – examples include boutiques, chain stores, general merchandise outlets, specialty stores and online shopping. There are five different situation characteristics that potentially impact on purchase behaviour and therefore could be used as segmentation descriptors: physical surroundings (the 'servicescape' or the physical environment of a retail outlet), social surroundings (shopping as a social event), temporal perspective (the time to make the purchase – for example, targeting time-poor individuals), task definition (purpose of the purchase such as for self or for gift giving) and pre-purchase attitude (mood at the time of purchase).
- *Purchase behaviour* – buying frequency (e.g. a segment of frequent purchasers/frequent flyers/heavy users versus light users of a product or service), brand switchers versus brand loyals, channels used (e.g. online versus bricks and mortar shoppers) and shopping style (considered versus impulse purchase).
- *Behavioural targeting* – a technique used by online marketers employing web analytics to segment visitors to particular types of sites (by assigning a unique cookie ID) according to the web pages they visit or keywords they use to determine their interest in a product category; for example, those interested in travel to certain locations or those interested in financial services products.
- *Geographic* – city, urban, suburban, rural and international segments.
- *Geodemographic* – a combination of demographic and lifestyle characteristics within geographic clusters; for example, most major cities have suburbs that generally attract young people to live/hangout, as well as suburbs that contain 'old money', expensive areas where homeowners have lived for many years.
- *Sensitivity to marketing activity* – for example, price-conscious buyers (reacting to specials) and consumers who respond to promotions or changes in product features
- *e-marketing* – defined by individuals' online behaviour; classified as: simplifiers (prefer readily available product information and end-to-end convenience), surfers (use the internet for shopping, entertainment, to seek information), bargainers (deal seekers), connecters (use social media to connect with others), routiners (visit regular sites for content such as finance and news) and sportsters (similar to routiners but focus on sports and entertainment sites).[11]

WHY CUSTOMERS BUY

This analysis is based on the benefits and/or value that individuals seek from products, based on the following types of segmentation:

- *Benefit* – the perceived benefits derived from purchasing and/or using the product, which can be categorised as: functional benefits (i.e. usefulness, safety, reliability, ease of use, efficiency and durability), psychological benefits (i.e. status, self-esteem, self-enhancement, patriotism, ethics, spirituality and the pleasure of gift giving), experiential benefits (i.e. fun, pleasure and excitement), relationship benefits (i.e. belongingness, affiliation and group membership) and process benefits (i.e. convenience – fast checkout ease of purchasing or outstanding customer service)

- *Value* – builds on and extends benefit segmentation. Individuals not only seek benefits (as categorised previously) but also assess these sought benefits relative to the costs or sacrifice of receiving those benefits – this may or may not take into account the perceived value of offerings.

Business markets

Business markets should be segmented differently to consumer markets due to the differing nature of the transaction required for business-to-business (B2B) strategies. Segmentation includes:

- *Geographic* – urban, rural, city, state, national, regional or international segmentation.
- *Customer type* – based on:
  - *industry type* – for example, by Australian Standard Industrial Classification (ASIC) class
  - *industry stature/technology used* – for example, new economy versus old economy companies or high-tech versus low-tech
  - *industry life cycle stage*
  - *function performed* – for example, manufacturer, distributor, retailer or consultant
  - *company size* – such as by turnover or number of employees; for example, small office home office (SOHO), small–medium enterprises (SMEs), large corporations, multinationals and key account customers
  - *product usage* – for example, heavy, medium or light users of a product versus users of competitors' products, or loyal versus non-loyal
  - *applications of product usage by the user group, and the end use for the product* – for example, a steel manufacturer may differentiate between customers who use steel for manufacturing, building construction, railroads and so on.
- *Benefit* – as per the benefit segmentation described for consumers: functional benefits, psychological benefits, experiential benefits, relationship benefits, and process benefits.
- *Value* – as per the value segmentation described for consumers; builds on and extends benefit segmentation. Benefits are sought and their benefits assessed relative to the costs or sacrifice of receiving those benefits – this may or may not take into account the perceived value of offerings.
- *Other behavioural bases* – buyers may be segmented by such factors as personal characteristics, including their awareness of the product category, their readiness to adopt a new product (diffusion of innovation concept), the extent to which they are risk averse or are risk takers, or by their exposure to particular media.

These are essentially generic typologies of the various bases that can be used to divide a market into appropriate segments. One variable or a combination of these variables may be suitable for a specific situation, or in some cases some other form of classification may be more suitable. The key consideration is to determine whether individuals in a nominated segment have similar needs, wants, values and preferences that are meaningful for the product or service offering. Moreover, the needs, wants, values and preferences of that group of people need to be significantly different, in the context of the marketing situation, from that of other groups (segments) within the total market. That is, within the total market there needs to be heterogeneity of consumer preferences – clear differences of preferences between different segments of the market. Within each segment there needs to be homogeneity of preferences.

The suitability of a segment also depends on the extent to which different needs, wants, values and preferences can be identified and linked to measurable variables such as demographic or lifestyle descriptors that will underpin customer purchase behaviour. The purpose of identifying a market segment is to be able to tailor marketing strategies to groups of customers that are most likely to purchase the product or service. Most importantly these customers need to be worth pursuing financially. Each potential market segment must be able to be serviced cost-effectively and be of sufficient size to be profitable. Finally, the marketing organisation needs to be able to access that segment via marketing communication and distribution channels.

Identifying market segments

Identifying an appropriate market segment or segments is not an easy task. There are four methods that can be used in order to determine appropriate groupings:

- *Normative segmentation* – attempts to determine buyer similarities by analysing elasticity coefficients, marginal revenues and response function coefficients. This econometric approach is mostly regarded to be unrealistic as it fails to consider allowances for such factors as managerial and institutional constraints and the competitive environment.
- *A priori segmentation* – a more popular approach used mainly when the strategist has sufficient knowledge of the market to predetermine segmentation variables that are thought to be appropriate (i.e. age, gender or benefit sought). For example, usage patterns by various age and socioeconomic groupings may be ascertained. This type of information can be obtained from secondary sources such as the ABS or syndicated research studies such as those provided by Roy Morgan and A.C. Nielsen. For example, Roy Morgan Value Segments studies provide in-depth analysis of the buying behaviour and media consumption characteristics of 10 psychographic segments, as was cited previously.
- *Post hoc segmentation* – involves the use of primary research. A market segmentation study is conducted to determine the attitudes, perceptions, benefits sought and product usage information of a representative sample of the market. The researcher chooses a battery of interrelated variables, such as psychographic characteristics and preferences, for a number of user benefits associated with the product category. Next a survey is conducted to determine a rating of the importance that respondents attach to each variable. The data is then analysed, and individual importance ratings are clustered into person groups by maximising in-group similarities and between-group differences.
- *Data mining* – explores customer data to determine purchase patterns and relationships that can form a meaningful basis for segmenting the organisation's customer base; examples are identifying the most profitable customers (customer lifetime value analysis), heavy to infrequent product users and purchase patterns such as time of day, mode of payment or outlets where the products are purchased.

5.2 Targeting

Once the segments are identified, the next task is to select those to be targeted. Rarely does an organisation have enough resources to target all segments of the market, so an analysis must be done via a cost/benefit equation to determine the highest return. The criteria for selection should be based on the following:

- similarity (homogeneity) of customer needs within the segment
- distinctiveness (heterogeneity) between segments
- segment size and profitability based on a forecast of future sales and estimates of marketing costs to service the segment (see discussion that follows)

- growth potential – the best market segment opportunities are those with a tailwind; that is, segments in the introductory or growth phases of their life cycle
- accessibility – the ability to cost-effectively reach customers via marketing communication channels
- responsiveness to marketing stimuli such as traditional and digital advertising, sales promotion, price or product changes
- intensity of existing and future competition (blue ocean to red ocean?)
- barriers to entry
- level of customer satisfaction with existing products
- potential for the introduction of a game-changing new product.

There are significant organisational implementation differences, and therefore costs, between serving a segment that only requires tweaking of the customer value creation mix and one that involves the deployment of organisation-wide resources for functions such as research and development for new-product development, operations or the creation of a new value network (i.e. developing a strategic alliance with another organisation to provide capabilities that the organisation does not have).

5.3 Brand positioning

Positioning or, more specifically, brand positioning, is a marketing organisation's attempt to create and maintain a favourable, strong and unique brand position in the minds of the prospective or existing customers. Positioning a brand means emphasising unique or distinctive characteristics that differentiate the brand from its competitors. Views about how to position a brand differ significantly, and so it is helpful at this stage of the discussion to consider how the positioning concept has evolved and is continuing to evolve.

Advertising – pre-positioning

Many years before the term *positioning* was coined in the late 1960s, advertising was the main weapon used by consumer goods marketers to create a brand image. This was a concept popularised by the legendary advertising leaders such as David Ogilvy and Leo Burnett in the 1950s. As David Ogilvy proclaimed, 'every advertisement must be considered as a contribution to the complex symbol, which is the brand image'.[12] Ogilvy regarded brand image and brand personality as synonymous terms, although today the two terms are generally considered to represent two closely related concepts. That is, brand image is based on rational appeals such as product features or attributes, while brand personality is based on emotional or psychological appeals. However, this 'soft sell' approach to advertising was not universally accepted and, as Rosser Reeves argued, the purpose of advertising was to sell, not to entertain or show off the copywriter's cleverness. Reeves' concept of the unique selling proposition (USP) directly contrasts to the brand image and brand personality concepts. He believed every advertisement should:

- contain a unique proposition about the product that the competition either cannot claim or does not offer (*unique*)
- be so strong that it can move the mass millions (*selling*)
- make a proposition to the consumer; that is, a reason to buy (*proposition*).

The USP was invariably embedded in a slogan such as M&Ms 'Melts in your mouth, not in your hand'. An integral part of this hard-selling approach was the use of repetition. The USP is repeated several times during each individual advertisement and, in addition, the advertisement itself is scheduled with high levels of frequency in order to make an impact. This style of advertising was grating and, although immensely unpopular with television viewers, worked wonders for many advertisers.

The emergence of positioning

Towards the late 1960s a little-known advertising proprietor named Jack Trout introduced a new advertising concept that he termed 'positioning'.[13] A decade later Trout and his business partner, Al Ries, expanded the positioning concept in a book *Positioning: The Battle for Your Mind,* published in 1981 – a book that was destined to become one of the bestselling marketing books of all time. They argued that because the communication environment had become so overcrowded, it was no longer possible for individuals to retain in their memories information such as a brand image or a brand personality. They defined positioning in the following terms:

> Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person. Perhaps yourself. But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect … To succeed in our over communicated society, a company must create a position in the prospect's mind, a position that takes into consideration not only a company's own strength and weaknesses, but those of the competition as well.[14]

Ries and Trout argued that individuals had learnt to cope with communication overload by ranking brands in their minds, in a way that could be visualised by imaging a series of ladders representing a product category such as soft drinks. Each step of the ladder represents a brand. The objective is twofold: to position the brand on the appropriate ladder and to place the brand as high as possible on the ladder. To do this, they contended the advertiser must relate the brand to the brands that are already there by:

- communicating the product category the brand should be associated with
- communicating the brand's essential differences and reason for being from other brands in that category.[15]

For example, Volkswagen's slogan of 'Das Auto' highlights the German heritage of the marque (the product category). The second stage of the process is Volkswagen's value-for-money proposition.

The evolution of brand positioning

Over the years the concept of brand positioning has evolved, and the Ries and Trout singular approach of relating a brand to its competitors has given way to a more widespread view that positioning strategies involve emphasising a brand's point of difference from its competitors – a favourable, strong and unique brand association. Most, if not all, of the positioning and branding concepts that were developed from the 1970s to 1990s were based on the underlying assumption that the process of brand positioning is a one-way, sender-to-receiver process. As Chris Allen, Susan Fournier and Felicia Miller point out, these views were grounded in the disciplines of psychology and information economics, drawing 'heavily upon the information processing theories of consumer behaviour that were popular during the field's formative stages'.[16] However, since the early 2000s an alternative postmodernist or interpretive approach to branding has started to gather considerable momentum in both academic and practitioner circles. Researchers and theorists following this approach tend to draw on theories and concepts from the disciplines of anthropology, sociology and philosophy.

Co-creation of brand meaning

The concept of branding from this alternative perspective is based on the premise that consumers are *active meaning makers* rather than *passive receivers* of brand messages. Brand meaning is not just created by the organisation (as per the dominant perspective) but from two additional sources – cultural influences and the process of co-creation impacting on individual consumers. That is, the formation of brand meanings is influenced by:

- the organisation via its business and marketing activities
- culture – broader cultural systems including the influence of the mass media
- the individual consumer as an active participant in the value creation process.

From this perspective, organisations have control over just one of the three antecedents of brand meaning. However, it is possible for organisations to develop strategies that can help to shape the brand meanings derived from the cultural and individual consumer delivery mechanisms. At the individual consumer level, co-creation strategies designed to enhance the brand experience can be developed. This includes a variety of touchpoints between the brand and the consumer along the value chain and via communication channels including social networking sites.

Brand community

Susan Fournier and Lara Lee propose an additional and more revolutionary strategy – building a brand community.[17] They define a brand community as 'a group of ardent consumers organized around the lifestyle, activities, and ethos of the brand.'[18] Members of these brand communities join for a number of reasons, such as forming social links, sharing of information about using the brand, and self-expression. Harley-Davidson, on the brink of extinction over two decades ago, embraced a strategy of building a brand community based on a shared ethos (the 'brotherhood of riders'). This strategy resulted in a dramatic turnaround of the company's fortunes to such an extent that in 2008 Harley-Davidson became a top-50 global brand and was valued at $US7.8 billion. Fournier and Lee argue that a brand community strategy can benefit organisations in all types of industries, not just those, such as Harley-Davidson, with iconic brands in high-involvement product categories.

Fournier and Lee contend that to develop and successfully implement a brand community strategy it is necessary to have an organisation-wide commitment to this approach. They argue that community-building strategies are high-level business strategies, not just marketing strategies. It is also essential to focus on providing help for building the community because this will serve to strengthen the brand. They also suggest that online social networks play a very important role in the process of building a brand community, but not in isolation from offline activities such as involvement in community outreach projects, charity events and social gatherings. It is critically important to appreciate that brand communities are formed to serve the people in them, not the organisation. The emphasis is therefore on nurturing the process of developing the community but not managing or controlling it.[19]

Implications

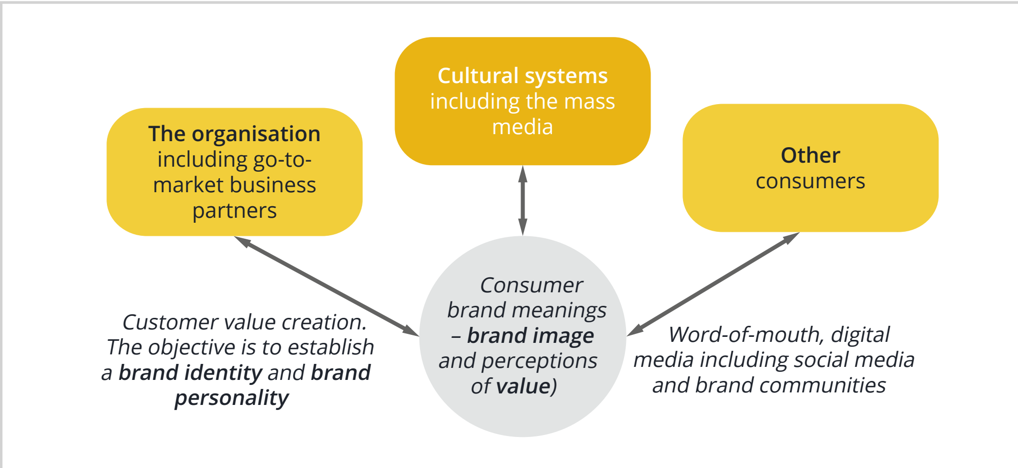
The implications for organisational strategists of the previous discussion are quite clear. First, they need to be cognisant of the fact that brand meanings are formed by several mechanisms, not just by their exposure to the organisation's marketing efforts. Individuals are not passive receivers of marketing information and they play an active role in forming meanings about brands. Brand positioning strategies therefore need to be developed that extend beyond traditional (4Ps or 7Ps) techniques. In the digital age, media consumers connect with brands in ways that are increasingly beyond the control of marketing organisations and their go-to-market business partners such as retailers and delivery organisations. Just like in times of old, the marketplace has become a location where people gather and talk to each other. The difference is that today the marketplace is not a physical location, it is virtual (internet). In this context, Rick Levine and colleagues defined a market as a place of *conversations*.[20] Therefore, the broadened concept of the customer value creation mix provides a much more appropriate framework for the development of brand positioning strategies.

Second to be noted is that the principles of building and maintaining a brand have not changed. What has changed is an extended dimension of the way brand meanings are communicated and formed. Brands evoke emotions and shape the way individuals interpret messages. Never has brand positioning been as important for organisations as it is now.

As the previous discussion illustrates, the process of brand positioning is complex and somewhat confusing given the variety of theoretical perspectives and different approaches that exist. Figure 5.2 provides a framework designed to provide a simplified model of the processes involved.

As the model shows, the consumer is an active participant in the meaning making or value creation process. The way a brand is perceived is described as *brand image*. Individuals decode marketing

FIGURE 5.2 The brand positioning process



messages and develop brand meanings from other communication channels (touchpoints) such as other individuals, cultural influences (including the mass media) and brand communities. Brand image is influenced by personal characteristics and psychological factors such as self-image. Kevin Keller defines brand image as 'perceptions about a brand as reflected by the brand associations held in consumer memory'.[21] Brand associations fall into three main categories: attributes (product- and non-product related), benefits and value (functional, psychological, experiential, relationship and processes) and attitudes (overall evaluation of a brand).

Through its marketing activities the marketing organisation attempts to establish what is described as a brand identity comprising the physical characteristics of the brand (physical composition, brand name, logo, packaging brand attributes, features etc.) and *brand personality* (psychological characteristics). Customer value-based activities communicate both physical and psychological aspects of the brand to the receiver. Brand personality is an attempt by marketing organisations to attribute a human personality characteristic to a brand, such as using a spokesperson (celebrity or a real or symbolic figurehead) for the brand via advertising or other promotional means. Jenifer Aaker identified five core dimensions of brand personality: sincerity (down-to-earth, honest, wholesome, cheerful), excitement (daring, spirited, imaginative, up-to-date), competence (reliable, intelligent, successful), sophistication (upper-class, charming) and ruggedness (outdoorsy, tough).[22]

Other consumers play a significant role in the shaping of brand meanings. One- and two-way consumer–consumer communication via word-of-mouth and word-of-mouse (digital media, including blogs and social media) and brand communities play a powerful and influential role in the way brands are perceived. As was discussed in Chapter 1, the internet has transformed the marketing communication process from one-way, sender–receiver (company–consumer) flow of information to multi-way process of interactions between companies and consumers, between consumers with other consumers, consumers with online and offline communities, consumers with social networks, and consumers with company collaborators such as retail salespeople. The consumer at the heart of the marketing process plays an active role in the co-creation of value. Value is defined and co-created by the consumer rather than just by the marketing organisation.

Branding decisions

An important consideration for marketing organisations concerning brand positioning is whether to deploy an individual or a family branding strategy. An *individual brand name strategy* is where each individual product in a product portfolio is given its own brand name and brand identity. For example, Unilever Australia markets a range of brands such as Dove, Lux, Pears, Sunsilk, Impulse, Lynx, Rexona and Vaseline as individual brands in its personal care range. The advantage of this strategy is that each brand can be positioned differently to appeal to different market segments, and even if consumers switch brands the organisation still benefits. However, the downside is that establishing and maintaining several separate brand positions for individual products is expensive.

The other branding option is *umbrella branding* – to market all or several the organisation's products under a family brand name. Family brand names may be used for all products marketed by the organisation (e.g. Kellogg's), as a separate family name for different product categories or different product lines (e.g. Cadbury markets Pascall confectionery, Red Tulip chocolates, Cadbury's chocolates and MacRobertson confectionery) or in combination with individual brand names (i.e. Volkswagen Up, Volkswagen Polo, Volkswagen Golf, Volkswagen Eos, Volkswagen New Beetle, Volkswagen Jetta, Volkswagen Passat, Volkswagen Tiguan and Volkswagen Touareg).

Umbrella branding strategies provide three main advantages:

- marketing costs are spread over several products, thereby reducing the cost for individual products in the family
- is a cost-effective means for product line extension (introducing a new product to the product line) or for leveraging a brand (brand leveraging) into a new product category. The cost and risk of extending the product line or leveraging into a new product category is reduced if brand awareness and favourable associations of the parent brand can be effectively transferred to the new product
- may provide a halo or signalling effect from a parent or focal brand within the family. Perceptions relating to the parent brand or a prominent product within the family (i.e. a focal brand) spill over to other products bearing the same brand name.[23]

Brand positioning strategy

The next stage is to develop a brand positioning strategy. This is a complex process consisting of the following steps:

1 brand audit
2 brand strategy
3 evaluate.

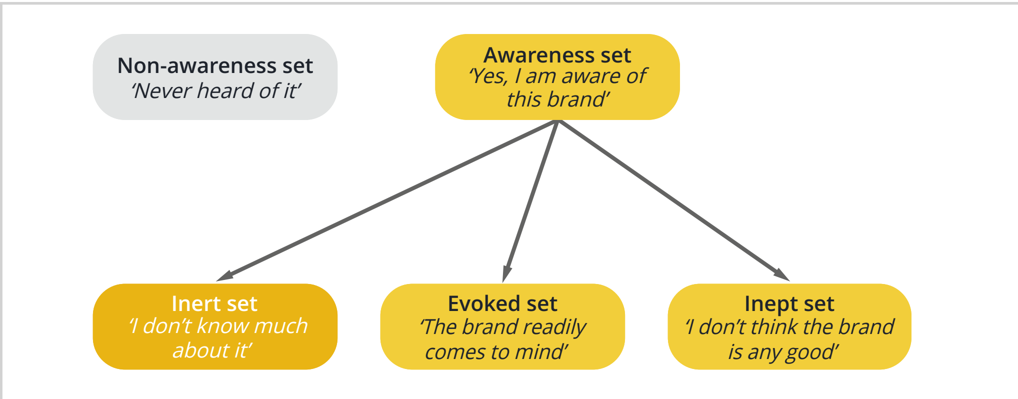
STEP 1: BRAND AUDIT

The starting point is to determine the current level of brand knowledge of all competitive brands in the selected market segments. Brand knowledge consists of brand awareness and brand image (perceptions); that is, the position that the brand and its competitors currently occupy in the minds of individuals in the selected target market segments. This is important because sometimes the position of the brand that the marketing department creates is not how the consumers interpret the brand. There are two research techniques used to determine brand awareness:

- brand recall
- brand recognition studies.

Brand recall is based on the respondent's ability to recall names of brands associated with a given product category. Recall studies may be aided (prompted) or unaided. Figure 5.3 provides a

FIGURE 5.3 Depth and strength of brand awareness



framework for measuring the depth and strength of brand awareness for the organisation's brand. Brand recognition studies assess the respondent's ability to recognise the name of a brand when exposed to a visual cue such as an advertisement or a logo.

The second part of brand knowledge is to determine the brand image of each competing brand in the market segment. This is the Holy Grail for advertising agencies, market research organisations and, more recently, brand agencies. Long-established techniques such as perceptual mapping, conjoint analysis and focus group research have been adopted and modified to become proprietary models developed by these various brand experts. More recently, ethnographic, semiotic and neuromarketing techniques have been added to the battery of research tools that are available.

Traditional market research techniques generally fall into either one of two categories: those that measure brand associations against a predetermined list of brand associations or those that attempt to discover what the brand associations are. Predetermined lists abound, but generally, as was discussed briefly previously, brand associations can be classified into the following three major categories:

1. *Attributes* – features that characterise a product or a service. These can be sub-categorised as product related (the physical composition) or non-product related (price, packaging, process benefits such as convenience, outstanding customer service, reflection about what sort of person uses the product, and the usage situation). This type of positioning is referred to as a USP.
2. *Benefits* – opinions about what the brand can do for the individual. (What is in it for me?) Benefits may be functional (i.e. problem removal or avoidance), experiential (what it feels like to use the product or service), symbolic (i.e. self-esteem, belongingness, relationships or social approval) or emotional (ranging from positive emotions such as altruism, romance, nostalgia or compassion to negative emotions such as guilt or fear).
3. *Brand attitudes* – the individual's overall evaluation of a brand based on the extent to which it is believed that the brand has particular attributes and benefits, and an evaluative judgement of how good or bad it is for the brand to have those attributes or beliefs.[24]

STEP 2: BRAND STRATEGY

The next step is to determine the ideal point – the position that perfectly matches the target market's ideal or sought attributes for the product category. There are several research tools to assist in this task, such as perceptual mapping, conjoint analysis and focus groups. A perceptual map is a visual technique that maps or plots the target market's perceptions of a brand in relation to those of its competitors. Most perceptual maps are two-dimensional – based on two main product attributes. This is problematic because the technique oversimplifies the way perceptions are developed. This problem is addressed by conjoint analysis, which is based on the concept that individuals make overall judgements about brands by considering several attributes conjointly. Conjoint analysis provides the strategists with a measurement of the relative importance of attribute levels.

Another useful tool is the *value curve*.[25] This tool is constructed by first determining the attributes or benefits that are most important for the target market. In this way the value curve is a visual model of the value proposition.

Figure 5.4 provides a model that highlights the relative importance of the various attributes based on the two dimensions of differentiation and relevance. As the model shows, the most important attributes are those that are *drivers*.

To illustrate the process involved let us consider the positioning of three brands competing in a hypothetical frozen-food product category. Research has revealed that there are six product attributes

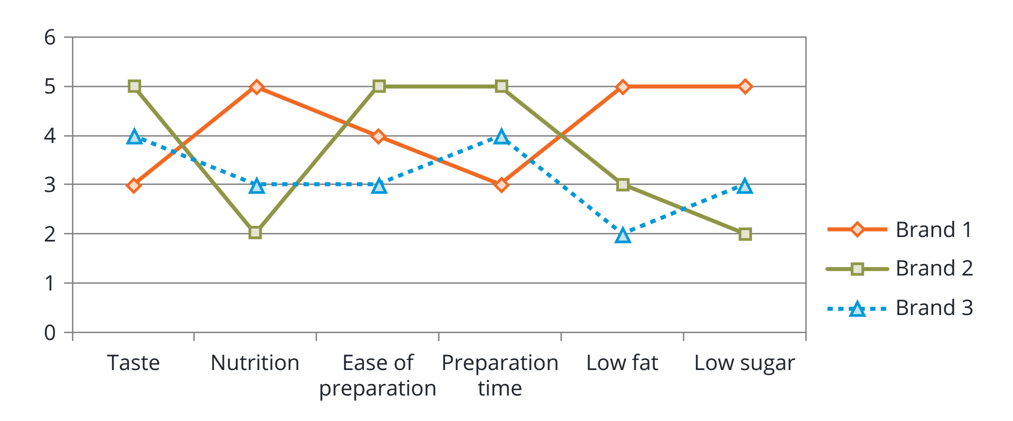
FIGURE 5.4 Brand attributes that matter

		Differentiation: Low	Differentiation: High
Relevance	High	**Antes** Attributes that are important to customers but are provided by all competitors	**Drivers** Attributes that are both important to customers and highly differentiated from competitors
	Low	**Neutrals** Attributes that are irrelevant to customers	**Fools gold** Attributes that are distinctive but do not drive customer loyalty to a brand

Based on N.A. Aufreiter, D. Elzinga and J.W. Gordon, 'Better branding', *The McKinsey Quarterly*, vol. 4, 2003, Exhibit 2, p. 34.

that consumers consider to be important: taste, nutrition, ease of preparation, preparation time, low fat and low sugar. It was also found that there are two quite different market segments operating in this market: the healthy food seekers and convenience shoppers. In the healthy food-seeking segment, nutrition, low fat and low sugar were found to be the most important value drivers (sought attributes). In the convenience segment the value drivers were found to be ease of preparation and preparation time. These attributes were then listed on a graph (the value curve), which is shown in Figure 5.5.

FIGURE 5.5 The value curve for frozen food



Next, research was conducted to determine how respondents in each market segment assessed each of the three competing brands against each of the six attributes (in terms of low, medium or high performance). As can be seen, Brand 1 is highly rated as a healthy food product, Brand 2 as a convenience product, while Brand 3 is not rated highly by either the healthy food or convenience market segments.

The marketers of each brand are now able to decide whether to continue with or modify their current positioning strategies. This can range from a small adjustment to a major shift. The latter

BOX 5.1

Breathing new life into an old (spice) brand[26]

One of the most successful repositioning strategies in recent years was done by Old Spice, a brand of male grooming products including deodorants, shampoos, body washes and soaps. The brand was created in 1937 and was very popular with the Baby Boomer generation. Herein lay the problem; Generation X and Generation Y consumers did not want to use a brand that their father and/or grandfather used. Old Spice realised it needed to reposition its brand. It employed the Wieden+Kennedy advertising agency and in 2010 released the first advert of its new campaign, 'The Man Your Man Could Smell Like' (https://www.youtube.com/watch?v=owGykVbfgUE). The follow-up advert was just as popular (https://www.youtube.com/watch?v=uLTIowBF0kE) which prompted 'The Response Campaign', where over the course of two-and-a-half days, the brand filmed 186 video responses to social media comments made by fans and celebrities such as Ellen DeGeneres and Alyssa Milano (these can be seen on the brand's YouTube channel: https://www.youtube.com/user/OldSpice/videos). The brand won a Cannes Creative Effectiveness Lion for the campaign in 2011 and its sales doubled in just six months.

is described as a repositioning strategy – an attempt to change existing perceptions, attitudes and beliefs about a brand. Strategists for Brand 3 would need to consider the repositioning alternative because the brand is quite clearly in need of urgent attention. The brand may require much more than an advertising-led strategy to turn things around (e.g. it may need product reformulation and new packaging.) Box 5.1 outlines how one company successfully repositioned itself.

The next task for the strategists is to encapsulate the desired brand position in a positioning statement, which is a blueprint of three to four sentences that provides a clear and precise expression of the key idea about a brand or company that is to be communicated to its intended target market. The key idea should be capable of differentiating the brand from its competitors, emphasising customer benefits, not just product attributes. The key idea should be capable of connecting with the target market on both an emotional and rational platform. For example, BMW's positioning, as articulated in the advertising slogan, 'The Ultimate Driving Machine', is based on an emotional appeal (feelings), which is supported by product attributes (rational) featured in advertisements for the brand. Nike's 'Just Do It' advertising slogan captures the emotional appeal conveyed by fitness culture for some and being a sports superstar for others. Nike's focus on state-of-the-art product attributes underpins these emotional platforms.

In recent years the term customer value proposition (CVP) has evolved to be used either interchangeably with the term 'positioning statement' or to represent a slightly different concept. The concept of value, as was discussed in Chapter 1, came to prominence during the 1990s. At the same time, the term 'value proposition' started to enter the marketing vocabulary to describe several different phenomena. In the context of stakeholder theory, the value proposition was thought to be the value for the organisation's stakeholders such as its customers, suppliers, employees, communities, financiers, shareholders and creditors.[27] From a marketing point of view, the term *customer value proposition* refers to the attributes and benefits that customers most value. It is a term that tends to be used either as an alternative term for brand positioning or as an added dimension. The former sits more comfortably with some organisational strategists who regard brand positioning simply as a device used to create advertising spin. As an added dimension, the term *value proposition* is used to complement and support the overall brand positioning. Whereas positioning is concerned with establishing a frame of reference or key brand associations in the minds of the target customers, the value proposition focuses on the specific drivers of value sought by those targeted customers. For example, BMW's frame of reference signalled to its targeted customers by 'The Ultimate Driving Machine' positioning is the pleasure of driving or owning a BMW. The value proposition within this overall frame of reference, however, would vary according to the importance individuals attach to attributes such as performance, safety, resale value or running costs, or to benefits such as status, prestige and safety.

STEP 3: EVALUATE

The final stage of the brand positioning strategy process is to evaluate the strength of the intended brand positioning strategy. The key question to ask: 'Is this strategy likely to produce a favourable, strong and unique brand position in the minds of the intended target market?' Box 5.2 provides a checklist developed by Interbrand that can be used as an assessment tool for evaluating a prospective brand positioning strategy.

BOX 5.2

Interbrand's Brand Strength factors[28]

Our experience and knowledge show that brands in the ideal position to keep generating demand for the future are those performing strongly (i.e. 'showing strength' versus the competition) across a set of 10 factors that are outlined in the following. Four of these factors are more internally driven and reflect the fact that great brands start from within. The remaining six factors are more visible externally, acknowledging the fact that great brands change their world. The higher the Brand Strength score, the stronger the brand's advantage.

Internal factors

1. *Clarity* – what the brand stands for and its values, positioning and proposition. it is also about target audiences, customer insights and drivers. Because so much hinges on this aspect, it is vital that these factors are articulated and shared across the organisation.
2. *Commitment* – specifically internal commitment to the brand, and a belief in the importance of the brand: this is the extent to which the brand receives support in terms of time, influence and investment.
3. *Protection* – how secure the brand is across a number of dimensions: legal protection, proprietary ingredients or design, scale or geographical spread.
4. *Responsiveness* – the ability to respond to market changes, challenges and opportunities; the brand should have a sense of leadership internally, and a desire and ability to constantly evolve and renew itself.

External factors

1. *Authenticity* – the brand is soundly based on an internal truth and capability. It has a defined heritage and a well-grounded value set. It can deliver against the (high) expectations that customers have of it.
2. *Relevance* –the fit with customer/consumer needs, desires and decision criteria across all relevant demographics and geographies.
3. *Differentiation* – the degree to which customers/consumers perceive the brand to have a differentiated positioning distinctive from the competition.
4. *Consistency* – the degree to which a brand is experienced without fail across all touchpoints or formats.
5. *Presence* – the degree to which a brand feels omnipresent and is talked about positively by

consumers, customers and opinion formers in both traditional and social media.

6 *Understanding* – the brand is not only recognised by customers, but there is also an in-depth knowledge and understanding of its distinctive qualities and characteristics. (Where relevant, this will extend to consumer understanding of the company that owns the brand.)

5.4 Market segmentation and positioning decision-making aids

There are three traditional tools widely used by market researchers to help marketing strategists analyse and evaluate alternative market segmentation and product positioning strategies: perceptual maps, conjoint analysis and neuromarketing, which will be discussed in the following sections.

Perceptual maps

Perceptual maps are pictures or maps of consumer perceptions of a market or product category. There are two main ways of constructing a perceptual map: the *attribute rating method* and the *overall similarity method*.

ATTRIBUTE RATING METHOD

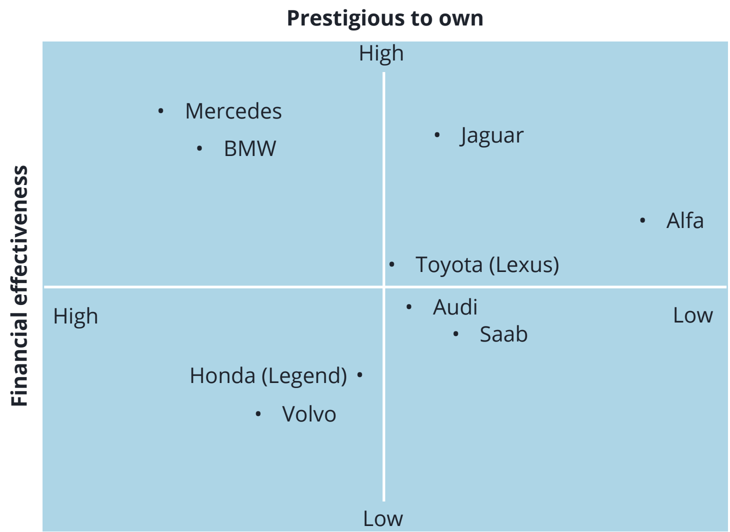
The first step is to research the market to determine the salient attributes that consumers use to evaluate the various competitive brands in a product category. Next, respondents are presented with the list of attributes and are requested to rate each brand on each attribute. A massive amount of data is generated from this process. For example, if eight attributes are selected and there are four competitive brands to evaluate, each respondent would be requested to provide 32 ratings. To deal with such a large volume of data, the statistical analysis phase is divided into two stages. Initially, the statistical analysis (either factor analysis or multiple discriminant analysis) concentrates on one set of attributes, such as by averaging the ratings across all respondents. In the next phase, the data is analysed to determine which attributes best discriminate among brands. The data is then reduced from the original set of attributes to two dimensions, because the objective of this analysis is to find two axes for the perceptual map that best capture the variations in perceptions of the various brands. Figure 5.6 provides an example of this form of perceptual map. How the map was constructed is also described briefly in the following.

How the perceptual map was developed

A focus group of senior managers earning over $150 000 per annum was conducted in order to determine the criteria that would influence them for the purchase/lease of a prestige car as part of a salary package. The focus group discussion revealed that there were 10 variables that influenced the brand choice, and these included intangible/emotional considerations such as 'image', product attributes such as 'advanced engineering' and tangible benefits such as 'safety'. Respondents were then given a list specifying nine prestige cars and they were asked to rate, on a 10-point scale, the degree to which they believed each brand fitted the variables they had identified.

This information was later analysed using factor analysis and it was found that the 10 variables could be grouped into two dimensions:

FIGURE 5.6 A perceptual map of prestige cars – senior managers earning $150 000+ per annum



- *Prestigious to own* – variables that contributed to this dimension were perceptions of image, luxurious appointments, advanced engineering, quality finish, safety and high price/expensive.
- *Financial effectiveness* – variables that contributed to this dimension were perceptions of high resale value (high residual), reliability, ease of maintenance and longevity.

These dimensions were then used as the axes for the construction of the perceptual map shown in Figure 5.6.

Perceptual maps developed by this technique also provide a means of identifying market segments. Individuals can be classified into different market segments based on their similarities in product or brand perceptions and the choices they have made between the various products or brands. However, the attribute rating method is limited by its emphasis on rational decision-making. The assumption that individuals form perceptions about brands via a process of mentally rating product attributes overlooks the reality that perceptions are formed via a combination of rational, emotional and experiential considerations.

OVERALL SIMILARITY METHOD

The major difference between this method and the attribute rating method concerns data input. With the overall similarity method, attributes are not specified and respondents are required to simply assess the degree of similarity between pairs of competitive brands. That is, 'brand A' compared to 'brand B', 'brand C' and so on. The degree of similarity is then rated on a scale (typically a 10-point scale). The data that are collected are analysed using multidimensional scaling (MDS) technology that attempts to map the distance between brands. The spatial map that is produced therefore shows how similar or dissimilar the respondents perceive the various competitors to be. However, because this technique does not provide a means for explaining why these competitive brands were perceived to be similar or different, the market researcher can only infer from the data the criteria respondents drew on to evaluate the differences.

In Figure 5.6 respondents would have been asked to state how similar/dissimilar a BMW was to a Mercedes, a BMW to a Saab, a BMW to a Jaguar and so on, until all combinations of the nine brands would have been paired off. The data would then have been mapped and the results examined by the market researcher to determine the factors that might have contributed to the way each brand was positioned.

One of the most important considerations in developing a brand positioning strategy is the perception of uniqueness or differentiation between brands. As the overall similarity method provides a means for assessing perceived similarities and differences, it is a useful tool to aid decisions concerning brand positioning. This tool also provides a means for identifying groups of customers who hold similar perceptions about competitive brands, a basis for market segmentation analysis.

Conjoint analysis

The underlying concept of conjoint analysis is that individuals make overall judgements about brands or products by considering two or more attributes conjointly. That is, rather than considering several attributes one at a time, conjoint analysis asks respondents to evaluate brand preferences by considering bundles of attributes that are joined together.

Conjoint analysis commences with the identification of several attributes (typically up to six or seven) that respondents use to arrive at brand preferences (or purchase disposition). Next, these attributes are sorted into bundles of two (or more), and respondents are then requested to state their preferences (ranked or rated) for each bundle. That is, attributes are considered conjointly (joined together). Consider, for example, that the following four attributes have been identified for a soft drink: flavour, low calories, low sugar and price. The marketer wishes to study three alternative flavours, three levels of low calorie, two sweetening alternatives (sugar and NutraSweet®) and two price point alternatives. This would result in 36 bundled alternatives (3 × 3 × 2 × 2). The next stage is to select some or all these bundles of attributes and then request respondents to state their preferences for each alternative – either by ranking each from 1 to 36 or by rating each on a scale (i.e. a 5-point or 10-point scale) stating a preference from 'least liked' to 'most liked'. Where attributes are bundled into groups of two, the process is described as a two-at-a-time bundling or trade-off procedure. An alternative, generally preferred approach is the full profile procedure, which requires respondents to consider a complete set of attribute descriptors rather than just two at a time. The main advantage of this approach is its realism, but the downside is that it is difficult for respondents to consider several attributes simultaneously.

In 1995 Robin Segal published a research paper titled 'Forecasting the market for electric vehicles in California using conjoint analysis'.[29] Although over 20 years old, its significance in using the conjoint analysis technique while investigating the market for electric, natural gas and petrol-powered vehicles is still very relevant and interesting today. The US state of California has been at the forefront of environmental sustainability for some time. Policymakers in the state wanted a percentage of large auto companies' sales in California to include zero-emission vehicles, a term synonymous with electric vehicles, from 1998 onwards. Therefore, data was required on consumer values and the level of consumer acceptance for alternative fuel vehicles to determine the practicality of the state's policy. The analysis showed seven key variables, for which range of the vehicle, purchase price and fuel costs were the biggest determining factors for consumers. The results showed that the market share of the electric vehicle did not change when some of the variables were changed, including the purchase price going up, and the petrol vehicle purchase price going down – proving that for those willing to purchase an electric vehicle in 1995, price was not a determining factor.

Demographic information showed that over 54 per cent of age brackets above 30 years of age would purchase the petrol-powered vehicle, whereas 61 per cent of those under 30 years of age would purchase the gas-powered vehicle; this shows a generational change in acceptance of fuel types.

Conjoint analysis provides the researcher with a means of generating quantitative measures of the relative importance of attribute levels. This provides a basis for segmenting a market into groups of people with similar needs who seek similar benefits for various products. This form of benefit segmentation also provides a means for developing brand positioning strategies involving all components of the customer value creation mix.

Neuromarketing

Interest in the measurement of brainwave measurement in marketing can be traced back to the early 1970s when electroencephalography (EEG) equipment was used to evaluate responses to television commercials.[30] However, the cost of EEG and magnetic resonance imaging (MRI) was prohibitive for marketing purposes until the 1990s when the development of functional magnetic resonance imaging (fMRI) provided a more practical alternative. The term *neuromarketing* was not coined until 2002, but the origin of the concept can be found in the work of psychologists at Harvard University during the 1990s. The concept is based on the notion that the major thinking part of human activity takes place at the subconscious level operating below the level of controlled awareness. The use of fMRI technology allows market researchers to pinpoint the regions of the brain that are active when an individual responds to stimuli such as a product or advertisement.

Neuromarketing gained widespread publicity with the publication in 2004 of the Pepsi Challenge – a blind taste test of Pepsi Cola and Coca-Cola.[31] Using fMRI scanners, 67 volunteers were first required to blind-test samples of Coke and Pepsi. In this blind test over half were found to prefer Pepsi, with scans revealing activation of the ventromedial prefrontal cortex (reward centre of the brain). When the brands were identified it was found that brand knowledge of Coke activated the dorsolateral prefrontal cortex and the hippocampus areas of the brain – areas associated with memory, emotions and emotional information processing. This led researchers to conclude that the Coke's brand image had a greater influence on brand preference than did taste. At the same time, the research showed that identification of Pepsi had no influence on the respondents' brand knowledge. The researchers also concluded that there were two separate brain systems operating – one involving taste and the other recall of cultural information.

In Australia neuromarketing research services are provided by Neuro-Insight (http://www.neuro-insight.com) and Nielsen Consumer Neuroscience (http://www.neurofocus.com). More specialist neuromarketing research consultancies are also available, such as Tobii (https://www.tobiipro.com/), which focus on eye-tracking services.

5.5 The customer value creation mix

The final stage of the process of developing high-level marketing strategies (as shown in Figure 5.1 at the beginning of this chapter) is the development of customer value creation, communication and delivery strategies. In this section the discussion will be limited to a brief overview of the processes involved, with more detailed information provided in Chapter 6.

Customer value creation and delivery strategies flow on from the segmentation, targeting and brand positioning decisions discussed in previous sections of this chapter. As discussed in earlier chapters of this book, customer value creation mix strategies extend the traditional concept of the marketing mix to include a number of other organisation-wide or cross-functional activities conducted along the value chain, or the *value network* as it is alternatively described by Nirmalya Kumar.[32] Customer value mix strategies are 'big picture' strategies comprising broad strategic directions rather than intricate details (which are more appropriately addressed in annual marketing plans such as brand or marketing communication plans).

The key to developing effective customer value mix strategies is for strategists to have a deep understanding of the CVP; that is, they need an understanding of the value drivers for each of the targeted market segments. In most cases strategists will already have such an understanding concerning the marketing of their existing products in existing markets. If the brands concerned are well positioned and performing well in the marketplace, the recommended strategies might reasonably be expected to be based on a continuation of past strategies, with perhaps a minor adjustment to the customer value creation mix. A fundamental principle of branding is consistency, and it is therefore important that changes to positioning are made on a long-term basis in response to changing customer values, customs and behaviour patterns that evolve over time.

In situations where a repositioning strategy or other major strategic initiatives (i.e. new product development or market development) is deemed necessary, a more comprehensive decision-making process would be required. These decisions are made at a business-unit level of strategy and are discussed in detail in Chapters 7 to 10.

SUMMARY

- The processes involved in developing high-level marketing strategies include decisions relating to segmentation, targeting and positioning (STP), as well as customer value creation, communication and delivery strategies. These interrelated sets of considerations follow the broad-based strategic positioning and product-market decisions that were discussed in Chapter 4.
- Market segmentation provides a means for marketers to analyse and understand the values that matter most for the organisation's existing and potential customers. In consumer markets these customers can be categorised in terms of the 4Ws: *who* the customers are, *what* and *where* they buy, and *why* they buy. Business markets can be segmented according to geography, customer type, the benefits the customers seek and personal behavioural characteristics, such as a buyer's readiness to adopt a new product or whether he or she is risk averse or a risk taker.
- After identifying and selecting market segments to be targeted, the next step is to develop a value proposition or, as it is alternatively termed, a brand positioning strategy; that is, to establish a distinctive position in the minds of the targeted prospects. This can be based on adopting a competitive position (relating the brand to the competitors), functional benefits (brand features or attributes), psychological benefits, relationship benefits or process benefits. Brand positioning strategies also involve consideration of whether to deploy an individual branding or umbrella branding strategy.
- Based on these STP decisions, the marketing strategists are then able to develop customer value creation, communication and delivery strategies that were briefly discussed in this chapter and are elaborated on in Chapters 6 to 10.

DISCUSSION QUESTIONS

1. Consider the way Tourism Australia divides itself up into four main industry sectors as discussed at the beginning of this chapter. Are there any sectors that could be added? Do you think that the brand strategy clearly differentiates Australia from other tourist destinations?
2. What is the difference between the way BMW, Mercedes-Benz, Audi and Lexus attempt to position their brands?
3. What are the differences, if any, between the ways in which Coles, Woolworths, IGA and Aldi are positioned?
4. Is there a danger that a fashion brand, such as Louis Vuitton, will lose its appeal by becoming too popular?
5. Explain the process and benefits of using a conjoint analysis for Samsung when trying to market its latest smartphone.

STRATEGY IN PRACTICE

McDonald's Australia – success through many troubled times

Over four decades ago the takeaway food industry in Australia was transformed when KFC (1968), Pizza Hut (1970) and McDonald's (1971) opened their first stores. 'McDonald's will never succeed', critics proclaimed, because 'real men will never give up their beloved Greasy Joe's hamburgers'. But McDonald's had other target markets in mind and, very soon, young singles (aged 18–24), teenagers (aged 14–17) and children with young parents were flocking to eat at McDonald's outlets.

From the time it opened its doors in Australia, McDonald's has carefully created a warm, friendly and nurturing brand position. Television advertising played a critical role in the brand positioning strategy, as well as the use of Ronald McDonald in capturing the imagination of children. The caring nature of McDonald's was established with Ronald McDonald Houses and with its involvement in community and charity events such as McHappy Day and sponsorship of Clean Up Australia Day and Little Athletics.

But McDonald's has also experienced a great deal of criticism over the years. In 1991, in response to concerns about the environment, McDonald's switched from packaging burgers in polystyrene foam to paper wraps. At the same time recycled paper was used for such items as paper napkins and outer cartons. Towards the end of the 1990s concern was being expressed about the fat and sugar content in fast food in general and McDonald's food in particular. McDonald's responded by developing a series of new healthy-food products, including a New Taste menu in 2001, a low-fat Happy Meals menu and a Salad Plus menu in 2003, and a Deli Choice menu in 2004.

To support the introduction of these new healthy products, McDonald's began a three-phase advertising repositioning campaign in April 2003. In the first phase, television commercials were aired that were designed to 'expose the truth' about the quality of McDonald's food and restore the value of trustworthiness in the brand at the same time. The next phase began in August of that year, consisting of a press advertisement featuring the new Salad Plus menu that contained 'only 10 grams of fat'. From January to September 2004 the advertising message switched to a broader message about the range of healthy new menus, emphasising the low-sugar buns and the use of canola oil for cooking chicken nuggets and fries. This coincided with the May 2004 release of the movie *Super Size Me*, which brought the unhealthy effects of fast food into the public eye like never before. Nonetheless, the brand repositioning strategy was highly successful with McDonald's outlets returning record levels of sales revenue.

Towards the end of 2004, McDonald's Australia launched the 'I'm lovin' it' advertising campaign to reinforce the new healthy image that had been created. In 2007 McDonald's earned a Heart Foundation Tick for nine of its health-conscious meals and launched these new meals with an advertising campaign based on the theme 'You are what you eat'.

From 2003 to 2008 revenue grew but brand perceptions of McDonald's did not improve. During this period the issue of obesity escalated in Australia, and to many critics McDonald's was 'the devil incarnate'. In 2007 the advertising agency DDB Group, using an ethnographic research approach, conducted a number of interviews with individuals at their local McDonald's restaurants. While chatting over a meal, these individuals were asked about what they liked and disliked about McDonald's. The researchers found that even the most ardent critics could find something they liked – a cherished moment that they had experienced in the past. Out of this research a 'McDonald's Moments' advertising campaign was conceived. It was launched towards the end of 2007 with a series of television commercials showing real people in real situations at a McDonald's restaurant.

Three years later, research conducted in 2010 showed that the campaign had successfully improved brand perceptions of McDonald's. However, despite this success McDonald's remained the critics' favourite scapegoat for the obesity problems confronting the nation. Research showed that about 50 per cent of Australians were concerned about the quality and nutritional value of McDonald's products.[33] In 2012 McDonald's responded by publishing calorie information for each of its products and, at the beginning of 2013, introduced an iPhone app, TrackMyMacca's, so that customers could track the ingredients of the food they were eating.

2014 saw another revitalisation of the McDonald's brand with the 'Create Your Taste' customisable burger menu. McDonald's witnessed the popularity of gourmet burger chains such as Grill'd and Burger Edge popping up around Australia, and began a strategy to change its positioning to compete with these upscale eateries. McDonald's introduced its first customisable burger menu, served on a wooden board with a wire basket of fries, brought to your table by a staff member.

1 Should McDonald's have changed its positioning to compete with the gourmet burger chains or would it have been better off sticking with what it does best?
2 Predict what the next challenge for McDonald's might be.

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Identify the way the market for your product(s) can be segmented and then select the most attractive segments to target. Develop a brand positioning strategy.

ETHICAL ISSUE

Critics claim that market segmentation is just another form of stereotyping, with all of the inherent dangers of promoting and reinforcing negative gender and racial characteristics. Should this issue be a concern for marketers?

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- value proposition
- a priori market segmentation
- brand leveraging
- repositioning strategies.

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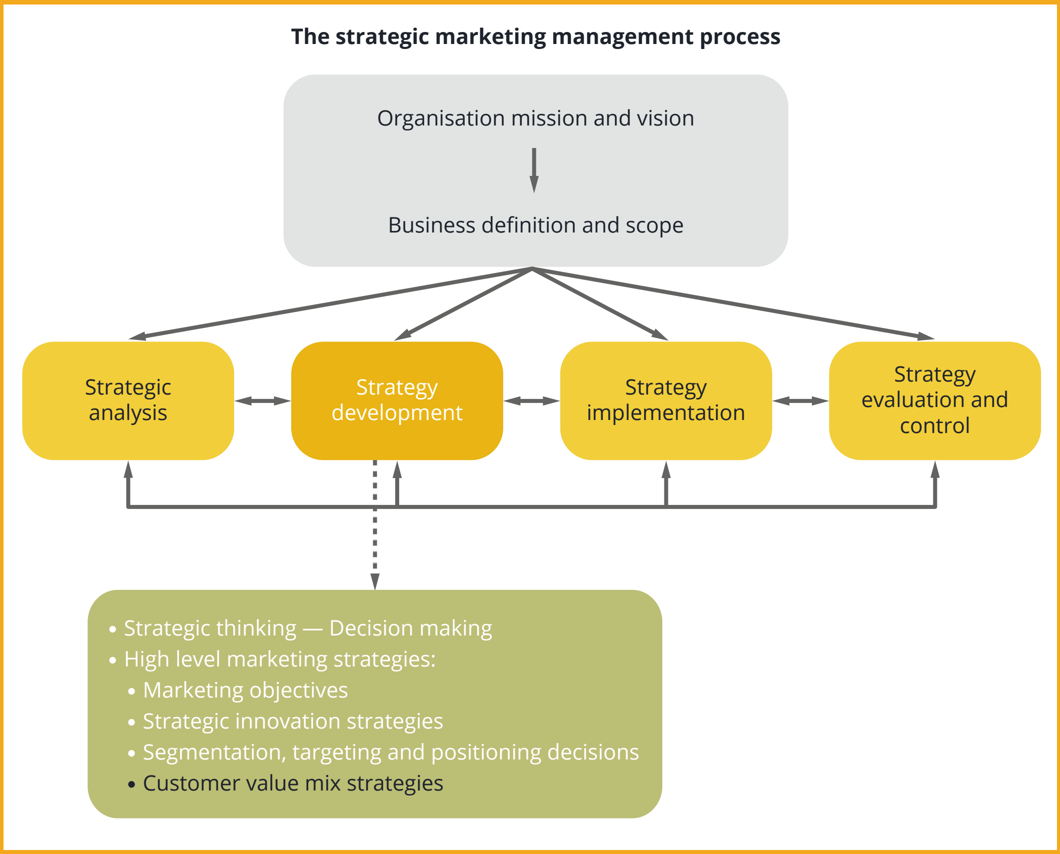

The strategic marketing management process
Organisation mission and vision
Business definition and scope
Strategic analysis
Strategy development
Strategy implementation
Strategy evaluation and control
• Strategic thinking — Decision making
• High level marketing strategies:
• Marketing objectives
• Strategic innovation strategies
• Segmentation, targeting and positioning decisions
• Customer value mix strategies

CHAPTER 6

THE CUSTOMER VALUE CREATION MIX – DIGITAL STRATEGIES

Customers choose between suppliers by evaluating which supplier provides them with the best value. The choice is driven by evaluating the relative importance of a complete set of factors (product, service, relationship, image and price) and the perceived performance of all suppliers on those factors. The decision process is not, and will never be, a function of just how satisfied a customer has been with a product or service.

Bradley T. Gale[1]

National Australia Bank – striving for a point of differentiation

Achieving a point of differentiation in the myriad of 'me-too' markets that exist today represents a huge challenge for most organisations. For the 'Big Four' Australian banks – Commonwealth Bank, Westpac, ANZ and National Australia Bank (NAB) – this is a particularly challenging task because there is a widespread public perception that the banks are all the same.

In 2011 NAB set out to establish a point of differentiation with the launch of an integrated marketing communication known as 'Break Up'. The objective was to feed off anger about the compliant relationships among the Big Four that was expressed by retail banking customers in a market research study conducted by NAB's advertising agency, Clemenger BBDO. Customers did not expect their bank to be perfect, but 'they were sick of the endless collective greed'.[2] This research insight led the NAB marketing and agency team to establish the following objectives for the development of the new IMC campaign:

1. to establish that NAB stands for 'fairer banking'
2. to challenge the perception that all banks are the same
3. to demonstrate by behaviour rather than just words that NAB is different
4. to highlight NAB's 'fairer banking' product features that differentiate NAB from its competitors
5. to encourage other banks' customers to question their bank's collusive behaviour
6. to provide a platform for staff engagement.[3]

The campaign launched on Friday 11 February 2011 with what appeared to be an embarrassing mis-tweet from a disgruntled NAB employee, 'Sooooo stressed out. Have to make a tough decision and I know I'll probably hurt someone's feelings! Arrggghhh'. The tweet was retweeted over 100 times.

On Saturday, newspaper advertising began with an announcement that NAB would waive its 'switching fee' for customers of the other three banks to change their loans to NAB and that NAB would also the pay the fees charged by these banks for switching. On the same day, the NAB website directed web surfers to a video blog featuring the dating columnist Zoe Foster presenting information from a purported NAB survey about couples breaking up. These two activities acted as a teaser for the main campaign that would launch on the following Monday, which happened to be Valentines Day, where a series of 'break-up' stunts would be staged involving actors breaking up with their partners on the street while helicopters flew banners overhead declaring 'Dear CommBank, Westpac and ANZ. Sorry it's over'. On this most romantic day of the year, patrons at cafes and restaurants in Melbourne, Sydney and Adelaide and commuters on public transport witnessed actors staging break-ups between NAB bankers with other bankers. These stunts were recorded and uploaded to a dedicated NAB Break Up blog.

Three additional hidden camera films were also uploaded to this site that showed NAB ambushing ANZ, Commonwealth Bank and Westpac meetings with the breaking-up message. On Tuesday, full-page newspaper ads displayed a 'Dear John' letter from NAB to its three main competitors under the headline 'It's over between us'. A helicopter flew around both Sydney and Melbourne trailing a huge banner with the message 'Dear CommBank, Westpac and ANZ, you're dumped. NAB'. After the frenzied activities of the first week, the campaign continued with press, outdoor and online advertising.

The impact of the campaign was enormous. It was estimated that the public relations (PR) activity generated over $5 million worth of media coverage in just a single day. Over a quarter of a million online visits to the NAB Break Up blog site were recorded in the first five days of the campaign, and Break Up became the number one discussed topic on Twitter.[4]

The Break Up campaign was an immediate success, with NAB experiencing a 79 per cent increase in home loan enquiries, a 50 per cent increase in credit card applications and a 20 per cent increase in transaction accounts opened. From the start of the campaign to the end of March, the bank signed up 116 466 new customers. The campaign achieved international recognition when it was judged to be the best PR campaign in the world at the prestigious Cannes Lions International Festival of Creativity Grand Prix in PR for 2011.[5]

A brand promise is one thing, but breaking the promise is another. In November 2011, just nine months after Beak Up was launched, NAB made the disastrous decision to be the only bank not to pass on an interest rate cut in full that was announced by the Reserve Bank of Australia. NAB clearly reneged on its brand theme of the time, 'More Give, Less Take'. As Michael Hughes, managing partner of the brand agency Truly Deeply, lamented:

> NAB has demonstrated a blatant disregard for its customers and shot the reputation it has worked so hard to build in past year. With one greedy decision, the bank has fuelled the 'corporate greed' debate once again. But more importantly, this decision highlights the lack of alignment between what the bank says and what is does.[6]

In 2016, NAB embarked on a rebranding campaign under the theme 'More than money'. The campaign was initiated by the then newly appointed chief marketing officer (CMO), Andrew Knott. He felt it was time to move on 'to something that's far more reflective of what we stand for today, but that's also consistent with our heritage. When we are at our best is when we take time to understand customers and understand where they are at in their lives and to help them with the financial aspects of doing so'.[7]

Focus of this chapter

In the previous chapter the process of developing high-level marketing strategies was discussed, with an emphasis on the processes of segmentation, targeting and positioning (STP); that is, the identification of customer groups (segments) for the organisation to target, and decisions about how to position the organisation's product offerings to those segments against competitive offerings. The next step, the focus of this chapter, is the development of customer value mix strategies.

Learning objectives

The aim of this chapter is to provide information regarding the concept of customer value and the processes that are involved in the creation, communication and delivery of customer value.

After reading this chapter you will have an understanding of:

- the value that customers or potential customers seek from the products or services they purchase or seek to purchase (6.1)
- a framework to consider the kinds of values that can be created and the sources of information an organisation can use to create value (6.1)
- a tool to review the organisation's current value creation mix strategies (6.2)
- an overview of the customer value mix strategies used by organisations for the purpose of creating, communicating and delivering customer value (6.3).

6.1 What do customers value?

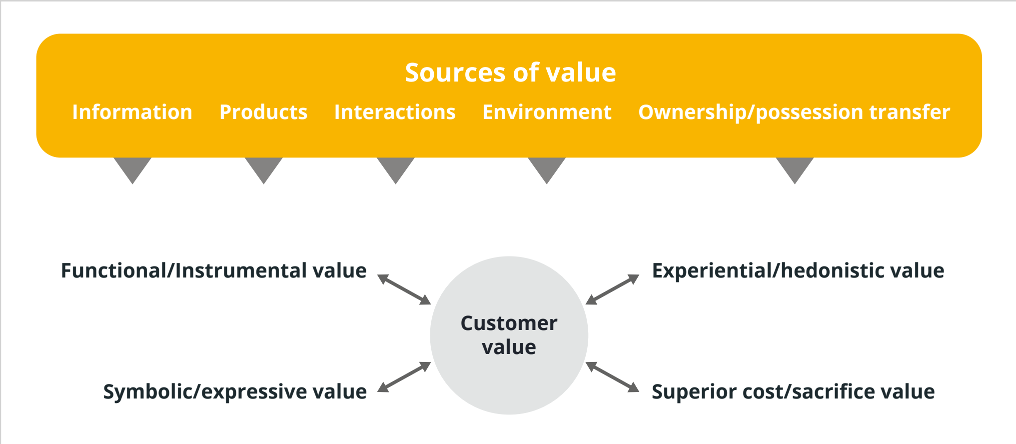
The concept of the value proposition was discussed in Chapter 5. It was established that the term *value proposition* is closely related to the concept of *brand positioning*. While the concept of positioning is concerned with establishing a frame of reference or key brand associations in the minds of the organisation's target customers, the value proposition focuses on the specific drivers of value sought by those targeted customers. That is, the customers' perceptions of value.

Customer perceived value (CPV) is defined by Valarie Zeithaml as 'the consumer's overall assessment of the utility of a product based on the perception of what is received and what is given'.[8] At the core of the concept of CPV is the notion of a trade-off between perceptions of benefits to be received and perceptions of the costs or sacrifices involved in receiving those benefits. Costs or sacrifices include not only the purchase price but also such factors as repair and maintenance, installation, service and, in a business-to-business (B2B) context, the cost of failure.

So, what do customers value? The creation of value is one of the most critical tasks in the entire strategic decision-making process and yet, quite surprisingly, customer value research is only in the early stage of conceptual development. However, despite the scarcity of published research articles, a conceptual framework of value creation developed by J. Brock Smith and Mark Colgate provides a useful tool for organisational strategists to understand (1) what kinds of customer value can be created and (2) how customer value can be created by their organisation.[9]

Following an extensive review of the literature concerning the topic of customer value creation, Smith and Colgate constructed their model by building on the strengths of previous frameworks that had been developed while mitigating key weaknesses that they detected. The framework shown in Figure 6.1 consists of four major types of customer value that can be created. These four values

FIGURE 6.1 The customer value creation framework



Based on a framework developed by Smith and Colgate. Refer to J.B. Smith and M. Colgate, 'Customer value creation: A practical framework', *Journal of Marketing Theory and Practice*, vol. 15, no. 1, 2007, pp. 7–23.

influence the choices customers make concerning (1) product category decisions (whether to buy or use a specific product) and (2) brand decisions, and include:

- Functional/instrumental value – the extent to which a product has the desired:
  - *characteristics*, such as correct, accurate or appropriate features, functions and attributes, including aesthetics, quality, customisation and creativity
  - *usefulness/benefits*, such as saves time, simplifies, connectivity with others or reduces cost or effort
  - *performance capabilities*, such as reliability, performance quality and service support.

  Organisations pursuing this strategy focus on product innovation and product leadership, investing heavily in new product development processes, research and development (R&D), market research, technology and activities revolving around continuous improvement and production quality.
- Experiential/hedonistic value – the extent to which a product creates appropriate customer:
  - *emotions*, both *positive*, such as pleasure, enjoyment and fun, and *negative*, such as fear or problem avoidance
  - *feelings*, *experiences* and *sensory*, such as smell or taste, or in a service context aesthetics or ambience
  - *epistemic value*, which is the desire to seek knowledge.

  Organisations pursuing this strategy focus on customer relationships and service quality, investing in customer support technology, market research, facilities (especially in a service environment) and flexible manufacturing to provide customised product offerings to narrowly defined market segments.
- Symbolic/expressive value – the extent to which customers attach or associate psychological meanings to a product. These associations are based on the individual's:
  - *concept of self or self-worth* – the reflection of the way the individual feels about him/herself
  - *self-expression* – the reflection of the individual's personality, taste or values

- *social meaning* – the reflection of prestige, status or image
- *conditional meaning* – the symbolism relating to a specific sociocultural event or tradition such as giving a birthday present.

Organisations pursuing these strategies focus on brand image/brand equity and customer equity. They typically invest in marketing communication activities, particularly advertising and PR, and in activities relating to product quality and customer engagement.

- Cost/sacrifice value – the extent to which customers seek to maximise or at least realise the benefits derived from a product, while at the same time seeking to minimise the costs and other sacrifices that may be involved (i.e. transaction costs) in the purchase, ownership or use of the product.

  Organisations competing with this strategy focus on operational excellence and value chain efficiencies, especially purchasing, production and distribution.

The framework also identifies the following five sources of value, which are created by a variety of value chain processes and activities conducted by the organisation and its ecosystem partners:

- *information* – integrated marketing communication activity designed to inform, imbue (brand values and meanings), persuade, reinforce and remind
- *products* – the value that is communicated by a product via its features, functions, aesthetics, characteristics, sensory/emotional appeal and price
- *interactions* – the customers' interaction with the organisation and its value chain partners via personal and systems contact (i.e. by phone and online communication)
- *environment* – the purchase environment (i.e. ambience) and the consumption environment (i.e. eating in a restaurant or flying on an airplane)
- *ownership/possession transfer* – how the product is delivered, payment terms, order tracking, billing accuracy and the timeliness of delivery.

It should be noted that the four categories in Figure 6.1 are not mutually exclusive. In most cases there are multiple values. A Chanel handbag, for example, is valued by its customers for its superb product quality and design (functional/instrumental values), as means of self-expression (symbolic/expressive value) and for the pleasure that is created through the shopping and ownership experience (experiential/hedonistic value). Chanel focuses on advertising (to create and maintain brand image/equity), customer service (to enhance the purchasing experience to create and maintain customer equity) and an exclusive distribution strategy designed to enhance the shopping experience.

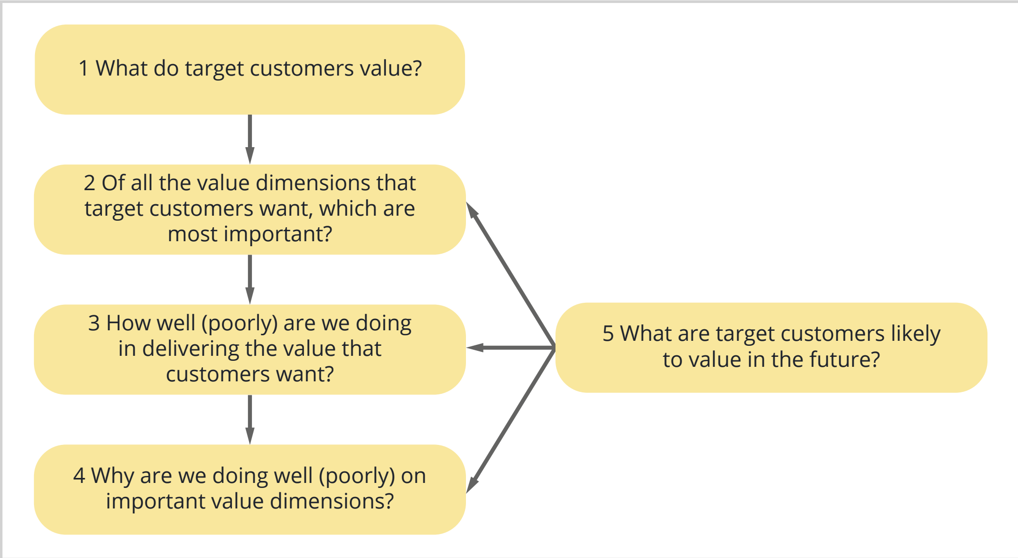
6.2 Review of customer value creation mix strategies

The customer value creation model provides a framework for the development of the value creation mix strategies. It can be used all types of business-to-consumer (B2C) and B2B organisations and for the marketing of both products and services.

The starting point is to conduct a review of the organisation's current strategies. Figure 6.2 provides a framework for this review.

As the model shows, Steps 1 and 2 of the review process involve identifying what the targeted customers value and the values that matter to them most. Strategists draw on market research techniques such as customer satisfaction surveys, focus groups, cross-tabulated surveys, demographic information, ethnographic research and, more recently, laddering and prototyping techniques for this purpose. Laddering is a *means-end* technique that identifies core attributes and value drivers via in-depth customer and non-customer interviewing.

FIGURE 6.2 Framework to review an organisation's current value creation mix strategies



Source: R.B. Woodruff, 'Customer value: The next source of competitive advantage', *Journal of the Academy of Marketing Science*, Spring 1997, Figure 4 'Customer value determination process', p. 144.

The interview process consists of a series of closely related questions that are designed to link product attributes, consequences and personal values that underpin the interviewee's purchase preferences. For example, on the first probe an interviewee might state that the reason for purchasing or wanting to purchase a Volkswagen Golf GTi is because it is reasonably priced and is prestigious (cost/sacrifice value, experiential/hedonistic and symbolic expressive values). The next question would be: Why is prestige important? To which they might respond: 'I have a good job and it's important to keep up with appearances' (consequences). The next question or questions would be designed to identify the interviewee's personal values that underpin these responses (i.e. social recognition, a sense of accomplishment or a sense of freedom and adventure).

Prototyping extends the laddering information by developing a profile or portrait of the ideal customer – a *brand champion*. The objective of prototyping is to develop a detailed understanding of the lifestyle of these ideal customers and the motivations and aspirations that drive their purchase decisions. A prototype is a detailed description or profile of an individual customer who is considered to represent others in the prototype category. The profile may be written either in a narrative style or as bulleted listing of characteristics.

Customer satisfaction surveys provide the main input for Step 3 that investigates the performance of the organisation in delivering the value that customers want. Step 4 however, requires additional qualitative research input to explore reasons why the organisation's customers have considered the organisation to perform well or poorly on value dimensions that matter.

In some product categories where the future is reasonably clear, Step 5 can be approached with a degree of confidence. For example, it was reasonably predictable that features pioneered in luxury cars such as airbags, electric windows, smartphone connectivity, park assist and lane assist would not take long to become standard features in all cars. Techniques such as brainstorming, trend-spotting, the Delphi Technique, coolhunting and scenario planning are used to help in the task of attempting to uncover values that the targeted customers are likely to seek in the future.

6.3 The customer value creation mix

The review of an organisation's current customer value creation mix highlights the activities that are important and are being conducted either well or poorly. This information provides the strategists with a means of determining the customer value creation, communication and delivery activities that they need to address within their strategic timeframe.

Strategies designed to create value – product management strategies

These processes and activities involve what is primarily considered to be the domain of product management. In this sense a product may be an idea, a physical entity (a good), or a service, or any combination of the three.[10]

Physical goods are created by activities and processes involving R&D, new-product development, supply and production. Each of these activities and processes involves marketing-related input including decisions concerning:

- the physical characteristics of the product (quality, features and attributes), branding, packaging and pricing
- intangible product properties, such as the core product – the benefits and value for targeted customers
- the augmented product, such as pre- and post-sale service support such as warranties, delivery, installation and credit.

The fundamental difference between services and goods is *intangibility*. Services cannot be seen, felt, tasted or touched. As Christian Grönroos points out, services are processes, not things.[11] Services are partly produced and consumed simultaneously, with customers playing a role in the co-creation of the service. In services, marketing the *interaction* between the customer and the quality-generating resources (physical resources, people resources and process resources comprising technology and systems) of the organisation is of paramount importance. Marketing input is therefore required in areas such as facility design and location, human resource management (recruitment, training and performance management of staff across the organisation who interact with targeted customers) and information technology, particularly digital technology and social media.

Product management is important for marketers of physical goods and for services. Major decisions revolve around the following product portfolio considerations:

- *Existing products* – How well (or poorly) do our existing products deliver value to our targeted customers? What modifications need to be made to existing products? What opportunities exist for entering new markets with our existing products? What products need to be deleted?
- *New products* – What new products need to be added? New products may need to be introduced to meet the existing and emerging needs and preferences of market segments currently being targeted, and new (related) segments to be targeted within the strategic timeframe.
- *Branding and brand positioning* – How will the products be branded? Individually or by product line? How will the brand(s) be positioned or repositioned?

Product management also involves a consideration of pricing strategies. Pricing strategy must support the organisation's strategic positioning and product positioning strategies. It must also take account of marketplace reality and the changes that are likely to take place in the marketing environment. The main considerations concerning pricing strategy are penetration versus skimming pricing, the use of sales promotion techniques as alternative pricing mechanisms, product line pricing, and the price/value equation.

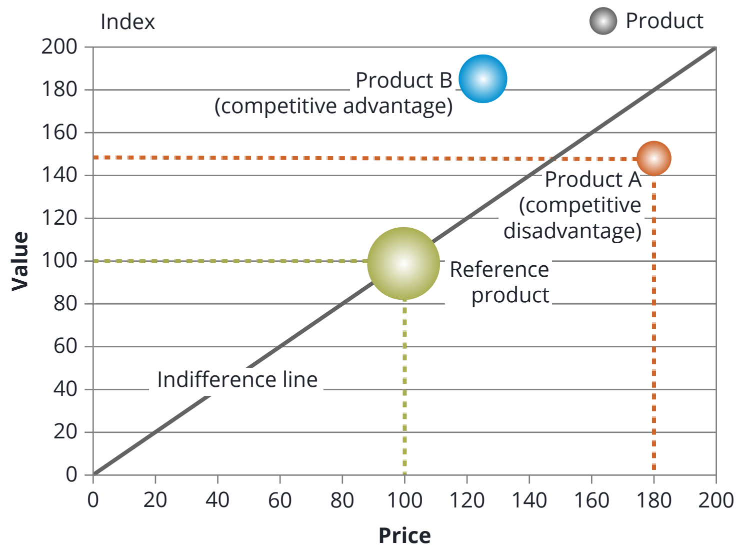
Decisions about penetration and skimming pricing strategy are mainly related to new-product introductions, specifically for first-movers (market pioneers). A cost leader, for example, might choose a penetration pricing strategy (low price) to encourage fast product adoption and to discourage competitors from entering the market. The objective is to establish a high market share and to achieve profitability via large volume sales. This can also work very well for competitors entering into new markets with established market players, especially if they have a superior product offering, because the cheaper initial price encourages consumers to brand switch. Price skimming, on the other hand, is for a differentiator. High prices signal high quality and, coupled with a selective distribution or exclusive distribution strategy, high margins can be achieved by the marketing organisation and the chosen intermediaries. Apple does this very effectively with its i-technology. However, when competitors enter the market, the price skimmer typically must reduce prices to meet those of their competitor. The risk is that a price reduction may disenfranchise the innovators and early adopters who purchased the product at higher prices.

Decisions also need to be made about the use of sales promotion techniques as alternative pricing mechanisms; for example, the use of cash-back offers, introductory discounts and coupons for launching new brands. Loyalty programs may be planned for the purpose of attracting and maintaining customers during all phases of market evolution. Sales promotions may also be planned to stimulate demand during off-season troughs. Care must be exercised to not do any of these too regularly because it runs the risk of consumers getting accustomed to constant promotions and possibly delaying their purchase behaviours until the next promotion period.

Decisions need to be made concerning product line pricing. Consumer behaviour theory shows that consumers with little category knowledge of what they are purchasing will accept the middle price point option as the norm; therefore, the range of prices within a product line is very important. In most product categories a variety of price points can be identified, ranging from premium-priced products to midpoint (or value-for-money) products and bargain or low-priced products. Market-wide or multi-segment marketers typically choose to compete at all or most price points, while niche or focused competitors concentrate on one price point. Figure 6.3 shows a product/price positioning grid that provides a tool for analysing current competitive price line strategies and for developing pricing strategies.

FIGURE 6.3 A product/price positioning grid

FIGURE 6.4 The price-value model



Source: H. Golub and J. Henry, Market strategy and the price-value model, in 'Delivering value to customers', *McKinsey Quarterly*, June 2000, p. 47.

McKinsey developed its own model based around the price/value equation, as shown in Figure 6.4. Value is at the core of consumers purchase decisions, and given this, if the product's value is equal to or greater than the purchase price the consumer will purchase it (if they have the ability to do so). The problem with this for strategy development is that value is very subjective; what is valuable to one consumer may not hold the same value to the next. McKinsey states that strategically the only parameters that matter to the consumer are value and price. Therefore, it designed the model to illustrate the important trade-offs consumers do or do not make. When using the model for an industry, the reference product must first be defined; this is usually the product with the largest market share in the industry (or second largest, if your company's product is the largest). Referring to Figure 6.4, if this is placed at the arbitrary value of 100,100 it provides the basis to plot other competitive products within the industry. Similarly to the BCG matrix, the circle size is important because it signifies sales. Products along the 'indifference line' are as equally appealing to consumers as the reference product; if a product is twice the price but holds twice the value, the equation is just as good. The difficulty in using the model is determining the value of a product to the 'average' consumer. But the benefit of using the model is that it allows the company to visualise its competitive position within the current industry, and the costs and/or benefits of changing the value, the price, or both. It can also serve as a persuasive tool to justify strategic marketing decisions.[12]

Strategies designed to communicate value – brand management and integrated marketing communication strategies

These strategies are typically described as integrated marketing communication (IMC) strategies or brand management strategies. IMC strategies play an important role in the creation of brand meanings. As was discussed in Chapter 5, brand meanings are created by three mechanisms: the organisation, via its business and marketing activities; the broad culture, including the influence of the media; and by the customer. IMC strategies play an important role in the first of these mechanisms. Their role is to:

- *inform* – create awareness and to communicate product information
- *imbue* – the brand with symbolic values and meanings
- *persuade* – encourage trial or purchase
- *reinforce* – positive attitudes
- *remind* – to repurchase.

With the advent of digital media, including social media, two additional roles need to be added: *engagement* and *relationship building* (including advocacy).

All these roles are important, and it has become an imperative for all organisations to develop IMC strategies that embrace traditional and digital forms of communication. This is easier said than done because, as discussed previously, the development of digital media capabilities requires a restructuring of the organisation's marketing activities and processes. Research conducted in 2012 by the Boston Consulting Group found that organisations progress through three stages of maturity in adopting digital media strategies: experimenting, building and digitally evolved. Organisations in the experimenting stage dabble with digital media and devote less than 10 per cent of their annual marketing budgets to this activity. They invest in data mining and technology to monitor customer usage and behaviour. In the next (building) stage, organisations identify and target brand influencers (to act as brand champions or promoters), track customer activities and consider the development of online brand communities and the use of monitoring services to manage an increasing volume of web traffic. Builders spend more than 10 per cent of their annual marketing budget on digital media. Digitally evolved organisations spend over 20 per cent of the marketing budget on digital media and are actively engaged in developing advanced capabilities in digital marketing.[13]

The starting point for the development of strategies designed to communicate value is to conduct a brand audit (as was discussed in Chapter 5) to determine the current level of brand knowledge in terms of brand awareness and brand image of all competing brands in the selected market segments. Based on these findings, strategies are then developed that are designed to either increase or to maintain the current levels of brand awareness and to create a favourable, strong and unique brand position in the minds of the intended target market. That is, for the brand to be favourably included in the potential customers' evoked set of brands (the customers' shortlist of brands to be considered).

The next step for the strategists to consider is information derived from the touchpoint analysis and mapping process, in particular the needs and expectations of targeted customers at each touchpoint. The task for the strategists is to develop IMC strategies that most effectively and efficiently address the needs and expectations of those customers. This includes consideration of (1) the combination of marketing communication tools to be used (traditional and new) within the context of an overall customer engagement strategy and (2) communication content decisions. Coles, for example, used a combination of television, print, radio, online and point-of-purchase media in its 'Feed the family for under $10' marketing campaign launched in 2009. Buoyed by the success Coles had experienced with its sponsorship of the television program *MasterChef*, the centrepiece of the campaign (featuring celebrity chef Curtis Stone), a series of recipes were published online, in print media and as in-store recipe leaflets. As a part of this campaign, the advertising agency DDB Melbourne created 'Kitchen Confidence', a recipe engine in text, PDF and video formats that was distributed across several online channels, including the Coles website, a dedicated Coles YouTube channel, Facebook, Twitter and other social media sites.[14]

Strategies designed to deliver value – customer engagement strategies and distribution strategies

Customers and potential customers engage with organisations and with other customers through an ever-increasing variety of touchpoints. These customers and potential customers form impressions about organisations and their brands at every encounter. Consequently, the development of an effective customer engagement strategy has become a major challenge for organisations of all shapes and sizes.

The customer engagement strategy development process starts by mapping the touchpoints that customers or prospects are likely to encounter, ranging from pre-purchase to purchase and through to post-purchase points of interaction. The pre-purchase phase starts from the moment a potential customer becomes aware of a product or brand through exposure to advertising (traditional or digital), word-of-mouth (friends, business associates or sales personnel) or from sighting the product. During the purchase phase, the potential customer will come into contact with a variety of possible touchpoints such as the organisation's salespeople, representatives of the organisation's go-to-market partners (i.e. retail salespeople, or distributor sales personnel in B2B organisations), finance personnel, call centres, friends, business associates, social media, blogs, brand communities and a myriad of other sources, including accurate and timely product delivery (order fulfilment). Research conducted by McKinsey reveals that over two-thirds of the number of touchpoints during this consumer active-evaluation stage are *consumer-driven* (via digital media, word-of-mouth, print reviews and other information sources) rather than *company-driven* (via traditional media, direct marketing, sponsorship, sales personnel contact, in-store shopping experience, product delivery and service delivery).

During the post-purchase phase, customers will potentially come into contact with a variety of organisational personnel in departments such as sales, customer service, accounting and marketing either by phone, email or mail outs. An example of this would be information concerning the organisation's loyalty program. These touchpoints may be initiated by the organisation or by the customer. In addition to company–customer and customer–company generated touchpoints the customer might also interact with other customers, potential customers, friends and acquaintances through social media, the blogosphere, a brand community, email or word-of-mouth.

After identifying and mapping the number and nature of the various touchpoints, the next steps are to:

1. Establish the targeted customers' needs and expectations for each touchpoint stage, and how each interaction adds to or detracts from perceptions of brand value.
2. Establish how well and consistent the organisation is in creating, communicating and delivering value in comparison to its competitors.
3. Determine which of the touchpoints matter most to the organisation's customers – that is, the value drivers, as discussed in Chapter 5. These touchpoints need to be prioritised in order of importance.

Market research tools that have been used for the purpose of identifying and mapping customer touchpoints include a combination of traditional quantitative techniques (i.e. customer satisfaction surveys), brand image surveys and qualitative techniques (i.e. focus groups and in-depth interviews) and, more recently, ethnographic studies. Over the last decade there has been a flurry of new proprietary techniques introduced such as Siegel+Gale's PinPoint™ touchpoint evaluator, MCorp Consulting's Touchpoint Mapping® and Mesh Planning's Real Time Experience Tracker (see also Chapter 3).

The challenge for marketing organisations is to manage the customer engagement process. Customer engagement needs to be managed not just on an organisation-wide basis but by a network of partners outside of the organisation. McKinsey's Tom French, Laura LaBerge and Paul Magill argue that CMOs should concentrate their efforts towards building a *customer engagement ecosystem* consisting of three areas of activities: marketing department activities, activities performed inside the organisation but outside of the marketing department, and activities performed by a network of external partners.[15] They argue that marketing is best placed within the organisation to orchestrate the entire process. In order to move beyond a function-by-function approach to customer engagement French, LaBerge and Magill suggest that the following five-step process should be undertaken:[16]

1. Hold a customer engagement summit drawing together senior managers across the organisation's units and functions. The focus of the summit should be threefold:
   a. to discuss how the organisation's customers could be motivated to invest in an ongoing relationship with the organisation's products or brands
   b. to address how the organisation's activities can be coordinated to reach and engage customers across the full range of touchpoints
   c. to reach agreement on the mix of internal and externally provided customer engagement activities that are required. Customer-facing activities that are provided by external partners (i.e. the organisation's go-to-market partners) need to be carefully considered in the development of the organisation's distribution channel strategies.
2. Create a customer engagement council – an operational and decision-making body whose purpose is to coordinate tactics across all the touchpoints in a timely manner. The membership of this council needs to be large enough to represent all the key areas of customer engagement, but not so large that it prevents it from functioning efficiently.
3. Appoint a 'chief content officer' responsible for designing and executing a content strategy with the objective of engaging customers and forging strong emotional bonds.
4. Create a 'listening centre' to monitor what is being said about the organisation and its brands on various digital media platforms.
5. Change the mindset concerning customer engagement budgeting. The cost of customer engagement activities can be overwhelming. It is therefore essential to consider the total customer engagement budget and redirect expenditure to the most productive areas. Research conducted by Forrester Research and the Boston Consulting Group has found that digitally evolved companies experience improvements in brand perceptions by 10 per cent or more, sales increases between 0.7 to 1.1 per cent, an increase by 90 per cent in resolved customer complaints, and a reduction by 40 per cent in customer-support costs.[17]

In the digital age the organisation's go-to-market strategies have never been so important. Decisions need to be made concerning distribution channel length (the different type of intermediaries to be used), distribution intensity (ranging from narrow to broad distribution coverage – from exclusive to selective to intensive distribution), the selection of the distribution partners and, most importantly, the role that these partners are expected to provide in creating, communicating and delivering value for the organisation's targeted customers. Distribution partners that fulfil a customer-facing function play a role in the overall experience that the organisation's customers have with the brand (value creation), interacting with the customers at critical touchpoints in their decision-making journey (value communication), in facilitating the purchase transaction and in providing customer service (delivering value). The key requirement for the organisation is to have a well-developed go-to market strategy where the roles and responsibilities of the organisation's personnel (including sales, marketing and logistics) are clearly defined, as are the roles and responsibilities of the channel partners.

SUMMARY

- This chapter has discussed the processes involved in developing strategies that are designed to create, communicate and deliver customer value. These decisions are an extension of the high-level segmentation, targeting and positioning (STP) strategies discussed in Chapter 5.
- The starting point for these deliberations is to develop an understanding of what customers currently value and what they are likely to value in the future. The customer value framework developed by Smith and Colgate provides a useful model for this purpose. After identifying the value dimensions that are the most important to the organisation's targeted customers, the next step is to determine how well or how poorly the organisation has performed in delivering on those value dimensions – including an assessment of why the organisation has succeeded or not succeeded in this regard.
- Armed with information about what the target customers most value and the organisation's performance in delivering on that value, the strategists are then able to either refine existing value creation, communication and delivery strategies or to develop new strategies. A most important input for these deliberations is the construction of a touchpoint map that plots all the various points of interaction or engagement that customers or potential customers may have with the organisation and its go-to-market partners as they progress through each of the pre-purchase, purchase and post-purchase stages of buyer behaviour.
- The touchpoint map allows the strategists to consider the appropriate mix of marketing tools and other organisational processes and activities to be used to create, communicate and deliver value for the organisation's customers.

DISCUSSION QUESTIONS

1. Referring to the discussion of NAB's brand positioning strategies in the opening vignette of this chapter, what lessons can be learnt from the way NAB mishandled the brand promise?
2. Have the concepts of the 4Ps and 7Ps passed their use-by dates? Discuss.
3. Should every B2C company advertise and sell online? What about B2B companies?
4. The CEO of a company that charters and sells private jet aeroplanes has asked you for advice on its social media strategy. Which social media platform would you suggest as being most appropriate to advertise its service/product to its target market?
5. Does privacy exist in an online world? Should we be worried about the amount of personal information that organisations can gather from our online activities, including online shopping and social media?

STRATEGY IN PRACTICE

The rebirth of a British icon – from chavs to couture

Towards the end of the 1990s the iconic British garment company Burberry was in trouble. For the financial year ending 31 March 1998, profits plunged from £62 million to £25 million. The owners of Burberry, Great Universal Stores, were advised to sell off their ailing subsidiary. Fast forward to the financial year 2011/12 when Burberry was named the fourth-fastest-growing global brand in surveys conducted by both Interbrand and BrandZ.[18]

The turnaround of Burberry commenced in 1997 with the appointment of a new CEO, Rose Marie Bravo, recruited from the position of President of Saks Fifth Avenue. The challenges facing Bravo at that time were enormous. She found that because of a strategy of expansion over several decades, the Burberry brand had been trashed. Burberry products could be found in over 60 different stores in central London alone, but not in any of the prestige department stores such as Harrods, Selfridges or Harvey Nichols. An out-of-control licensing strategy had resulted in product design, quality and pricing inconsistencies across markets. Because of this strategy the Burberry product range had become overextended, while at the same time a parallel market of Burberry products had emerged as a major problem.

The first action that Bravo took was to tackle Burberry's image problem. This included a new logo design, a change of name from Burberry's to Burberry, new packaging and an advertising campaign based on a distinctly British theme featuring leading fashion models such as Kate Moss. Bravo believed that Burberry could be successfully positioned in a market niche sandwiched between the pure luxury brands at the top and the mass-distributed brands below. In 1998, a new premium high couture and runway fashion brand named the Burberry Prorsum range was launched, and in 2000 a flagship Burberry store was opened in New Bond Street. This was followed by the opening of landmark stores in the major fashion capitals of Milan, New York, London (Knightsbridge) and Barcelona. In 2001 Christopher Bailey was appointed design director and the Burberry London ready-to-wear range was upgraded to reflect the updated lifestyle positioning of the Burberry brand.

By then the road to recovery was well underway, and the turnover and profit decline had been halted by 2004. In 2002/03 turnover had climbed to £593.6 million and earnings before interest and taxes were £116.7 million.[19]

The stage was now set for the second phase of Burberry's revitalisation. In 2006, after a six-month transition, Bravo handed over the CEO reins to Angela Ahrendts, the former Vice President of Liz Claiborne. Ahrendts' vision was to elevate Burberry to the position of a major player in the global luxury brand market. To achieve this, she identified a market segment that she believed had been largely untapped by any of her competitors: millennials – the luxury customers of the future.

One of Ahrendts' first actions was to promote Christopher Bailey to the position of chief creative officer. With 23 licences around the world, Burberry products had become ubiquitous and out of touch with the image requirements of a luxury brand. Bailey was introduced as the 'Brand Czar' and staff were informed by Ahrendts that 'anything that the consumer sees – anywhere in the world – will go through Bailey's office. No exceptions'.[20] This was followed by the closing down of a design team in Hong Kong and factories in New Jersey and Wales.

A new 'brand-first' positioning strategy was developed based on three core attributes: the quintessential British character of Burberry, the democratic nature of the brand and Burberry's historic origins – born from a coat. The focus on Burberry's heritage provided the direction that inspired creativity and innovation within the company. From just a few basic styles of trench coat, Bailey and his team designed a completely new range of trench coats in a large variety of styles and colours. The ethos of the trench coat permeated everything the company did, from runway shows to store displays. The retail operation was strengthened over the next six years with the opening of 132 stores in markets that had stores for two or more of Burberry's luxury brand competitors.

Ahrendts also had a vision to be the first luxury brand company to be fully digitalised, from end to end. This meant her customers were able to have full access to Burberry on any device and to get the same feeling of the brand and culture wherever they were.

The company's website (https://www.burberry.com) was substantially upgraded to become the lynchpin for customer engagement, entertainment and interaction. In 2009, Burberry launched a social media platform (http://artofthetrench.com) to celebrate the iconic trench coat and the people who wear it. In 2012 Burberry Bespoke was launched on the Burberry website to provide customers with the ability to co-create a Burberry trench coat to their own specifications.

While the trench coat is the centrepiece of the Burberry branding strategy, the product range under the directorship of Chris Bailey had been refined and expanded over the years. Sixty per cent of Burberry's business in 2012 was in apparel, with half of that in outerwear. Womenswear, women's accessories, women's bags, women's shoes, menswear, men's accessories, watches, childrenswear, beauty and fragrance, and gifts account for the remaining 40 per cent.[21]

In April 2014 Chris Bailey took over from Angela Ahrendts as CEO of Burberry while retaining the role of chief creative officer (CCO). The timing of the changeover coincided with a decline in the demand for luxury goods brought about by a slowdown in the Chinese economy, uncertainty in the Eurozone and other macro-economic forces that were playing out at that time. By 2015, faced with declining worldwide sales, Burberry's share price started to fall as investors lost confidence in the company. In 2016 it was announced that Mark Gobbetti, the head of Céline, would take over the role of CEO and that Chris Bailey would take on a new created role of president while retaining his position of CCO.[22]

In November 2017 Mark Gobbetti revealed to the world an ambitious three-pronged plan to reinvigorate the brand once again. The strategic objective was to elevate Burberry from its positioning as an 'accessible label/affordable luxury' brand into a truly luxury brand to compete head-to-head with Europe's most esteemed fashion brands such as Bottega Veneta, Givenchy and LVMH's brand Céline. The plan would be based on: (1) the addition of more leather goods and newness to its collections, (2) the tightening of distribution, to be achieved by scaling back lower-end wholesale partnerships while refreshing stores, and (3) drawing in Burberry's expertise as a digital innovator to communicate the transformation of the product offering.

In March 2018 Riccardo Tisci succeeded Chris Bailey as the CCO of Burberry. Tisci was credited for his role in resurrecting the LVMH-owned couture house Givenchy.

1 What is the high-end luxury market that Burberry is intending to target? Is there a danger that Burberry will alienate the millennial market that the company had targeted since 2006 under the leadership of Angela Ahrendts?
2 What are the values that customers seek in purchasing a luxury brand in the markets that Burberry intends to compete in?
3 Do you think that the strategies outlined by Mark Gobbetti can achieve the objective of repositioning the Burberry brand?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Develop a touchpoint map for each market segment that is to be targeted. Next, develop your customer value creation mix strategy recommendations.

ETHICAL ISSUE

Do the major supermarket chains in Australia have too much power over how food is produced, distributed and marketed?

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- customer-value perception
- brand management
- customer engagement
- customer touchpoints.

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PART

4

MARKETING'S ROLE IN STRATEGIC INNOVATION

Innovation represents the core renewal process in any organization. Unless it changes what it offers the world and the way in which it creates and delivers those offerings it risks its survival and growth prospects..

Bessant, Laming, Noke and Phillip[1]

As was discussed in Chapter 4, strategic positioning focuses on *how* the organisation will compete in its chosen industry, reflecting choices about the kind of value that it will create and *how* the organisation is to achieve a sustainable competitive advantage. Strategic innovation is the *where* (markets) and the *what* (products) of strategic positioning. That is, choices that are to be made concerning the markets (existing and new) the organisation will compete in and the products, services, processes and business models it will compete with.

The focus of strategic innovation is growth. In particular, how to optimise growth opportunities in the markets the organisation currently competes in, including the development of new products or services to compete with, the search for new market opportunities and the development of radical new products, services or business models that change the game by generating significant new value for consumers, customers, the organisation and other stakeholders.

Part 4 focuses on the strategic options that are available for an organisation to exploit growth opportunities via:

- core marketing strategies (Chapter 7)
- incremental innovation strategies (Chapter 8)
- market development strategies (Chapter 9)
- radical innovation strategies (Chapter 10).


The strategic marketing management process
Organisation mission and vision
Business definition and scope
Strategic analysis
Strategy development
Strategy implementation
Strategy evaluation and control
• Core marketing strategies
• Incremental innovation strategies
• Market development strategies
• Radical innovation strategies

CHAPTER

7

CORE MARKETING STRATEGIES

There are three truths about revenue growth: it's imperative, it's possible, and it's perilous. Growth drives nearly three-quarters of shareholder returns in a ten-year period, but fewer than half the companies that go for growth create value in the process. While an organization's starting position suggests the most likely paths to growth, true value-creating growth demands the right balance of core versus adjacent investment, engaged leadership, and aligned supporting capabilities.

Boston Consulting Group[2]

Unilever – making sustainable living commonplace[3]

Unilever is the second-largest fast-moving consumer goods (FMCG) company in the world, making and selling approximately 400 brands in over 190 countries. The company operates across four categories: personal care (the largest category), foods, home care and refreshment.

Innovation is key to Unilever's long-term growth aspirations. In a world of fast consumer preferences Unilever invests in the future by spending approximately US$1 billion annually on research and development (R&D). While the level of innovation varies by category, a 70:20:10 ratio is used to guide and prioritise innovation projects. Seventy per cent of innovation projects are global rollouts, 20 per cent are local innovations and 10 per cent are rollouts for local requirements. R&D works closely with marketing to use consumer insights to inform product development initiatives and the development of core marketing strategies. Changing consumer sentiments and preferences are tracked through 25 People Data Centres around the world.

Unilever's key emphasis is on its core global brands and on developing strategic, global launches based on larger projects with more consumer benefits. The company's core global brands are supported by a huge brand and marketing investment budget, which includes media, advertising production, promotional materials and engagement with consumers, of approximately €7.6 billion annually. Unilever is the second-largest advertiser in the world. Forty per cent of the brand advertising budget is spent on digital advertising.

In addition to seeking to grow organically, Unilever maximises new growth opportunities via an extensive merger and acquisition program. From 2009 to 2017 Unilever acquired businesses worth approximately €4.7 billion of turnover, including 12 acquisitions that were announced or completed in 2017. The company had also moved decisively to reshape its portfolio and since 2010 has sold assets worth €12.6 billion of turnover.

Unilever is a company that has a clear purpose – to make sustainable living commonplace and to deliver long-term sustainable growth for its stakeholders. The company's vision and purpose and strategic approach are embodied in the Unilever Sustainable Living Plan (USLP). The USLP was launched in November 2010 by the company's then recently elected CEO, Paul Polman, the first outsider to be appointed CEO in Unilever's 123-year history. Polman took up the reins of the company on 1 January 2009, a time when businesses all around the globe were dealing with the impact of the Global Financial Crisis. From the start of his tenure at Unilever, Polman put his shareholders on notice by announcing that the company would no longer issue quarterly and earnings guidance reports for the stock market. He explained that Unilever would be taking a longer view of performance and made it clear that his responsibility was to look after the interests of multiple stakeholders, not just shareholders.[4]

The USLP, Polman argued, was not just central to Unilever's business strategy, it was an entirely new business model. Its objective was to decouple the company's growth from its environmental footprint. Several very ambitious goals were set that included doubling Unilever's revenue by 2020 while slashing its environmental footprint by 50 per cent, sourcing 100 per cent of its raw materials sustainably and helping more than a billion people to improve their health and wellbeing. The supply chain would link more than half a million smallholder farmers and small-scale distributors and would be managed according to environmental, social and ethical principles. 'These are not acts of charity or a tick in the box for corporate responsibility', Polman explained to Unilever's shareholders. 'The Plan makes sound business sense. As an integral part of our business model, it will enable us to accelerate innovation, ensure security of resources, reduce overall costs and build sustainability into our brand propositions, ultimately winning consumer preference and loyalty well into the future'.[5]

Top-line revenue grew strongly for the first two years of the USLP, but went into decline over the next two years following a sharp slowdown in emerging markets, which accounted for 57 per cent of Unilever's total sales. A review of performance was conducted, and in 2016 an organisational change program, Connected for Growth (C4G), was developed with the objective of enhancing the organisational focus in driving growth and profitability and the organisational agility of the group. The focus of the program was to grow the core business through innovation, to expand into fast-growing segments and to build new channels. The program was also designed to drive greater efficiency in the company's cost base.[6]

2017 was a strong year for Unilever with solid revenue growth, strong profitability and good cash flow performances. Top-line revenue for the 2017 calendar year was €53.7 billion, up 21.2 per cent from the €44.3 billion that was recorded for 2010, the year that the USLP was launched. Between 2009 and 2017 the company had achieved an underlying sales growth of 4.3 per cent a year while expanding its operating margin by 390 basis points to 16.5 per cent. Growth of the company's sustainable living brands outstripped the company's other brands and accounted for 60 per cent of Unilever's growth. Sales in emerging markets accounted for 58 per cent of the group's total sales.

In November 2017 Unilever announced that it was commencing a succession process to replace Paul Polman as CEO towards the end of 2018. With just three years to go until 2020, the goal of doubling turnover by the target year (to €80 billion) became over-ambitious.

However, shareholders might at least have felt happy with the shares trading at $US46.96 at the close of business at the end of 2017 on the New York Stock Exchange – an increase of 110 per cent (without considering the dividends that had been paid along the way) from the share price of $US22.31 on the day the ULSP was announced.[7]

Against the sustainable living targets, by the end of 2017 Unilever had helped more than 601 million people improve their health and hygiene (against a target of 1 billion by 2020), while 39 per cent of the company's food and beverages product portfolio had met the highest nutritional standards (against a target of 60 per cent by 2020) and 56 per cent of its agricultural products had been sustainably sourced (against a target of 100 per cent for 2020).

Focus of this chapter

This is the first of four chapters that discuss in detail high-level strategic innovation strategies for the organisation strategist to consider. In this chapter the focus is towards the development of *core marketing strategies*, or *market penetration strategies* as they are also described. That is, strategies for existing products in existing markets including nearby or adjacent product categories and markets.

Learning objectives

The aim of this chapter is to provide information regarding the role of marketing within the context of strategic innovation.

After reading this chapter you will have an understanding of:

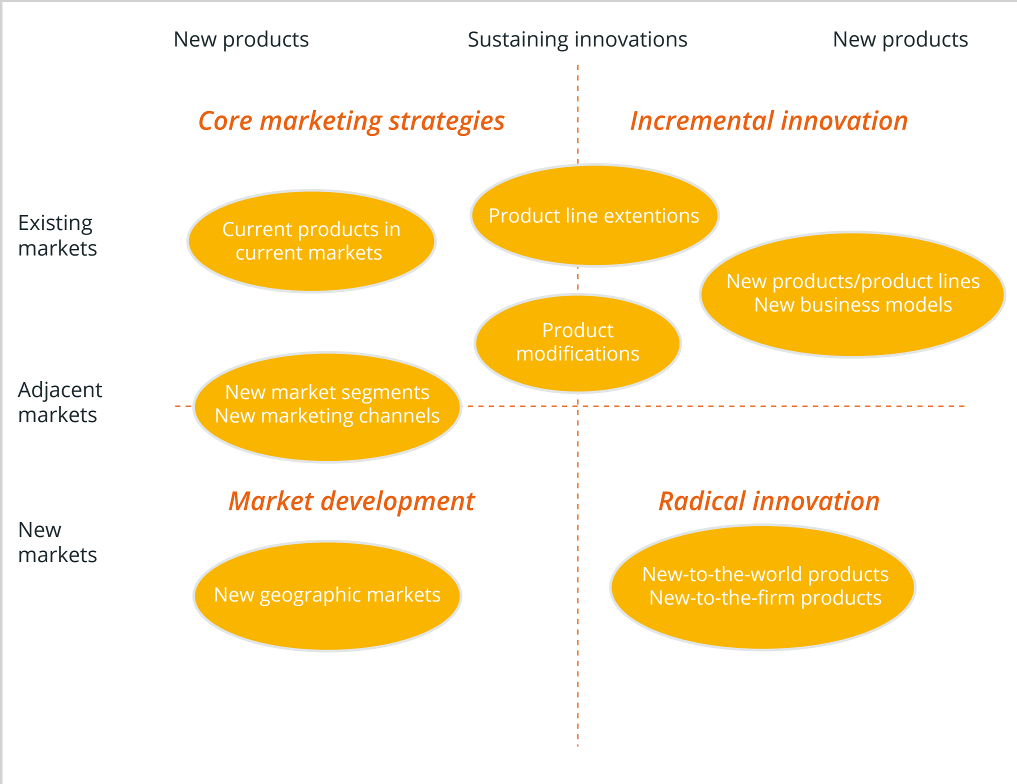
- a framework that describes the four strategic innovation strategies that an organisation can potentially pursue (7.1)
- the core marketing strategies that an organisation can pursue for each of the post-introductory stages of market evolution (7.2)
- the role of product management, brand management and customer engagement in the development of the customer value creation mix (7.3).

7.1 Strategic innovation strategies

The organising framework (depicted in Figure 7.1) for the discussion of strategic innovation strategies in this and the proceeding three chapters is based on a modified version of the Ansoff 2 × 2 product-market growth matrix.

As can be seen in Figure 7.1, there are four major areas of activities that require specific structures and processes to manage innovation strategically. These activities are core marketing strategies, incremental innovation, market development and radical innovation.

FIGURE 7.1 The strategic innovation framework



Based on the Ansoff product-market matrix. H.I. Ansoff, 'Strategies for diversification', *Harvard Business Review*, vol. 35, no. 5, September–October 1957, pp. 113–124.

Core marketing strategies

Core marketing strategies, shown in the top-left box in Figure 7.1, are brand management responsibilities – efforts to maximise the performance of existing products/product lines, which comprise initiatives to refresh and update current products (product modifications), initiatives to extend the product line and initiatives to enter new market segments. Product modifications and product line extensions are sustainable innovation strategies that involve a close working relationship between marketing and R&D. Accordingly, product modification and product line extension initiatives are shown as overlapping activities on the strategic innovation framework between the core marketing and incremental innovation boxes.

Initiatives developed to enter an adjacent market segment with a current product or product line are also shown as an overlapping area of activity, in this case between the core marketing and market development boxes. The main consideration is the degree of nearness of the new market segment to the markets currently served by the organisation. Core marketing strategies are discussed in further detail in this chapter.

Incremental innovation

Incremental innovation, shown in the top-right box in Figure 7.1, can be thought of as the domain of R&D because it involves an extensive process of new product development (idea-launch activities). In addition to the development of sustaining innovations that are made to strengthen the organisation's core product offerings (discussed previously), incremental innovation includes the development of new products/product lines and the development of new business models for existing markets. These processes are discussed in further detail in Chapter 8.

Market development

Market development, shown in the lower-left box in Figure 7.1, can be thought of as the domain of a market development department or a specially created project team. Market development projects range in complexity from those that involve high-level decision-making to projects that are straightforward. A decision to enter a foreign market, for example, would require top-level management and board-level decision-making based on the development of a thoroughly developed business and risk management plan. On the other hand, strategies designed to make incremental inroads into an adjacent market, such as a new market segment or a new marketing channel, would require far less planning.

In many cases the planning for market entries may be incorporated into the development of the organisation's core marketing strategies. These strategies are therefore shown in the strategic innovation framework to be straddling the horizontal line between the core marketing and market development boxes. Market development strategies are discussed in further detail in Chapter 9.

Radical innovation

Radical innovation, shown in the lower-right box in Figure 7.1, can be thought of as the domain of a specially created radical project management team or a skunkworks project team. Radical innovation includes strategies used by a market pioneer in the development of a new-to-the-world product to create a new or 'blue ocean' market,[8] or by a market challenger/follower in the development of a new product in a market that is new for them. The market challenger/follower may pursue a strategy based on innovative imitation (emulative new products that are significantly different in at least one aspect from competitive products) or product adaptation (modifying or improving on the product innovation of others). Both innovative imitation and product adaptation strategies involve a degree of newness to the market, not just the organisation. Radical innovation strategies are discussed in Chapter 10.

Using the strategic innovation framework

The strategic innovation framework provides strategists with a model for focusing on innovation and growth. Core marketing activities focus on the *now* of strategy, while the other three areas of activities are concerned with the *tomorrow* of strategy. Core marketing strategies are the engine rooms of profitability, providing the means for the organisation to fund future growth opportunities.

As was discussed in Chapter 4, research conducted by Deloitte Consulting partners Bansi Nagji and Geoff Tuff found that better-performing companies allocate their resources to core, adjacent and transformational initiatives on a 70/20/10 per cent ratio. They also suggested that that individual organisations should deviate from this ratio according to the specific strategic challenges that they face by taking into account the industry environment in which they compete, their competitive position and the stage of development they are in. Allocations could vary from an 80/18/2 per cent ratio, which was used by a leading consumer goods organisation that they studied, to a 45/40/15 ratio for a mid-stage technological company. The task for the organisation's strategists is to determine the ideal ratio for their organisation to support its core offerings while investing growth initiatives beyond the core.[9]

7.2 Core marketing strategies

In a broad sense, core marketing strategies are designed to win and retain individuals and/or organisations as customers as they enter the market during the various post-introductory phases of market evolution.

The specific focus of this chapter is to examine customer acquisition and customer retention strategies during each of the four phases of market evolution: *growth*, *competitive turbulence*, *maturity* and *decline*.

Note: Products or product lines in the introductory stage of market evolution are categorised as new products and are accordingly discussed in Chapters 8 and 10 concerning incremental and radical innovation strategies.

Strategies for growth markets

A growth market is characterised as a stage of rapid sales growth. Combining the traditional concepts of market evolution and diffusion of innovation, the stage of market growth begins when customers described as the *early majority* take over from the innovators and *early adopters*.[10] A growth market begins when the early uncertainty about a new-to-the world product starts to wane and potential customers become more knowledgeable. The structure of the industry starts to take shape and distribution channels are developed. In some markets prices begin to fall due to increasing competitive intensity and economy of scale productivity gains. Prices may be maintained or even increased in markets where the competitive pressure is not so intense and demand is greater than supply.

There are, of course, many exceptions to this traditional view of market evolution. Growth can be experienced virtually from Day 1 with the introduction of a new disruptive innovation product, such as the iPod, or a disruptive business model, such as robo-advisory services. In many industries product life cycle and market life cycle stages have become so shortened that differences between stages of evolution have become blurred; for example, the rise and fall of personal computer storage devices (from floppy disks to cloud storage).

STRATEGIES FOR MARKET LEADERS

Managing a product line during the market growth stage is not for the faint-hearted. While the overall structure of the industry may have started to take shape during the introductory stage, the eventual outcome is unclear as the market pioneer battles it out with the market followers and late entrants. During the introductory stage, the market pioneer is ideally placed to 'define the rules of the game'; that is, to be able to deploy a *shaping strategy* (also described as *market-driving strategy*), where the goal is to build an ecosystem along the value chain and, with others, to establish industry standards and business practices. This is achieved through such activities as lobbying, marketing and by entering into collaborative arrangements with suppliers and distributors.[11] A shaping strategy based on short-term or continuous planning cycles should continue through the early stage of market growth until the market shape becomes more clearly defined and longer-term strategy planning horizons can be established.

In an ideal sense, the goal for the market leader at the beginning of the growth phase of market evolution would be to either build or to maintain market share in absolute terms. However, in many situations, due to factors such as increasing competitive intensity and market fragmentation, such a goal may be unrealistic. A more realistic goal would be to maintain relative market share leadership. To achieve this, the market leader would need to both retain its existing customers as well as win the largest share of all the new customers entering the market.

The market leader could also consider developing strategies designed to increase primary demand for the product category.

STRATEGIES FOR MARKET CHALLENGERS

There are two broad strategic options available to market challengers. The first is to win the largest share of new customers (the early majority) as they enter the market for the first time. The second is a switching strategy, where the goal is to win customers away from the market leader and other competitors for repeat purchases (e.g. of convenience goods) or replacement purchases (e.g. of durables or seasonal fashions items).

A market challenger can attempt to achieve this by developing one of the following:

- *leapfrog strategy* – a superior product offering
- *frontal attack* – targeting the market leader with either or both lower prices and superior product attributes
- *flanking attack* – targeting a new and uncontested market segment
- *encirclement* – the development of several new market segments
- *guerrilla attack* (for a small competitor) – a market-niche strategy based on either cost leadership or differentiation.[12]

Strategies for markets undergoing competitive turbulence

Markets at this stage continue to grow but the rate of growth starts to decline. They are often characterised by industry over-capacity and intensified competition resulting in price wars, as some competitors in the market attempt to increase their sales volume to survive. W. Chan Kim and Renee Mauborgne describe this stage as a **red ocean** – existing markets with known products, competitors and strategies, where strategy is often fought on low prices and quality.[13] In this situation several weaker competitors either exit the market completely or are taken over by more successful competitors.

By this stage, competitors without a clear competitive advantage find it increasingly hard to maintain their market share. The market leader and challengers typically find it increasingly difficult to maintain market share in this new lower-market-growth environment. In Michael Porter's terms, these competitors are 'stuck-in-the-middle' because they have not been able to create either a low-cost or a differentiated position, such as by superior product quality, superior customer service or brand equity.

Competitors who have attempted to create a competitive advantage based only on superior product quality or superior technology may find that this is not enough when product differentiation becomes less important, particularly in the formation of a 'me too' market. Superior customer service and/or brand equity are essential prerequisites for establishing a differentiated competitive advantage.

Strategies for mature markets

During this market stage, sales for the total market peak but the rate of growth starts to decline significantly. As fewer first-time buyers enter the market (the late majority), the market competitors increasingly rely on repeat purchases to maintain their sales. Increasing competitive intensity and, in many cases, industry over-capacity leads to increasing price competition and, consequently, decreasing profits.

By now the market may have evolved to what Bruce Henderson, the founder of the Boston Consulting group, hypothesised many years ago with his concept of the rule of three and four. Henderson argued that a stable and competitive industry never has more than three significant competitors with market share ratios of approximately 4:2:1.[14] Research conducted by the BCG Strategy Institute and others in 2012 has confirmed the validity of this hypothesis for stable competitive industries that are characterised by low competitive turbulence and limited regulator intervention. Examples can be found in the US car-rental industry, machinery manufacturing, household appliances and credit rating agencies. The research study also found that the rule of three and four does not apply in more dynamic and unstable industries such as consumer electronics, investment banking, life insurance, and IT software and service. It is also not applicable in industries where competition is stifled by regulations or in industries undergoing consolidation.[15]

An earlier research study of 200 industries conducted by Rajendra Sisodia and Jagdish Sheth also supports the rule of three and four hypothesis. They found that, in nearly all industries, three full-line generalist competitors dominated the market typically controlling from 70 to 90 per cent of the market. Several smaller product or market specialist competitors accounted for the remaining 10 to 30 per cent share. Sheth and Sisodia argued that a volume-driven competitor must achieve a minimum market share of 10 per cent to remain financially viable. The worst performers are those 'stuck-in-the-middle' with market shares ranging from 5 to 10 per cent.[16] For this reason, smaller product or market specialists deploying a market-niche of focus strategy would be best advised to resist the temptation of growing market share.

Strategic options for a mature market include one or a combination of market acquisition strategies (converting non-users or targeting new or underdeveloped market segments or geographical markets), increasing product usage, developing new uses for the product or new ways to use the product, and customer retention. The latter is of critical importance and the organisation would need to work hard to ensure that its distinctive form of competitive advantage, established during the formative stages of market evolution, is not eroded.

As was discussed in the previous section (and in Chapter 4), Kim and Mauborgne characterise a mature market as a red ocean. They argue that instead of competing in such a market, a preferable approach is to create a blue ocean – an uncontested market space. Here the focus is on innovation and a continual process of searching for new untapped markets. They argue that a value innovator should think 'in terms of the total solution customers seek, even if that takes the company beyond its industry's traditional offerings'.[17]

Strategies for declining markets

This stage of market evolution is characterised by decreasing sales as the competitive products are superseded either by new technology, alternative product forms or changing customer values, tastes and preferences. In markets where the exit barriers are low, unprofitable competitors may choose to withdraw. In some markets the declining stage for the leading competitors can be profitable because marketing and distribution costs are reduced.

There are two strategic options for organisations competing in a declining market. The first, a *profitable survivor strategy*, may be appropriate for a market leader or a relatively strong competitor where the decline is expected to slowly take place over a fairly long period of time. The profitable survivor can increase market share at a relatively low cost, as other competitors start to harvest their products as they prepare to exit. The objective is to achieve a dominant market position, which would provide the profitable survivor with the ability to achieve relatively high margins over the remaining life of the product. To achieve its objective, the profitable survivor could choose one or some of the following strategies designed to encourage weaker competitors to exit the market by:

- starting a price war
- introducing a line extension strategy to take advantage of any remaining profitable niches
- taking over a weaker competitor's accounts, such as in a B2B context, by contracting to continue servicing their products, including the supply of spare parts
- taking over or purchasing the operations of weaker competitor.

The second option is a *harvesting strategy* that requires decreasing marketing and other operational costs; ceasing or, at the very least, minimising investments in capital equipment or in R&D; and allowing the organisation's brand or brands to continue more or less self-propelled by relying on the purchases of loyal customers. If the decline is likely to take place over a long time, then the investable decision to exit the market could be delayed until the product becomes unprofitable and/or there is no strategic reason to continue – such as maintaining an unprofitable product in order to provide a comprehensive product line to service the organisation's customers. Where a decision is made to harvest the product, the strategies to be considered include:

- improving marketing and sales efficiencies – such as reducing the size of the salesforce, the use of sales agents or other intermediaries, or by using the organisation's website to service customers
- using a more selective form of distribution – such as limiting distribution to one or two large retail chains in the case of a B2C organisation, or a single distributor in the case of a B2B organisation.

A word of caution

The concept of market evolution is based on an assumption that markets evolve in a systematic and predictable way. This, of course, is not always the case because of the impact of macro environmental driving forces of change (i.e. globalisation, technological innovation and economic uncertainty) and market forces (i.e. changing consumer preferences and competitive behaviour). Consequently, the normative or prescribed pattern of market evolution will not hold for many industries, nor will the generalised strategic prescriptions always be appropriate.

Nonetheless, despite these limitations, the value of the concept is that it is a tool that helps strategists focus on the need to effectively and efficiently manage the organisation's product lines through all the various stages of market evolution. It highlights the need for strategists to develop a clear understanding of the current market environment that each of the organisation's product lines competes in, and to develop a view about the future environment. Additionally, it shows the different challenges that the organisation may face at each of stage of market evolution and the need to develop strategies that are appropriate for each stage. As was discussed previously (and in more detail in Chapter 3), a shaping strategy is ideal in the introductory and growth stages where the market leader or aspiring market leader can radically change the dynamics of the market with an innovative move. If the market is predictable and less malleable to competitor influence, a classical approach is often found to be the most appropriate strategic style. However, in a fast-changing and unpredictable environment, which can occur through all stages of market evolution, an adaptive strategic approach is required.

7.3 The customer value creation mix

The following sections outline the main considerations involved in the development of value creation, communication and delivery strategies: product management, and brand management and customer engagement.

Product management – value creation

During the introductory stage of a new product category, it is important not to confuse or overwhelm prospective customers by offering a large variety of product offerings. The principle of 'keeping it simple' should be applied, and for this reason a product line might consist of just one product. From an organisation resource point of view, the introduction of a single product would also make sense due to the high start-up costs involved and the absence of economies of scale. Market growth is typically the stage in which the action starts to intensify, with new and improved products hitting the market as competition increases. The focus for the market leader should be to 'stay one step ahead of the posse' via processes of product improvement, cost reduction (not to be confused with price reduction) and product line extension. Product improvement is particularly important because it usually does not take much time for a product to become outdated as new and improved competitive products are launched into the market. The value curve discussed in Chapter 5 (see Figure 5.5) provides product managers with a useful tool for this purpose.

The product improvement process comprises three steps:

1. Conduct a research study to determine what the customers for that product category want; that is, the sought product attributes.
2. Determine the importance that these targeted customers attach to each of these sought product attributes. Plotting this information on a graph will help the product manager identify the product attributes that are most valued (rated 5 out of 5) down to those that are least valued (rated 1 out of 5).
3. Have targeted customers rate each of the competing products (including the organisation's product) against each product attribute.

The information revealed in Steps 2 and 3 will help the product manager to consider one or more of the following alternatives for modifying the existing product:

- *Product enhancement* – if the value curve research shows that the existing product is not highly valued (i.e. rated 5 out of 5) against one or more product attributes which the target market considers to be highly important, appropriate product enhancements should be considered.

- *Reduction* – consider reducing, where possible, one or more product attributes that are unimportant (i.e. a rating of 2 or 3 out of 5) for the target customers; for example, an airline might consider serving a snack instead of a meal on short-haul domestic flights.
- *Eliminate* – if one or more product attributes has virtually no value for the target customers, then consider removing it. For example, the airline in the previous example could eliminate food service entirely.
- *Create* – the introduction of a new product attribute or feature not currently offered by any competitors that was identified as highly valued by the targeted customers in the first phase of the research study.[18]

Conducting value curve research is not the only way product managers are able to access information that can be used to modify existing products. Leading organisations such as Nike, P&G, Heinz, Dell and KLM use their engagement platforms to 'systematically involve customers, employees, and stakeholders in a continuous process of both discovery and execution of new value creation opportunities'.[19] That is, they use engagement platforms for improving existing products and developing new products. In addition to traditional marketing research techniques, such as focus groups, ethnography and customer satisfaction surveys, they have at their disposal new open-innovation tools such as netnography (online ethnography), crowdsourcing (using a large group of targeted customers or online brand communities) and co-creation processes.

Brand management and customer engagement

The brand is the focal point of providing value to the organisation's customers and to the organisation itself. The first step in the process of brand building is to recognise that customers are *active meaning makers* rather than *passive receivers* of brand messages. Customers co-create perceptions of value based on the interactions they have with the brand, the influence of other individuals and broader cultural systems, including the mass media. They expect the interactions they have with an organisation to be more of a dialogue than an organisation-dominated monologue.[20] They use a variety of new communication channels that have reshaped the relationship between organisations and their customers.

In a general sense, the aim of communication is to:

- *inform* – create brand awareness and to communicate product information
- *inspire* – psychological appeals; imbue the brand with symbolic values and meanings
- *engage* – stimulate customer relationships with the brand
- *persuade* – encourage trial or purchase
- *reinforce* – positive attitudes and the brand experience
- *remind* – to repurchase.

In the formative stages of market evolution (introductory and early growth) the role of *informing, inspiring* and *persuading* is emphasised. Communication planners have a large variety of communication tools to consider for this purpose, including traditional forms of advertising (television, radio, print and outdoor media) and online advertising (organisation websites, display or banner ads, pop ups, blogs, podcasts, search engine advertising, widgets, emails [including viral marketing], SMS messages and mobile apps [including QR scanning]).

The communication planners also have at their disposal a variety of traditional marketing communication tools to consider, such as publicity, event marketing, stealth marketing (buzz marketing, word-of-mouth and product placement), sales promotion, direct mail, telemarketing (outbound call centres) and personal selling. These tools are largely sender–receiver or one-way forms of communication and play an important role in providing product and brand information. The next objective, to *inspire*, is of paramount importance. That is, brand building – the development of a favourable, strong and unique brand position in the minds of the target audience. Advertising is a most effective communication tool for this purpose, particularly for companies competing in FMCG, automotive and fashion markets.

However, advertising's ability to influence brand meanings is comparatively weak. As discussed previously, brand meanings are formed by the interactions customers have with a brand – how they *engage* with the brand, with other individuals or groups of individuals and their brand experiences. They expect the interactions they have with a brand to be more of a dialogue than a monologue. Social media provides a platform for this engagement. Social media provides organisation with the ability to reach out to their customers to provide product information and insights, product demonstrations, and to address questions or complaints that are raised. This can only be achieved if the organisation has strong products and services and an outstanding customer service capability. Social media should be more than just another marketing tool, it should also be a means for providing outstanding customer service.

Social media needs to be managed. This involves establishing processes for monitoring social media conversations relating to the brand and policies, and mechanisms to respond to customer complaints and positive comments. Online interactions and content across social media channels need to be carefully planned and managed. Research conducted by Zenith found that prior to 2015, organisations had struggled to make effective use of their internet advertising. Based on the use of their Touchpoints ROI Tracker tool Zenith found that 2016 was a turning point because internet advertising, which accounted for 34 per cent of global adverting budgets, produced 35 per cent of brand experience. Zenith estimates that internet advertising will reach 44 per cent of the global ad spend by 2020.[21]

The rapid growth of social media underlines the importance for organisations to develop a social media strategy and to either develop in-house resources or partner with a social media management agency to provide expert social media services.

As more and more customers take up the brand, the goals of *reinforcement* and *reminding* come to the fore. Customer social media channels, loyalty programs and advertising are used for this purpose.

SUMMARY

- Core marketing strategies are designed to win and retain customers as they enter the market during the various post-introductory stages of market evolution. These strategies include efforts to increase both primary demand (i.e. for the product category as a whole) and secondary demand (for the organisation's products or brands), as well as efforts to increase the product usage of existing customers and to win customers from competitors.
- During the growth stage of market evolution, the goal for a market leader should be to build or maintain market share, while the goal for a marketing challenger should be to win the largest share of new customers entering the market and/or to take customers away from the market leader

and other competitors. The challenger can attempt to achieve this by deploying a leapfrog strategy, a frontal attack or a flanking attack, or by encirclement.

- In the competitive turbulence stage of market evolution where the rate of market growth starts to decline, competitors without a distinctive competitive advantage find it increasingly difficult to maintain market share, and weaker competitors, often those stuck-in-the-middle, are shaken out of the market.
- In a mature market where the rate of market growth starts to decline significantly, the strategic options include one or a combination of market acquisition strategies (converting non-users, or targeting new or underdeveloped market segments or geographical markets), increasing product usage (developing new uses for the product or new ways to use the product) and customer retention.
- Customer value is at the heart of the strategic decision-making considerations during each of the various stages of market evolution. The main considerations in the development of value creation, communication and delivery strategies are product management (value creation), and brand management and customer engagement (communication and delivery of value).

DISCUSSION QUESTIONS

1. In the vignette at the beginning of this chapter Paul Polman, the then newly appointed CEO of Unilever, announced in 2009 that the company would cease issuing quarterly and earnings guidance reports for the stock market. Was this a cynical approach to avoid regular financial market scrutiny or a genuine effort to redirect attention to the long-term performance of the company?
2. Is it realistic for a company competing successfully in a mature market to devote time and resources towards the development of radical innovation strategies? Discuss this issue in the context of the guidelines suggested by Nagji and Tuff (near the beginning of this chapter) concerning resource allocation.
3. Does the Australian supermarket industry fit Kim and Mauborgne's description of a red ocean market? If so, why have new entrants such as Costco and Kaufland been attracted to the market?
4. How useful is the theory of market evolution for the development of marketing strategies?
5. Think of a brand where you as a customer have co-created your perception of value. What were your interactions with the brand? How was the perception of value co-created?

STRATEGY IN PRACTICE

RM Williams — the iconic Australian brand

In 2014 L Capital Asia, an affiliate of the French giant multinational corporation Moët Hennessy Louis Vuitton SE (LVMH) purchased the Australian icon RM Williams for a reported sum of about $A110 million. L Capital Asia, now L Catteron Asia, is a global consumer equity firm that invests in select consumer lifestyle businesses that target the growing discretionary consumption markets in Asia.[22]

The sale of RM Williams to an overseas company marked the end of what had been primarily a family-run business since it was founded in 1932 by Reginald Murray Williams, a South Australian bushman and entrepreneur. After learning how to make leather pack-saddles and boots from Dollar Mick, a passing horseman in the Flinders ranges, RM as he became known, established his first business venture by producing several leather saddles for Sir Sidney Kidman, one of the world's greatest pastoralists. RM used the money he earned from that venture to set up a workshop at a property owned by his father in Adelaide and produced a range of leather goods. The RM Williams brand was born in 1934 when RM took the plunge and invested in placing an advertisement in the *Adelaide Chronicle* for what was to become the RM Williams iconic elastic-sided leather riding boot.

From the early days the business was built targeting remote Australian outback workers with a mail-order marketing strategy, including the production of made-to-order products. During the 1940s a range of hats and clothing was added to the product range, and in the 1950s a database of customers was developed on a Remington Rand card machine providing the names and addresses of the company's customers along with size and fabric preferences. By the 1960s the market for RM Williams products was expanded to include city dwellers who had started to identify with the brand.

Business continued to prosper during the 1960s, and in 1968 the success of the direct marketing approach was recognised when the 1968 catalogue was awarded the Chicago Direct Mail Advertising Association Award for the best of its kind in the world. During the 1970s the business expanded with the opening in 1978 of the first RM Williams retail store outside of Adelaide, in Toowoomba, followed by store openings in Melbourne, Sydney, Brisbane and Perth.

By the 1980s RM, then in his seventies, began to step back from the business, and in 1988 he sold the company to Bennet & Fisher Limited, a South Australian stock and station agent. In 1989 the first overseas RM Williams store was opened in London. In 1993 Bennet & Fisher went into receivership and the company was subsequently purchased by Ken Cowley, a close friend of RM and a former Chairman of News Corporation. Since then the retail footprint of RM Williams expanded into a network of over 50 stores in Australia. The company's products are now exported to 15 countries.

The brand RM Williams was built on the spirit of entrepreneurship, the spirit of adventure and the love of the Australian outback personified by RM Williams, the man. The brand image has been carefully crafted and nurtured over many years with storytelling and celebrity endorsements playing a large part in raising brand awareness. RM Williams boots are worn by celebrities, politicians, sports stars, company directors and drovers alike.

1. Will the L Catteron Asia/LVMH ownership dilute the brand's appeal of authenticity in the Australian market?
2. Will the iconic Australian brand RM Williams have appeal in the Asian marketplace? Why or why not?
3. What advertising strategy would you recommend for L Catteron to grow the brand in Asia?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Develop in broad detail your core marketing strategy for your product line.

ETHICAL ISSUE

Should there be more control over marketers who encourage the vulnerable to eat more junk food, drink more alcohol and bet more money on sporting events?

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- market evolution
- shaping strategy
- harvesting strategy
- crowdsourcing.

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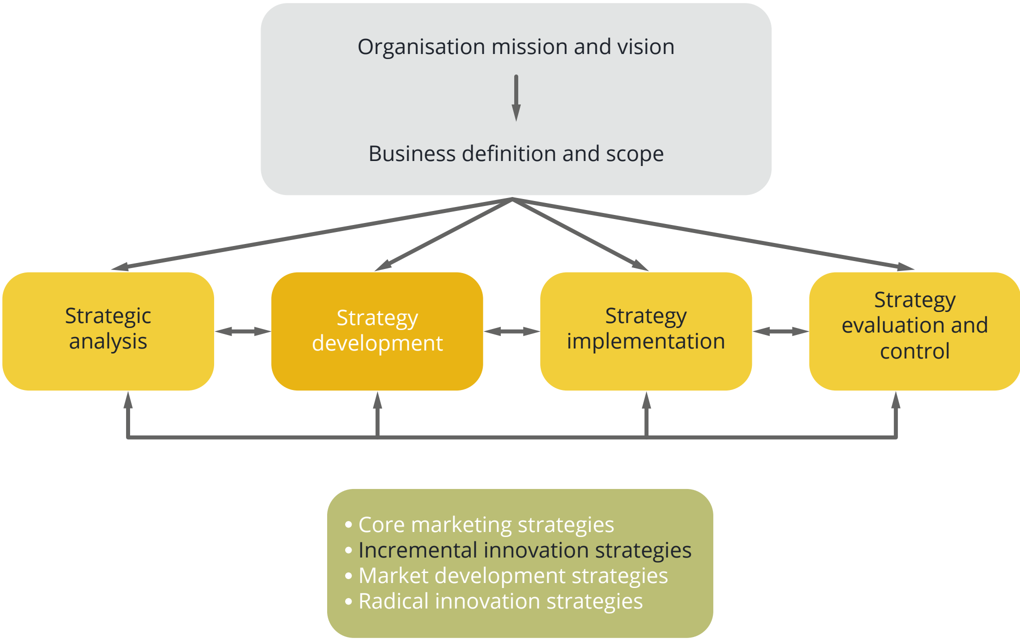
The strategic marketing management process



CHAPTER

8

INCREMENTAL INNOVATION STRATEGIES

It is the customer who determines what a business is …
Because it is its purpose to create a customer, any business enterprise has two – and only these two – basic functions: marketing and innovation. They are the entrepreneurial functions.

Peter Drucker[1]

Febreze – a breath of fresh air

Procter & Gamble (P&G) is renowned for its portfolio of $21 billion global brands. It is also renowned for its pioneering role in the practices of branding (Ivory Soap, 1879), mass marketing via consumer advertising (1882), marketing research (1925), brand management (1931), radio soap operas (1933) and for its outstanding innovation track record.

Much of the success of the latter can be attributed to the use of field research (to gain consumer insights) and the relationship between brand management and research and development (R&D). The introduction of Febreze in 1998 is a classic example of this relationship at work.

In the 1990s the marketing team in P&G's home care division recognised that an opportunity existed to meet the growing consumer demand to eradicate unpleasant household smells. The R&D team set to work and by 1996 had developed a proprietary technology – a low-cost odourless liquid that was designed to be sprayed onto blouses, shirts, coats, curtains and other household items. The new product was branded Febreze – derived from the words 'fabric' and 'breeze'.

Test marketing began in 1996 and the product was launched in June 1998. A series of television commercials was produced that featured how Febreze could eliminate smells, from cigarette smoke on clothes to dog smells in the house.

Two months after the launch it appeared that the product had bombed. The marketing team set out to learn why. Research revealed that people who lived in smelly houses had become desensitised to those smells. To people who could not smell offensive scents in the first place, the promise of an odourless home was meaningless.

However, a light-bulb moment occurred when the researchers interviewed a woman who told them how she loved Febreze and used it every day, not to eliminate smells but during her normal cleaning routine – a couple of sprays after each room was cleaned.

This insight provided the inspiration for the marketing strategists to reposition Febreze as an air freshener to be used at the end of a cleaning routine – a reward for a job well done and a pleasant treat. Perfume was added to the Febreze formula, and the advertising campaign was revamped to show open windows with gusts of fresh air flowing through and women at the end of their cleaning routine spraying Febreze on newly made beds and freshly laundered clothing.

The repositioning of Febreze met with immediate success, with sales doubling over the next two months. By the end of the year sales had reached $US230 million.[2] Over the next few years a variety of product line extensions were added, including air fresheners, candles and laundry detergents. In 2011 Febreze joined the P&G elite billion-dollar-brand club, an unlikely success for a product that had a near-death experience just after it was born.[3]

The innovations kept on rolling out and by 2018 the Febreze product range consisted of 118 individual products/product variations marketed in eight different product lines (air, fabric, car, plug, small spaces, candles, wax melts and Febreze ONE). The latest addition to the product range, Febreze ONE, was awarded 'Product of the Year' in the Air Care category in the world's largest consumer-voted award for product innovation.[4] Febreze ONE was introduced as a 'first-of-a-kind product' containing no aerosols, dyes or heavy perfumes. It was developed by P&G to attract non-users of air fresheners as well as existing Febreze users who were concerned about products with harsh chemicals and overwhelming scents.

Focus of this chapter

The ability to innovative is a top priority for most corporations. It is a key driver of growth and contributor to the long-term success of the organisation and for driving shareholder returns. Success has become a temporary achievement, and to survive an organisation must continuously innovate and evolve in order to create and maintain value for its customers and to stay ahead of its competitors.

The focus of this chapter is incremental innovation, which comprises the following:

- *New products/product lines and new business models* for the organisation's existing markets. The term *product* is used in a broad sense to include both physical products and services. A new product is one that will have its own brand identity and is designed to sit alongside the organisation's existing core products or product lines. The new product may be developed for strategic purposes such as to compete at the low end of the served market without damaging the organisation's higher-end brand or brands. The new product may also be technologically differentiated from an organisation's existing product, such as the Toyota Prius competing in the same marketspace as the Toyota Corolla.

  A business model describes the rationale of how an organisation creates, delivers and captures value.[5] The 'click and collect' pick-up service provided by bricks-and-mortar retailers is an example of a newly introduced business model. Other examples include a 'freemium' (e.g. LinkedIn offers basic services for free but charges for its premium service) and the Gillette-inspired razor blades strategy, where a product such as a razor or a printer is sold below cost while the replaceable blades or printer cartridges are sold at high margins.

- *Incremental innovation* designed to maintain and strengthen the organisation's core products through product modifications and product line extensions. A product modification is an improvement or an update made to an existing product, including a quality modification (i.e. improving a product's dependability or durability), a functional modification (i.e. improving performance, effectiveness or safety) and a style modification to change the sensory appeal of the product (i.e. appearance, taste, texture, smell or sound).

  A product line extension may consist of the addition of a product with a new flavour or different size, model, application or strength. A distinction may be made between a near line extension (very little difference) and a distant line extension (an almost completely new entry).[6]

Learning objectives

The aim of this chapter is to provide information regarding the development of incremental innovation strategies.

After reading this chapter you will have an understanding of:

- the challenges that organisations face in developing successful new products (8.1)
- a framework that describes the seven key dimensions of new product development (NPD) and the Stage-Gate® process of NPD (8.2)
- the process of reviewing, modifying an existing business model, or developing a new business model (8.3).

8.1 The challenge of new product development

Innovation is a complex, organisation-wide process and remains one of the greatest challenges for all types of business-to-consumer (B2C) and business-to-business (B2B) organisations. Numerous studies conducted over the past two to three decades by professional associations such as the Product Development and Management Association (PDMA), the Product Development Institute (PDI) and the American Productivity and Quality Center (APQC) indicate that about 40 per cent of all new products fail.[7] These figures are of course highly generalised, and rates of failure or success vary significantly across industries, product categories, markets, the stage of new-product development (early versus late kills), and the way a new product is defined (i.e. a product modification compared to a new-to-the-world product).

There is a significant difference in new-product success rates from organisation to organisation. A survey conducted by the PDI and the APQC in 2011 highlights the disparity that exists between top- and bottom-performing organisations. The study of 257 organisations found that top-performing organisations (those that reported excellent returns from their new-product activity over the last three years) achieved a commercial success rate of 68 per cent. Those organisations killed off or cancelled 24 per cent of their new products prior to launch and experienced just a 14 per cent commercial failure rate. On the other hand, low-performing organisations (who experienced very poor to negative returns) achieved a 45 per cent commercial success rate, a 34 per cent commercial failure rate, and killed off or cancelled 21 per cent of products prior to launch.[8] The researchers who conducted the study suggested that top-performing organisations have more pre-launch kills than their low-performing counterparts due to factors such as more rigorous criteria for passing each of the product development stages and in scrutinising estimates that have been made concerning the market potential of each new product.

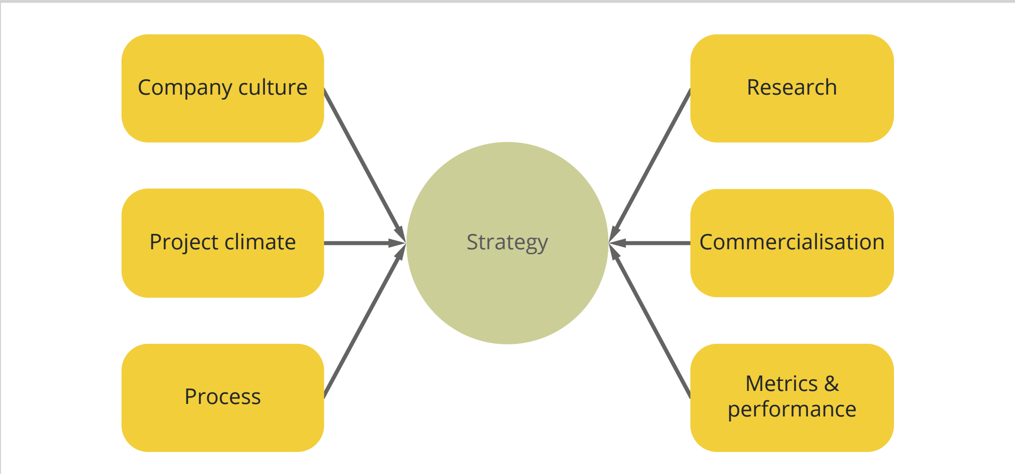
8.2 A framework for the development of NPD best practice

Numerous research studies have found that the quality of the organisation's innovation process is a key factor that distinguishes top-performing organisations from the rest. According to research conducted by Kahn, Barczak, Nicholas, Ledwith and Perks, there are seven key dimensions that determine the quality of the innovation process.[9] These seven key dimensions form the framework for the discussion of NPD best practices for the rest of this chapter.

Strategy

A well-defined and clearly communicated NPD strategy provides a sense of purpose and a focus for all of the organisation's NPD activities and processes. Strategy is therefore at the heart of the NPD best practices framework shown in Figure 8.1. The characteristic of the strategy dimension is that best-practice organisations consider new-product development within the context of their mission and vision, and their long-term strategic planning processes. These organisations continuously look for future market opportunities and regard the identification of new-product projects as an ongoing process. They have a systematic portfolio management approach in place, comprising a balanced mix of incremental and radical innovation projects.

FIGURE 8.1 The seven key dimensions of NPD best practice



Source: K.B. Kahn, G. Barczak, J. Nicholas, A. Ledwith and H. Perks, 'An examination of new product development best practice', *Journal of Product Innovation Management*, Product Development and Management Association, 2012, vol. 29, no. 2, pp. 180–92.

Based on a multi-year study of 300 companies over a variety of industries and countries, McKinsey identified eight strategic and organisational factors that differentiate successful innovators from the rest, including the following:

- *Aspire* – have an implicit growth target stated in strategic plans.
- *Discover* –have a fully developed innovation process in place that includes an insight-discovery process and insight-generating partnerships.
- *Choose* – take care to prioritise innovation initiatives that have the most chance to realise their growth targets and to stay within their risk parameters.
- *Evolve* – identify potential new business models in order to instigate self-reinvention before a disruptive innovation is launched by a new competitor.[10]

Marketing plays a key role in the development of innovation strategies and throughout the various other stages of the idea-to-launch process of R&D. At the product line level of strategy, the need for product development is driven by the recognition of:

- changing customer preferences
- technological and other macro environmental changes
- the introduction of new competitive products
- products in the line that are nearing the end of their life cycle.

Decisions need to be made concerning product line depth and diversity on one hand, and the need to achieve cost-effective production and marketing operations on the other. During the introductory and growth phases of a product category, pioneers and fast followers typically pursue strategies of product diversification to meet the needs of emerging market segments and for competitive reasons, such as to deploy a flanking strategy or a reactive strategy; for example, launching a fighting brand to offset a competitive product. However, by the time the product category reaches maturity, these strategies often lead to a situation where the marketplace has become cluttered and confusing. This is the time to consider product-line pruning strategies. In conducting such a review, consideration should be given to each individual product's contribution to the overall profit of the product line. This can be achieved by considering the extent to which each product contributes on a pro rata basis towards covering the fixed and variable costs of the product line. From this analysis, the following four categories of contribution can be identified:

- products that contribute more than their pro rata share
- products that break even by covering their pro rata share
- products that do not cover their pro rata share but contribute more than their incremental costs
- products that do not cover their costs.[11]

Company culture

Best-practice organisations emphasise the importance of fostering an innovation climate. They are characterised by the presence of a value system that drives the way NPD is encouraged and supported, including in the way top management supports the NPD process and the sources of new-product ideas (with techniques such as crowdsourcing, open innovation and co-creation), and how creativity is rewarded and encouraged. Best-practice organisations focus on establishing cross-company values and extra-company alliances and partnerships – collaboration with the organisation's external partners, customers and suppliers. In best-practice organisations, innovation is considered to be a core and continuous process rather than an intermittent or occasional process.

Innovation practices have also become digital endeavours for the most innovative companies in the world. In the 2018 Boston Consulting Group (BCG) ranking survey of the most innovative companies it was found that while seven of the top 10 companies were digital natives (including Apple, Google and Microsoft), most if not all the others in the top 50 had incorporated digital technologies into their innovation programs. The survey also revealed that a digital divide had opened between companies, with 79 per cent of strong innovators reporting that they had become properly digitised, while only 29 per cent of weak innovators made the same claim. The research also found that strong innovators use big data and advanced analytics throughout the entire innovation process by drawing on multiple sources of internal and external data. About 75 per cent of strong innovators reported that their ideas for growth were derived from social media and big data compared to less than 20 per cent of weak innovators.[12]

Project climate

Whereas the dimension of company culture addresses an organisation-wide focus on innovation and creativity, project climate addresses intra-company and project-specific issues. In best-practice organisations, NPD activities are conducted by dedicated, accountable and empowered cross-functional teams.

Research conducted over recent decades has found that between 70 and 97 per cent of organisations use cross-functional teams for NPD.[13] Moreover, 33 per cent of these organisations use cross-functional teams 100 per cent of the time.[14] These terms typically comprise specialists in R&D, engineering, manufacturing/production and marketing. Often personnel from functional areas such as finance and purchasing are seconded to an NPD project team as the need arises.[15]

The creation of effective NPD cross-functional teams has been challenging for many organisations. The complexity of team projects and the task of managing a team of individuals from different professional backgrounds require a high degree of leadership and management prowess. Different stages of the NPD bring about several different challenges for the project team; for example, the front-end fuzziness phase of the concept development stage is largely experimental and chaotic, which can be extremely stressful for some individuals. Likewise, the succeeding stage of 'build a business case' can prove to be stressful, due to uncertainty about such factors as the potential demand for the new product and overall project ambiguity.

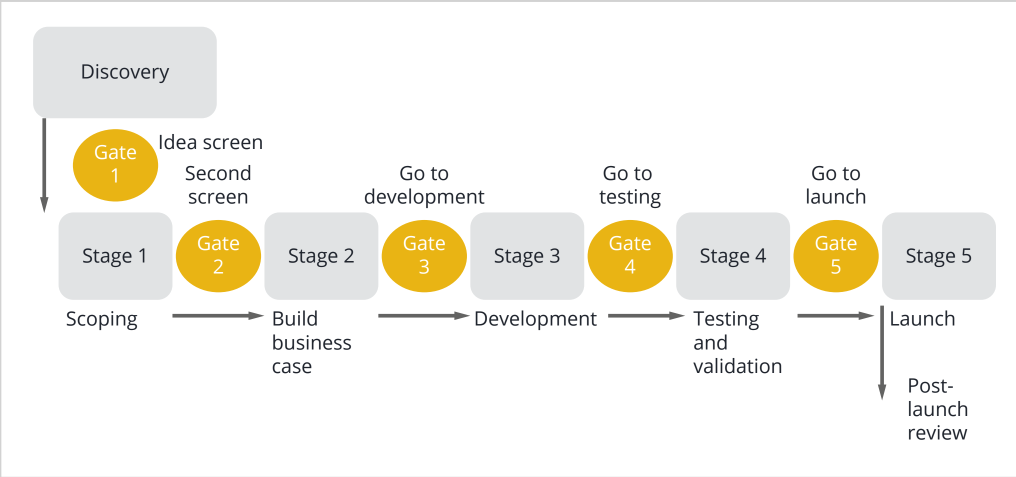
Process

Best-practice organisations have a well-established robust idea-to-launch system of NPD in place, such as the Stage-Gate® process of product innovation developed by Robert G. Cooper in the 1980s. Since that time the model has been refined repeatedly and road-tested by thousands of organisations throughout the world. The Stage-Gate® process has become the universal model of product innovation, with over 80 per cent of the Global 1000 companies adopting it.

As the name suggests, the Stage-Gate® model comprises two main elements: *stages* and *gates*, as can be seen in Figure 8.2. Each of the five stages shown consists of a set of prescribed, cross-functional and parallel activities preceded by a gate or entrance to that stage by a Go/Kill checkpoint.

The five stages comprise a set of best-practice activities that are required to advance a project to the next gate or decision point. The activities for each stage are conducted concurrently

FIGURE 8.2 The Stage-Gate® process



Source: Reprinted with permission from *Marketing Management Magazine*, published by the American Marketing Association, R.G. Cooper, March–April 2009, Exhibit 2, p. 15.

(i.e. in parallel) by a cross-functional project team including personnel from departments such as marketing, R&D, production or operations. A key feature is that no department can take ownership of any stage.

The gates are the Go/Kill decision points that serve as quality-control checkpoints. At each gate the project team is required to bring to the decision point a set of *deliverables*, such as the results of the set of activities prescribed for the stage under review. The project is assessed against two sets of criteria: *must meet criteria* (a checklist of knockout questions designed to weed out projects that are misfits) and *should meet criteria* (i.e. a point system used to prioritise projects). Based on this information, the gatekeepers' task is to arrive at a Go/Kill/Hold/Recycle decision along with an approved action plan for the next stage comprising timelines, resource requirements, and a list of deliverables and dates for the next gate.[16] The gatekeepers need to be cognisant that each stage of the process costs more than the preceding one. Accordingly, they play a critical role in reducing the unknowns and uncertainties in the project. As Cooper argues, 'Gates need to have teeth'. That is, the gatekeepers need be able to say, 'No', and be prepared to make tough decisions and stick by them.[17] At every stage of the process two key questions are asked: (1) What is the customer value proposition? (2) Does this customer value proposition provide a competitive advantage (i.e. superior value for the customer)?

In brief, the activities required for each of the five stages of the process plus the two pre- and post-process stages are as follows:[18]

- *Discovery* – the pre-work stage designed to discover and generate new product ideas (product ideation). These processes include:
  - technical research activities conducted to discovering new technological possibilities
  - voice-of-customer (VOC) research designed to identify unmet or unarticulated customer needs. These research techniques include focus groups, ethnography, and depth interviews of customers, non-customers and lead users
  - competitive analysis and reverse brainstorming of competitive products

  - employee suggestion schemes
  - strategic-planning processes that uncover future innovative disruptions, gaps and opportunities in the market
  - open innovation.
- *Scoping* – a preliminary investigation and project-scoping set of activities, mainly based on desk research. It is a quick and relatively inexpensive process (typically completed in less than a month) that is designed to provide:
  - a preliminary market assessment – estimates of market size and potential, plus the likely rate of product acceptance/adoption based on a first-cut concept of the customer value proposition
  - a preliminary technical assessment – identification of potential sources of supply, technical and operations feasibility, timing and costing estimates, and risk assessment – including technical, legal and regulatory.

  The objective is to narrow down the number of projects to go to Stage 2 and to provide first-cut marketing and financial information to be in Stage 2 for the projects that survive.
- *Build the business case* – the *critical homework* stage of the process consisting of a detailed investigation based on primary market and technical research information to build a business case focusing on product definition, project justification and the development of a detailed project plan. This is a pivotal stage in the process because the proceeding three stages are where the heavy spending on NPD is incurred. Attention shifts away from the broad-brush market and technical assessments undertaken in the scoping process and moves to a detailed analysis. Market research is undertaken to gain detailed insights into customer preferences and buying behaviour. Concept tests are conducted to evaluate the customers' responses to the new-product idea, and competitive analysis is done to assess how the new product will compare to existing and potential new competitive products (differentiation, competitive advantage, superior customer value) and likely competitive responses to the launch of the organisation's new product. At the same time, a detailed technical appraisal is prepared, focusing on the economic and technical feasibility aspects of the new product, along with risk assessment. The final requirement is to conduct a detailed business and financial analysis, including calculations such as net present value (NPV) and sensitivity analysis, to consider possible risks. This information is required for Gate 3 – the last point at which the project can be killed prior to entering the costly development stage.
- *Development* – the detailed design and development of the new product includes product prototype testing work. The deliverable is the development of an alpha-tested or lab-tested product. During this stage, detailed production/operations, test and market launch plans are developed. Financial plans are updated and product conformance issues (regulatory, legal and patent) are resolved.
- *Testing and validation* – the objective of this stage is to validate the viability of the project. These activities include laboratory and plant tests, field trials or pilot operations to check quality and performance aspects of the new product, and test marketing to obtain customer feedback, test the launch plan and forecast market share and revenue projections.
- *Launch* – the commercialisation process, including production/operations, marketing, selling and distribution. (This process is discussed in further detail in a later section discussing commercialisation.)

- *Post-launch review* – there are two post-launch reviews. The first is conducted two to four months after the launch with the objective of assessing the project's strengths and weaknesses and what can be learnt from the project. The second and final review is typically conducted 12 to 18 months after the launch, when the project and product performance are assessed based on the latest available revenue, costs, expenditure and profit data. This data, along with timing, is compared to the projections made at Gates 3 and 5.

Time-to-market is a critical consideration in NPD. Too much time can open a window of opportunity for competitors to pre-empt the launch of the new product and to establish market leadership. As the pace of market change increased drastically during the 1990s, a practice known as *time pacing* was adopted by several leading companies such as Cisco Systems, Emerson Electric, Gillette, Sony, Starbucks and 3M. Time pacing is based on launching new products according to the calendar. Introducing new products or modifying existing products on a regular basis ensures that the NPD keeps ticking over at a fast pace. Time pacing contrasts with what is described as *event timing* – the call to action for product development in response to an event such as a competitive move, changing technology, shifting customer demand or poor product performance. The Stage-Gate® model addresses the timing aspect of NPD via the process of parallel or concurrent development of each of the NPD stages. Digital techniques for simulation and prototyping are used by companies at the leading edge of innovation to test ideas earlier in the development phase.

Research

Best-practice organisations employ a variety of research methodologies and techniques that are used throughout all stages of the NPD process. At the idea-generation (ideation) stage, a combination of traditional and new market-research techniques is used, such as brainstorming, focus groups, Delphi methodology, customer visits, conjoint analysis ethnography, lead user processes, crowdsourcing and open innovation. Since the early 2000s the techniques of open innovation and crowdsourcing have evolved, with B2C organisations such P&G, Starbucks, Unilever and Nike leading the way. In 2001 P&G turned to an open innovation model, coined Connect + Develop, to drive its NPD process. In addition to the 7500 P&G staff involved in NPD, active collaboration in the process is sought from a variety of external partners, including inventors, suppliers, university spinoffs, and other organisations as well as competitors. In 2001 when the strategy was launched, less than 15 per cent of P&G's innovation initiatives involved external partnerships. By 2006 the number had risen to 35 per cent and by 2008 it had risen to over 50 per cent.[19] In 2010 P&G announced two ambitious goals for the Connect + Develop program: to triple the impact of the program to deliver $3 billion towards the company's annual sales growth, and for P&G to become the partner of choice for innovation collaborations.[20]

Just as P&G's Connect + Develop strategy has become an exemplar of open innovation best practice, 'My Starbucks Idea' has become an outstanding example of the use of online crowdsourcing. Introduced in 2008, My Starbucks Idea has provided Starbucks with a wealth of product and in-store experience innovation ideas. Of over 150 000 ideas submitted online by its customers by mid-2013, Starbucks had implemented just under 300 new product innovations.[21]

In addition to involving customers in the co-creation processes of NPD, market research is used to gain information about competitive products, the macro-environmental forces driving current and future market demand, concept and market testing.

Commercialisation

Commercialisation describes both launch and post-launch activities associated with the *communication* and *delivery* of customer value. These activities include marketing, selling, logistics and customer service (including technical support where appropriate). Commercialisation is often the single most expensive stage of the NPD process and, in some cases, the cost of commercialisation exceeds the combined costs of all the preceding stages.

Best-practice organisations start planning for the new-product launch in the early stages of NPD with cross-functional involvement involving personnel in areas such as marketing, logistics and customer service along with the project specific NPD specialists. The success of a new-product launch depends on several strategic and tactical decisions, including the following considerations:

- *Brand positioning and the customer value proposition* – the strategists must ensure that the value proposition (i.e. the reason to buy) is distinctive, easily understood and capable of being clearly articulated. How much of the marketing communication effort will be needed to communicate the value proposition? If the new product is designed to create a new-product category (for the existing market), how much of the marketing communication effort should be devoted to creating primary demand for the new category?
- *Competitive environment* – what are the competitive products? What are the retaliatory moves or counterattacks the key competitors are likely to deploy?
- *Readiness of the new product to go to market* – rushing a new product onto the market before it is completely ready can have disastrous consequences. Apple fell into this trap with the launch of the Newton in the 1990s. John Sculley, the CEO of Apple at that time, prematurely announced the development of the Newton at a consumer electronics show, even though the new product was only at a very early stage of technical development. Consequently, demand for the introduction of the Newton, a personal digital assistant (PDA), was such that the product was rushed to market way ahead of the planned schedule. The Newton failed to capture a dominant position of the PDA market that it had created and eventually the project was spun-off into an Apple subsidiary. Not to be outdone, Microsoft launched its ill-fated Windows Vista program in 2007, complete with a multitude of compatibility and performance problems. As a result, Vista was a marketing flop. *Time* rated it as one of the 10 biggest tech failures of the last decade.[22] The market was largely underwhelmed and the product failed to take off. Stage 4, the testing and validation stage of the Stage-Gate® model, is designed to prevent this type of problem from occurring.
- *Demand forecasting* – the importance of test marketing and demand forecasting conducted during Stage 4 of the Stage-Gate® process cannot be overstated. Short supply in addition to missing out on potential sales can lead to a reseller and customer backlash. Conversely, over-supply can be equally problematic because in addition to ramping up inventory costs, it potentially sends signals to the marketplace about a lack of customer uptake. Best-practice manufacturing companies address the issue of supply by integrating the function of logistics with manufacturing, marketing and operations. They also use quick-response and flexible manufacturing techniques.
- *Timing* – sufficient time must be devoted to the sell-in phase of the new-product launch for the sales force to gain the support of the organisation's go-to-market partners. There must also be enough time to allow for the physical distribution of the new product. Distribution often takes longer than anticipated, which can result in either the launch being delayed or running the risk

of short supply. Launching a product too late in a key selling season can also have a devastating effect on the success of a new product.

- *Pre-launch activities* – planning for the launch typically covers three sub-phases of activities: pre-launch (sometimes referred to as a teaser campaign), launch and the launch follow-up. The objective of the pre-launch or teaser campaign is to create a buzz, that is, to create interest and a sense of excitement about the release of the new product. Marketing communication tools such as publicity, word-of-mouth, viral advertising (word-of-mouth via social networking), blogging (getting product influencers on board to spread the message), emailing, direct marketing and advertising are typically used for this phase of the campaign.
- *Launch activities* – the objective is to create awareness of the new product and to generate demand. Marketing communication tools that are typically used include event marketing (think Apple), publicity, advertising (traditional and digital – including the use of e-commerce platforms), promotion and personal selling, along with customer service support. While few companies can create as much interest in the release of a new product as Apple, other event marketing tools can be considered, such as presentations to key clients or launching a new model or product at a trade show or exhibition.
- *Post-launch activities* – the launch phase marks the beginning of the commercialisation process, not the end. Marketing activities need to continue in order to build on and sustain the sales momentum achieved during the launch phase. A most important objective is to retain distribution support.

Metrics and performance

Metrics and performance refer to the way NPD performance is tracked, reported, recognised and rewarded. Best-practice organisations focus on performance goals for the entire NPD process and specify criteria for each of the Go/Kill gates and other performance objectives, such as time-to-market. They also measure post-launch performance against objectives that were established in key metrics such as the number of product inquiries (including via customer service and website visits), brand awareness (aided and unaided recall and recognition), market share, sales volume, retention rate (number of repeat buyers), customer satisfaction and brand perception. The post-launch evaluation includes a review of the performance of the salesforce, the organisation's go-to-market partners (including purchase reordering data) and the marketing communication channels.

As discussed previously in reference to Stage 5 of the Stage-Gate® model, the first review should be conducted two to four months after the launch, with the second and final review conducted around 12 to 18 months after the launch. However, this is a generalised timing suggestion, and in fast-moving industries such as FMCG, where the success or failure of a new product is determined within a few weeks, a much shorter timeframe would be appropriate.

8.3 Business models

As discussed at the beginning of this chapter, a business model describes the rationale of how an organisation creates, delivers and captures value. To elaborate on how a business model is developed, Alexander Osterwalder and Yves Pigneur created a tool known as the Business Model Canvas for strategists to use to review an existing business model or to invent a new one.[23] The word 'canvas' was used as a metaphor to highlight how the model can be 'painted out on a canvas'. The Business Model Canvas consists of the following nine building blocks:

- *Customer segments* – What are the customer segments currently served by our organisation, and what are the customer segments to be targeted in the future?
- *Value proposition* – What is the value proposition for each customer segment?
- *Channels* – How do we reach each of our customer segments in terms of communication and the marketplace (direct or indirect channels, in-store or e-commerce)?
- *Customer relationships* – What type of relationship do our customers and potential customers want to have with us? Highly personal face-to-face, call centres or automated electronic channels? How do we acquire and retain our customers and how do we increase their custom?
- *Revenue streams* – What are our customers willing to pay for our products and how? Do they want to pay for something that they buy, subscribe to or pay a licensing fee for? What pricing mechanisms do they prefer?
- *Key resources* – What resources do we need to create value? Do we need physical resources? Do we need a brand, intellectual property or services?
- *Key activities* – What do we really have to be good at? Is it marketing, R&D, IT or managing customer relationships?
- *Key partners* – In addition to suppliers, who else can we work with to help us leverage our business model? What business ecosystem can we create or tap into?
- *Cost structure* – By identifying key resources, key activities and key partners it is possible to sketch out what the core costs will be? After doing this the strategists can develop a big-picture understanding of the logic of their business made up of all the pieces that are needed to create, capture and to deliver value.

SUMMARY

- Incremental product development is the lifeblood for many organisations. In common with core marketing strategies, incremental innovation focuses on the creation, communication and delivery of value to the organisation's existing and potential new customers. It is a strategy based on evolutionary, rather than revolutionary, product innovation.
- Organisations that succeed in product innovation approach the NPD process with well-structured and applied product innovation processes in place. Best-practice organisations focus on seven critical dimensions: strategy, company culture, project climate, process, research, commercialisation, and metrics and performance. These organisations emphasise the importance of managing an innovation portfolio with the objective of devoting resources to projects that have the most potential for maximising the return on investment from product innovation. At the product-line level of strategy, changing customer preferences, competitive factors and other macro-environmental forces drive the need for product managers to consider product line extension and/or product modification strategies.
- Best-practice organisations emphasise the importance of creating a company culture and project climate that encourages innovation and creativity

while at the same time establishing a systematic approach of NPD, typically based on the Stage-Gate® process. In these organisations, NPD activities are conducted by dedicated, accountable and empowered cross-functional teams. These organisations also invest heavily in market research, employing a variety of research methodologies and techniques, including the use big data and analytics throughout the entire idea-to-commercialisation (and evaluation) processes. Finally, best-practice organisations pay a considerable amount of attention to the commercialisation and performance measurement processes. Planning for the product launch and post-launch activities commences in the early stages of the NPD process, with the management of the process continuing through to the post-launch review.

- Incremental innovation includes the modification of an organisation's business model. Strategists have at their disposal a tool known as the Business Canvas Model to use for reviewing the organisation's current business model and for looking at ways to either modify the model or to invent a new model.

DISCUSSION QUESTIONS

1. How do some organisations use cooperative strategies to initiate and develop new product ideas?
2. How can digital capabilities enhance an organisation's new-product-development performance?
3. After reading this chapter a small business owner commented that the processes of innovation discussed only relate to huge MNCs, not small businesses like hers. Can the processes be modified to suit the needs of a small business? If so, how?

STRATEGY IN PRACTICE

Apple – hoisted by its own petard

The launch of the iPhone X was billed by Tim Cook, the CEO of Apple, as the device that will 'set the path of technology for the next decade'.[24] Indeed, analysts and tech observers expected it to usher in a 'supercycle of iPhone upgrades'.[25] However, just three months after it was launched in November 2017 sales of the iPhone X were less than half of what Apple expected.

The problem for Apple was that the market for smartphones and smart devices had reached a stage described as 'crossing the chasm', where the original disruptive product spreads to the mainstream; a point of time when the early adopters of smartphones and other smart devices give way to the late majority. The chasm is created between the early adopters craving the introduction of revolutionary new features and the late majority wanting convenience, simplicity and reliability.

September 2012 is when the chasm was breached for Apple – the day that the iPhone 5 was launched, a symbolic moment for the company. This was the last iPhone overseen by Steve Jobs and the first to be developed under the new leadership of Tim Cook. While sales of the much-anticipated release were sensational, the reaction was mixed, with the overall impression being that it was better, but not earth-shattering; a good phone, but not great. As one tech journalist commented, 'The iPhone 5 suggests that without Steve Jobs, Apple is becoming a normal tech company'.[26]

The observation was essentially correct. The focus for Apple under Tim Cook was to become evolutionary, not revolutionary. As he commented in an interview in 2016: 'Our strategy is to help you in every part of your life that we can whether you're sitting in the living room, on your desktop, on your phone or in your car'. To achieve the goal of being omnipresent in everyone's daily lives, Apple had embraced three product innovation tactics: (1) incremental innovation, (2) continual learning, and (3) open innovation – public beta testing.[27]

Under Tim Cook's direction Apple has targeted the healthcare industry with the release of ResearchKit and the Apple Watch in 2015, the acquisition of Gliimpse, a personal health data start-up in 2016 and a partnership formed in 2017 with Health Gorilla, an online healthcare marketplace start-up that provides a platform to connect doctors and clinicians with diagnostic labs.

In the same year that the iPhone 5 was launched the veil of secrecy about Apple's innovation was partially lifted with the publication of *Inside Apple: How America's Most Admired– and Secretive –Company Really Works*, written by Adam Lashinsky, an editor-at-large for *Fortune*.[28] The Apple process of new product development, according to Lashinsky, consists of four components:

1. *Design* – the designers rule the roost at Apple and the entire product conforms to their vision – the polar opposite to how other companies work. When asked how much market research Apple conducted, Steve Jobs replied, 'None. It isn't the customer's job to know what they want'.
2. *New-product team* – after the product has been decided on, a new-product team is created as a 'start-up' within the company, reporting directly to the executive team. New-product teams working on sensitive new-product projects are located away from others in the building.
3. *Apple New Product Process* – at the beginning of the design work for the new product, a document known as the Apple New Product Process is prepared, setting out in detail each of the steps of the product development process.
4. *Executive team review* – the executive team meets every Monday to review all products in the product development process. Given that Apple has only a few products in development at any one time, the task is not as onerous as it might be in a FMCG company with numerous development projects on the go.
5. *Engineering program manager and global supply manager* – after a product has been finally approved and production begins, responsibility is handed over to an engineering program manager who has absolute control of the production process. At the same time, a global supply manager is selected to collaborate on sourcing and supplying the componentry and materials required for production.
6. *Testing* – after the product has been built it is redesigned and sent through the production process again over a four- to six-week period. Each iteration of the product is sent back to Apple's headquarters in Cupertino for review and then back to the production process until it is finally ready to go. The process is very expensive, but it is simply 'the Apple way'.
7. *Packaging* – Apple devotes an incredible amount of time and effort to device packaging and has a room in its marketing building dedicated to this one very important aspect of the Apple customer experience.
8. *Product launch action plan* – an action plan titled the 'Rules of the Road' is prepared detailing every significant milestone of the product's development up to the time of the launch.[29]

The innovation process created and developed by Steve Jobs was arguably his greatest gift to his successor. The question is: Was this process designed for radical innovation appropriate for the new era of incremental innovation that Apple had turned to under the leadership of Tim Cook?

1. Has Apple lost its way? Discuss.
2. Address the question posed at the end of the case. Is the Apple new-product development process appropriate for a switch in focus from radical to incremental innovation?
3. Does Apple's entry into the healthcare market indicate a change of strategic direction for the company?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Consider the product-line depth of the project you are working on. Do you need to add or delete product items from the range? If product items needs to be added or modified, create a new-product development strategy for the product line.

ETHICAL ISSUE

Critics claim that incremental innovation is just a fancy term for planned obsolescence, and that it encourages wastefulness and environmental pollution. Do you agree or disagree?

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- Stage-Gate® model
- open innovation
- new-product development best practices
- innovation portfolio.

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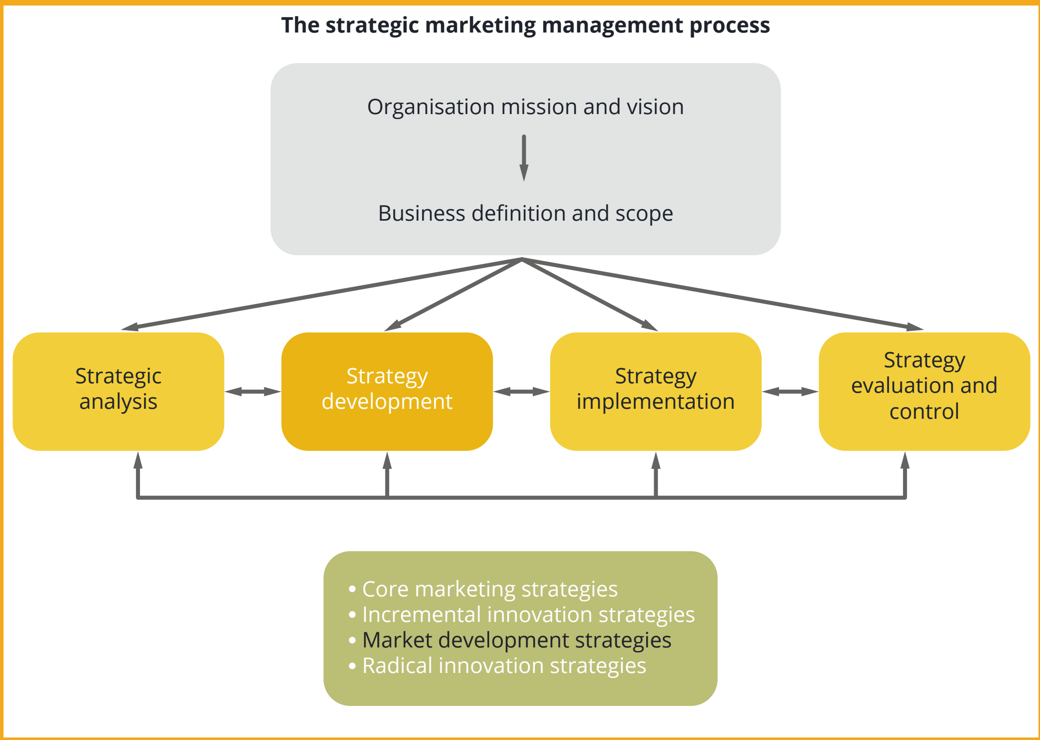
The strategic marketing management process
Organisation mission and vision
Business definition and scope
Strategic analysis
Strategy development
Strategy implementation
Strategy evaluation and control
• Core marketing strategies
• Incremental innovation strategies
• Market development strategies
• Radical innovation strategies

CHAPTER 9

MARKET DEVELOPMENT STRATEGIES

Today, emerging markets serve as the world's economic growth engine, and the far-reaching effects of their spectacular rise continue to play out. But their risks are often downplayed. Therefore, taking advantage of emerging-market opportunities requires careful planning.

Ernst & Young[1]

Zara – a genuine rags-to-riches story

In 1963, seamstress Rosalía Mera and her husband Amancio Ortega Gaona started a small home-based business producing low-cost designer-inspired quilted bathrobes and lingerie for the retail market. Their products were an instant hit with the Spanish public, and within a very short time demand had grown to the extent that production was outsourced to several co-operatives that Ortega established to harness the talents of hundreds of seamstresses working from their homes in La Coruña, an economically deprived city in Spain.

Buoyed by the success of this business, Mera and Ortega decided to further extend their concept of affordable fashion. In 1975 they opened their first retail store, Zara, in La Coruña. Zara was another instant hit and over the next decade Zara stores were established in cities throughout Spain.

In 1985 a company, Inditex, was founded as a holding company to manage Zara and several other retail businesses that Mera and Ortega had established. In 1988 Zara ventured outside of its home market for the first time, opening a store in neighbouring Portugal. The next move was even more adventurous with the opening of a store in New York in 1989, followed by Paris in 1990.

By this time Inditex's management had started to develop what they described as an 'oil stain' international-market entry strategy. The first step was to launch a flagship store in the major fashion capital of a new country. The second step was to gain local operating experience and then use this knowledge to open stores in other cities in that country. Over the next several years one or two new Zara stores were opened each year, mainly in Europe. In retrospect these were only baby steps;

from 1998 onward the pace of market development accelerated considerably. Over the next three years stores were opened in 24 new countries, and by the end of 2001 Zara had established 507 stores in 33 countries (including Spain). During that year Inditex was floated on the Spanish Stock Exchange, with 26 per cent of the company's shares sold to the public and Amancio Ortega retaining a 60 per cent shareholding. The Inditex Group comprised strategic business unit retailing chains (Zara, Massimo Dutti, Pull & Bear, Bershka, Stradivarius and Oysho) plus some associated companies involved in textile purchasing and processing, manufacturing, logistics, real estate and finance.

This was the prelude to a decade of massive international expansion. Over the next decade 1418 new Zara stores were launched all around the globe and by 2012 the Zara empire had grown to 1925 stores in 86 markets. During this period of rapid expansion Zara also embraced the e-commerce revolution with the launch of online stores in 16 European markets in 2010. By 2012 the number of Zara online markets had grown to 21.[2] In 2013 Ortega was named in *Forbes* magazine as the third-richest person in the world.[3] Sadly, in the same year Rosalía Mera, the wealthiest self-made woman in the world, died of a brain haemorrhage while holidaying with her daughter on the island of Menorca.

Zara's expansion continued at a frenetic pace and by 2015 the empire has grown to 2162 worldwide.[4] In that year Pablo Isla, the Chairman and CEO of Inditex, announced that the pace of store openings would slow as part of a broader strategy of moving sales online. By 2017 the number of stores had grown to 2251 in 96 markets plus 46 online markets.[5] Zara is, according to a survey conducted by BCG Henderson, a 2 per cent company, one of the very few companies in the world that can excel at innovation and efficiency at the same time.[6]

Focus of this chapter

Top-line growth is essential for an organisation's survival. Research conducted by McKinsey over two business cycles found that large organisations whose revenue increased more slowly than gross domestic product (GDP) were five times more likely to be acquired or go out of business than were faster growers.[7] This is the third of four chapters that discusses potential growth strategies that are available for organisations to pursue. In the previous two chapters core marketing strategies and incremental innovation strategies were discussed. This chapter continues the theme by examining strategies for existing products or product lines in new markets. That is, *market development* strategies. The specific focus is strategic innovation concerning:

- new market segments
- new marketing channels
- new geographic markets.

Decisions to make incremental inroads into an adjacent market, such as a new market segment (including the marketing of a new application for an existing product), are straightforward and in most cases would be incorporated within the development of the organisation's overall core marketing strategy. On the other hand, a decision to enter a new marketing channel, such as by creating an e-commerce division or a decision to enter a foreign market, would require much more time, effort and resources, including the development of a thoroughly prepared business and risk management plan necessitating top-level management and board-level approval. This strategy development work would be conducted by a market development department or a specially created project team. In many cases the strategies that are developed would involve a degree of *product adaptation* (the modification of an existing product to suit the requirements of a foreign market), but not to the extent where the effort would be more appropriately categorised as new-product development.

Learning objectives

The aim of this chapter is to provide information regarding the processes involved in the creation of market development strategies.

After reading this chapter you will have an understanding of:

- processes involved in identifying emergent market segments for the organisation to target, and the need for organisations to be on alert for new entrants targeting the low end of the market to disrupt the existing industry (9.1)
- the need for organisations to consider the development of new marketing channels, particularly online channels (9.2)
- different market entry strategies that the organisation can consider, and the processes involved in the development of foreign market entry strategies (9.3).

9.1 New market segments

Markets do not stand still. Over time, as markets progress through the various stages of evolution, a process of fragmentation occurs due to the changing nature of customer buying behaviour. This process has been accentuated with the advent of the digital revolution and, as a result, there has been a proliferation of new customer segments in all types of consumer and business markets. At the same time, the middle ground has come under immense pressure in many markets, as more organisations find that they have become stuck in the middle between numerous low-frills and high-end competitors. The dilemma for these organisations, as McKinsey's David Court, Thomas French and Trond Knudsen point out, is that 'staying in the middle is often a death sentence, while focusing on just one end of the market is a recipe for slow or no growth'.[8]

The takeaway point from this observation is that it has become even more important today than ever before for the organisation's strategists to identify the emergence of potential new market segments. As Court, French and Knudson argue, the starting point is to identify and prioritise clusters of the highest-value, fastest-growing *customer cells* in the market. This can only be achieved if the organisation's strategists are able to develop a deep understanding of their 'customer needs and behaviour at the intersection of segments, channels and product categories'.[9] To develop such a deep understanding of their customers, Court and his colleagues argue the case for the establishment of an ongoing and systematic research process – a *customer insights network* that, in addition to integrating customer attitudinal and behavioural information, encompasses relationships with key suppliers as well as with expert third parties, who provide help in managing complex sets of data or in managing innovative qualitative research studies. The insights provided by this network should then be embedded into the organisation's key decision-making processes.[10]

The next step is to assess the current and future attractiveness of the emerging segment or segments and to arrive at a Go/No decision concerning market entry. If the decision is 'Go' then the next step is to develop appropriate customer value creation mix strategies (as discussed in Chapter 6).

The emergence of a low-end market segment can have even more serious implications for organisations that are susceptible to what has been defined by Clayton Christensen as *disruptive innovation*. Christensen argues that distinction needs to be made between 'sustaining innovation' and 'disruptive innovation'. A *sustaining innovation* is one that involves either incremental year-by-year product or service improvements or the development of a breakthrough new product for an existing market. That is, as a sustaining innovation makes 'a product or service perform better in ways that customers in the mainstream market already value'.[11] These strategies are incremental innovation or new-product development strategies (discussed in detail in Chapter 8). In contrast, a *disruptive innovation* is one that leads to the creation of an entirely new market through the introduction of a new kind of product or service. These new products and services are not designed to be as good as or better than existing products or services in the market, and instead are designed to be simpler, more convenient and less expensive. They are designed to appeal to non-customers of the existing product category (i.e. the late majority or the *laggards* discussed in Chapter 5) and/or existing customers who find that the current product offerings exceed their performance needs. The competitors in the newly created low-end market segment are invariably new entrants to the market. An improvement cycle begins, and over time the lower-end products or services improve to such an extent that they eventually meet the needs of the mainstream market. When this occurs, the disruptors start to take market share away from the mainstream competitors who then struggle to survive.

The challenge for these mainstream competitors is therefore to stay one step ahead of the pack; that is, to have processes in place to serve as an early warning system to the potential for disruptive innovation in their industry. According to Clayton Christensen and Michael Overdorf, the most effective way for organisations to meet the challenge of innovative change head-on is to create a new organisation space where new processes, values and capabilities can be developed. There are three ways of achieving this:

- creating a new organisational structure within existing corporate boundaries in which the new processes, values and capabilities can be developed
- spinning out an independent organisation
- acquiring a different organisation that has the capabilities and processes that closely match the task.[12]

These alternatives are discussed in more detail in Chapter 10.

The creation of the processes, values and capabilities to cope with innovative change take a considerable amount of time. Meanwhile the mainstream competitors are faced with the prospect of having to decide how to respond to the immediate challenge of losing market share to the new challengers entering the low-end of the market. The mainstream competitors are faced with a fight-or-flight type of decision. The decision to fight could be a viable option for some of the mainstream competitors who can adjust their cost structures and/or their business models for this end of the market. Other mainstream competitors may decide to enter the low-end of the market in an attempt to stave off the entry of new competitors. Either way, the existing competitors have only a few options to fight off the challengers. The first, as was discussed in the previous chapter, is to extend the product line with the introduction of a modified new product. The second option, for companies such as Gillette or Apple, is to continue marketing a superseded model at a lower price. Gillette, for example, continued to market the Mach 3 razor well after the introduction of the Fusion model.

Apple also experimented with this strategy after the introduction of the iPhone 5 in 2012 by continuing to market the iPhone 4 at a lower price. This strategy was continued in 2018 after the launch of the iPhone 8 and X, when the iPhones 6s, 7 and SE were retained in the product line.

Another market development strategy used by many business-to-business (B2B) and business-to-consumer (B2C) organisations is to develop new applications or uses for existing products. Ford and Holden, for example, used this strategy by supplying modified versions of their larger-model cars for the taxi industry. BMW similarly supplies modified versions of its cars to police forces in Germany, Italy, the UK and the US. From the beginning of 2018, the Victoria Police Highway Patrol started to use a specially prepared 'police pack' version of the BMW 530d series.

9.2 New marketing channels

A marketing channel is traditionally defined in terms of 'a set of activities and processes involved in the transfer of title and the movement of goods and services from the point of production to the point of consumption'.[13] In the digital age, marketing channels should be considered in terms of both offline and online activities that are involved in the purchase funnel between the supplier and the purchaser or user of goods and services. Offline channel structures range from direct customer-to-supplier transactions to those involving a complex multi-level structure of intermediaries (go-to-market partners). In a B2C context, for example, there is a five level structure consisting of: producer–agent–wholesaler–retailer–consumer. Online activities include those that are informational, transactional or provide a platform for managing customer relationships.

Decisions concerning the choice of marketing channels are accentuated at times of market change, such as the beginning of a new stage of market evolution (e.g. a shift from an exclusive or selective to an intensive distribution strategy at the beginning of the growth stage of market evolution). During all stages of market evolution, a decision to target a new market segment might initiate the need to select a new channel. For example, a B2B organisation that has targeted large businesses may decide to use an agent or a specialised distributor to service the small to medium-sized enterprise (SME) market.

The launch of Amazon and eBay in 1995, PayPal in 1998 and Alibaba in 1999 paved the way for the rapid development of e-commerce. For large retailers, such as department stores, not going online was not an option because those that were slow to develop online capabilities experienced a sharp decline in sales across the board. Since that time nearly all bricks-and-mortar retailers have developed online capabilities to become multichannel or omnichannel organisations.

For all organisations in B2C and B2B markets alike, the use of digital channels has become increasingly important. It is therefore an imperative for strategists to develop a deep understanding of the steps involved in the customer decision journey and the number and nature of the multitude of touchpoints that occur along the way between the customer and the organisation, including all its go-to-market partners. The process of touchpoint analysis and touchpoint mapping discussed in Chapter 6 provides a means for strategists to determine the importance of new marketing channels to be targeted.

9.3 Geographic expansion

Geographic expansion, as the name suggests, is a strategy to extend an organisation's market coverage domestically or internationally.

Domestic market expansion is typically a strategy pursued by SMEs seeking growth opportunities beyond their local market territories. As research by the *Economist Intelligence Unit* (EIU) reveals, growth in sales and earnings appears to be a perennial business objective for managers of most SMEs.[14] The underlying belief is that the achievement of scale efficiencies provides a means for enhancing the survival prospects of a small business. Many small businesses not only survive due to geographic expansion but also thrive. As discussed at the beginning of this chapter, Zara rapidly progressed from being a small fashion retailer to become a significant national operator en route to being an international behemoth. Closer to home, Carman's Fine Foods provides another example that typifies this approach. Starting life as a Melbourne-based manufacturer of muesli in the 1980s, the company grew rapidly during the 1990s after a Coles buyer initially agreed to trial-stocking Carman's muesli in 20 Melbourne supermarket stores. Six months later the distribution was extended to the rest of Victoria and closely followed by New South Wales. Today both Coles and Woolworths distribute Carman's products nationally. Carman's has also expanded internationally and exports its muesli products to over 30 foreign markets.[15]

International market expansion takes shape in many forms. The decision to go international may be as simple as an organisation deciding to export one or more of its existing products or services to an overseas market. This may occur by entering into a distribution agreement with a foreign agent who takes responsibility for marketing the organisation's products in a defined geographic market. The objective for the exporting organisation may simply be to take advantage of an opportunity that has arisen or to 'test the waters' for a later, more concerted effort to develop the market. Volkswagen's re-entry into the Australian market provides a classic example of this approach. In 1991 Inchcape Distributors Australia acquired the Australian franchise for Volkswagen and, in 1993, relaunched the brand for the Australian market. In 2001 Volkswagen AG severed its ties with Inchcape and established Volkswagen Group Australia Pty Ltd to take charge of the Australian operations.

Exporting is not just for the corporate giants. Over 90 per cent of Australia's 53 350 exporting organisations are SMEs with 50 or less employees. About 94 per cent of those organisations export goods and 6 per cent export services.[16] For the Australian wine industry, the discovery of export markets was a godsend. In the decade leading up to the mid-1980s Australia was a net importer of wine. The industry's prospects were so dire that the federal government funded a vine-pull scheme to compensate wine growers to plant different crops. Just one decade later, the Australian wine industry was booming. Land devoted to grapevines had doubled and about one-third of wine sales were in the export market.[17] The export-led boom continued throughout the 1990s and early 2000s, reaching a peak of just over $A2.8 billion of export sales in the 2006/2007 financial year. Due to the Global Financial Crisis and intense international competition, sales declined over the next few years to just under $2.0 billion for the 2010/2011 financial year. By 2017 the slump in sales had been arrested and for the 12-month period to March 2018 exports increased by 16 per cent in value to reach $2.65 billion.[18]

At a more complex level of international market development, an organisation may decide to enter either into a licensing arrangement, a joint venture or franchising agreement with a local organisation. Alternatively, it may decide to go it alone by establishing a wholly owned subsidiary, as Volkswagen AG decided to do when it created Volkswagen Group Australia Pty Ltd. Another alternative is to either merge with or acquire an established business in the local market – that is, to deploy a mergers and acquisition (M&A) strategy. This was the approach adopted by the Australian legal company Slater & Gordon in 2012 when it acquired the UK personal injuries practice Russell Jones & Walker. In 2007 Slater & Gordon was the first legal firm in the world to become publicly listed, and when legislation was introduced in the UK to allow legal practices to offer shares on the stock market, an opportunity was created for Slater & Gordon to enter that market as well. Given the size and scope of the UK market, Slater & Gordon's managing director, Andrew Grech, was confident that the British market would potentially contribute up to 50 per cent of the company's total revenue within just a few years from the date of the acquisition.[19] However, despite Grech's optimism, Slater & Gordon's foray into the UK market was an absolute disaster, bringing about the near-collapse of the once-great law firm. Ironically for a law firm, the company failed to do its due diligence when acquiring Quindell, a UK law firm and insurance claims business, for $1.3 billion in April 2015. Just two months after the acquisition, Quindell was investigated by the UK Financial Conduct Authority and 16 months later the entire value of Quindell's assets had to be written off. In April 2015, just days after the Quindell acquisition, Slater & Gordon's shares rose above $8 – by June 2017 the shares had dropped to $0.08.[20]

Slater & Gordon is not an isolated example; corporate Australia is littered with companies that have failed in their attempts to expand internationally. High-profile failures include the collapse of ABC Learning and Babcock & Brown in the early 2000s and, more recently, Bunning's disastrous foray into the UK market (briefly discussed in Chapter 2), as well as the winding back of NAB's and ANZ's international expansion ambitions. Those that have succeeded include some of the best-known Australian companies such as Cochlear, CSL, ResMed, Ramsay Health Care, James Hardie Industries, Macquarie Group, Aristocrat Leisure and Westfield Corporation. Smaller companies that have succeeded include Breville (small appliance manufacturer), Orora (packaging) and Reliance Worldwide Corporation (plumbing products manufacturer), along with information technology (IT) companies such as WiseTech Global, Gentrack Group and Aconex and fintech companies such as IRESS, Praemium, GBST and Bravura.

So why do some companies succeed in market expansion and others fail? McKinsey consultants John Horn, Dan Lovallo and S. Patrick Viguerie argue that a major contributing factor is cognitive bias – systematic errors in the way strategists process information. In many cases strategists overestimate the company's skills, over estimate the size of the market and under estimate competitive responses to a new entrant.[21] Corporate arrogance and a lack of experience in market development are two other contributing factors.

To avoid bias in market entry, Horn and his colleagues identified five core issues that need to be considered:

- *Value proposition and capabilities* – the closer a company stays to its core capabilities the greater its chance of successful market entry. Slater & Gordon strayed away from its value proposition and its core capabilities when it acquired the UK law firm Quindell. Bunnings failed to recognise the differences between the Australian and the UK hardware market when it took over the Homebase chain of DIY stores. In Australia Bunnings operates in huge warehouse locations whereas the UK Homebase stores are much smaller retail outlets. The second issue for Bunnings was that its brand name was unknown in the UK market, which meant that it would take a long time to build favourable brand awareness.
- *Potential market size* – estimates of the total market size need to take into consideration the stage of the industry life cycle and current and future growth potential of the market, taking into account remote and near environmental factors. It is particularly important to identify the driving forces of change in the market (as is discussed in Chapter 3).
- *Competition* – a critical part of the near environment review is competitor analysis. Who are the current competitors? What are their strengths and weaknesses? How are they likely to respond to a new competitor? Are there other potential new market entrants?
- *Estimates of market share revenue* – estimates of market share and potential revenue are notoriously difficult because strategists are dealing with the unknown. Current competitors typically take pre-emptive actions to attack a new market entrant such as ramping up marketing

communication expenditure and lowering prices by tactics such as promotional specials. Market research is an essential part of the decision-making process.

- *Detailed cost estimates* – establishing a foothold in the new market typically takes much longer than expected, costs more than expected and requires more resources that expected. The business case for market entry therefore needs extensive analysis. Market expansion is a high-risk strategy and for many companies the prospect of a long-term return on investment is outweighed by the demands of maintaining short-term shareholder value.[22]

Given the difficulty involved in decision-making processes, Horn and his colleagues recommend that the strategists should take an outside or external view of the situation by drawing on the experiences of other organisations that have successfully and unsuccessfully entered foreign markets. That is, to create a *reference class* of organisations that have faced similar market-entry situations to that which the organisation is contemplating.[23] They identify five factors, discussed in Box 9.1, that are particularly important predictors of market entry success.

By studying factors that have underpinned market-entry successes and failures of organisations in an appropriate reference class, an organisation's strategists are able to develop a balanced (inside and outside) view of the critical factors for successful market entry. The reference class analysis will also provide insights about the skills and resources the organisation would need to successfully enter the market. If new capabilities are required, for example, the strategists might need to consider a contractual approach for market entry, such as a joint venture or licensing, rather than a more capital-intensive approach by going it alone, establishing a wholly owned subsidiary or acquiring an existing competitor.

For many organisations, however, entering a market in a developed economy has lost its appeal. Ageing populations, a slowdown in economic growth, and intensified global competition have created a plethora of red ocean markets in several developed countries and, consequently, attention has shifted towards emerging markets. With emerging markets accounting for more than that 75 per cent of global growth in output and consumption in 2017,[25] it is no wonder so many

BOX 9.1

Predictors of success in market entry[24]

1. *Size of entry relative to minimum efficient scale*. Organisations that are closer to the industry's minimum efficient scale are more likely to succeed.
2. *Relatedness of the market entered*. The more closely related an organisation's product or service is to the current market offerings, the better the chance of success.
3. *Complementary assets*. While core assets and capabilities are important, complementary assets such as marketing and distribution are often more important.
4. *Order of entry*. A first-mover may have an advantage in some settings, but often greenfield entrants ('optimistic martyrs') lose out to more experienced later entrants
5. *Industry life cycle*. Early market entry in the introductory or growth stages of the industry life cycle is more likely to be successful than entering in or near shakeout.
6. *Degree of technological innovation*. In markets where there is a high level of technical innovation it is difficult for a new entrant to compete against established incumbents. It would be better for a new entrant to focus on a small niche ignored by the dominant players in the market.

organisations have prioritised the importance of such markets. Giant fast-moving consumer goods (FMCG) organisations such as Unilever, Colgate-Palmolive, Danone, Henkel, Nestlé and Coca-Cola have all established strong footholds in emerging markets. In 2017, for example, 58 per cent of Unilever's worldwide sales came from emerging markets.[26] The attractiveness of emerging markets has increased over the last decade due to two main factors:

1. *Demographic shifts, including rapid middle-class growth* – an estimated one billion people will enter the middle class by 2020, with 66 per cent of these people living in emerging markets.[27]
2. *Increasing ease of access to emerging markets made possible by the internet* – enabling all types of organisations to substantially reduce the cost and ease of conducting business in overseas markets.

The decision to enter an international market is made at the highest level of corporate management, invariably necessitating Board approval. The decision-making process commences with a research study typically referred to as a *foreign-market opportunity analysis*. The research is often conducted over three separate stages, commencing with a broad-brush preliminary study to identify and shortlist foreign markets that are potentially attractive.[28] A most useful tool for conducting this analysis is the *Market Potential Index (MPI) for Emerging Markets* conducted by Michigan State University's International Business Center. The index, originally developed by S. Tamer Cavusgil, assesses countries on the following eight dimensions: market size, market growth rate, market intensity, market consumption capacity, commercial infrastructure, economic freedom, market receptivity and country risk.[29] These findings are, of course, highly generalised, necessitating strategists to delve into more specific information for their industry.

In emerging markets where information sources are either unreliable or non-existent researchers may base their initial screening on the model developed by David Arnold and John Quelch, discussed in Box 9.2.[30]

After completing the preliminary screening study, a shortlist of markets that warrant further investigation is prepared. The objective of this second stage is to estimate the aggregate or total market demand for the organisation's product category in each of the markets of interest. Issues to be explored include identification of the fastest-growing markets, market trends and external environment factors (i.e. political and economic stability, government regulations) and market restrictions (i.e. export licensing regulations). This assessment requires local knowledge that could be obtained from sources such as the Australian Department of Foreign Affairs and Trade, business and industry associations, internet searches, market research agencies and direct contacts with local organisations. In the absence of product category market data, a surrogate indicator may be

BOX 9.2

The Arnold and Quelch model of estimating market demand in emerging markets

$$Q = (P + NP) \times (DevGDP - AdjGDP)$$

where:

Q = the total market potential
P = national population
NP = new population (i.e. the estimated population growth during the planning period)
DevGDP = average per capita GDP in developed markets
AdjGDP = GDP in the emerging market adjusted to purchasing power parity (to reflect differences in living costs and consumer spending power).

used. For example, in the absence of market data for medical equipment, a surrogate (e.g. the number of hospital beds or the number of surgeries) could be used. At the completion of this stage of the foreign-market opportunity analysis, the strategist should be in position to select the most appropriate market or markets to target.

The objective of the third and final stage of the process is to investigate specific issues relating to the development of market-entry strategies. A more thorough investigation of the potential market size for the product category must be undertaken along with estimates of the organisation's market share, revenue and costs. The investigation would also need to include a thorough analysis of the competitive landscape. Consider the following questions: Who are the existing competitors? What are their strengths and weaknesses? What retaliatory strategies might they take to counter a new entrant? Are there any other potential new entrants? Primary research would also need to be conducted to investigate marketing issues; for example, specifics such as brand positioning, the customer value proposition, product or service adaptation (including product or packaging modifications), product pricing, distribution availability and costs (including consideration of the design and structure of distributions channels and the suitability of intermediaries), the availability and costs of marketing communication, and the availability and costs of business partnerships.

SUMMARY

- In the slow-growth business environment that typifies many Western markets, the need for an organisation to seek growth opportunities for its existing products in new markets has never been more important. The process starts with the development of an organisational capabilities to seek and discover opportunities for expanding into new markets, and the capacity and the willingness of top management in the organisation to devote organisational resources to exploit those opportunities.
- Market-development strategies include entry into new market segments, new marketing channels, and established and emerging foreign markets. The development of each of these strategies ranges in complexity and level of decision-making required. For example, entry into a new market segment would be typically considered to fall within the domain of core marketing decision-making, whereas a strategy to enter a developed or emerging foreign market would require involvement of top-level management and board-level decision-making.
- Market development does not happen overnight. Particularly in the case of foreign market expansion, it can take many years for the organisation to achieve a satisfactory return from its investment. However, to ignore market-development growth opportunities can be even more perilous in the long term.

DISCUSSION QUESTIONS

1 Compare and contrast the market development strategies employed by Breville, Zara, Slater & Gordon (discussed in this chapter) and Bunnings (discussed in Chapter 2). What can be learnt from the successes and failures of the market development strategies that were used?

2. What are the pros and cons of market entry by acquisition?
3. A fund manager recently stated that the announcement of a company's intentions to expand internationally is a time to sell shares in that company. Does the risk involved in international market expansion outweigh the potential long-term return of investment?

STRATEGY IN PRACTICE

Breville – an Australian star global performer

> Australia has no right to star in kitchen-appliance design. This is an industry for global proclaimed giants that have manufacturing scale. Yet Breville has delivered a 10-year annualised total return (assuming dividend reinvestment) of almost 28 per cent. Even Cochlear has not done that well. [31]

Few would believe that Breville Group Ltd, ranked 194 out of the top 2267 publicly listed companies in Australia, is one of the country's star performers internationally. Seventy-eight per cent of revenue the company earned to the end of 2017 was derived outside of Australia and New Zealand.[32]

Breville is a company that designs, develops, markets and distributes its Breville-branded products in the premium kitchen segment of the small appliance market in 65 countries. Its portfolio of brands includes Kambrook (kitchen appliances and homewares at affordable prices), Sage (kitchen appliances endorsed by Heston Blumenthal and marketed throughout the UK and Europe) and PolyScience (appliances for food temperature control and specialist cooking accessories). Breville also operates as a global distribution business, with just under 19 per cent of its total revenue derived from distributing products such as Nespresso and Aquaport water chillers and dispensers.

Breville was founded in 1932 by entrepreneurs Bill O'Brien and Harry Norville to manufacture radios, and moved later during the war years to include mine detectors. During the 1950s Breville sold its radio business to concentrate on the manufacture of small appliances and television sets under the brand name Precedent.

From the very beginning the company's focus was on design and innovation, and during the late 1960s the process was formalised when John O'Brien, who succeeded his father as CEO, established the Breville Research and Development Centre. The return on this investment was soon realised with the successful development of the Breville toasted sandwich maker in 1974, which sold over 400 000 units in its first year and made Breville a household name in Australia. Soon after, the Breville toasted sandwich maker launched with similar success in New Zealand and the UK.[33]

During the 1980s Breville opened an office in Hong Kong and began exporting its products to 15 countries. In 1982 Breville sold its ownership of the brand to Jarden Corporation for the European market, primarily the UK. During the 1990s the rollout of innovative new products continued with the launch of the Breville electric wok, sandwich press and large-feed juicer. In 1999 Breville took over Kambrook, a competing small appliance manufacturer.

A turning point in the destiny of the Breville company came about in 2001 when the business was sold to Housewares International Ltd (HWI), a company that was established in 1957 and listed on the ASX in 1999. The marriage of the two companies was a perfect match because both had ambitions to expand internationally. Breville, which was essentially a family-run business, lacked the financial resources to do so. HWI, which was one of Australia's largest distributors of houseware products, had already started to expand internationally and was aiming to become a leading provider of branded houseware products in the homewares and small electrical appliance categories. In 1989 HWI acquired Metro Marketing, a Southern-Californian-based housewares company, and in 2000 purchased a 50 per cent shareholding in Anglo-Canadian Housewares, a leading supplier of homewares in Canada – the purchase of the remaining 50 per cent was completed in 2002.

HWI had the infrastructure in place to launch Breville into the North American market, and this took place in January 2003 with the unveiling of its range of products at the Housewares Show in Chicago. Breville was positioned as an upmarket brand targeted to compete in a segment of the American small appliance market where it was believed that there was enough margin to be profitable. Acceptance among the targeted retailers in both the US and Canada exceeded Breville's expectations, and some early sales started to flow in April. By 2004 most of the key Canadian retailers and many of the US-targeted retailers had started to stock Breville products. Over the next few years the Breville brand continued to gain increased market acceptance in North America, and was stocked on the shelves of upmarket retailers such as Williams-Sonoma, Macys, Bloomingdales, Crate & Barrel, Bed Bath & Beyond, Home Outfitter and The Bay.[34]

By 2005, in the face of a major shift in the global houseware industry, it had become clear to the Board of HWI that a change in strategic direction was imperative. Retailers were increasingly bypassing wholesalers and sourcing their products directly from overseas manufacturers, particularly from China. As the chairperson of HWI informed the company's shareholders, 'the company had reached a defining crossroad in its history whereby it had recognised the need to redefine its Australian business and grow in its increasingly attractive international markets'.[35]

Responding to this call for action, several initiatives were put into place over the next few years, including:

- the relocation of HWI's corporate office to the Breville office and product development hub in Sydney in 2007
- the renaming of the company to Breville Group Limited on 25 November 2008
- the launch of a new brand, Sage by Heston Blumenthal, in 2013 for the UK and European markets to address the problem created 1982 when the Breville brand name was sold to Jarden.

Heston Blumenthal was appointed to be a brand ambassador to promote the new brand and work with the company's product development teams to provide insight into the food science necessary to underpin the development of Breville's 'best in class' new products. The brand positioning of Sage was to be closely aligned to the Breville brand identity marketed outside of Europe and was likewise positioned as a premium brand. In 2013 a UK subsidiary, BRG Appliances, was established to market the Sage product range in the UK and in Europe. In 2015 Jim Clayton was appointed CEO of Breville and immediately set to work to accelerate the transformation of Breville into a scalable, global, innovation-driven product company.

By 2017 many of the key components of the transformation program were in place and Breville was well positioned to continue its trajectory of global expansion.

1. What are the critical success factors (CSFs) for a company to succeed in the global small appliance market? How does Breville measure up against these CSFs?
2. Should Breville introduce Kambrook as a fighter brand in North America and Europe to compete in the lower price point segments of the market?
3. Should Breville target emerging markets? If so, what markets should they consider? What criteria should they use? What channels should the company's market development team consider?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Decide what, if any, opportunities exist for market development. If there are none, write a brief rationale. If there are such opportunities, develop in broad detail your proposed market-development strategies.

ETHICAL ISSUE

In some foreign markets the acceptance of gifts, commissions and other forms of payments by public officials for 'facilitating market entry' is considered to be normal practice. Is it acceptable in Australia for organisations to follow these practices?

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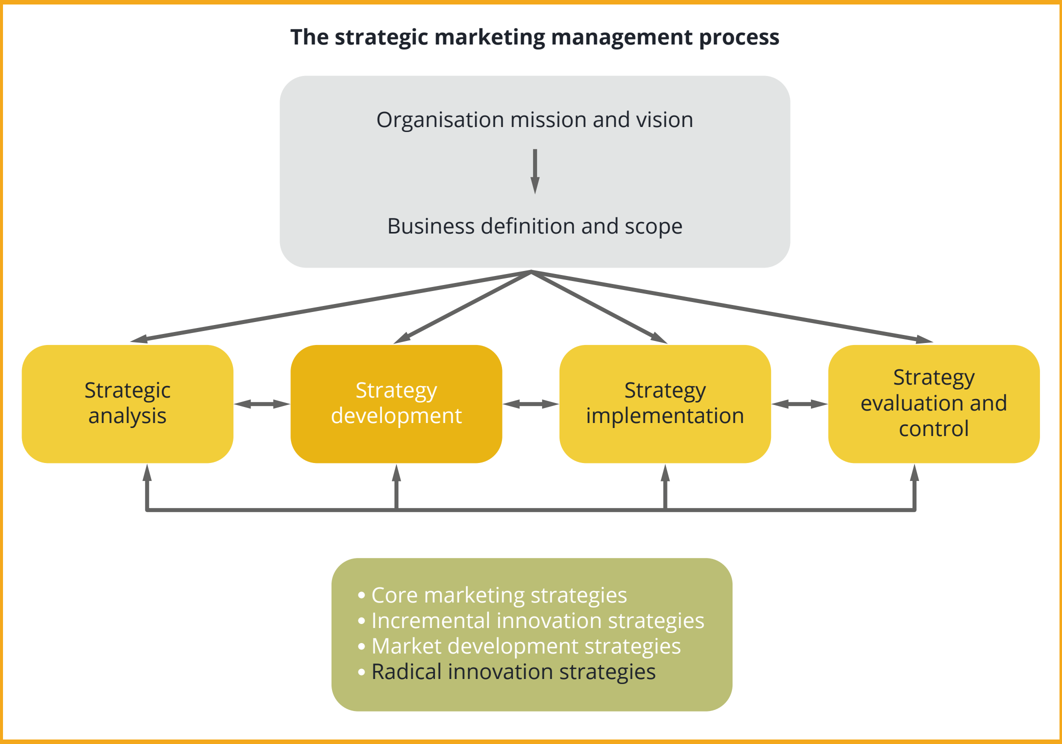
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Strategy implementation
Strategy evaluation and control
• Core marketing strategies
• Incremental innovation strategies
• Market development strategies
• Radical innovation strategies

CHAPTER

10

RADICAL INNOVATION STRATEGIES

I don't care if it's my idea, an employee's idea, a competitor's idea, a partner's idea or some other associate's idea. My job is to build a culture of innovation. That's something that we try to enforce. We encourage it. We value it. We notice it. We compensate for it. We require it.

Marc Benioff, founder and CEO of Salesforce.com Inc.[1]

Salesforce.com Inc – the CRM disruptor

During the autumn of 1998, Marc Benioff, a senior vice president of Oracle Corporation, developed an idea that he believed would revolutionise the enterprise computer software industry. At that time software companies such as Oracle, Siebel and SAP would design and install complex customised software systems for their clients to manage various aspects of their business, such as customer relationship management (CRM) activities. The process was costly and cumbersome, with software being distributed in the form of CD-ROM packages that took from six to eighteen months to install.

Inspired by the way Amazon.com had developed such a clean and easy interface that could be customised for individual users, Benioff wondered why this could not be applied to enterprise software.[2] A few months later, with the blessing and support of his boss, Larry Ellison, Benioff and three colleagues founded Salesforce.com.[3] In March 1999 work began in a rented one-bedroom apartment to write the code for a prototype of a new web-based CRM software package.[4] During this time Benioff was splitting his work time between Oracle and Salesforce.com, but by mid-year, when the prototype had been developed, he took a leave of absence to devote more time to the development of what was to become known as the 'software-as-a-service' (SaaS) model. Instead of paying an upfront licence fee, Salesforce.com clients would pay a monthly fee to access Salesforce.com's web-based standard CRM program, which they could then shape to fit their individual needs. By September 1999 Salesforce.com's first clients had been signed up, and by the end of the year Benioff decided it was time to leave Oracle for good. The company Salesforce.com was officially launched in February 2000 and by that time more than 200 customers had signed up.

Fast-forward to 2017 when Salesforce.com was ranked by *Forbes* as the world's most innovative company. The *Forbes* The World's

Most Innovative Companies list consists of organisations that investors feel are most likely to come up with the next big innovation. Salesforce.com was ranked number one from 2011 to 2015, but lost its top spot to Tesla in in 2016.[5] With a market capitalisation of $US92.55 billion (on the 4 May 2018) and sales of more than $10 billion, Salesforce.com has come a long way since it was founded in a one-bedroom apartment in San Francisco. Along the way Marc Benioff created a business revolution, a paradigm shift in the marketing and delivery of enterprise software. As one IT commentator said, 'Marc Benioff should go down in history – or at least the history of the software industry – for his nearly single-handed invention of on-demand computing'.[6]

Focus of this chapter

This chapter examines radical innovation, the last and most extreme of the four strategic innovation growth options discussed in Part 4 of this book. *Radical innovation* is a term that stands for doing something different – the creation of a new product, product line, process, system or business model that is significantly different from the business unit's current product offerings. Radical innovation includes strategies used by a market pioneer in the development of a new-to-the-world product to create a new or blue ocean market, or by a market challenger/follower in the development of a new product in a market that is new to the organisation.

Radical innovation stands apart from core marketing strategies, incremental innovation strategies and market development strategies because it invariably requires the development of new skills, techniques and facilities. It is also the riskiest of the options and the one with the longest return on investment. However, the failure to develop and introduce radical innovations puts established organisations at risk. In 1957 the average life expectancy of corporations listed on the S&P 500 Index was 75 years. Today it is just 15 years. Organisations that ignore radical innovation do so at their peril.

Radical innovation is primarily a market-*driving* strategy as distinct from a market-*driven* strategy. Market-driving organisations such as Apple, Salesforce.com, Tesla, Amazon.com, Body Shop, Swatch, eBay, Starbucks, Dell and Wal-Mart are those that deliver a leap in customer value by the development of a radically new product, process or business system. Radical innovation is a high-risk strategy, but offers the potential to create an entirely new industry or to revolutionise or radically change an existing industry, and the opportunity of reaping substantial rewards. Market-driving strategies differ from market-driven strategies because the latter are essentially incremental innovation strategies (as discussed in the previous chapter).

Learning objectives

The aim of this chapter is to provide information regarding the processes involved in the creation of radical innovation strategies.

After reading this chapter you will have an understanding of:

- the two main forms of radical innovation: new-to-the-world and new-to-the-firm products and business models (10.1)

- the fuzzy front end (FFE) of innovation and a model that describes the front-end inputs and activities of FFE (10.2)
- the processes involved in launching new-to-the-world innovations (first-mover advantage strategies) (10.3)
- strategies for new-to-the-firm innovations (market follower strategies) (10.4).

10.1 Radical innovation

Radical innovation includes the development of products or business models that are *new-to-the-world* (i.e. new products for markets that do not presently exist) and products that are *new-to-the-firm* in markets that are in an embryonic stage of development, including new forms of an existing market such as the relatively recent development of robo-investing. Within these two broad categorisations there are a total of four different types of innovations. (Note: the term 'product' is used as an umbrella term to include the physical products as well as services, processes and business models).

New-to-the-world product innovations include the following:

- *Breakthrough innovations* – a new product that enables the creation of a market that did not exist before.
- *Transformational innovations* – discontinuous, game-changing or radical new products that disrupt entire industries.
- *Blue ocean or value innovation strategies* – products that are designed to capture a market space that is untapped or has unfulfilled demand by creating something that is fundamentally new and provides superior buyer value to customers in an existing market. The new product offers a quantum leap in buyer value that serves to create a new market within an existing market boundary.

New-to-the-firm product innovations include the following:

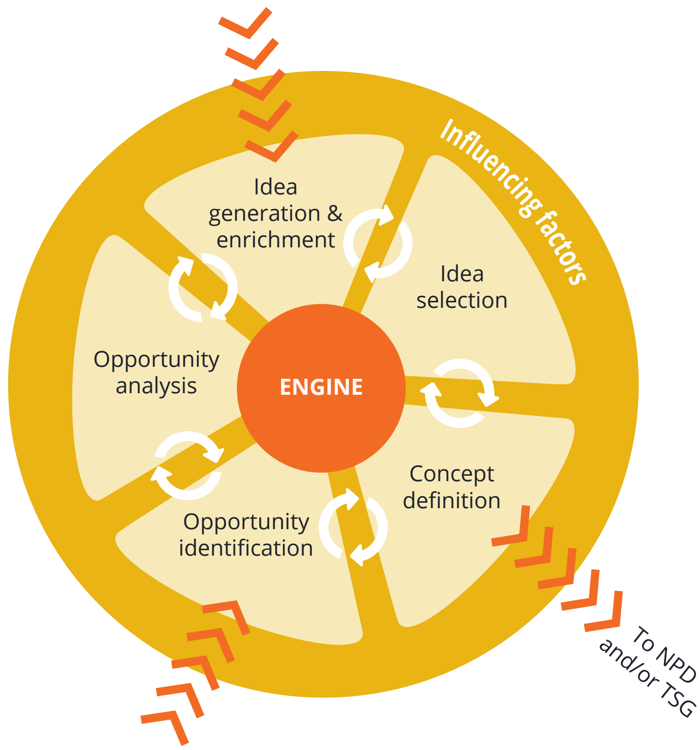
- *Market follower strategies* – products developed by a market follower to enter a market or new form of a market that is in the embryonic stage of development. The new product may be based on either:
  - *Innovative imitation* – emulative new products that are significantly different in at least one aspect from the competitive product or products.
  - *Product adaptation* – modifying or improving on the product innovation of others.

10.2 'Big I' innovation – the fuzzy front end of innovation

'Big I' innovation is a term proposed by George Day for the purpose of differentiating 'big I' new-to-the-world and new-to-the-firm innovations from 'little i' minor projects.[7] 'Big I' projects are often chaotic and unstructured, and for that reason the beginning of the process is termed the *fuzzy front end* (FFE) of new-product development. These are the processes that precede the formal and structured steps prescribed in the Stage-Gate® model discussed in Chapter 8. Peter Koen and his colleagues found that 'Big I' projects are far more iterative and complex than the single ideation step represented in the Stage-Gate® model. In a study of FFE best practices for the Industrial Research Institute, Koen and his colleagues developed a theoretical construct, defined as the New Concept Development (NCD) model, to describe the various front-end inputs and activities.[8] Figure 10.1 portrays these inputs and activities.

The model is based on the notion that the FFE exists in an environment of influencing factors as shown on the outer ring. These influencing factors are primary contributors to the serendipitous

FIGURE 10.1 The New Concept Development model



P. Koen et al, 'Fuzzy front end: Effective methods, tools and techniques', The PDMA toolbook for new product development by S. Somermeyer and A. Griffin. Reproduced with permission of JOHN WILEY & SONS, INCORPORATED via Copyright Clearance Center 2002, Figure 1.2, p. 8.

discovery of new ideas. They comprise the organisation's internal capabilities (i.e. its ability to identify opportunities, generate ideas and to develop concepts and technologies) and the external remote and near environment forces – the driving forces of change (i.e. technology, economy, sociocultural, political-legal the natural environment, customer preferences, the competitive environment and value chain environment).

The inner spoke of the model comprises five elements that represent the creative front-end activities (i.e. opportunity identification, opportunity analysis, idea generation and enrichment, idea selection, and concept definition). Creative and innovative concepts may be strategy-driven (recognition of a changing industry environment), market- or customer-driven (recognition of unfulfilled customer needs), technologically driven (research and technical development) or serendipitously created. In many cases radical innovation is the brainchild of a visionary leader who can recognise an opportunity that others cannot see. In a research study of 25 pioneering companies, Kumar, Scheer and Kotler found that the generation and development of an idea was a combination of serendipity, inexperience and persistence.[9] Howard Schultz, for example, founded Starbucks in1983 with the desire to bring to the US the Italian coffee culture he had experienced in Verona and Milan. Nicolas Hayek's big idea of a 'second watch' as a means of self-expression drove the development of Swatch, which underpinned the recovery of the entire Swiss watch industry from a near-death experience in the early 1980s (for more on this see Chapter 1 opening vignette). Phil Knight, a certified public accountant, and Bill Bowerman, a college track coach, had no sports-shoe industry experience when they founded Nike, which meant that they were not inhibited by the industry's perceived wisdom of how things should be done. Fred Smith's persistence to overcome a multitude of problems that stood in the way of his vision to create a guaranteed overnight delivery system is legendary. Smith originated the concept in a term paper at Yale in the early 1960s and, after mulling over it for several years, founded Federal Express in 1971 to bring to fruition his big idea.

The circular shape in the diagram of the NCD model (Figure 10.1) represents the notion that ideas are expected to flow, circulate and reiterate among the five elements in no particular order. The inward arrows represent starting points at either the opportunity identification, or idea generation and enrichment elements. The exiting arrow represents a developed FFE concept that now requires rigorous assessment as a part of a more structured Stage-Gate® process.

The inner hub of the model represents the engine (i.e. leadership, culture and business strategy) that drives the innovation process – that is, an organisational culture that encourages and fosters innovation and creativity.

The design of an effective structure to manage innovation is a major challenge for most organisations. Research conducted by McKinsey & Company in 2012 showed that there is no uniform view of how a separate innovation function should be designed. Its global survey of over 2900 business executives found that 27 per cent of the companies surveyed had established an innovation centre, 25 per cent a new-business development function, 18 per cent an emerging-business opportunities group, 11 per cent an emerging-technologies group, 8 per cent an advanced-technologies institute, and 4 per cent an innovation incubator or skunkworks. (Note: Seven per cent of respondents answered either 'other' or 'don't know'.) The survey also revealed that 62 per cent of companies use more than one structural model to drive their innovation efforts.[10]

While there is no consensus about how major innovation projects should be managed, there are consistent views about the following issues:

- *Organisational culture* – a culture that encourages innovation and where creativity is critical to the success of new product development. According to an extensive study of innovation results conducted by Robert Cooper for the Product Development Institute, the number-one factor that distinguishes the top innovation companies from the rest is having 'the right climate and culture for innovation, an appetite to invest in innovative and more risky projects, and the right leadership from the top'.[11] Numerous other research studies have underlined the critical role that senior managers play in fostering an innovative organisational culture.[12] It has also been found that the early involvement of a business-executive champion who has the capacity to channel resources to new projects, is critical to the innovation unit's overall success.[13]
- *Strategic alignment* – the innovative effort needs to be strategically aligned with the organisation's business. The McKinsey survey found that companies that aligned innovation with strategy were six times as likely as those without an integrated strategy to effectively achieve their financial objectives.[14]
- *Striking the right balance* – there needs to be a balance between too much autonomy and too much structure. Freelancing without a sense of direction can be a disasterous.[15] On the other hand, too much structure can stifle innovation. In a study of 62 teams from licensing units across six large pharmaceutical companies, Henrik Bresman found that, on average, teams operating under more rigorous organisational constraints exhibited less learning than teams that operated under less structure.[16]
- *Collaborative teamwork* – the establishment of a multifunctional team. Koen and his colleagues recommend that a team of three to five people should be appointed to work full time on a large

BOX 10.1

The five discovery skills practiced by the most innovative entrepreneurs[19]

- *Associating* – the ability to connect seemingly unrelated questions, problems and ideas from different industries, cultures and disciplines. This is described as the Medici effect – named after the 15th-century Medici family who, by bringing together artists, sculptors, scientists, poets and architects, created the cross-fertilisation of ideas that sparked the Renaissance.[20] Pierre Omidyar founded eBay in 1996 by connecting three unconnected dots: a fascination with creating market-efficiency, his fiancée's search for a hard-to-find product, and the ineffectiveness of local classified ads to locate the product.
- *Questioning* – question the unquestionable; challenge the status quo. Ask 'Why not?' and 'What if?' After observing the emergence of Amazon and eBay, Mark Benioff questioned why his company (Oracle) was uploading and upgrading software by DVD when it was possible to do so over the internet. From this simple question Salesforce.com was founded.
- *Observing* – gaining insights as to how customers, suppliers and companies do things, and looking for ways to improve the way activities are performed at home and at work. Scott Cook founded Quicken financial software after watching his wife's frustration at keeping track of their finances.
- *Experimenting* – includes the intellectual exploration of ideas, physical tinkering (e.g. Steve Jobs taking a Sony Walkman apart) or engagement in new surroundings (e.g. Howard Schulz finding inspiration to establish Starbucks after roaming around Italy and experiencing Italian coffee bars).
- *Networking* – innovative entrepreneurs seek out people with different ideas and perspectives in a quest to further their knowledge. They network, not to further their careers but to broaden their knowledge.

project. The team should have a project charter that clearly specifies the expectations of the assignment, the resources to be committed and the expected outcome.[17]

- *Develop discovery skills* – Jeffrey Dyer, Hal Gregersen and Clayton Christensen have identified five discovery skills (shown in Box 10.1) that distinguish innovative entrepreneurs form others.[18] During a six-year study to uncover the origins of how creative business strategies were developed Dyer, Gregersen and Christensen found that the most innovative entrepreneurs had 'creative intelligence' where they engage both sides of their brains to leverage these discovery skills to create new ideas. They also found that the five discovery skills can be learnt and honed by practice and experimentation.

  (The researchers studied the habits of 25 innovative entrepreneurs and surveyed more than 3000 executives and 500 individuals who had started innovative companies or invented new products. The list of entrepreneurs who were studied included Marc Benioff [Salesforce.com], Jeff Bezos [Amazon.com], Scott Cook [Intuit], Michael Dell [Dell Computers], Pierre Omidyar [eBay] and Peter Thiel [PayPal])

10.3 Strategies for new-to-the-world innovations

Timing of market entry is a critical decision for new-to-the-world innovations. Should the organisation be a pioneer and take first-mover advantage (FMA), or should it be a follower?

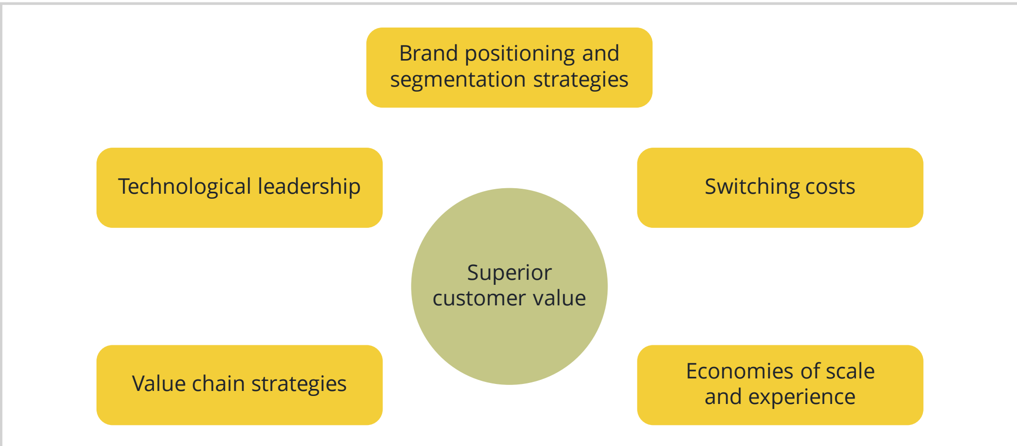
This is a question that, at first glance, would seem to be an easy decision. But research conducted over the last few decades has shown that being first into the market does not automatically guarantee future success. In theory, a market pioneer can gain an FMA during the lead-time it has over later entrants to the market by using this time to erect several barriers to market entrance. The market pioneer would then go on to dominate the market through the various stages of market evolution.[21] However, not all market pioneers have been able to effectively achieve an FMA, and research has shown that later entrants have often been able to gain a competitive advantage by free riding and leapfrogging the pioneer with superior technology and superior market positioning.[22] Research conducted over the last three decades has only served to confuse the issue of whether it is better to be a pioneer or a follower because numerous studies support both sides of the argument.[23] Adding to the confusion are observations that the results of the studies are polarised by choice of research methodology and the type of products in the sample.[24] Many such studies have also been flawed because of the way problems concerning issues of product and market newness are defined.

Despite the debate about whether it is more advantageous to be a market pioneer or a market follower, the challenge to successfully launch a new product and to sustain a competitive advantage is formidable. It is even more so when the new product is based on radical, as opposed to incremental, innovation. This was highlighted in a 2006 study by Sungwook Min, Manohar Kalwani and William Robinson, which found that only 23 per cent of pioneers of radical innovations survived more than 12 years compared with 61 per cent survival of pioneers of incremental innovations over the same timeframe. They also found that pioneers of really new products are often the first to fail. In contrast, by learning from the pioneers' mistakes, early followers are not as vulnerable to exit (failure).[25] Given the enormity of the challenge, the first step for strategists considering the launch of a radical new product is to develop an understanding of the mechanisms that provide a pioneering FMA.

Strategies for developing a first-mover advantage

Figure 10.2 shows the mechanisms that a market pioneer can use, individually or in combination, to create and maintain an FMA. The central circle in the model represents the goal of FMA – to create, communicate and deliver sustainable customer value. This is achieved by one or a combination of the following five FMA mechanisms: brand positioning and segmentation strategies, technological leadership, value chain strategies, switching costs, and economies of scale and experience.

FIGURE 10.2 First-mover advantage mechanisms



Superior customer value

The objective of FMA is to create a product offering that will be perceived by customers and potential customers to deliver superior value. As was discussed in Chapter 6, there are four major types of customer value that the organisation can attempt to create:

- *Functional/instrumental value* – the extent to which the product meets the customers' desired attributes, its perceived usefulness, and the extent to which its performance meets customer expectations.
- *Experiential/hedonistic value* – the extent to which the product creates customer experiences, feelings and emotions.
- *Symbolic/expressive value* – the psychological meanings customers attach to or associate with a product.
- *Cost/sacrifice value* – the trade-offs that customers make between attempting to maximise or realise product value benefits and minimising the transactions cost involved in the purchase, ownership or use of the product.[26]

Brand positioning and segmentation strategies

A market pioneer is in a position to develop strategies that define the market expectations of the product category; that is, by establishing primary demand for the product category and the sought product attributes and benefits that appeal to the largest segment of customers. This assertion is underpinned by well-developed theories in the field of consumer behaviour, such as a model developed by Gregory Carpenter and Ken Nakamoto. In an experimental research study Carpenter and Nakamoto found that during the early stages of market evolution, when little is known about product attributes or the ideal combination of attributes, the market pioneer is in a strong position to profoundly influence the formation of preferences and to become the standard or prototype against which all later entrants will be judged.[27] A longitudinal experimental research study conducted by Frank Kardes and Gurumurthy Kalyanaram adds another dimension to this finding by showing that differential learning about brands is a function of order entry. The first brand in a new-product category is likely to be perceived to be novel and interesting, thereby gaining the attention of potential customers. Much of this information is subsequently encoded into the prospect's long-term memory. Because the market follower is likely to share many of the product features and attributes with the pioneer, much of the information is likely to be perceived as redundant and uninteresting. Consequently, a deceasing amount of learning takes place about the brand. The amount of redundant information increases as each new brand enters the market.[28]

Apart from incorporating the key attributes (i.e. product features and benefits) into the overall product offering, the organisation's strategists have at their disposal a variety of marketing tools designed to create, communicate and deliver customer value. These include pricing, distribution, marketing communication, customer service and customer engagement strategies. The objectives are to develop strategies that will define the rules of the game and to deter competitors from entering the market by raising the cost of entry.[29]

Technological leadership

The development of a radical new product provides the market pioneer with an FMA if the organisation can keep that technology proprietary. In markets such as pharmaceuticals, where technological advantage is largely a function of research and development (R&D) expertise and expenditure, this can be achieved by patents protection. In industries where this is not possible or where patent protection is ineffective, secrecy and advances in the product innovation learning curve are mechanisms that may be used by the market pioneer in an attempt to maintain technological leadership.[30] As evidenced by the ongoing 'patent wars' in the smartphone and tablet product categories, patent protection provides only minimal FMA.

Technical leadership is particularly relevant for organisations pursuing functional/instrumental value creation strategies.

Value chain strategies

The market pioneer may be able to influence both the upstream and the downstream value chain activities in the developing market by pre-empting sources of supply and tying up the distribution channels. This is particularly relevant in markets where there are a limited number of suppliers and the pioneer is able negotiate exclusive long-term supply agreements that will have the effect of creating a barrier to entrance for potential competitors. The pioneer also has the potential advantage of being able to shape the way the new product is distributed (i.e. the type of distribution channels to be used) and, by establishing close relationships or strategic alliances with its distribution partners, to make life difficult for new market entrants. In business-to-business (B2B) markets distributors are often reluctant to take on more than one or two competitive brands, as are retailers in many fast-moving consumer goods markets.

Switching costs

Depending on the nature of the product and the technological complexity, switching costs can be high and act as a deterrent for customers wanting to change suppliers. In some B2B markets the first-mover can impose a long-term buyer–supplier contract that would effectively prevent or deter the buyer from making a switch. In some consumer-based markets switching costs can be a problem for the market pioneer. For example, in markets such as consumer electronics, market pioneers in the music product category had to convince potential buyers to change their equipment to play microgroove vinyl records in the 1950s, tapes in the 1960s, CDs in the 1980s and iPods in the early 2000s. The pioneers for the introduction of each new technology had to invest considerable time and effort into creating primary demand for the new technology, which made it easier for later entrants to enter the market once this had been established.

Economies of scale and experience

The market pioneer has the advantage of occupying a monopoly position in the market until competitors arrive on the scene. The objective is to build volume and achieve economies of scale and an experience-based cost advantage over later entrants. Potential competitors may be deterred from large-scale entry and choose to compete in a smaller-scale market niche. A market pioneer pursuing a cost/sacrifice value strategy would be able to lower prices to deter new entrants. A market pioneer pursuing a radical strategy (including functional/instrumental, experiential/hedonistic and symbolic/expressive value creation strategies) could raise the bar higher for competitors entering the market by using the cost advantage to fund continuing product improvement, to extend the product line, or to increase marketing communication or customer engagement activities.

Size is also a critical factor in what is described as *demand-side economies of scale* or, more commonly, *network effects* or *network externality*. In network or system-based markets, where interconnectivity and compatibility are critical issues, the pioneer can gain an FMA by establishing an industry-standard operating system. JVC won the videocassette recording war in the 1970s by building an alliance (a network) of consumer electronics manufacturers to support the development of its VHS system. Sony, going it alone, found that it could not compete and eventually had to abandon its Betamax system. Similarly, Apple lost out to IBM in the personal computer market when IBM outsourced the production of its operating system to Microsoft without locking in exclusivity. This paved the way for Microsoft to sell its operating system to all personal computing manufacturers and to establish the industry standard.

10.4 Strategies for new-to-the-firm innovations

The main disadvantage of being a pioneer is failure to capitalise on opportunities and the enormous cost of establishing primary demand for a new product category. Market followers may also have an advantage brought about by technological advances that have the effect of rendering the pioneer's product or production processes obsolete.

A market follower, pursuing a product adaptation strategy based on modifying or improving the product innovation of others, would typically invest far less in R&D that the pioneer or other early entrants, thereby gaining a significant cost advantage in this regard. However, this may not be the case for a market follower pursing an imitative innovative strategy based on the development of at least one aspect of the pioneering product that is significantly different.

Followers

A follower can have the advantage of sitting back and waiting until the pioneer has built enough primary demand and volume to make market entry attractive. The follower can take advantage of mistakes made by the pioneer such as:

- ineffective targeting and positioning – not tailoring the product to the needs of the main market segments
- not taking up technological improvements
- problems with products – poor quality and/or lack of sought product attributes
- marketing mix problems – such as overpricing the product
- failure to gain a critical mass for distribution
- ineffective marketing communication – including insufficient marketing communication expenditure
- unsatisfactory customer service
- inadequate resources devoted to launching the new product.

By addressing one or several of these mistakes, a follower has the opportunity to successfully enter the market. In particular, it can achieve success by entering the market on a larger scale than the pioneer and/or leapfrogging the pioneer with a technologically superior product, a superior-quality product or vastly superior customer service. In some cases a follower entering the market with significantly larger resources may be able to achieve low-cost leadership because of economies of scale (or predicted future economies of scale) to enable it to significantly undercut the pioneer's price. A pioneer responding to this lower price might alienate the innovators and early adopters who paid higher prices when they purchased the product.

Late entrants

In most cases a late entrant cannot aspire to a market-wide leadership position because the pioneer and early followers would have taken a major hold of most market segments. In this case a late entrant would need to pursue a focus strategy by concentrating on one or two market segments that have been largely untapped by the main players. The main players may have overlooked these market segments or may have considered them to be too small to worry about. Alternatively, there may be one or two emerging segments that a late entrant can enter before the main players do.

Apple was a late entrant in the MP3 market when it launched iTunes and the iPod in 2001. At that time there were over 50 companies selling portable MP3 players and there were numerous internet music websites that offered free or paid-for access to songs that could be downloaded to a personal computer or directly to an MP3 player. The music industry was also in a state of flux, shaken by the short-lived entry of Napster into the market in 1999. Napster's peer-to-peer software provided a means for anyone with access to the internet to download music for free – by mid-2000 billions of songs had been exchanged that way. Following legal action taken by the Recording Industry Association of America, Napster was shut down towards the end of that year. This provided a tremendous opportunity for Apple to launch its iTunes music store in 2001 – a move that provided a mechanism for preventing the pirating of music, thereby gaining the support of the music industry. Apple was able to leapfrog all its competitors due to a combination of superior technology, superior marketing and brand positioning. The combination of iTunes and iPod technology allowed the seamless integration of the three components of the music system (the music store, the player and the jukebox software), coupled with an easy-to-use interface and superb design and product quality. Apple broadened its appeal in 2002 when iTunes was made available to Windows users, which paved the way for Apple to achieve market dominance. By 2004, just three years after the introduction of iTunes and the iPod, Apple had a 65 per cent market share of the MP3 player market and iPods made up 92 per cent of all hard drive-based music players.[31]

SUMMARY

- Radical innovation strategies are based on the development of radical new-product offerings or business models that provide the organisation with an opportunity to reap substantial rewards or, in some cases, with the ability to survive in a changing industry environment. Radical innovations are 'Big I' processes or projects that require a different set of capabilities compared with 'little i' sustaining or incremental innovation projects.
- The generation of radically new ideas is described as the fuzzy front end of innovation. The New Concept Development (NCD) model discussed in this chapter provides a

framework for the development of radically innovative concepts. This model shows that there are influencing factors that are primary contributors to the serendipitous discovery of new ideas. These influencing factors include: the impact of the external environment in which the organisation operates, and the organisation's internal capabilities concerning its ability to identify opportunities, generate ideas, and develop concepts and technologies. The model also shows that there are five front-end creative activities involved in the process of developing radically new products or business models – opportunity identification, opportunity analysis, idea generation and enrichment, idea selection and concept definition. Finally, the model identifies the role that leadership, culture and business strategy play in driving the innovation process.

- After developing the big idea and putting it through a rigorous Stage-Gate® assessment process, the next stage is to consider how the innovative product or business model is to be launched. Two broad market-entry strategies were discussed: strategies for a market pioneer to gain a first-mover advantage, and strategies that a market follower might pursue in order to take advantage of the pioneer's mistakes. Mechanisms to achieve a first-mover advantage include brand positioning and segmentation strategies, technological leadership, value chain strategies, switching costs and economies of scale and experience. At the heart of these strategies is the objective of creating superior customer value.

DISCUSSION QUESTIONS

1. Are innovators entrepreneurs and are entrepreneurs innovators?
2. Should large organisations invest in the development of skunkworks project teams to develop radical new forms of product offerings or business models?
3. Are small entrepreneurial organisations more likely to develop new-to-the-world product ideas than large organisations?
4. Given the success of companies such as Apple in developing an embryonic market, is it better to be a market follower or a market pioneer? Why?

STRATEGY IN PRACTICE

Veuve Clicquot – the woman behind the label[32]

When you next open a bottle of champagne to celebrate a birthday, the New Year, a milestone event or 'just because', spare a thought for Barbe-Nicole Clicquot, the widow who revolutionised the French champagne industry.

Like many innovative product developments, champagne was an accidental discovery. Vineyards had been planted in the Champagne region of France as early as the 5th century, but because of the region's cold northerly climate, fermentation of the wine was often halted. As a result, the dormant yeast cells that were formed would awaken in spring and begin to ferment once again to release carbon-dioxide gas bubbles in the bottled wine. The early wine growers tried to rid their wines of these unwanted bubbles, but over time the sparkling version came to be desirable. During the 17th and 18th centuries, champagne grew in popularity to become the favourite drink of the aristocracy and royalty in France, in many other European countries and, particularly, in England.

However, the sediment from dead yeast during the secondary fermentation process meant that the champagne produced by the early champagne houses was cloudy, unsightly and distasteful to drink. Methods that were developed to remove the sediment either managed to spoil the quality of the champagne or were extremely labour-intensive and tediously slow. This aspect of champagne production became a major problem for the champagne houses in the early 19th century, when demand for champagne grew so rapidly that they could not keep up with supply.

Barbe-Nicole was determined to find a solution to this problem, and in 1816 she came up with an ingenious and simple invention. With the assistance of her cellar master, Antoine de Miller, she moved her kitchen table into the cellars and asked a worker to riddle the tabletop with several slanted holes that were just large enough to hold the neck of a champagne bottle at an angle. She placed champagne bottles upside down in each of the holes and then began a daily process of gently tapping and turning each bottle to force the sediment onto the cork. This daily ritual continued for six weeks when, with just a quick flick of the cork, the residue was ejected, leaving behind a crystal-clear bottle of champagne.

The invention of this process, known as remuage (riddling), was a massive technological breakthrough that provided Veuve Clicquot Ponsardin with a massive competitive advantage, providing a springboard for the company to become a major player in the rapidly growing champagne industry. Barbe-Nicole was unable to patent the revolutionary new technology but managed to keep it a secret until the end of the 1820s when all the champagne houses adopted this production process, which remains in use in an automated version to this day.

1 What lesson can be learnt about technological innovations that are unable to be patented?
2 How is the brand Veuve Clicquot positioned in the market today and how are the brand values communicated?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. From your earlier work in developing the situation analysis and after reading this chapter, are there any threats or opportunities that need to be addressed which require a focus on radical innovation? Incorporate these findings in your strategic marketing plan.

ETHICAL ISSUE

Should governments do more to encourage a business culture of innovation?

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- first-mover advantage
- network effects.

ENDNOTES

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PART

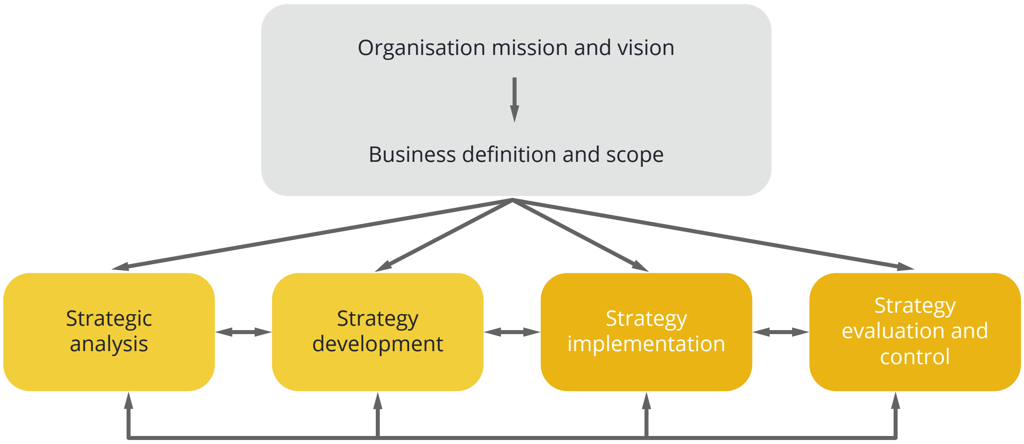
5

MANAGING THE STRATEGIC MARKETING PROCESS

The best strategies in the world will fail if they are poorly implemented and/or do not consider ethics. Sadly, many marketers underestimate the importance of these areas of the strategic marketing process.

Part 5 focuses on the processes involved in the implementation, evaluation and control of market strategies (Chapter 11), the ethical implications that must be considered in strategy planning (Chapter 12), and the steps involved in report writing for presenting strategic recommendations to higher management for approval (Chapter 13).

The strategic marketing management process



CHAPTER 11

STRATEGY IMPLEMENTATION, EVALUATION AND CONTROL

For too long, marketers have not been held accountable for showing how marketing expenditures add to shareholder value. As time has gone by, this lack of accountability has undermined marketer's credibility, threatened the standing of the marketing function within the firm, and even threatened marketing's existence as a distinct capability within the firm.

Rust, Ambler, Carpenter, Kumar and Srivastava[1]

The big three accountability and measurement questions

In 2001, a relatively small American regional bank, Wachovia, merged with First Union, a much larger banking and financial institution. A decision was made to retain the name Wachovia even though the brand was little known outside of the five south-eastern states where it was located. This decision, according to industry analysts, was made on the grounds of Wachovia's outstanding reputation for customer service.

Recognising the fact that newly merged entities typically experience a loss of customers and a decline in customer satisfaction scores, Ken Thompson, the CEO of Wachovia, gave permission for the marketing team to mount a major branding initiative. Because this initiative required a substantial amount of money to be spent on advertising, he demanded answers for three questions:

- What would be the relative return on each component of the company's retail marketing expenditure?
- What would be the overall return?
- What would be the optimum mix of marketing expenditure?

These questions were at the forefront of debate in business circles about the need for marketing accountability and measurement, and there were no easy answers.

The first step was to assemble a team of staff from the corporate marketing division and the customer insight and analytics division to work closely with the company's financial group. Membership of the team was expanded to include personnel from TNS, a leading market research company, and from UCLA's Anderson School of Management.

At the outset of the project, it was determined that because customer satisfaction was a major strategic focus for the organisation, the goal should be to determine the economic value that would be gained from their customers over their lifetimes. In the months that followed the team worked frantically, designing and developing a comprehensive marketing database consisting of historical advertising expenditure across media, customer satisfaction scores, and customer acquisition, retention and loss information broken down by Nielsen's designated market areas (DMA) – the localities within the coverage area of specific television and radio stations. The database even included information about the number and locations of Wachovia branches and the number of service personnel within each branch. The database was eventually refined and divided into three categories of information that affect customer equity:

- *Activities directly controlled by marketing* – all forms of marketing communication, sales employees per branch, branches per capita and rate ratios.
- *Activities indirectly controlled by marketing* – news coverage, customer satisfaction and brand equity.
- *External factors* – leading economic indicators, seasonality and identified shocks.

While work was being conducted to develop the marketing database models, a great amount of effort was devoted to the development of a market-response model designed to measure the impact of each marketing variable through to the ultimate goal of estimating customer equity. This involved complex mathematics, and Wachovia, along with TNS, drew on the services of SAS for software support and MarQuant Analytics to provide mathematical expertise.

The model that was eventually developed was market-tested and finally made available for use by managers in 2006. The extensive effort was worth it because Wachovia managers now had a tool at their disposal that could be used to determine marketing mix allocations and the size of the budget they would need to provide to achieve the long-term goal of building customer equity. During that time Wachovia was consistently ranked number one in the University of Michigan's customer satisfaction surveys and, by 2008, it had become the fourth-largest bank-holding company in the US. At the end of that year the company was forced to merge with Wells Fargo & Company[2] due to heavy losses sustained during the subprime mortgage crisis (Global Financial Crisis). The brand ceased to exist in 2011 when the final Wachovia branches were converted to Wells Fargo.

Focus of this chapter

In the 1970s and early to mid-1980s marketing managers were preoccupied with processes for creating winning marketing strategies. However, by the late 1980s, in the wake of the quality and customer service revolutions and intensifying competition, implementation issues came to the forefront for senior managers. During the 1990s supply chain management became increasingly important, as speed to market became a critical success factor in many industries. At the same time, as evidenced by the quotation at the beginning of this chapter, calls for marketing accountability and measurability had become louder and louder as marketers were expected to achieve 'more bang for each buck'.

Learning objectives

The aim of this chapter is to provide information regarding the last two stages of the strategic marketing management process: (1) resource allocation and strategy implementation, and (2) strategy evaluation and control.

After reading this chapter you will have an understanding of:

- resource allocation – the decision-making processes involved in the allocation of financial resources to fund the proposed marketing strategies (11.1)
- implementation – the processes and activities that transform marketing strategies into action (11.2)
- evaluation and control of marketing performance – processes concerning evaluating marketing performance, and for taking corrective action when plans go awry (11.3).

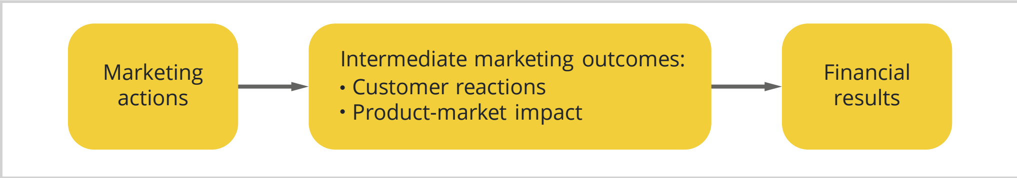
11.1 Resource allocation

As the saying goes, a marketing plan is only as good as the paper it is written on until it is approved by the appropriate level of management. The starting point of transforming marketing strategies into action is therefore the steps involved in presenting the strategy recommendations for approval. One of the most scrutinised parts of a strategic marketing plan or paper is resource allocation. Marketing expenditure is often one of the largest expenditures for many organisations and, as David Stewart, the winner of the 2007 Elsevier Distinguished Marketing Scholar Award, has stated: 'Its very size makes the marketing budget a target of interest to boards of directors and senior management'.[3]

Resource allocation is a two-part process. The first part concerns high-level decisions regarding the total size of the budget and managing the innovation portfolio. That is, the allocation of resources concerning the enhancement of the core offering (market penetration strategies), market development, incremental innovation and radical innovation. These decisions are organisation-wide and generally at the business-unit level of strategy. As was discussed in Chapter 4, strategic gap analysis is a useful tool that highlights the differences between what the organisation needs to achieve in terms of top-line revenue over the strategic timeframe and what it is likely to achieve if the current strategies are continued. The model invariably highlights the strategic gap that exists, and the need for the organisation to develop new and innovative strategies, including market development, sustaining innovation and differential innovation. As was discussed in Chapters 4 and 7, research conducted by Deloitte Consulting has found that high-performing organisations direct 70 per cent of their innovation resources to enhancement of their core offerings, 20 per cent to adjacent opportunities (existing or modified existing products for new markets) and 10 per cent to transformational initiatives. Deloitte points out that this is a generalised allocation, and, for example, a leading consumer goods organisation was found to allocate resources on an 80/18/2 per cent ratio, while a mid-stage technology organisation allocates resources on a 45/40/15 per cent ratio.[4] The key point is that an ideal ratio needs to be determined for the organisation in relation to its strategic situation and future ambitions.

The second part of the resource allocation process is to drill down to the strategic role of marketing – the allocation of resources to enable high-level marketing strategies to be executed. How much money should be spent over the strategic timeframe for marketing-related activities? How can this expenditure on marketing be justified? These questions, which come under the banner of marketing accountability and measurement, have become a central concern for marketing academics and practitioners in recent times. The importance that marketers have attached to the topic was evidenced in the early 2000s when the Marketing Science Institute (MSI) designated

FIGURE 11.1 A stylised model of the marketing productivity chain



metrics, the measurement of the impact of marketing, as its top research priority. Interest in the topic has only intensified since then.

The development of a marketing accountability and measurement model has proven to be a major challenge for the marketing industry. Such challenges can best be explained by reference to the stylised model of the marketing productivity chain shown in Figure 11.1. Overwhelmingly, the focus for marketing has concerned the measurement of intermediate outcomes, such as an increase in brand awareness (*customer reactions*) and sales or market share (*product-market impact*) attributed to a particular *marketing action,* such as an advertising or sales promotion campaign. These measurements address functional or tactical aspects of marketing and stop well short of providing a linkage between the intermediate outcomes and financial results.

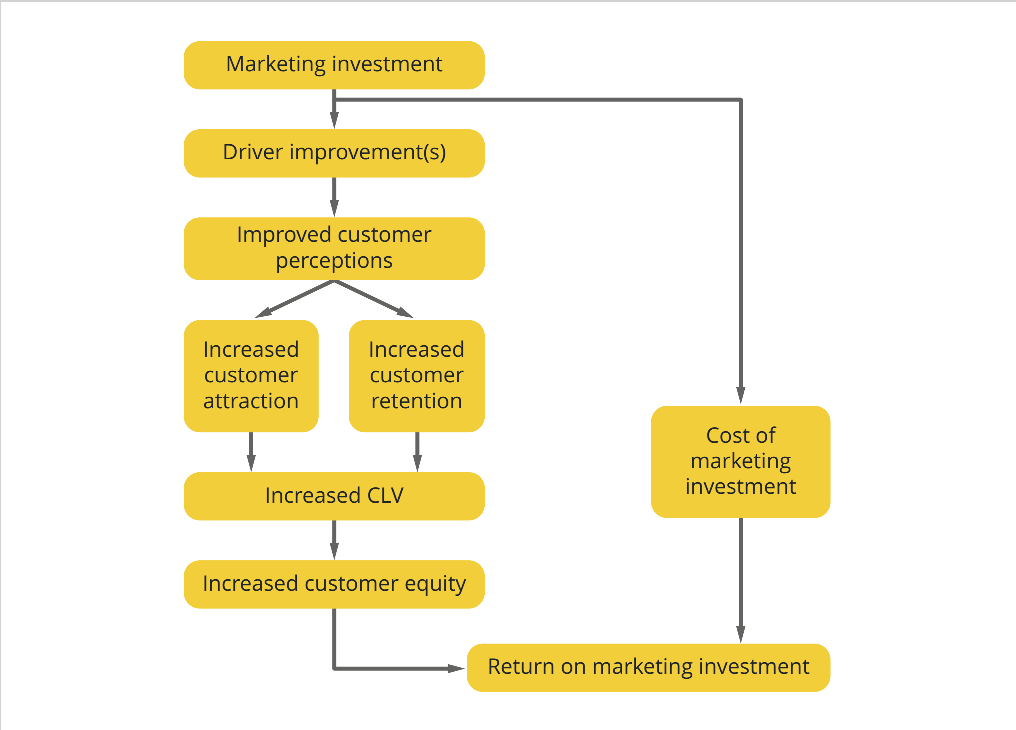
The key to providing this linkage, according to Rust, Lemon and Zeithaml, is to measure changes in the organisation's *customer equity* – the present value of the anticipated lifetime revenue from the organisation's current and potential customers less their acquisition and retention costs. Rust, Lemon and Zeithaml argue that a focus on customers and customer equity reflects a shift in marketing thinking that has taken place over the last two decades, away from a product-centred to a customer-centred point of view.

Based on the notion of customer equity, Rust, Lemon and Zeithaml have developed a customer lifetime value (CLV) model that links marketing actions to customer equity and financial return.[5] The model provides strategists with a means for making what-if evaluations of marketing return on investments based on high-level criteria that can be used to trade off marketing strategies in general. The model, as shown in Figure 11.2, views marketing as an investment, as opposed to a viewpoint held by many managers that marketing is a cost. It is suggested that marketing investments should reflect broad, higher-level resource allocations; for example, by aggregating all expenditures that relate to a strategic investment category, such as 'perceived value' (e.g. marketing activities that relate to perceptions of product quality and value for money), 'brand equity' (e.g. brand-image activities such as advertising and other marketing communication) and 'relationship management' (e.g. marketing activities such as loyalty programs and customer engagement activities that are designed to foster customer loyalty).

The CLV model provides a means for the strategists to determine the return on each of the key strategic investments or drivers of customer equity and, accordingly, to determine which of these investments yields the greatest return. The investment leads to an improvement in each driver, which in turn leads to improved customer perceptions. An improvement in customer perceptions then results in increased customer attraction and retention that leads to increased CLV and customer equity. The increase in customer equity less the cost of the marketing investment results in the final computation of return on marketing investment.

The link that connects the drivers to customer perceptions (the second and third steps in the model) is based on data obtained from a customer ratings survey where customers are required to

FIGURE 11.2 The CLV model of return on marketing investment



Based on R.T. Rust, K.N. Lemon and V.A. Zeithaml, 'Return on marketing: Using customer equity to focus marketing strategy', *Journal of Marketing*, vol. 68, 2004, p. 112.

rate the perceived performance for the brand for each driver category. A feature of the model is that it incorporates the impact of competitor offerings and brand switching.

The CLV framework developed by Rust and his colleagues was the first published framework that was developed for evaluating return on marketing. Its value is that it provides strategists with a basis for analysing, measuring and projecting return on investment (ROI) outcomes from alternative marketing expenditures. As the Wachovia case discussed in the opening vignette highlights, the development of such a model involves complex mathematical modelling expertise.[6]

11.2 Implementation

After gaining approval, the next step is to translate the proposed marketing strategies into actionable or operational marketing plans, such as annual marketing plans, brand or product plans, marketing communication plans, or specific campaign plans, such as for launching a new product or entering a new market. These plans are developed within the context of the organisation's annual budgeting cycles and spell out in detail who is to do what by when. That is, they assign specific responsibilities and resources to the appropriate functional areas within the organisation and to key individuals in those areas.

The assignment of *who* is to *what* has become a major concern for all types of organisations since the 1990s.[7] This concern was accelerated with the advent of the digital revolution in the early

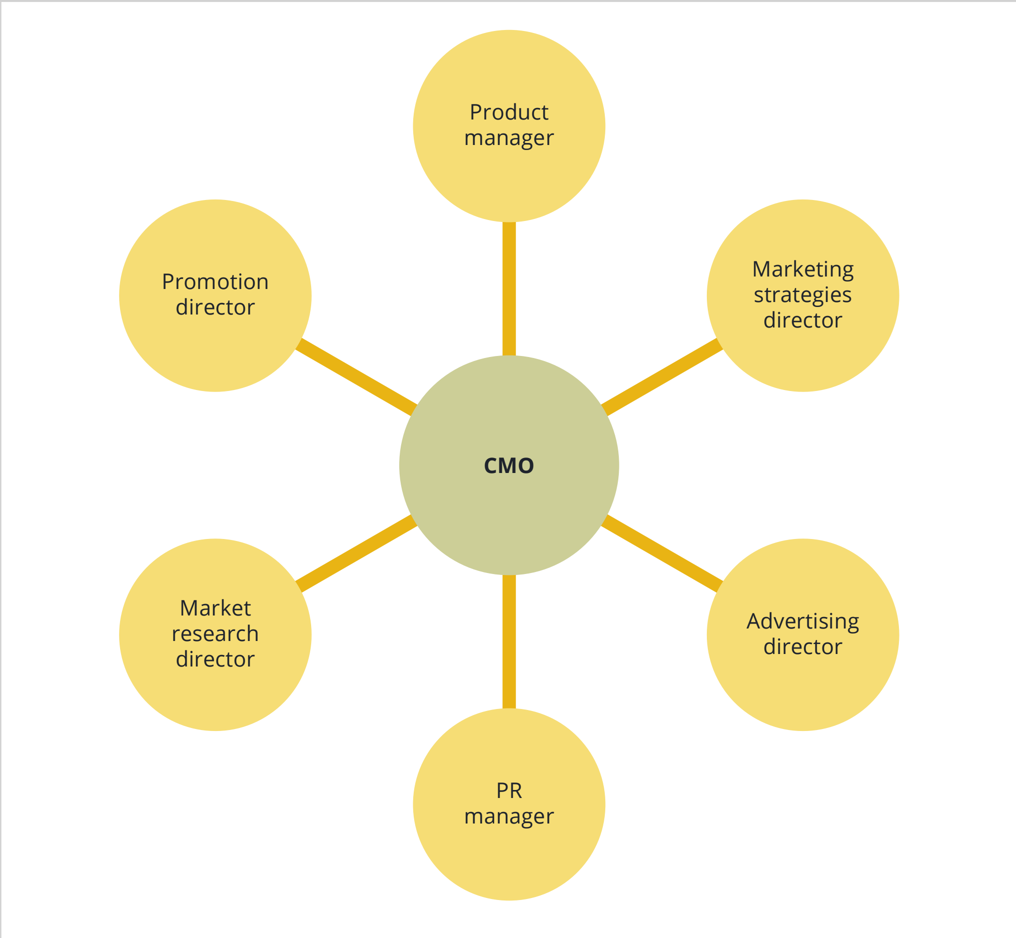
2000s as organisations struggled to come to grips with the rapidly changing marketing and business environment.[8] The key consideration for these organisations is how to restructure their marketing activities in order to become more responsive to their customers' needs and to be able to create, communicate and deliver value to these customers. To address this issue the following principles are suggested:

- *Organisation-wide coordination* – as Peter Drucker so famously stated several decades ago, marketing must permeate all areas of the enterprise.[9] New structures need to be created to break down organisational silos to coordinate customer-engagement activities across a broad range of customer touchpoints throughout the organisation, such as by establishing a customer-engagement council (as was discussed in Chapter 6).
- *Clearly defined roles and responsibilities* – based on the principle that the 'buck must stop somewhere', responsibility and accountability for marketing activities across the organisation need to be clearly defined.
- *Core marketing activities* – the traditional silo-based structure of a marketing department should be abandoned and replaced with a hub-and-spoke structure, according to the views of senior marketing leaders. These views emanate from a worldwide research study of senior marketing leaders conducted by the (American) Association of National Advertisers, the World Federation of Advertisers and EffectiveBrands.[10] It was recommended that the Chief Marketing Officer (CMO) would be situated at the hub of a wheel, with managers or directors of functions such as product, advertising, market research and marketing strategies creating the spokes and the rims of the wheel. Figure 11.3 provides an illustration of this proposed structure.
- *A marketing ecosystem* – decisions need to be made about which marketing activities need to be performed in-house and which need to be performed by partner organisations such as advertising agencies, digital agencies and PR companies.
- *Appointment of a chief experience officer* – this could be the CMO or another individual who is given the responsibility for overseeing marketing staff who perform the following three broad types of activities: *think* (activities performed by analytics marketers), *feel* (activities performed by engagement marketers) and *do* (activities performed by production and content marketers).[11]
- *Marketing operations management* – as managing the marketing function has become increasingly complex, several organisations, particularly those in high technology, have appointed a marketing operations director (MOD) to take charge of implementing marketing strategies and managing the organisation's day-to-day marketing operations. In the era of the internet, mobile technology, big data, customer engagement and customer relationship management (CRM), technology is a key enabler of marketing processes and activities and, accordingly, the MOD would be expected to play a leadership role in providing the interface between marketing and information technology.

These principles serve as a general guideline for those facing the challenge of restructuring their organisation's marketing activities. A key consideration for those involved is to develop a structure that aligns with the organisation's overall customer value creation strategy (as discussed in Chapter 6). For example, organisations that compete by the creation of superior experiential value would need to focus on excelling in customer service and customer support, while organisations competing on the basis of creating superior symbolic/expressive customer value would need to focus on the development of a brand image/brand equity strategy where advertising, public relations and customer engagement and support is the centre of their marketing activities.

An example of a detailed implementation table can be seen in Table 11.1.

FIGURE 11.3 A hub-and-spoke structure of the marketing department



Based on the publication of internal research findings from a study conducted by the Association of National Advertisers, the World Federation of Advertisers and Effective Brands. Refer to J. Rooney, 'Here's what the marketing organization of the future should look like', *Forbes*, CMO Network, 10 April 2013.

TABLE 11.1 Implementation table example

STRATEGIC PLAN			RESOURCES			CONTEXT		
Objective	Strategy	Tactics	Responsibility	Accountability	Performed	Target	Where	Comments
To increase market share by 5%	Market development	Expand distribution to new retailers Start advertising to new market segments	Junior marketing manager	Chief Marketing Officer	In house Partner organisation (advertising agency)	By end of 2021	Australia-wide	Aim to be more accessible and known to more of the market

11.3 Evaluation and control of performance

Just as considerable care must be exercised in implementing marketing strategies, equal care must be given to establishing an effective evaluation and control system. The task here is to determine *what* is to be evaluated, *how* it is to be evaluated (internal or external data, including primary and secondary data), *who* is to supply the data (the suppliers of information such as external research organisations) and *when* it is to be evaluated. The objective is to provide a mechanism for tracking the strategies articulated in the marketing strategy document to ensure that the long-term objectives will be achieved. This includes a triggering system to provide an early warning when performance starts to wander off-track.

In determining what is to be measured it is necessary to differentiate between metrics that can be classified as either *leading* or *lagging indicators*. Leading indicators provide clues as to future marketing performance. That is, they are metrics that signal future performance and are mainly, but not exclusively, concerned with measurements of *effectiveness* – relating to outputs to the ends or objectives of an organisation. Leading indicators are the antecedents of future marketing performance that can be measured in terms of hard data, which in turn can be classified as financial outcomes, including performance in terms of top- and bottom-line revenue and ROI for marketing activity. That is, leading indicators are the inputs to the CLV return on the marketing investment model discussed earlier in this chapter.

Lagging indicators are measurements of past performance (after-the-event metrics). In providing information about how well the organisation has performed in the past, lagging indicators are mainly concerned with issues of *efficiency* – metrics concerned with profitability and ROI for marketing activity. As Peter Drucker observed: 'Effectiveness is the foundation of success – efficiency is the minimum condition for survival *after* success has been achieved. Efficiency is concerned with doing things right. Effectiveness is doing the right things'.[12]

Consideration of *how* each metric is to be measured involves decisions concerning methodology. For example, tracking studies can be used to measure shifts in customer attitudes, perceptions, awareness levels, comprehension levels, conviction levels and intention to buy. Brand equity can be measured financially and/or non-financially, and there are several methodologies available for this form of marketing measurement. Methodology can include quantitative and qualitative data. The sources of marketing information range from internally generated data, such as sales and expenditure data, to external secondary or primary data sourced from various market research and other providers of marketing intelligence. Decisions need to be made about the methodology that is to be used for measuring each metric and about the supplier of that information. Finally, decisions need to be made about the frequency of measurement and evaluation. Given that high-level marketing strategies are concerned with performance over a relatively long timeframe, a balance needs to be achieved between having too much control, encouraging too much short-term corrective action and not having enough control. Frequency of evaluation for these longer-term marketing strategies needs to take into account the nature of the metrics involved, and the metrics that are more appropriately used in an organisation's annual marketing planning cycle. For example, if performance measurement for tactically-based marketing, advertising or brand plans is conducted monthly, it would be appropriate to assess long-term strategic plans annually.

An example of a detailed evaluation and control table can be seen in Table 11.2.

Since the early 2000s marketing dashboards have become commonplace in many organisations. A marketing dashboard is a graphic display of key performance metrics and underlying short- and long-term performance drivers that are provided for the organisation's personnel on their desktop

TABLE 11.2 Evaluation and control table

WHAT IS TO BE MEASURED	HOW IT IS TO BE MEASURED	DATA SOURCE	WHEN IT IS TO BE MEASURED	CONTROL MECHANISM	COMMENTS
Sales for new retailer	Analysis of data	Sales data, market share reports	Quarterly	Review after six months	If no change is visible after one year, review strategy
Satisfaction for new market segment	Online survey sent after customer product registration	Online survey, industry reports	Monthly	Review after three months	Review if satisfaction levels are consistently low

computers and their mobile devices such as iPads or smartphones. A dashboard can be created internally or by external providers such as SAS or Dundas.[13] The use of a dashboard provides the organisation's decision-makers with a summarised view of marketing information that can be used for planning, budgeting and monitoring purposes.

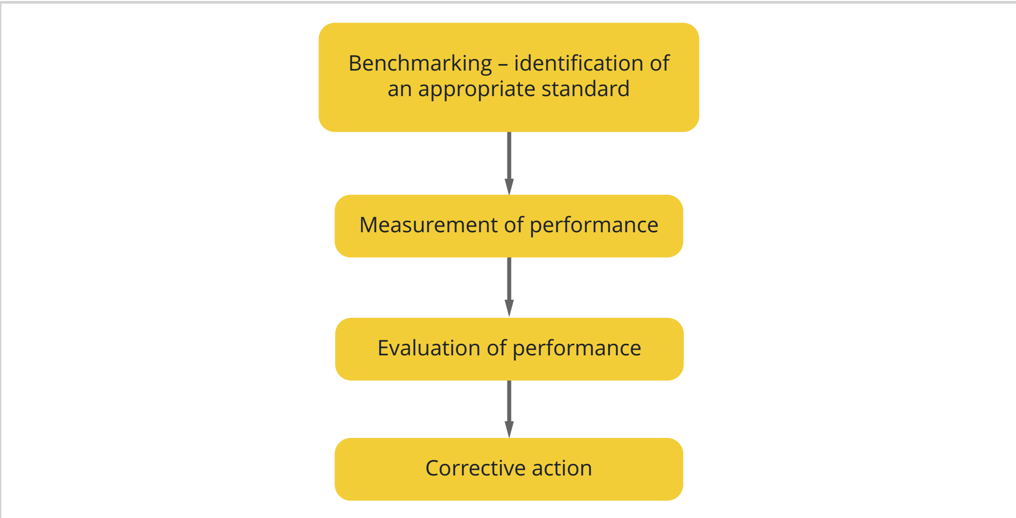
A marketing control system

A marketing control system, as shown in Figure 11.4, consists of four stages of activity: benchmarking, measurement of performance, evaluation of performance, and corrective action. Each will be discussed in more detail in the following sections.

BENCHMARKING – IDENTIFICATION OF AN APPROPRIATE STANDARD

There are two types of standards: (1) *comparative* (based on a comparison with competitor performance, industry averages, world-best practices and historical performance levels) and

FIGURE 11.4 A marketing control system



(2) *ideal* (established on what is thought to be perfection). However, the latter standard is by nature subjective, and leading companies and those focusing on a differentiation strategy of product quality may not find this a meaningful measurement criterion. Standards should be set within the context of the external environment. For example, if economic conditions are improving, standards should be set higher than for previous years. In times of economic downturn standards may need to be adjusted downwards to reflect the changed conditions.

CORRECTIVE ACTION

Performance measurement reveals problems that have occurred in long-term and short-term strategy implementation. The next step is to determine *why* these problems have occurred. There are two causes of marketing-strategy implementation problems: (1) unsatisfactory marketing effort and (2) changes in the external environment such as a shift in the economy, new legislation or competitive activity. Problems with the marketing effort would lead to a focus on ways of improving performance, while changes in the external environment may call for a modification of the objectives originally set in the marketing strategy plan.

There are three types of control systems:

- After-the-fact control system – measures performance at the end of the planning period but is unable to address any problems that might emerge while planning.
- Steering-control system – a reactive system that provides for the detection of problems and implementation of corrective action during the planning period, which facilitates corrective action to be taken before performance wanders too far off-track.
- Adaptive-control system – a proactive system whereby management anticipates changes that have taken place or are occurring in the environment, and modifies objectives and strategies set out in the marketing strategy document to adapt to the new situation.

Being able to adapt is an important aspect of strategic control. Marketing strategies develop over long periods and can reflect objectives and strategies that may have since become unrealistic. If problems have been uncovered in the evaluative process, corrective action needs to be taken. It is important that appropriate action is taken as quickly as possible to prevent a deteriorating situation. On the other hand, hasty reactions can often lead to detrimental results. It is essential that a proper balance is achieved between satisfying both short- and longer-term performance requirements.

Strategic fit between marketing strategy and implementation

An important aspect of evaluation of performance is to determine whether the organisation has been able to effectively implement its chosen strategies. Figure 11.5 shows a classical model proposed by Thomas Bonoma that provides a framework for evaluating strategic fit, explained in more detail as follows:

- *Success* – the implementation was excellent and the strategy was appropriate (in terms of its fit with the market and the competitive environment).
- *Rescue or ruin* – the implementation was excellent, hiding the deficits of an inappropriate strategy. This may give management time to adjust the strategy, but it may also hasten ultimate failure.
- *Trouble* – the implementation was poor, hampering performance of an appropriate strategy. The potential danger is that management could incorrectly conclude that the strategy was inappropriate and switch to another less appropriate strategy.

FIGURE 11.5 A model of strategic fit between marketing strategy and implementation

		Strategy	
		Appropriate	Inappropriate
Implementation	Excellent	Success	Rescue or ruin
	Poor	Trouble	Failure

Based on T.V. Bonoma, 'Making your marketing strategy work', *Harvard Business Review*, March–April 1984.

- *Failure* – the implementation was poor and the strategy was inappropriate. The cause of failure is often hard to detect because the poor strategy is often masked by poor implementation.[14]

Communication of the implementation

David Collis and Michael Rukstad state that communication of the strategy is the single most important element of a successful implementation. In their article 'Can you say what your strategy is?', published in the *Harvard Business Review*, they claim that most business executives cannot recite their business strategy in a clear and straightforward way.[15] If the executives cannot do this, there is no way that anyone in the business, right down to front-line employees, will be able to either.

The solution is simple – be able to summarise the company strategy in 35 words or less. Keeping it simple will allow it to be understood and, most importantly, remembered by everyone. It also provides a guiding light when any employee has a decision to make for the business. There is a big difference between 1000 smart and hardworking employees from different departments making decisions for the company based on what they think is right, and the same staff making a decision based on a strategy statement that they remember and understand.

The main reason behind this issue is that many executives do not know what a strategy statement is, nor the elements required within one for it to work. The essence of the strategy includes:

- The *objective* – the definition that the strategy is designed to achieve. The statement must start with this because it defines the end point.
- The *scope* is simply the domain and boundaries in which the business will compete.
- The *competitive advantage* is how the business will be better than, or at least different to, all other competitors.[16]

How then do you create a brilliant strategy statement that can be comprehended by all employees to ensure its successful implementation? Collis and Rukstad offer the following advice:

> The process of developing the strategy and then crafting the statement that captures its essence in a readily communicable manner should involve employees in all parts of the company and at all levels of the hierarchy. The wording of the strategy statement should be worked through in painstaking detail. In fact, that can be the most powerful part of the strategy development process.[17]

Ensuring the company culture accepts the implementation

Company culture can be defined as 'the shared values, practices and beliefs of the company's employees'.[18] Mark Fields, former president and CEO of Ford Motor Company, brought an apt Peter Drucker quote into the business limelight in 2006: 'Culture eats strategy for breakfast'.[19] This is not a dismissal of strategy as unimportant, but rather a commentary that an open and empowering company culture is necessary for any strategy to succeed.

Many big organisations still work in bureaucratic silos where formulaic approaches dominate. Any strategy that transforms and/or restructures an organisation is doing so for efficiency. This can have a dramatic effect on the workforce of the company, and in some cases can destroy the company culture, transforming a nice place to work into a depressing place to work. Because of this, over the past decade or so organisations have been trying to find ways to create cultures that are flexible and innovative in nature, and where individuals take responsibility for results.[20]

Business and marketing strategists will spend a lot of time considering and planning their business/marketing strategy. Strategic plans are normally around three to five years in length, being refreshed every couple of years. But how often is company culture reviewed, let alone refreshed? Some may say 'Culture cannot be refreshed, so why waste time reviewing it?' Granted, as Torben Rick puts it: 'Corporate culture is a hard thing to get right. It's a moving target that means something different to everyone. It grows and evolves over time and is the result of action and reaction. It is the lingering effect of every interaction'.[21] But to say it cannot be changed is just wrong.

In summary, it is important to remember that culture can take decades to build and mere moments to disappear if a strategy is executed poorly by management. Culture should not eat strategy for breakfast; they should feed each other.

Marketing performance as part of a holistic management system

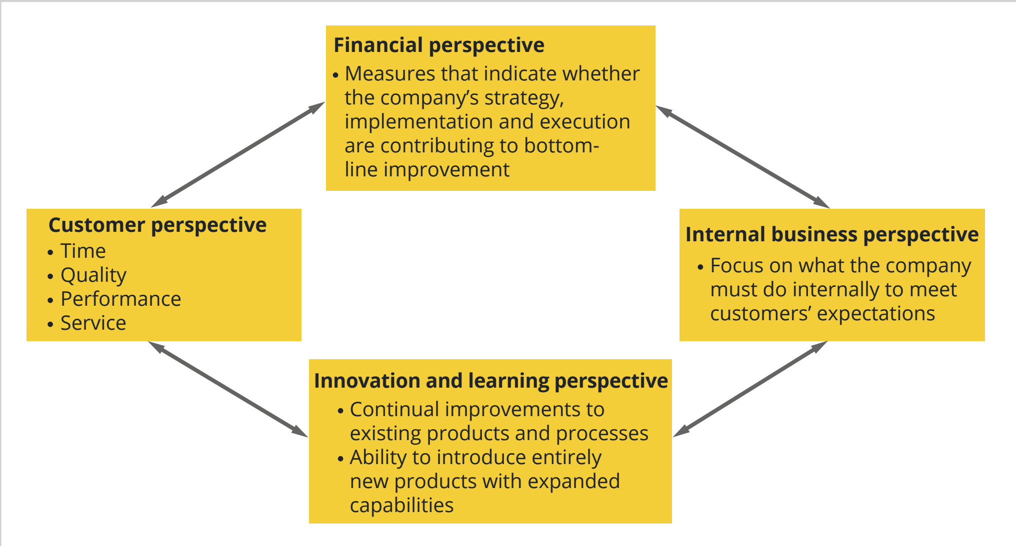
In 1992 Kaplan and Norton introduced the concept of the balanced scorecard, arguing that effective organisational performance measurement needs to be considered in the context of being part of an integrated management process.[25] The balanced scorecard sets out to provide a 'comprehensive framework that translates a company's strategic objectives into a coherent set

BOX 11.1

HBF's company culture – for better or worse?

Established in 1941, HBF is Western Australia's largest health insurer.[22] Throughout its 75-year history it has remained one of only a handful of not-for-profit health insurers in Australia. This underpins its company culture, in which all employees embrace a member-first mentality. This culture encapsulates a series of decisions that are made every day to better serve members. But it has also prevented the introduction or success of anything that is more profit-oriented, including banking and some other insurance products. This shows a potential lack of alignment between strategy and culture. So, while senior corporate sales manager Grant Monaghan says, 'Culture permeating throughout the organisation is a really good opportunity',[23] an anonymous staff review states that the 'Current culture is adverse to much needed change'.[24]

FIGURE 11.6 The balanced scorecard



Based on R.S. Kaplan and D.P. Norton, 'The balanced scorecard – measures that drive performance', *Harvard Business Review*, January–February 1992, pp. 71–79.

of performance measures'.[26] The process forces managers to focus on a handful of measures that are the most critical for the organisation's success, thereby placing strategy, not control, at the helm.

The balanced scorecard provides performance measurement based on four important perspectives, which can be seen in Figure 11.6. Kaplan and Norton contend that the balanced scorecard provides answers four basic questions pertaining to these perspectives:

- How do our customers see us? (Customer perspective)
- What must we excel at? (Internal perspective)
- Can we continue to improve and create value? (Innovation and learning perspective)
- How do we look to our shareholders? (Financial perspective).

All these perspectives impact on the processes of marketing, but of primary importance is the customer perspective. Customer performance issues include lead time (measurement of the time it takes for the organisation to deliver the product or service from the time the order is received), quality (product quality and on-time delivery), and performance and service (how the organisation's products or services create value for its customers). These four perspectives act as a basic model from which organisations can develop their own customised scorecards that fit their mission, strategy, technology and culture.

According to research published by the Gartner Group, 40 to 60 per cent of US organisations had adopted the balanced scorecard system by the end of 2000.[27] Moreover, Kaplan argues that the balanced scorecard can be combined with other measurement systems such as economic value added (EVA™) and activity-based costing (ABC).[28] Given the popularity of these systems, it is anticipated that interest in performance measurement systems will continue for many years. The key point to be appreciated by marketers is that marketing performance measurement needs to be considered within the broader context of strategic management and management performance evaluation systems.

It should also be noted that Kaplan and Norton contend that the balanced scorecard approach is more than just a tool for performance measurement. As was discussed in Chapter 2, Kaplan and Norton have proposed that organisations should establish at the corporate level an office of strategy management to oversee all strategy-related activities, from strategy planning to execution and performance measurement. The balanced scorecard becomes the centrepiece of the organisation's strategy management system, with the office of strategic management taking responsibility for overseeing the alignment of all the management processes with strategy.[29]

SUMMARY

- Since the late 1980s, marketing practitioners and academics have become increasingly interested in the implementation aspect of the marketing concept. Developing great marketing strategies is one thing, but implementing them effectively and efficiently is another. Market-oriented organisations put considerable effort into getting both parts of the equation right. They emphasise a holistic approach to the development and implementation of marketing strategies.
- The first step is to obtain appropriate senior management approval for the proposed marketing strategies. A most important aspect of this decision-making process is resource allocation and budget approval (i.e. obtaining approval for the allocation of financial resources as proposed in the recommended marketing strategies). An important underlying principle of financial resource allocation is that marketing expenditure must be linked to the financial performance of the organisation. The customer lifetime value model discussed in broad detail in this chapter provides a means for achieving this.
- Once the marketing objectives, strategies and budgets have been approved by senior management, the emphasis then progresses towards the implementation of the proposed marketing strategies. This involves the specification of *who* is to do *what* by *when*. At the centre of these deliberations are concerns about how marketing activities are to be performed at both the organisation-wide and marketing-function levels of operation. Recommendations include the creation of a customer engagement council, a hub-and-spoke structure of the marketing department and the appointment of a marketing operations director to take responsibly for the implementation of marketing strategies and the day-to-day marketing activities.
- The next stage of the marketing implementation process is to evaluate and control marketing performance. This involves a four-stage process consisting of benchmarking, measuring performance, evaluating performance and taking corrective action. Ideally an adaptive-control system should be put into place so that changes in the environment can be detected and objectives and strategies can be modified according to the new circumstances. In this way performance assessment can be made against market realities rather than superseded assumptions. Performance should also be assessed in terms of the strategic fit – the effective implementation of appropriate marketing strategies.

DISCUSSION QUESTIONS

1 What are the key focus points for senior management when discussing resource allocation?
2 The marketing director of a large fast-moving consumer goods company tells you to 'never waste too much time on an implementation table because no-one ever reads it anyway'. How would you respond to this statement?
3 During a strategic management meeting one of your marketing colleagues says: 'Lagging indicators are the only measurement indicators the company needs because past performance can indicate future performance'. Do you agree? Or would you speak up in the meeting and make a case for leading indicators?
4 Refer to Box 11.1. HBF recently announced that merger discussions between itself and HCF, Australia's largest not-for-profit health fund, have ceased, citing 'it would not be in the best interests of their members for the merger to proceed'.[30] Provide some reasons why a merger that seems quite promising has failed.
5 List the marketing metrics that would be appropriate for Qantas to use.

STRATEGY IN PRACTICE

The cost of failure to execute a strategy

Kodak is a great example of a company that had a strategy for the future but did not implement it. The company created the first digital camera, anticipated digital cameras would replace traditional ones and created a plan to adapt to the digital world, yet refused to execute it. It went bankrupt in 2012.

Contrary to popular belief, a Kodak staff member, Steven Sasson, invented the first digital camera. This was in 1975, a mere two years after Sasson, an electrical engineer, was first employed to investigate whether a charged coupled device had any practical application in photography. Sasson created a camera that produced a 0.01-megapixel black-and-white photo that could be stored on a cassette tape and shown, through a mishmash of circuit boards, on a television.

Sasson's bosses were unimpressed with his invention. After numerous presentations to Kodak's technical, marketing and business development departments, only the technical department saw its potential. The marketing and business departments 'were convinced that no one would ever want to look at their pictures on a television set'.[31]

When Sasson was asked when digital photography could compete with film, he used Moore's Law, which predicts how fast digital technology advances. He estimated 15 to 20 years because two million pixels were required to compete against colour film. 'When you're talking to a bunch of corporate guys about 18 to 20 years in the future, when none of those guys will still be in the company, they don't get too excited about it', he said. 'But they allowed me to continue to work on digital cameras, image compression and memory cards'.[32]

Kodak patented the first digital camera in 1978, but Sasson was not allowed to show his prototype to anyone outside Kodak, or even publicly talk about it. In 1989 Sasson and colleague Robert Hills created the first DSLR camera. It was 1.2 megapixels and used image compression and memory cards. Again, Kodak's marketing department shelved the product, even though they told him they could sell it; they did not want to cannibalise their own film sales.

Kodak owned the photography market. A picture was taken on a Kodak Instamatic using Kodak film and Kodak flash cubes. The store that would develop the photos would use Kodak chemistry on Kodak paper. It was an excellent business model. But obviously Sasson's bosses could not see (or could not be convinced) that the future was going to be digital. Or they were just worried about the short-term income. 'Print had been with us for over 100 years, no one was complaining about prints, they were very inexpensive'.[33]

In 2007, Kodak's patent for digital cameras expired. The brand had earnt billions of dollars from this patent because most digital camera manufacturers had to pay Kodak for the use of the technology. Kodak did not embrace digital photography until it was too late. The fear of the effect of the implementation on the short-term bottom line dramatically affected the future potential of the company.

In 2012 Kodak filed for bankruptcy. The brand sold many of its operations, including its photographic film and commercial scanners strategic business units. It also sold many of its remaining patents to brands including Apple, Google, Facebook and Microsoft. The brand still exists today and sells smartphones and tablets. Kodak Alaris, a UK-based company that shares ownership of the Kodak brand, still manufactures and markets traditional photographic supplies, including film, paper and processing chemicals.

1 As a CMO in a big organisation, are you confident that if an engineer within the company came to you with a new piece of technology and stated that this will 'revolutionise the industry', you could get on board? What argument would you use to convince the CEO?
2 Kodak is a strong brand that sold the first camera to the mass market in 1901. Why do you think the brand now sells smartphones and tablets? What strategic marketing theory underpins this?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Describe in broad detail your proposed resource allocation/marketing budget and the way your proposed marketing strategies are to be implemented, measured, evaluated and controlled.

ETHICAL ISSUE

Should CEO bonuses be linked to benchmarked customer satisfaction scores?

SEARCH ME! MARKETING

For the latest readings on strategic marketing management from a wide range of world-class journals, newspapers and e-books, explore Search me! marketing. Login to Search me! using the access card at the front of your book and try searching for the following key terms:

- customer equity
- customer lifetime value model
- marketing dashboards
- balanced scorecard.

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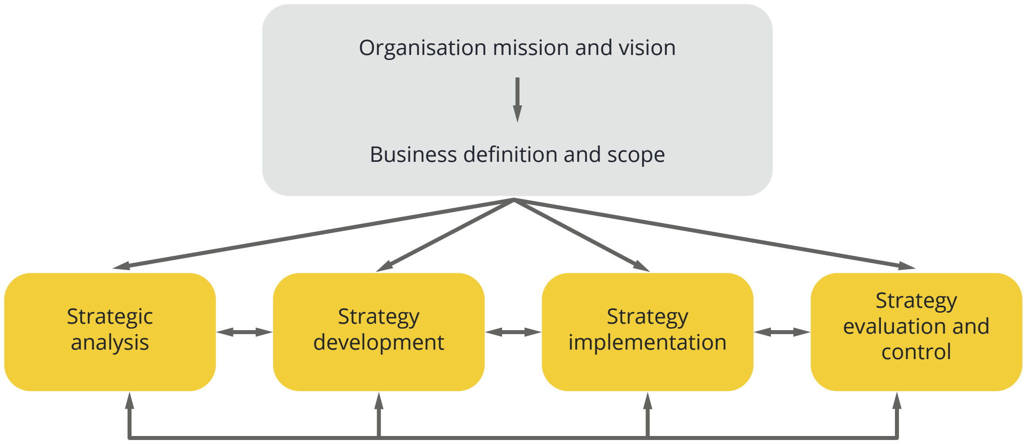
The strategic marketing management process



CHAPTER 12

ETHICAL CONSIDERATIONS IN STRATEGY PLANNING

Today there is widespread concern about ethics in public and private life extending to many areas – politics, education, health, as well as business. Indeed, the current period may be called the 'ethics era'. For marketers, this has meant that standards of acceptable marketing practice have shifted along a continuum, from a position wherein producer interests are paramount to a position wherein consumer interests are more favored.

N. Craig Smith[1]

Nestlé breast milk substitute – 'the baby killer'

Perhaps the most famous case of questionable ethics and marketing strategy belongs to Nestlé and its baby milk formula product strategies in developing countries. Occurring in the 1960s and 1970s, this story gained worldwide notoriety in 1974 thanks to a report written by Mike Muller, titled 'The baby killer', which highlighted the marketing practices multinational companies such as Nestlé were using in developing nations.[2]

Nestlé's baby milk formula was very successful in western countries such as England and Australia, so it decided to expand geographically by selling to countries in Africa, Asia and Latin America. However, it is unknown if companies like Nestlé were aware of the economic and social contexts of these countries. These factors impacted on how the product was understood and used within those countries, leading to serious and deadly consequences.

Preparing baby milk from formula requires clean hands as well as clean and sterile water; but many of the countries Nestlé was selling to had little or no washing facilities or access to clean water. Sterile bottles are also required, but as Muller highlighted: 'the vast majority of West African mothers have no electric stoves. They cook in a "three-stone" kitchen. That is, three stones to support a pot above a wood fire',[3] and in 'three-stone' kitchens with few facilities all meals are cooked in the same pot. And lastly, a proper mixing procedure needs to be followed when preparing baby formula:

however, low literacy rates in these countries meant that it was challenging for many to follow the instructions for correctly preparing the formula to the correct ratios. Actually being able to afford the Nestlé baby milk formula was another issue altogether; many workers earned only minimum wage, and the formula's cost represented a substantial portion of a worker's weekly earnings.

Most of the mothers targeted by Nestlé for its baby milk formula did not have access to education. This, combined with high-pressure advertising campaigns via all available channels and media outlets, using the most modern (at the time) methods of persuasion and motivation, was enough to convince most mothers that the switch was necessary. The baby milk formula was marketed as a substitute for breast milk and the mothers did not understand that formula was less healthy for babies than breast milk. One baby milk formula company's slogan was 'When breast milk is not enough', which caused doubt in the minds of many mothers about the quality of their breast milk. Some companies also used 'milk nurses'; essentially sales girls dressed as nurses (although a small proportion were actually qualified nurses). These 'nurses' would make home visits and attend clinics to, according to the companies, educate the mothers about the so-called benefits of formula feeding over breastfeeding – in other words, to promote sales.

External factors also contributed to the drop in mothers choosing to breastfeed, including social change in developing countries such as a shift towards urban lifestyles, more women in the workforce and the adoption of western perceptions of beauty. Nonetheless, Nestlé showed either a complete lack of understanding of the social factors in Africa, Asia and Latin America at the time or a complete disregard for these factors.

This case caused the United Nations World Health Assembly (the governing body of the World Health Organization) in 1981 to recommended the adoption of an international code of conduct to govern the promotion and sale of breast milk substitutes – the International Code of Marketing of Breast-milk Substitutes.[4] This was the first major international policy framework adopted through the World Health Assembly and, more broadly, one of the first times an external body stepped in to create accountability in marketing, something that is so common today. The Code has seen several updates since 1981 to expand its scope and it is used by at least 84 countries by law.[5] This laid the foundation, both ethically and legally, for other cases in the future.

These days the baby food industry is worth US$70 billion annually, and is dominated by just a few European and American companies.[6] In 2018 the Trump administration, with the interests of infant formula manufacturers in mind, tried to reduce decades of work around the International Code of Marketing of Breast-milk Substitutes by using standover and bullying tactics against other countries supporting a World Health Assembly resolution to the code. The US threatened to withdraw military aid and implement new trade restrictions upon countries attempting to implement the new code, such as Ecuador, who rely on its aid. Thankfully, Russia was not intimidated by these tactics, which prioritised business over babies, and supported the World Health Assembly resolution. Interestingly, Nestlé also supported the resolution to encourage breastfeeding and limit inappropriate marketing of breast milk substitutes.[7]

Focus of this chapter

Ethics in marketing is a strange animal – ask any marketing executive if they are important, and they will all say yes; ask why they are important, and you will get several different answers; ask how to abide by or implement ethics, and few will be able to answer. The fact is we live in a world where consumers expect marketers to behave responsibly, and most of the time they do. However, if marketers choose to get too close to the ethics line, or pass the line completely, consumers are quick to respond through attacks on social media, boycotts of the product/brand or complaints to the Australian Competition and Consumer Commission (ACCC) or Ad Standards office.

Learning objectives

The aim of this chapter is to provide information regarding the crucial role ethical considerations play in strategy planning.

After reading this chapter you will have an understanding of:

- the definition of business ethics, marketing ethics and corporate social responsibility (12.1)
- regulation in Australia, and the power of the ACCC and Ad Standards (12.2)
- a methodology to be able to integrate ethics and social responsibility into marketing strategy, and the benefits and drawbacks of using ethics within your strategy in an organisation (12.3)
- thoughts regarding the ethics of strategy and only using ethics for profitability (12.4).

12.1 Definition of ethics

As discussed in Chapter 1, the relationship between marketing and society has been a concern for marketing academics from the very beginning of marketing as an academic field of study. In fact, the relationship is enshrined in the current definition of marketing. It is also a central focus for the advocates of the macromarketing school of marketing. With this, ethics in the context of marketing has been growing in terms of awareness and accountability. However, it is important to note that only the most basic ethical standards have been classified into law. This century alone has been plagued by prominent ethical scandals, including Enron (2001), the falsified diesel emission scandal (2014), the Australian banking and financial services scandal (2018) and the Facebook/Cambridge Analytica data scandal (2018). Strategic marketers can take a stand against this kind of behaviour through the strategic plan.

To begin we must define the concept of business ethics, as well as the focus of this chapter, marketing ethics. Business ethics, or corporate ethics, are standards relating to the moral philosophy of the individual or the organisation.[8] Basically it revolves around personal choice. Business ethics is the overarching term that includes other disciplines such as finance ethics, human resources ethics and marketing ethics. Marketing ethics deals with the principles, values and/or ideals by which marketers ought to act.[9] For marketers, this includes advertising truthfulness, respect for consumer privacy, transparency about product ingredients, fairness in pricing and distribution, and financial/security risks. This broad application of the word is due to the vast array of different stakeholders (as shown in Figure 12.1) that marketers must appease – arguably more than any other position within a company.

Corporate social responsibility (CSR) is a separate, but related concept to business ethics, in that CSR and business ethics should work hand-in-hand; but this is not always the case – some CSR behaviours could be deemed ethically neutral or even ethically unsound. CSR is business

FIGURE 12.1 Marketing professionals' stakeholders

D. Payne and M. Pressley, 'A transcendent code of ethics for marketing professionals', *International Journal of Law and Management*, vol. 55, no. 1, 2013, p. 62. With permission Emerald Group Publishing Ltd.

self-regulation that primarily relates to the interaction between the business and the society in which it operates.[10] It is about behaving in a way that agrees with public expectations of the organisation. This can include using renewable resources, waste reduction processes, sustainably sourced raw materials and recyclable packaging, as well as building community infrastructure.

Ethical standards (business and marketing) and CSR all fall under the quadruple bottom line: people, planet, profit and purpose. It is no longer enough for a company to only be concerned about its financial performance; society expects more than this.

12.2 Regulation in Australia

Regulation is an important element that must be examined when discussing ethics; what may be deemed acceptable to one consumer (or group of consumers) may not be acceptable to another (as shown in Box 12.1). Around the world, ethics is mostly self-regulated, except for a few specific categories such as breast milk substitutes (as per the opening vignette) and marketing and advertising to children. So, what can be done if ethical standards are breached?

BOX 12.1

Burger King's unusual social responsibility in Russia

Burger King is a global chain of fast food restaurants with over 15 000 outlets in 100 countries, including over 500 in Russia.[11] As such a large organisation, it takes corporate responsibility seriously, defining it as 'looking beyond a strong bottom line to consider the impact of everything we do. It's about doing the right thing as a corporate citizen in today's global marketplace while successfully meeting business goals and objectives'.[12]

In 2018 the FIFA World Cup was held in Russia. To coincide with this, Russia's Burger King produced a social media advert. It posted an image of a pregnant woman holding her baby bump with text translating to:

> Burger King, within the framework of social responsibility, has appointed a reward for girls who get pregnant from the stars of world football. Each will receive three million rubles, and a lifelong supply of Whoppers. For these girls, it will be possible to get the best football genes, and will lay down the success of the Russian national team on several generations ahead. Forward! We believe in you!

The advert received a huge social media backlash due to its sexist and demeaning nature, and was removed less than 24 hours after its initial post. Burger King apologised for the advert, stating:

> We are sorry about the clearly offensive promotion that the team in Russia launched online. As soon as it was brought to our attention, we had it removed. It certainly does not reflect our brand or our values and we are taking steps to ensure this type of activity does not happen again.[13]

This example added to the list of adverts from Burger King in Russia that had drawn criticism.[14]

The ACCC is the main body in Australia that enforces the laws of the free market, so it is important that marketing planners and strategists are familiar with its powers. Ad Standards is the authority within Australia that manages the advertising self-regulation system, and marketing planners and strategists need to be aware of its processes, especially if advertising is expected to be part of the strategic plan.

Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission (ACCC) is an independent authority of the Australian Government. Formed in 1995 with the amalgamation of the Australian Trade Practices Commission and the Prices Surveillance Authority, they have the authority to 'enforce the *Competition and Consumer Act 2010* and a range of additional legislation, promoting competition, fair trading and regulating national infrastructure for the benefit of all Australians'.[15] The purpose of the ACCC is: 'Making markets work for consumers, now and in the future'.[16] It does this by protecting consumer rights, business rights and obligations, performing industry regulation and price monitoring and preventing illegal anti-competitive behaviour.

CONSUMER PROTECTION

The consumer protection of the ACCC is vast, and includes several different areas for which consumers may require some form of help or protection. This includes contracts and agreements, online shopping, prices, surcharges and receipts, and misleading claims and advertising. This is the only place in Australia where marketing practices are regulated, with the rest being self-regulated, which makes the ACCC the go-to for consumers with official complaints about a piece of marketing.[17]

BUSINESS PROTECTION

The business protection of the ACCC is the one-stop-shop for managers who will be marketing their business in Australia. The resources available include information on treating customers fairly, industry codes, anti-competitive behaviour, and advertising and promoting the business. The strategist of any business should be familiar with this information to ensure they abide by all laws within Australia.[18]

REGULATED INFRASTRUCTURE

The ACCC regulates some national infrastructure services, such as communication, energy and bulk water. It also monitors some other markets where there is limited competition, such as fuel, airports, rail and postal services. The role it plays in this regard is to protect consumer welfare, especially where there are or have been monopoly suppliers. It does this by providing regulation, which includes:

- determining prices and access terms and conditions for some infrastructure services of national significance
- providing information about the effects of market conditions by monitoring and reporting on prices and quality levels of goods and services
- providing advice when requested by governments and policy agencies on regulation and markets
- helping stakeholders understand regulatory frameworks and the structure and operation of infrastructure markets by disseminating information
- ensuring compliance with industry-specific laws for communications, energy and bulk water.[19]

ACCC BREACHES

The ACCC has the power to act against any breaches of the *Competition and Consumer Act* in the Federal Court of Australia. The *Competition and Consumer Act* includes provisions on matters such as anti-competitive conduct, the Australian Consumer Law and regulation of telecommunications and energy industries. Note that the ACCC strives to achieve a competitive market without artificial restrictions, thereby favouring neither consumer nor supplier.

Companies or individuals that do not comply with the *Competition and Consumer Act* can be penalised by the Federal Court of Australia in various, severe ways. Maximum fines can be calculated in three ways: the larger of (1) $10 000 000, (2) three times the value of the illegal benefit, and (3) 10 per cent of the corporation's annual turnover for the preceding 12 months. Individuals may be fined up to $500 000. Certain offences under the *Competition and Consumer Act*, such as price fixing or participation in a cartel, have been criminalised, with executives who engage in conduct which contravenes the relevant provisions liable for a term of imprisonment of up to 10 years.[20]

The court also has the power to implement a range of other remedies. For example, companies are often required to publish retractions of false advertising claims in national newspapers and at their places of business. Companies found in breach of the *Competition and Consumer Act* are usually bound to implement a compliance program to ensure future compliance with the Act.

Ad Standards

Ad Standards, formerly known as the Advertising Standards Bureau, was formed in 1998 by the Advertising industry to regulate complaints about advertising in Australia and is funded by a levy on advertising in Australia. Its vision is 'to be the foremost authority in Australia for adjudication of complaints about advertising and marketing communications'.[21] The organisation is made up of a board of directors and full-time staff who all believe in self-regulation for the advertising industry and want to guide the industry in maintaining decent and honest advertising.

The advertising industry's self-regulation is achieved by industry members voluntarily agreeing to be bound by a set of rules and principles of best practice.[22] Every year, however, the Ad Standards office receives thousands of complaints. In 2017 over 6300 complaints were received, primarily relating to wagering advertising as well as sex, sexuality, nudity and language. Most complaints against adverts are dismissed, with only four of the top-ten most complained about adverts in 2017 being upheld,[23] and the same number for the most complained about adverts in the past 20 years (1998–2018).[24]

Ad Standards will consider a complaint if it falls under any of the Codes and initiatives it administers; specifically, the Australian Association of National Advertisers (AANA). The AANA includes the following:

- Code of Ethics
- Code for Advertising and Marketing Communications to Children
- Food & Beverages Advertising and Marketing Communications Code
- Environmental Claims in Advertising & Marketing Code
- Wagering Advertising & Marketing Communications Code.

Understanding regulation

Marketers within Australia, strategic or otherwise, should understand the ACCC's and Ad Standards' capabilities because they provide a guide to the most basic ethical conduct expected. As both consumers and businesses have the ability to lodge a complaint, it is worthwhile being aware of the power of these offices and potential legal ramifications of any questionable marketing strategy, remembering that even if the case does not get to court, it will probably make the media (as per the most complained about advert reports from Ad Standards). Next a framework will be presented showing how ethics can be integrated into strategy, thereby linking the definition and regulation of ethics.

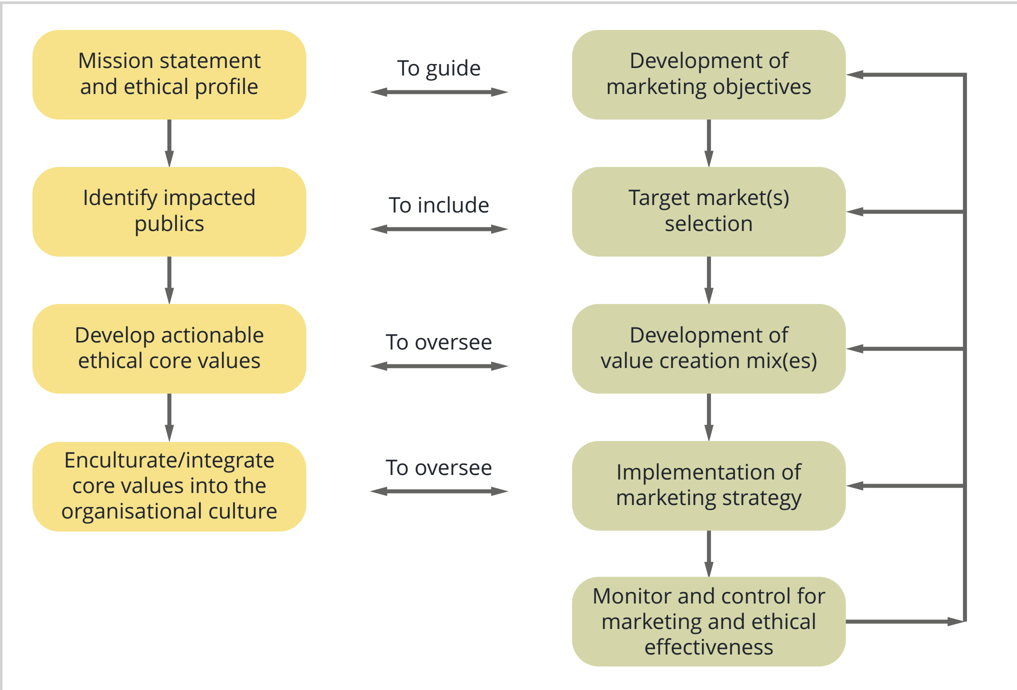
12.3 A framework for putting ethics into strategy

A huge amount of research exists in the literature on why ethics are important and should be used, but few authors have written about how to integrate ethical conduct into the strategy planning process. Donald Robin and Eric Reidenbach are two authors who have investigated this. They reason that this gap in the literature exists because strategic marketing is based around the marketing exchange process and ethical dimensions are rarely integrated into this process. They further note that ethical content exists in many marketing activities and the problem underlying this is that ethics are often simply left in a corporate code of ethics, thereby leaving them outside the strategy planning process.[25]

Unsatisfied with this common approach, Robin and Reidenbach propose a methodology to integrate both ethics and social responsibility into marketing strategy. They suggest the basis of this methodology is the culture of the organisation.[26] (Refer to Chapter 11, 'Ensuring the company culture accepts the implementation', p. 274, to read more on the importance of company culture). Because the objectives or mission of any company should be the guiding principle for any marketing strategy, if ethics and social responsibility can be integrated into them, pending the implementation, they should permeate throughout the entire organisation. The Body Shop is an example of a company that lives and breathes its ethical and sustainable corporate culture by never testing its products on animal's, and also through its community trade, both of which were maintained during its L'Oréal ownership.[27]

The model shown in Figure 12.2 follows a standard strategic marketing report planning process on the right side, with marketing objectives, target market, value creation mix, implementation and monitoring and control all feeding into each other. The left side contains the ethics and social responsibility values, whereby (1) a mission statement and ethical profile will guide the marketing objectives, (2) identifying impacted publics will include the target market, (3) developing actionable ethical core values will oversee the development of value creation mix, and (4) enculturating/integrating core values into the organisational culture will oversee the implementation of marketing strategy. With these ethical and social responsibility values integrated into the marketing plan, an overall monitoring and control for marketing and ethical effectiveness can occur.

FIGURE 12.2 Parallel planning systems for integrating ethical and socially responsible plans into strategic marketing planning



D.P Robin and R.E Reidenbach, 'Social responsibility, ethics, and marketing strategy: Closing the gap between concept and application', *Journal of Marketing*, vol. 51, no. 1, 1987, p. 52. Sage Publications Inc. Journals.

This methodology should be followed when new core values and/or marketing strategies need to be developed. It is crucial that ethics and social responsibility are considered at the beginning of the planning process as well as throughout its development. Without this integration, the necessary checks and balances will likely not exist, leading to marketing programs that are not in line with the company's ethical and social responsibility values.

Benefits and drawbacks of using ethics

There are many advantages and some disadvantages when using ethics as part of a strategy. This section aims to highlight just a few of these.

Benefits of using ethics include:

- *Can create competitive advantage* – consumer trust is higher with ethical companies and that usually leads to loyalty.
- *Keeps employees happy* – employees will always prefer to work for a company that does the right thing.
- *Creates confidence for shareholders and investors* – a company with a transparent attitude to business will be more attractive for people to invest in.
- *Benefits society as a whole* – when the business recognises its social responsibilities it has knock-on effects to many other parties.

Drawbacks of using ethics include:

- *Can limit profit maximisation* – ethics may restrict a company from saving costs by moving its production offshore where poverty-level wages and/or child labour may be acceptable.
- *Difficult to implement* – it can be a lengthy and costly exercise for a company changing its culture to become more ethical.
- *May have no effect* – while many companies profit from their ethical practices, with the inclusion of ethical practices becoming more widespread there may be diminishing returns.

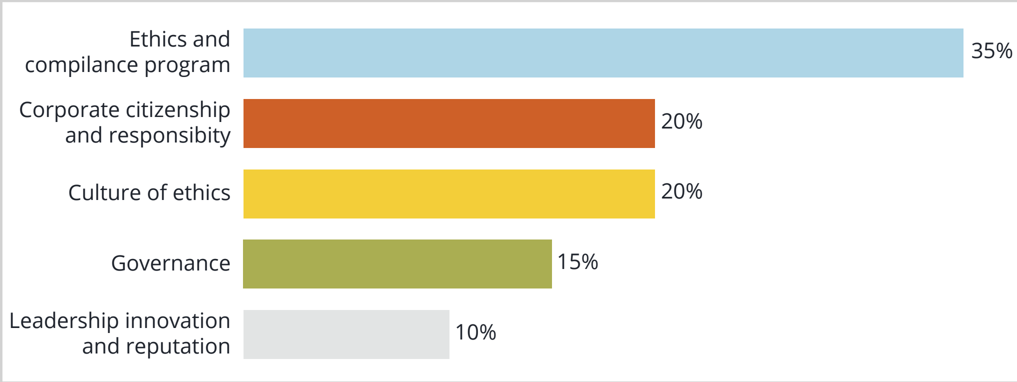
World's Most Ethical Companies

As can be seen in the preceding section, there are some significant benefits to the company, shareholders and society when using ethics as part of strategy, and many companies are aware of this. Every year the Ethisphere Institute creates the World's Most Ethical Companies list. It also provides benchmarking and certification in ethical standards, ethical culture assessments and cybersecurity resources.[28] It has created the World's Most Ethical Companies list since its inception in 2007 due to the need to 'influence and drive positive change in the business community and societies around the world'.[29]

In 2018, out of 135 companies from 23 countries and 57 industries, the only Australian company to be included in the World's Most Ethical Companies honouree list was Teachers Mutual Bank, which has a brand portfolio that includes UniBank and Firefighters Mutual Bank.[30] Other notable worldwide brands featured in the list include 3M, Adobe, Dell, General Electric, L'Oréal, LinkedIn, Marriott, PepsiCo, Starbucks and Volvo.

The Ethisphere Institute uses a rating system that collects and scores data in five weighted categories: ethics and compliance program; corporate citizenship and responsibility; culture of

FIGURE 12.3 Selection methodology for the World's Most Ethical Companies list



Ethisphere Institute, The Methology Behind the Selection Process', 2018.

ethics; corporate governance; and leadership, innovation and reputation. Figure 12.3 shows the weighting of each category. Data are self-reported through a questionnaire completed by the company (with supplemental documentation provided), which is then independently reviewed and verified by the Ethisphere Institute.

12.4 The ethics of strategy and profitability

Strategy and profitability work hand-in-hand; and ethical considerations in this regard should not be any different. This section will outline the ethical dilemmas that may be encountered when implementing a business or marketing strategy, and will also discuss using ethics purely to increase profitability.

Ethical decisions in implementing strategy

A topic that is rarely discussed is the actual ethical decisions that must be made when creating and/or implementing a strategy for an organisation. For example, if a strategy requires a transformation of the company or a restructure, it will often inevitably lead to staff members who are surplus to requirements. These individuals could be long-serving colleagues or friends within the organisation. Strategic marketers must be very aware of this situation and think through any number of different scenarios when drafting the implementation of the proposed strategy.

For staff who are to be let go or transferred within the organisation, it is important to have adequate professional support services available. Details of these can include counselling, career advice or financial planning. These services do not need to be performed in-house; only large companies, such as multinationals, have the size and scale to make this worthwhile. Providing a list of recommended external services can be better for the staff involved because it removes any potential bias or feelings of distrust. Furthermore, an ethical company would pay for these services for their staff.

Other casual support services could also be made available, such as making staff available to provide career coaching, support/social groups of current and/or former employees, and leaving the door open for feedback and support. The aim of this is to show genuine care and concern for employees, either current or former, thereby adding to the ethical culture of the organisation.

These services should not only be made available to the staff dealing with the consequences of the strategy; staff implementing the strategy can be just as compromised. Consider Jo, the staff member tasked with laying off six staff members from a department that is closing within the business. Jo has worked with some of these staff for 5 to 10 years. Jo may well require just as much mental or moral support to deal with this situation and live with the consequences.

The ethical decisions in implementing strategy are inevitable; tough decisions will always need to be made, and this is often why the task is given to the managing director or the CEO, because they usually have the highest salary within the organisation. Nonetheless, it is beneficial if strategists consider both sides of the equation and have resources available to help; not only is this the right thing to do, it is the ethical thing to do and will benefit the company overall.

Ethics and profitability

Bryan Husted and David Allen (2000) asked an interesting question in their *Journal of Business Ethics* article 'Is it ethical to use ethics as a strategy?'[31] Research has shown that ethics and CSR can be profitable, so the question remains: 'Is it "right" to use this to an organisation's advantage?' Husted and Allen start by clarifying the word *strategy*, which according to military science is the art and science of winning at war.[32] Next they define the principle elements of strategy; strategy must: (1) be long-term, (2) have specific goals, (3) develop a plan and (4) commit resources. These elements combined will lead to superior performance and competitive advantage.[33]

Ethics requires intentions; therefore, ethics needs a strategic plan. But the question is 'Will the use of ethics in the strategic plan bring about an unethical advantage?' Husted and Allen pose several objections to using ethics as a strategy due to the possible unfavourable consequences, but all these objections are answered. They conclude that a company can use ethics as a strategy ethically, because an ethics strategy does not require a plan or the investment of resources and is not related to financial performance, and yet ethics cannot be a strategy without these elements.[34]

Husted and Allen also discuss strategic philanthropy, with a focus on cause-related marketing.[35] Cause-related marketing has the objective to increase sales or boost the corporate identity, often through means such as supporting not-for-profit organisations; for example, through corporate sponsorships. In Chapter 4 it was seen that chairperson of Nestlé SA, Peter Brabeck-Letmathe, believed that no CEO should be permitted to use company funds for philanthropic purposes. Yet strategic philanthropy is big business. Between 2015 and 2016 Australian businesses gave \$7.7 billion in community partnerships, \$6.2 billion in donations and \$3.6 billion in non-commercial sponsorships.[36] Husted and Allen caution the fine line between publicity and genuine philanthropy.

The paper finishes by urging business people to consider the true meaning of ethics and to use social strategies (CSR, which includes ethical conduct), as opposed to ethics strategies (which tend to focus on personal [moral] choice), to legitimately benefit the organisation.[37]

SUMMARY

- Ethics is about so much more than simply including the word 'ethics' in the strategic marketing report. This chapter has sought to clearly define marketing ethics and provide an outline of the regulation bodies in Australia for consumers and businesses alike. Part of the problem is that there is no absolute way of determining what is accepted ethically and what is not; there are simply too many interpretations of behaviour around the world. What is ethically fine to one group of people may not be to the next group.
- A methodology was presented to show just how easy it can be to combine ethics and social responsibility into the strategic marketing process. This is, however, highly dependent on the corporate culture of the company, because ethical standards should not just be a plaque on the wall; they should be constantly manifested through actions, not just words.
- The ethics of strategy was discussed in terms of implementation of a restructure, and the benefits and drawbacks of using ethics. The chapter concludes by showing the world's most ethical companies and discussing the use of ethics as a profitability tool.
- It is irresponsible not to discuss ethical factors in a strategic marketing report in these days of accountability and social media. The reason for this is that the internet has stripped away any barriers between consumers and brands, meaning that transparency and attention to ethics and values are higher than ever before. Ethics in marketing is no longer optional – it is expected by shareholders and consumers alike.

DISCUSSION QUESTIONS

1. You are offended by an advert on television that uses sexuality and language inappropriately. Who would you complain to?
2. You are working to integrate socially responsible practices into your company's strategic marketing report when the CEO tells you to 'not worry about it because corporate social responsibility is just a tick-box for the company'. Do you agree with this statement?
3. Dolce & Gabbana often pushes the envelope of what is socially acceptable in its print adverts. Search online for some of the company's more controversial adverts and provide a justification of why the brand chooses to do this.
4. How would you go about implementing an ethical culture into a company that has never heard of this term?
5. Provide reasons why only one Australian company is on the Ethisphere Institute's list of the World's Most Ethical Companies. Is every other Australian company not ethical?

STRATEGY IN PRACTICE

World Wildlife Fund Brazil's advertising campaign

In 2008 the local branch of the World Wildlife Fund (WWF) in Brazil put out a call for a new advertising campaign. It wanted an advert that showed the importance of what it does and that would attract attention. Advertising agency DDB Brazil picked up the call and created a print and non-print advert (see https://www.youtube.com/watch?v=-mxDPhVc9iM) for its proposed idea for the campaign. The campaign was titled 'Tsunami' and was rather edgy. It featured a number of aeroplanes heading towards New York City buildings (including the World Trade Center) with the tagline 'The tsunami killed 100 times more people than 9/11. The planet is brutally powerful. Respect it. Preserve it'. DDB Brazil presented a pitch to the executives of the local WWF who approved the campaign.

A print copy of the advert was shown once in a small São Paulo newspaper. To qualify for an advertising award an advert must be shown in the media at least once.[38] It is not known who paid for this advert to be printed in the newspaper, but what is known is this made it eligible for the 2009 *One Show* advertising awards in New York (where it won a merit award but was subsequently stripped from the *One Show* site).

Shortly after it won the award, the print and non-print adverts appeared online and went viral. Advertising executives, bloggers, WWF supporters and most American citizens were outraged by the adverts, with much of the blowback going straight to the WWF. The WWF US head office, based in Washington, DC, had no knowledge of this campaign and hence denied it straight away, forcing the blame onto DDB Brazil.

In the days following its appearance online statements were released by both DDB Brazil and the WWF US attributing blame on each other, until a joint statement appeared on both of their websites.

The joint statement offered heartfelt apologies to the public for an error that was made by inexperienced team members. It asked the public to acknowledge all the positive campaigns that WWF has been involved with, and to focus on the future for the good of the planet.

1 What, in your opinion, is the most unethical aspect of this case?
2 Is it fair to compare a terrorist event to a natural disaster?

STRATEGIC MARKETING PROJECT

Continue working on your strategic marketing plan. Ensure ethical considerations have been evaluated in all aspects of the marketing plan. Consider using the parallel planning system, as shown in Figure 12.2, when putting ethics into strategy.

ETHICAL ISSUE

At what point should ethics and corporate social responsibility override profits and efficiency? See the interesting case of the Ford Pinto (http://www.economicstoolbox.com/docs/5060Notes/Ford%20Pinto%20case%20-%20adapted%202016.pdf) where the cost of human life was calculated against the cost of a motor vehicle recall.

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- marketing ethics
- corporate social responsibility
- marketing regulation
- cause-related marketing.

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CHAPTER

13

THE STRATEGIC MARKETING REPORT

If the language we use in writing strategic planning reports were only a matter of presentation, of the way we package ideas and offer them to others, it would not matter much how we wrote them. But writing is thinking.

Gordon Shaw, Robert Brown and Philip Bromiley[1]

Telling the story of the strategic report

In 1995 Robert Brullo, the head of 3M's fluoro polymer group, was faced with a problem: how to present to senior management a proposal that he knew would face a lot of opposition. Brullo was convinced that 3M should enter into a joint venture with the German chemical company Hoechst, even though he was aware that 3M rarely entered into joint ventures.

Hoechst had for many years been a supplier and manufacturer for 3M, and in the mid-1990s it developed a new resin product called THV that had huge market potential. Hoechst had the manufacturing capabilities to produce the new product, but lacked the skills that 3M had to develop it further and market it. A joint venture was logical, but these arrangements are notoriously difficult to negotiate and manage.

Brullo needed to clarify his own thinking about the potential of the project and several complex strategic issues that needed to be resolved so that he could successfully pitch the idea. He eventually concluded that the best way forward was to write a narrative style of business plan. He spent two weeks writing his plan, which he gave to some of his staff to critique. After numerous rewrites, he was ready to present his proposal to the senior management group. At the beginning of his presentation he turned off the overhead projector, opting to present his ideas in the form of a strategic story. By the end of the presentation his plan was enthusiastically accepted.

The narrative form of strategic plan that Brullo wrote became the foundation of the subsequent joint venture between the two companies. For his efforts he was rewarded by being appointed president of the new company, Dyneon, which was formed in August 1996. Not long after that, storytelling became a way of life at 3M, with the narrative form of business plan replacing the traditional bullet-point type of approach.[2]

Focus of this chapter

The opening vignette of this chapter highlights the importance that writing plays in the strategic planning process. Not only does it have a pivotal role in how complex information is delivered clearly and persuasively, but also, 'writing is thinking'. That is, writing helps strategists to gather their thoughts and focus on the important issues in both the analytical and development phases of the strategic marketing process.

Learning objectives

This final chapter aims to provide you with guidelines for writing strategic marketing documents and reports.

After reading this chapter you will have an understanding of:

- the role and importance of writing and presenting a strategic marketing plan or report (13.1)
- the different types of strategic marketing plans and reports (13.2)
- how to prepare a formal marketing plan (13.3)
- the processes involved in crafting marketing strategies and pitfalls to be avoided (13.4).

13.1 The role of the strategic marketing report

The strategic marketing report is fundamentally an exercise in communication, involving the sharing of information between one group of people (the marketing strategists) and several other groups. One of these other groups is invariably a senior management team (or, in some cases, a board of directors) whose approval is sought for the recommendations presented in the strategic marketing document or report. Other groups include those who are expected to play a major role in the implementation of the marketing strategy recommendations. Thus, the strategic marketing document or report must not only involve the transfer of information from one group to another but must also act to persuade several people to approve and/or act on recommendations that it contains. As with all such documents, careful consideration must be given to ensure that it addresses the needs of its intended target audience.

It is also important to appreciate that, as was discussed in Chapter 2, marketing strategy recommendations are developed both within and outside formal strategic planning processes. This was borne out in a survey conducted by McKinsey in 2006 in which only 23 per cent of respondents from companies with revenues of at least US$500 million reported that strategic decisions were made within the confines of formal strategic-planning processes. That is, most strategic decisions

(77 per cent) were made outside formal strategy planning processes. However, on the upside, it was also found that 79 per cent of those managers believed that formal planning processes play a significant role in strategy development.[3]

There are two main implications of these findings. First, strategic decisions are made both on an ongoing basis and within formal planning processes. Second, the process of planning, whether or not it is conducted formally over a set period, is important. Strategic planning processes provide the following benefits:

- The process forces those involved to think about the future and the way their organisation should compete in that future. All too often senior managers are caught up in day-to-day activities, finding little time to consider strategic issues.
- Contemplating the future provides the opportunity for the organisation to adopt a proactive stance in the marketplace and to stay one or two steps ahead of its competitors.
- The process of committing strategic analysis and thinking to paper provides the opportunity for the writers to fully develop their ideas and concepts that otherwise might not have been thought through as clearly.
- The process provides a means for the development of shared understandings of the challenges facing the organisation and the strategic options that the organisation might choose to pursue.
- The strategic marketing document acts as a vehicle to facilitate the sharing of knowledge and information that otherwise might not have come to the surface. That is, the process of strategic marketing planning helps to unlock organisational memory, thereby facilitating organisational learning.
- Involvement in the process helps to foster a sense of commitment, which is an essential ingredient for the effective implementation of the marketing strategies proposed in the marketing plan.

The relevance of the strategic marketing report

In this day and age of fast-paced information and change, some may question the purpose of a strategic marketing report, asking, 'How can you have a plan for three to five years when we do not know what will happen in three to five weeks?' The answer to this is quite simple but requires a change in thinking – the purpose of a strategic marketing report is not to be a conclusive, static document that never changes and can predict the future. Rather, its purpose is to be a guiding principle for the marketing efforts of the organisation. It must be adaptable and be able to be modified without changing the overall direction of the marketing of the organisation.

13.2 Types of strategic marketing documents and reports

The process of strategic planning culminates in several recommendations that are presented to senior managers for approval. These strategic decisions may be made either during formal planning processes or on an ongoing basis as the need arises (i.e. when an event triggers the need to review existing strategies). Accordingly, these strategic marketing recommendations may be articulated as follows:

1. a part or a section within a formal strategic planning process as either:
   a. part of a broader-based business-planning document
   b. a standalone strategic marketing planning document

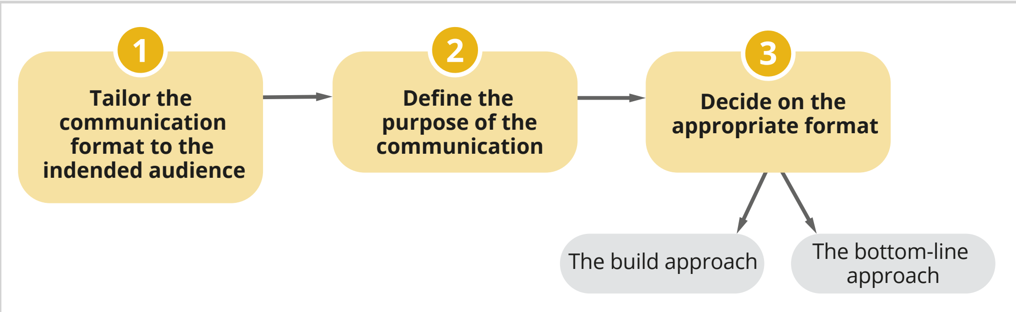
2 a paper or report based on a set of deliberations outside of formal strategic planning processes as either:
   a part of a broader-based set of strategy deliberations
   b a standalone paper containing marketing strategy recommendations.

Choosing the most appropriate format

Whether the document is produced as a traditional strategic marketing plan or as a paper or report, the fundamentals of effective business writing apply. The format and tone of the writing must be appropriate for its target audience. In organisations where formal planning documents are required, a traditional planning format would be called for. However, since the late 1990s some organisations have moved away from this approach in recognition of the fact that decision-makers need to work smarter and faster. In a world of 30-second news grabs, elevator pitches, Twitter posts, WhatsApp and information overload, the way individuals read and absorb information has changed. A comprehensive strategic marketing plan, no matter how well it is thought out and presented, may just be too time-consuming for busy managers to absorb. Business writing needs to be concise and, at the same time, capable of motivating the reader to act on the recommendations.

The choice of formats is extremely important. Organisational decision-makers need to choose a style that will maximise the communication effectiveness. Figure 13.1, below, provides a schematic of the factors that need to be considered.

FIGURE 13.1 Factors to consider when selecting the format



1 *Tailor the communication format to suit the intended audience* – identify the decision-makers and others who will be recipients of the report, such as line managers who will need to action the recommended strategies. Consider the audiences as individuals, taking into account their position in the organisation; their knowledge or familiarity with the information that is being presented; and such factors as their norms, traditions and values. Also determine the extent to which the audience is likely to be interested in the information presented to them and whether they are likely to be opposed to any of the recommendations.

2 *Define the purpose of the communication* – is the main purpose to provide information, to persuade or a combination of both? A traditional planning format is an effective vehicle for conveying a great deal of analytical information and detailed strategy recommendations. It is extremely useful for audiences who are not familiar with the level of detail contained in the document, but tedious for those who are well informed. For these individuals, a more succinct style of report or a narrative format would be more suitable.

3. *Decide on the appropriate format* – when the purpose of the communication is clearly defined and the needs of the intended audience are identified, the next stage is to decide which of the following two approaches is the most appropriate:
   a. *The build approach* – this is a traditional A to Z, or indirect, approach whereby the reader is led through each of the background steps (the situation analysis) before the strategy recommendations are revealed. In other words, it is like a novel where the reader is kept in suspense until the final chapter when all is revealed. This approach is useful when the audience is either unfamiliar with the background material or likely to be opposed to the strategic recommendation if it is presented upfront.

      With this approach, the reader is led through all the steps that lead to the recommendations that are being presented. The objective is to initially establish a shared understanding of the challenges that are facing the organisation, before the strategic options are canvassed and the recommended strategies are presented. That is, to get the reader onside and make them aware of the thinking that led to the decisions that underpin the recommended strategies.
   b. *The bottom-line approach* – this is a direct approach whereby the strategy recommendations are stated at the beginning of the report. This is then followed by the supporting data that led to these recommendations, including the key issues, the strategy alternatives that were considered (and rejected) and the rationale for the selection of the recommended alternative.

      With this approach the reader is left in no doubt as to what is being presented. It is appropriate for audiences who are results-oriented and are well informed about the background information. However, if the recommendations are contentious or likely to be challenged, then the danger of this approach is that the reader could be put offside from the very beginning of the report.

Formal business-planning documents, such as business plans and strategic marketing plans, are based on a build format. These plans have the potential to provide the intended audience with a comprehensive review of the situation facing the organisation, the business or marketing opportunities that have been identified and the recommended strategies. A well-prepared business plan is essential for entrepreneurs seeking capital for a new business enterprise, and these plans are required to be produced in a structured sequence. There are thousands of papers published that provide guidelines on how to write new-venture business plans, and many of these include standardised templates that can be downloaded from a website.[4] The same applies for established organisations where a strategic business plan or a strategic marketing plan is required to follow a particular build type of sequence. Guidelines for writing a strategic marketing plan are outlined in a later section of this chapter.

Format choice considerations

The bottom-line approach is often preferable for the articulation of recommendations that are made outside the formal planning processes and, as stated previously, may take the form of a paper or report. In this case the marketing recommendations might be included as a section in a broader-based business-unit strategy paper or as a self-contained strategic marketing paper. There are several ways that a paper of this nature can be constructed, with the bottom-line format being potentially the most effective way to write it. The key objective is to gain the attention and interest of the reader at the outset of the report. Next the reader needs to appreciate what the key issues are; that is, problem identification – understanding what the most important problems facing the organisation are and what marketing opportunities are available. This needs to be accompanied by supporting data (i.e. hard evidence). Graphs, tables, pictures and charts should be included where appropriate because, when coupled with verbal information, they are able to better convey the message.[5] The amount of supporting data included in the report is dependent on the complexity of the business environment and on how well the reader is informed of the issues involved. In cases where there is excessive data and other information it might be preferable to provide this in a separate document as an appendix to the main report. The next stage is one of problem solving, consisting of identifying the various options that were canvassed in the strategy development phase of the work. This is followed by evaluations that were made for each option (including the pros and cons of each option) and, finally, the rationale for the recommended strategy.

For some organisations, these types of reports consist of a series of printed PowerPoint slides, while other organisations stick to a more conventional style of writing. In some cases organisations, such as 3M, HP, IBM, DuPont, Kimberly-Clark, Disney and Nike, have adopted a much more radical approach by writing their reports in what is described as a narrative or a strategic story. Gordon Shaw, the executive director of planning at 3M during the 1990s, argues that plans presented as bullet points are particularly unsatisfactory because they are just a list of 'good things to do'. He contends that bullet points fail to convey the logic or rationale behind the strategic thinking that has underpinned the recommendations stated in these types of plans. He adds that bullet points are too generic because they only represent an illusion of clarity, not a reality. Bullet points leave critical relationships unspecified and critical assumptions about how the business works unstated.[6] In a *Harvard Business Review* article Shaw and his colleagues argued the case for the narrative format in the following terms:

> Presenting a plan in a narrative creates a richer picture of strategy not only for the plan's authors but also for its intended audience. Readers are made privy to the author's thought processes, so they know far more than they would if they read a bullet list. When assumptions are made explicit, they can be discussed and held up against senior managers' own mental models. Executives are in a better position to evaluate the plan critically, ask more penetrating and insightful questions, and offer more useful advice.[7]

As was discussed at the beginning of this chapter, narratives are not just the preferred way of writing reports at 3M, they are a way of life. Most importantly, narratives help individuals at 3M to clarify their thinking when developing their strategic plans and as an aid for capturing powerful insights about the business situation. That is, the discipline of storytelling permeates the entire strategy development process at 3M, as well as providing a means for presenting a written report.

13.3 Guidelines for preparing a formal strategic marketing plan

A strategic marketing plan is a document that contains a considerable variety of information, including data and information collection, analysis, interpretation and synthesis. As an outcome of that analytical work, it also presents and argues the case for several decisions. In other words, a strategic marketing plan is a complex document.

Because of its complexity the format of a strategic marketing plan requires considerable thought. There are two main alternatives:

1. Prepare a traditional or comprehensive document, which contains a considerable amount of information and is typically in the 80- to 100-page range.

2 Prepare an abbreviated version, which would typically run to about 25 to 35 pages and is more succinct, focusing on the key issues and strategy recommendations with the more detailed information provided in the form of an adjunct report or as an appendix.

The following sections provide guidelines for preparing each of these options.

Writing a comprehensive strategic marketing plan

A logical format for a strategic marketing plan is to structure it along the lines of the strategy planning process articulated in this book. Commencing with an executive summary the strategic marketing plan might contain the following sections:

- Executive summary
- Introduction
- Situation analysis:
  - Business definition and scope
  - External environment – remote environment analysis
  - External environment – near environment analysis
  - Critical success factors
  - Internal capabilities review
- Problems and opportunities statement
- High-level marketing strategies:
  - Strategic positioning
  - Marketing objectives
  - Strategic innovation strategies
  - Segmentation, targeting and positioning strategies
  - Customer value creation mix
- Strategy implementation:
  - Resource allocation
  - Action plan
- Strategy evaluation and control.

The guidelines presented in this section are to assist in the actual writing-up stage for each of the previous sections of the comprehensive strategic marketing plan. The work involved in developing each of these sections has, of course, been elaborated on in significant detail in previous chapters of this book. It is suggested that these guidelines should be read in conjunction with the appropriate earlier chapters.

EXECUTIVE SUMMARY

An executive summary is a précis or an outline of the entire report. It serves two basic purposes. First, it provides essential information for those who might not have the time or inclination to wade through the entire document. Therefore, like a headline in a press advertisement, it plays an essential role in attracting the interest of the reader – enough so, it is hoped, to encourage him or her to want to delve further into the full body of the report. Second, it emphasises to those who have read it the most essential points that need to be remembered or revisited for further scrutiny.

Care must be taken to ensure the executive summary is a short, sharp snapshot of the entire strategic marketing plan. It can only be written at the conclusion of the report-writing process, even though it is presented at the beginning of the document. The writing of the executive summary is not an easy task because it requires considerable discipline to condense a large body of information to what should ideally be no more than one or two pages – or around 250 to 300 words maximum.

An important principle to bear in mind is that the executive summary must not contain any material that is not in the main body of the report. It should also follow the structure of the full report. In writing an executive summary it is often found that some important information has been overlooked in the main report or an important point has been insufficiently emphasised or presented in some illogical manner. Where this occurs the main body of the report should be revised.

An executive summary should highlight the most significant findings from the strategic analysis and the strategic challenges (opportunities and threats) facing the organisation, and the organisation's capabilities to meet these challenges. This information should be followed by a brief summary of the main strategic recommendations contained in the report, including top- and bottom-line revenue objectives (in total and for each product-market category), an overview of the recommended strategies for each product-market, strategic positioning, market segmentation and customer value creation mix strategies.

The most common mistakes found in executive summaries are: (1) they are written as if they are an introductory section rather than as a summary statement; (2) they do not contain essential information, such as marketing objectives or budget information, or do not place enough emphasis on essential information; and (3) they are too long.

INTRODUCTION

An introductory section should be succinct and straight to the point. It is to introduce the reader to the purpose of the strategic marketing plan and the background of the organisation and/or the strategic planning unit that has developed the strategic recommendations. Its purpose is also to present other information that clarifies any questions a reader might have as to why the document was written, what it was trying to achieve and the environmental context in which it was written.

A well-written introductory section could be presented in as little as one page or, if there is a lot of important background information, three to five pages. Anything more than this may test the patience of the reader.

SITUATION ANALYSIS

Writing this section requires considerable thought – the better the analysis, the better the strategic decisions that follow. However, in writing a strategic marketing plan consideration must be given to the amount of material the reader will be confronted with in order to get to the main issues. Do not expect the reader to wade through 80 pages or more of facts and figures, charts and dialogue to get to the point. Where there is a large volume of material (which is generally the case), consider placing anything other than essential reading into an appendix or even in a separate document. This will free up the situation analysis to provide a free-flowing readable section that does not bog down the reader with unnecessary information.

However, the writer should be equally aware that he or she should not hide away important information in an appendix or separate document in the belief that the reader will automatically refer to it. If it is important, present it in the main body of the report. Use graphs, tables and charts where appropriate and necessary. Graphs and charts are powerful descriptive tools, as the truism 'a picture is worth a thousand words' testifies.

Business definition and scope

Generally, a business definition and scope section can be stated in one to three pages, depending on the complexity of the markets served, the product lines serving those markets, and the number of competitors and their product lines. The important point to note is that business definition and scope is a precise specification of the business domain of the strategic planning unit. It is essential that it is accompanied by a supporting statement presenting the arguments as to why this specification is appropriate.

External environment – remote environment analysis

In writing the external environment analysis, try to limit the review of each remote environmental force to two to three pages. Start with a brief summary of the descriptive part of the review – the facts and figures of what has occurred in the past. Next present the arguments as to what this means for the future – that is, the assumptions you have made about the future. Then state the implications of these assumptions for the planning unit's products or services, in terms of opportunities and threats. These could be summarised in the form of a two-column table listing the opportunities in one column and the threats in the other. In order to structure the review of each remote environmental force it is therefore suggested that the information could be presented under two subheadings: 'Scenario' and 'Implications'. Under the heading 'Scenario' present critical top-line historical data and information. Then state the assumptions that are being made about the future. Under the heading 'Implications', state the conclusions that you have arrived at regarding the likely impact of these assumed events on the strategic planning unit's products and services. As was suggested in Chapter 3, the summary points of the implications in terms of opportunities and threats should include an assessment of their significance and of the likelihood of occurrence, on a double-digit five-point rating scale.

One of the most common problems experienced with the remote environment analysis is a lack of focus. The purpose is to address those environmental forces that are likely to impact on the industry/market, the organisation, its competitors and most importantly its customers – as identified in the business definition and scope. In many cases the impact of economic forces on the lives of the target markets is overlooked, as are sociocultural trends. It is therefore essential to check that the analysis of the remote environmental forces is focused and does not fall into the trap of being overly generalised.

External environment – near environment analysis

The write-up of the near environment analysis is invariably the most difficult to contain in terms of its size. Once again, the advice is to include a summary of the analysis in the main body of the report and to present detailed information in an appendix or separate volume. In the main body of the report use sub-headings for each section such as 'Description', 'Assumptions concerning future trends' and 'Implications'.

A typical problem that occurs in the presentation of the near environment is a lack of attention to the market review section, including the assumptions of the future size and nature of the market, and the segments within it. This is a key section of the entire strategic marketing plan and appropriate attention should be given to it.

Critical success factors

The next section, critical success factors, involves the listing of those factors and the accompanying rationale as to why these factors are so important. In most cases critical success factors can be succinctly stated in one or two pages. The most common problem with this section of the work is the absence of a rationale or a justification for why each factor is so important. A brief explanation of two to three sentences is invariably enough, although you could draw on a tool such as the value chain as supporting evidence.

Internal capabilities review

Care must be exercised when writing the internal capabilities review to avoid information overload. Once again, try to summarise key or top-line points for each area of this review, presenting detailed information in an appendix or accompanying document. Subheadings for each area of the review might include 'Analysis' and 'Implications in terms of strengths and weaknesses'. Under the first subheading, present the facts and figures and a general description of the organisation's capabilities vis-à-vis those of its competitors. Under the second subheading, list the strengths and weaknesses, including an assessment of the significance of each (using a five-point rating scale).

The number of pages devoted to an entire situation analysis varies according to the complexity of the factors reviewed and of the analysis and interpretation. In some cases well-written situation analyses can be prepared in approximately 20 pages, while others may require 30 to 40 pages.

PROBLEMS AND OPPORTUNITIES STATEMENT

A situation analysis is a means to an end. The end is what it all means in terms of problems and opportunities that are likely to confront the organisation over the next three to five years. The role of the problems and opportunities statement is to synthesise the vast amount of information contained in the situation analysis and to highlight those areas of the business requiring priority attention in the strategy development process.

In most cases a well-written problems and opportunities statement can be presented in one or two pages. Follow the steps suggested in Chapter 3 for preparing a problems and opportunities statement, using the five sections as subheadings for the problems and opportunities statement.

HIGH-LEVEL MARKETING STRATEGIES

When discussing high-level marketing strategies, commence with a statement of the top-line revenue objectives for each year of the planning period. Next, state the gross and net profit margin objectives for each of these years. Then show how these objectives will be met in terms of the revenue mix – the strategic innovation strategies: core marketing strategies, incremental innovation strategies, market development strategies and radical innovation strategies.

State the rationale for these decisions. Draw on tools such as strategic gap analysis as well as the strategic positioning tools, such as the product life cycle, product portfolio models and competitive advantage models, to support your arguments. Most importantly, draw on the opportunities and threats identified in the situation analysis and the problems and opportunities statement to support your arguments.

Having stated *what* is to be achieved, the next step is to discuss *how* this is to be achieved in terms of the recommended strategic positioning, the segments to be targeted, brand-positioning strategies and the customer value creation mix, and communication and delivery strategies. The length of this section will depend on several factors, including: the number of market segments to be targeted, the depth and width of the product line (or lines) serving those segments, and the complexity of the recommended customer value creation mix, communication and delivery strategies. Recommendations may require as few as 8 to 12 pages, while more complex strategies could amount to 20 to 30 pages of description and justification.

STRATEGY IMPLEMENTATION

An implementation table is a crucial section of any strategic marketing report because it summarises many of the previous sections of the report and (among other things) assigns responsibility to each strategy. Without this, strategies will be lost and/or forgotten. If a reader of a strategic marketing report is short on time, one of the first sections they will read will be the implementation table because it gives a brief overview of the most important parts of the report, such as objectives and strategies. A poor implementation table will under-sell the report and leave the reader with more questions than answers.

An action plan can be included in the table, or it can be separate. The action plan sets out details of the activities required to implement the strategy recommendations, timing and responsibilities. The action plan should be followed with a brief description of the control mechanisms that will be used to monitor performance over the three-to-five-year timeframe of the recommended strategies. Of particular importance is a statement of what is to be measured, how it is to be measured and how often it is to be measured (e.g. half-yearly or annually). In a strategic marketing plan this information is fairly broad – considerably less detailed than what is required for an annual (operational) marketing plan.

Similarly, the budget can be included in the implementation table or it can be in a section on its own. Like the implementation table, one of the first sections a reader will look for is the budget, to ensure it is within the organisation's means and capabilities. The budget should include everything that devising and implementing the strategies will cost; most of the time this is promotion-related (i.e. advertising, direct selling, public relations etc.); however, it can often include human resource costs. The budget is often the most closely scrutinised section of the entire report; therefore, care must be taken to ensure that the figures presented are accurate and well justified. State the figures, then under a subheading such as 'Rationale' state the assumption on which forecasts are based and the justifications for the recommended expenditure.

Depending on the complexity of the strategic marketing plan and the nature of the table (and whether the action plan and/or budget is included in the table), this section typically requires around four to ten pages.

BOX 13.1

The strategic marketing symphony

Some like to refer to strategic marketing as a symphony playing music, where all parts work together to achieve a common goal. The Chief Marketing Officer (CMO) can be likened to the conductor, directing the various elements. The different departments of the organisation are the musicians, in their various groupings. The strategic marketing report is the music the symphony plays, and it brings everything together to work harmoniously, productively and effectively.[8] This analogy can be very useful because it makes it easy for non-marketers to understand the report's purpose.

Ensuring quality and relevance

To produce a quality, accurate and convincing strategic marketing report takes a lot of time and effort. It is a process that should not be rushed. This section highlights the flow and style of the report, providing some tips to help ensure the document shows the work has been done in a precise and concise manner.

FLOW OF INFORMATION IN THE REPORT

When writing a strategic marketing report, the flow of the report is just as important as any specific section of the report. Most reports are written in teams, and if there is no communication or collaboration between team members, the report will contain errors and inconsistencies due to the large size and complex nature of the report itself. Having basic errors and/or conflicting information can undermine the report and send the wrong message to the reader.

ADAPTING THE STYLE

Even though the content of a strategic marketing plan can be generally outlined, the truth is that every strategic marketing plan is unique. It must be stressed, therefore, that the description provided in this chapter is nothing more than a guideline. It is not intended to be a prescriptive statement of how a strategic plan must be written. Indeed, the notion of writing a strategic marketing plan by filling out a series of standardised forms is firmly rejected. Writing a strategic marketing plan is a creative task, and while guidelines assist in the task, they should not be used as a straitjacket to inhibit an innovative approach.

Writing an abbreviated strategic marketing plan

The process of developing the strategic marketing plan is the same as that described for the traditional or comprehensive document, except that this type of report is presented in a more succinct format. The content of this type of strategic marketing plan is a synthesis of the comprehensive version. To prepare a strategic marketing plan this way, it is recommended that each of the steps outlined in this book is followed, but that the findings are written as 'rough copy' rather than as a finished piece of work.

After the rough copy has been written, the next stage is that of synthesis. First gather all the information contained in the strategic analysis. The objective is to make sense of the findings from the data collected in developing the situation analysis and the problems and opportunities statement. What are the most important findings? What are the most important issues? What are the most important strategic implications? Much of this information is (or should be) contained in the problems and opportunities statement, so use this as a starting point to contemplate the big picture. This will help you to identify the most critical issues.

The first section of your report should then be written in a way that highlights the critical issues from the findings of your strategic analysis. Ensure that it is written in an interesting way that will engage the target audience. Begin with a bang by identifying the key problem or opportunity addressed in the strategic marketing plan. For example, a key problem may be declining demand for the product category or the entry of a major competitor into the market.

Next, discuss the issues that you have identified that are the antecedents of the key problem. For example, declining demand for a product category could be caused by a combination of economic forces (especially in times of deteriorating economic conditions), changing demographic patterns, or changing customer attitudes or preferences (i.e. a shift towards product substitutes). This is where the work you have prepared previously in synthesising the data comes into play. For example, you might have discovered that there is an emerging market segment that has not been targeted by any of the existing players in the market. The discovery of this segment may have been the outcome of your analysis of a combination of remote environmental trends (i.e. sociocultural, economic and technological trends) and near environment trends (i.e. changes in buying behaviour and competitor analysis). Show the evidence; that is, cite the data that support your argument. Allow about 10 to 15 pages for this part of the report.

The next part of the report contains strategy recommendations. This is a succinct overview of the information discussed previously for writing a comprehensive strategic marketing plan. Commence with a statement of marketing objectives and the top-line product-market strategies that are recommended to achieve those objectives. Then discuss the strategic positioning strategy, segmentation and brand-positioning strategies and the customer value creation mix. Follow this discussion with budget and implementation, control and evaluation information. Allow about 15 to 20 pages for this part of the report.

13.4 The process of crafting marketing strategies

Just as the format of a strategic marketing document varies from one organisation to another, there is no right way of organising the process of strategy development. However, there are a few principles that should be observed:

- *Involve decision-makers at an organisation-wide level, not just those in the marketing department* – this is a fundamental requirement for market-oriented organisations. Of importance is the involvement of the chief executive officer (CEO). Apart from the value of this individual's knowledge and responsibility for the strategic direction of the organisation, the symbolic importance of the CEO should not be overlooked. Actions speak louder than words, and the involvement of the organisation's leader in the strategy development signposts to all the importance of this activity.
- *Ensure that the CMO (or equivalent title) takes overall responsibility for the strategy* – while involvement of decision-makers at an organisation-wide level is required in the strategic marketing planning process, without the assignment of responsibility and appropriate authority for leading and managing the process, there is a danger that collective responsibility can mean no responsibility.
- *Organise workshop activities* – where participants in the marketing strategy development process work their way through the various steps involved. In many cases a two- to three-day retreat has been found to be an effective way to commence the process. Strategic thinking does not occur in a vacuum, and the organisation of these retreats or 'workshops' requires considerable thought. The danger is that poorly led workshops can be a waste of time, effort and money and can do more harm than good. Therefore, ensure the following:
  - Provide essential information prior to the workshop or retreat. Ideally, the starting point for the retreat is consideration of the organisation's mission and vision, and the strategic issues that have been identified in the process of strategic analysis (which are articulated in a problems and opportunities statement). The key assumptions that underpin the strategic analysis, and conclusions that have been reached concerning the strategic implications of the findings, need to be vigorously examined so that agreement can be reached concerning the priority order of strategic issues.

  - Do not try to cover too much in any one retreat – focus on just the top two or three strategic issues. The next stage for the workshop participants is to consider a range of strategic options that would most effectively address those issues. Several workshop sessions may be required for this.
  - Consider the use of an external consultant to act as a facilitator to lead the workshops. This is particularly important for the internal capabilities (self-analysis) phase of the review because it is often difficult for company insiders to be objective – either because they are too close to the situation or because of organisational politics.
- *Ensure the timeframe is sufficient* – there must be enough time to facilitate a thorough investigation of the key issues, including collection of market intelligence, analysis, and the development and consideration of strategic alternatives based on that information base. Therefore, depending on the complexity of the strategic planning unit and the complexity of the strategic issues, a strategic marketing plan might be most effectively developed over several weeks. For example, a straightforward strategic marketing plan building on a successful pre-existing strategy in a mature market with little expected change may be developed in four to five weeks or less. On the other hand, a more complex marketing situation may require three to six months to develop fully.
- *Put extensive thought into the physical presentation of the strategic marketing plan to senior management* – the time allocated to the presentation dictates how much information can be communicated. Ensure that the most essential parts of the analysis are highlighted, the strategic problem or opportunity is clearly identified and the range of strategic alternatives has been thoroughly considered. Then devote enough time to presenting the recommended strategies and the justification for these recommendations. Consider also preparing a condensed version of the strategic marketing plan for senior management to review, rather than providing them with the complete version.

Avoiding the pitfalls

See the following tips for avoiding common report consolidation problems:

- Do not write an executive summary like an introduction; it must address all areas of the plan in one page.
- Make sure you have diverse and credible information sources.
- Use enough strategic tools to summarise or prove a point.
- Make sure different sections of the plan link together (i.e. the plan flows).
- Build objectives and goals from the situation analysis.
- Link strategies with the situation analysis and/or company information.
- Build strategies from the objectives and goals.
- Do more than merely list strategies – show how they can achieve the objectives and goals.
- Link the implementation table and/or budget with the strategies and make sure they are realistic.
- Make sure the details and costs for the implementation table and/or budget are accurate.
- Remember that appendices are additional information; they do not have to be read by the reader to understand the main parts of the marketing plan document.

See the following tips for avoiding common strategy process problems:

- The strategic planning process should not be the exclusive domain of an elite group of strategy planners. In market-oriented organisations this means that the process of developing marketing strategies should include, as far as is practical, several decision-makers from across the organisation, not just those in the marketing department.

- The strategy development process is a creative process; make sure it includes both top-down and bottom-up decision-making, not just one or the other.
- Strategy development and planning are two different processes. Formal planning is essentially a process of programming strategies that have already been developed. Therefore, ensure the strategy development process does not get bogged down by too much attention to detail. Strategy development involves consideration of the big picture – the future direction for the organisation; planning should follow this process by providing the detail of how to get there.
- Make a distinction between strategic marketing planning and annual or operational marketing planning (typically product or brand marketing plans). Strategic marketing plans or reports provide a longer-term perspective with broad (planning) detail. Annual or operational marketing plans contain greater and more specific detail.
- Take steps to prevent strategy planning becoming a ritualised and meaningless process. Strategic thinking needs to occur continuously and should not be restricted to a once-every-three-year event. Strategy planning weekends or week-long retreats can be very useful but, ideally, a more ongoing type of process should be established to complement these concentrated bursts of effort. In some over-bureaucratic organisations, marketing strategic plans are so highly formalised that they are akin to filling out mind-numbing forms. Attention to the format of a strategic marketing plan or report is important but not to the extent that the planning document takes on a life of its own.

SUMMARY

- The writing of a strategic marketing document is a major task requiring considerable effort and thought about its proposed format. In this chapter some guidelines have been provided to assist in this task. As noted, these guidelines should be taken as suggestions rather than as prescriptions of how the work should be presented.
- The overriding consideration is the effectiveness of the communication with the intended target audience, usually a senior management group. Speak the language of this group and present the information in ways that the individuals can relate to.
- There is a need to plan for planning. The process of strategy development should involve the participation of several decision-makers throughout the organisation, the process needs to be well managed for it to be effective. Involvement in the process leads to a shared understanding of what the future holds for the organisation and the strategies it should pursue for it to survive profitably in that future.

REVISION QUESTIONS

1. A friend has asked for your advice on the best way to write a marketing report. How would you answer this question?
2. A marketing and sales manager of a highly successful personal computer company claimed that the preparation of a strategic marketing plan was a waste of time. He said that, 'In our industry a new product may come and go within the time it takes to develop a marketing plan. Our industry is

just too fast moving for planning to be of any value. You just need to get out there and do it!' Do you agree or disagree with this viewpoint?

3 You are a marketer for a network television station and have just had an idea for a brand-new television show. You have discussed this idea with your marketing colleagues at the network who all think it has the potential to be a very successful franchise. What style of report will you write to convince senior management – the build approach or the bottom-line approach? Why?

4 Large consulting organisations, such as McKinsey & Company, Accenture and the Boston Consulting Group, are used by many organisations, large and small, to develop strategic plans. Should a consultant be commissioned to develop a strategic marketing plan for an organisation? Discuss.

5 Criticisms of strategic-marketing planning models include that they are often prescriptive and are mainly suitable for the marketing of consumer goods. Are these valid criticisms? Discuss.

STRATEGY IN PRACTICE

Ditch the PowerPoints in your presentation[9]

Robert McKee is a screenwriting coach who conducts writing classes in the US, UK and Europe for screenwriters, filmmakers, TV writers and others in various creative-writing fields. He also coaches industry executives in the art of storytelling. In an interview with *Harvard Business Review*'s senior editor Bronwyn Fryer, McKee provides several suggestions about how business executives can learn to create and deliver engaging, inspiring and persuasive presentations.

The first step, he argues, is to toss away their PowerPoint slides and learn how to tell good stories. Presentations are all about persuasion and there are essentially two ways to persuade people. The first, using conventional rhetoric such as a PowerPoint presentation, is an intellectual process. The problem with this approach is that the people in the audience are likely to mentally argue or reject points made during the presentation because of their own sets of beliefs and interpretation of facts about the subject matter. Even if the presentation does succeed in persuading the audience, this will be only at an intellectual level and individuals are not normally inspired to act by reason alone. The most powerful way to inspire and persuade people is to engage their emotions. And this can be achieved by presenting a compelling story.

So, how should a compelling story be constructed? McKee emphatically rejects the beginning-to-end approach as boring and banal. He contends that the secret of creating a powerful story is to display the struggle between expectations and reality and to create suspense. This can be achieved by what McKee describes as an 'inciting incident' – an event where the unexpected happens, such as the loss of a key account or some other disaster. The story then goes on to describe what it is like to deal with these sorts of problems, such as working with scarce resources, making difficult decisions or taking action despite the risks involved. As McKee states, 'All great storytellers since the dawn of time – from the ancient Greeks through Shakespeare and up to the present day – have dealt with conflict between subjective expectation and cruel reality'.

McKee provides an example of how a business story could be constructed for an imaginary start-up chemical company that has discovered a new chemical compound that can prevent heart attacks. The CEO has prepared a pitch to potential investors, and McKee suggests that instead of presenting a lot of slides summarising the main points of a business plan, the CEO could turn the pitch into a story along the following lines:

> The starting point is that someone close to the CEO, such as his father, has died of a heart attack. In his grief the CEO had wished that there was a chemical indication of heart disease that could have prevented his father's death. The CEO's company has discovered

a protein that is present in the blood immediately before a heart attack. His company has developed an easy-to-administer and inexpensive test to detect this protein. The CEO's story then moves on to introduce an obstacle that arose in getting the test approved by the US Food and Drug Administration. The first application was rejected but, in the meantime, further research revealed that the test was even better than previously thought. The second application has now been approved but the company needs additional funding in a fight-to-the-finish patent race. At this stage, McKee contends that the audience would be aware that the story might not have a happy ending, leaving them on the edge of their seats. Then comes the punchline: the CEO reveals that his company has won the race. 'The patent has been approved. We're ready to go public and save a quarter-million lives each year.'

McKee concludes that the investors would now be ready to throw money into the new venture.

1. Can you do a presentation without PowerPoint slides? Explain why or why not.
2. What makes a presentation boring?
3. As a marketer for XYZ, an Australian-based chain of restaurants, you are always on the lookout for new opportunities for the brand. On a recent trip to Indonesia you discovered the market in that country has huge potential for your style of restaurants to succeed. Create a compelling story to present to the CEO of XYZ to convince her to expand into Indonesia.

STRATEGIC MARKETING PROJECT

After reading Chapter 13, reconsider the way you have prepared and communicated your strategic marketing plan. What could be done to improve the effectiveness of your plan?

ETHICAL ISSUE

An information technology executive who recently joined your company has told you that he has some information about his former employer's marketing strategies that might be of interest to you. His former employer is a direct competitor to your company. How should you respond?

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ENDNOTES

1 G. Shaw, R. Brown and P. Bromiley, 'Strategic stories: How 3M is rewriting business planning', *Harvard Business Review*, May–June 1998, pp. 41–50.

2 Adapted from the vignette 'Building a story that works', in Shaw, Brown and Bromiley, 'Strategic stories: How 3M is rewriting business planning', p. 46.

3 As stated in R. Dye and O. Sibony, 'How to improve strategic planning', *McKinsey Quarterly*, August 2007, pp. 40–41. The survey, conducted in late July and early August 2006, was based on 796 responses received from a panel of executives from around the world who had mostly financial or strategic responsibility for their organisations.

4 See, for example, the following two articles: 'Writing a business plan: The basics', *Harvard Business School Press*, Boston, 2006, pp. 1–40; and S.R. Rich and D.E. Gumpert, 'How to write a winning business plan', *Harvard Business Review*, May–June 1985, pp. 156–166. A Google search using the keywords 'How to write a business plan' will yield millions of organisations and individuals providing either free or paid business planning formats and templates.

5 J. Clayton, 'How to make a picture worth a thousand words', Harvard Management Communication Letter, 2002 [Reprint No. C0210B].

6 G. Shaw, R. Brown and P. Bromiley, 'Strategic stories: How 3M is rewriting business planning', *Harvard Business Review*, May–June 1998, p. 47.

7 Ibid, p. 47.

8 A R. Shark, 'Orchestrating a strategic marketing plan', *Association Management*, vol. 46, no. 11, 1994, pp. 46–51.

9 F. Bronwyn, 'Storytelling that moves people: A conversation with screenwriting coach Robert McKee', *Harvard Business Review*, June 2003, pp. 51–55.

GLOSSARY

Activity-based costing (ABC)
An accounting method that focuses on costing products, projects and other organisational activities as the key elements for analysing the cost behaviour in organisations as opposed to traditional cost systems that use only unit level cost drivers (such as direct labour and the number of units produced).

Adaptive control system
A proactive marketing evaluation and control system that compares performance to objectives, which are modified over time to reflect changing environmental conditions. See also 'after-the-fact control system' and 'steering-control system'.

After-the-fact control system
A system that measures marketing performance at the end of a planning period and compares it to expected performance. See also 'adaptive control system' and 'steering-control system'.

Analysis
Breaking the whole into a number of constituent parts in order to investigate their nature, functions and relationships. See also 'diagnosis'.

Augmented product
Post-sale support services and benefits that add value to a product. This includes such factors as customer service, goodwill, guarantees, delivery, credit and installation.

Balanced scorecard (BSC)
A comprehensive framework that translates an organisation's objectives into a coherent set of financial and operating measures. The BSC is used for measuring organisational performance and as a strategic management system.

Big data
The processing of high volume, high velocity data sets to enable enhanced decision-making, insight discovery and process optimisation.

Blue ocean
An uncontested marketspace. The opposite is a red ocean.

Brand
A name, term, sign, symbol or design (or combination of them) that is intended to identify the goods or services of one seller (or group) and to differentiate them from those of its competitors.

Brand community
A group of ardent consumers organised around the lifestyle, activities, and ethos of a brand.

Business ethics
The organisational principles, standards, values and norms that govern the behaviour and actions of an individual in the company when a moral or ethical problem arises in the business environment.

Brand equity
A concept that attempts to attribute the marketplace value of a brand based on its reputation and goodwill. It is the added value that a brand name provides which is manifested in the market by added market share and profit.

Brand identity
The core values of a brand.

Brand image
A set of associations that are organised in such a way that is meaningful for an individual – for example, by associating the brand with a product attribute, product benefit or other characteristics such as perceptions of lifestyle of the user.

Brand leveraging
Launching a new product into a new product category with an existing brand name.

Brand position
The perceived fit between a product or brand and the needs of the target market, relative to competitive product offerings. Brand

position is a closely related concept to brand image except that the frame of reference is the competition.

Brand positioning
The process of attempting to establish a brand position.

Business process reengineering (BPR)
A process where an organisation attempts to reinvent itself, rather than try to merely improve or enhance its processes, with the objective of achieving large gains in productivity and organisational performance.

Cause-related marketing
A mutually beneficial collaboration between a not-for-profit and a corporation designed to promote the former's cause and the latter's sales, which is expected to show a return.

Co-creation
High-quality personalised interactions that enable individual customers to co-create unique experiences with the organisations that they deal with.

Competitive advantage
Superiority over competition based on the value an organisation creates for its customers in a way that its competitors cannot match. A sustainable competitive advantage (SCA) is achieved when the advantage resists erosion from competitors.

Competitive forces concept
Five basic forces that govern competition in an industry. These forces are: threat of new entrants, bargaining power of suppliers, threat of substitute products or services, bargaining power of buyers and jockeying for position among current competitors.

Concentrated marketing strategy
Deploying a marketing mix strategy towards one segment within the total market. This is also referred to as 'focused' or 'niche marketing strategy'.

Conjoint analysis
A research technique showing how individuals make overall judgements about brands or products by considering two or more attributes together. Conjoint analysis provides a basis for market benefit segmentation studies and the development of brand positioning strategies.

Coolhunting
Trend spotting based on observations and predictions in changes of new or existing cultural trends.

Core competence
The collective learning within an organisation especially in relation to technological and production skills that deliver value to the organisation's customers thereby providing it with a competitive advantage.

Corporate social responsibility (CSR)
A broad concept that relates to an organisation's obligation to maximise its positive impact on society while minimising its negative impact.

Core product
The characteristics of a product that satisfy customer needs.

Cost/sacrifice value
The extent to which customers seek to maximise or at least realise the benefits derived from a product while at the same time seeking to minimise the costs and other sacrifices that may be involved (i.e. transaction costs) in the purchase, ownership or use of the product.

Creating shared value (CSV)
Policies and operating practices that enhance the competeveness of an organisation while simultaneously advancing the economic and social conditions in the communities in which it operates.

Critical success factors (CSFs)
Those relatively few factors that are critical for an organisation, in a similar competitive

position to the organisation under review, to have in order to succeed. CSFs are the superior skills and resources that do the most to either lower costs or create superior customer value. They are also referred to as 'key success factors' (KSFs).

Customer lifetime value (CLV)
The value of a customer to the organisation as measured by the net present value derived over his or her lifetime.

Customer engagement
High quality interactions that achieve an ongoing relationship between a customer and an organisation or its brands.

Customer equity
The present value of the anticipated lifetime revenue of all the organisation's current and potential customers less their acquisition and retention costs.

Customer experience
The experience customers have during the purchase and post-processes.

Customer relationship management (CRM)
A marketing tool that harnesses the power of personal computers and databases to provide marketers with the ability to collect and accumulate data about customer-buying patterns, on an individual or one-to-one basis. CRM is alternatively termed 'permission marketing' or 'one-to-one marketing'.

Customer satisfaction
A measure of how products and services supplied by an organisation meet or surpass customer expectations.

Customer value creation mix
The mix of activities and processes conducted by an organisation and its value chain partners in creating, communicating and delivering value for its targeted customers. These activities are conducted at an organisation-wide level including those that would traditionally be regarded as marketing mix activities.

Customer value proposition (CVP)
The promise by an organisation to deliver a set of product attributes and benefits that matter most to its targeted customers.

Database marketing
The collection and electronic storage of information about past, present and future customers. This information is used to profile and target customers with marketing programs.

Delphi model
A research technique that can be used for sales forecasting. Experts on an individual basis are required to submit a sales forecast and their rationale for their forecasts to the researcher. These forecasts are then pooled and sent to each expert who is then required to submit a second forecast. The process is continued until a consensus is achieved – usually after three or four rounds.

Diagnosis
Assessment of the significance of analytical information for strategic marketing planning purposes in the form of opportunities and threats facing the planning unit and for assessment of internal capabilities in the form of strengths and weaknesses. See also 'analysis'.

Differentiated marketing strategy
Deploying a customised marketing mix strategy for a number of individual market segments. This is also referred to as 'multi-segment marketing strategy'.

Disruptive innovation
A process by which a product or service take root initially in simple applications at the bottom of a market to eventually move upmarket and to displace the existing competitors.

Distinctive competence
A set of activities that an organisation does particularly well relative to its competitors. That is, the internal strengths that provide value to the organisation's customers.

Distribution channel length
The variety of different types of intermediaries used by an organisation to 'go to market' such as the use of agents, wholesalers and retailers as opposed to going directly to market such as via direct marketing.

Distribution intensity
Distribution coverage ranging from narrow coverage (exclusive or selective distribution) to broad or widespread coverage (intensive distribution).

DuPont ratio analysis
A model for assessing current and past financial performance and for forecasting an organisation's future value.

Dynamic capabilities
The capability of an organisation to purposefully adapt an organisation's resource base to address rapidly changing environments.

Economic moat
The competitive advantage an organisation holds over its competitors that will allow it to protect its long-term profit and market share from competitors.

Electronic data interchange (EDI)
The linking of an organisation with its suppliers by computer.

Event marketing
Tying a brand to a meaningful sporting, cultural, entertainment, social or other event such as a convention or conference.

Evidence-based management
Decisions informed by the best available scientific information.

Exchange theory
A perspective based on the belief that life is a series of exchanges involving rewards and costs. In market (or economic) exchange, people exchange money, goods or services hoping to either profit or at least break even. In social exchange the items of exchange include social and psychological factors.

Exclusive distribution
Distributing products via one intermediary at a particular level in each market.

Experience curve
A concept that costs decrease as experience increases. Based on this notion it is assumed that a market share leader would have a cost advantage over its smaller competitors.

Experiential/hedonistic value
The extent to which a product creates appropriate customer emotions (both positive such as pleasure, enjoyment and fun, and negative such as fear or problem avoidance), feelings, experiences and sensory (such as smell or taste or in a service context aesthetics or ambience), and epistemic value (the desire to seek knowledge).

External environment
Factors that are external to the organisation that influence its operation.

Fast-moving consumer goods (FMCG)
Goods typically distributed through supermarkets that are frequently purchased and have a relatively short shelf life. An alternative term, used in North America, is 'frequently purchased package goods'.

First-mover advantage
The notion that the first entrant to a new market has the potential to achieve a long-term competitor advantage.

Five Cs (5Cs)
A framework that underpins marketing decision-making consisting of analysis of customers' needs, company skills, competitors, collaborators and context.

Five-forces model
Developed by Michael Porter to analyse industry attractiveness based on consideration of five basic competitive forces – rivalry

among existing organisations, bargaining power of buyers, threat of new entrants, bargaining power of suppliers and threat of substitute products or services.

Frequency

The number of times a target audience is exposed to an advertising message.

Functional/instrumental value

The extent to which a product has the desired characteristics (correct, accurate or appropriate features, functions, attributes including aesthetics, quality, customisation and creativity), usefulness (benefits) and performance capabilities (such as reliability, performance quality and service support).

Generic strategies

A term popularised by Michael Porter to describe four strategic alternatives for achieving a sustainable competitive advantage – broadly targeted strategies based on either cost leadership or differentiation and narrowly targeted strategies based on either a cost focus or a differentiation focus.

Incremental innovation

Incremental changes made to existing products and services including product line extensions or modifications for existing products in existing markets. Also known as sustaining innovation.

Intelligent opportunism

The development of emergent strategies that arise over time and are generated both within and outside of formal strategic planning processes by individuals throughout the organisation, its value chain partners and a variety of other sources.

Integrated marketing communication (IMC)

The synergetic use of the various marketing communication tools to provide clarity, consistency and maximum marketing communication impact.

Intensive distribution

Distributing products through all or most potential resellers.

Internet

A network of interconnected computers that carry data to facilitate information exchange. The internet and email are subsets of the World Wide Web service.

Just-in-time (JIT)

Based on the Japanese concept of Kanban, JIT is a system that fully integrates the production and sales processes and ordering and delivery timelines so that goods are delivered when they are to be used.

Key success factors

An alternative term to critical success factors. Those relatively few factors that are critical for an organisation, in a similar competitive position to the organisation under review, to have in order to succeed. CSFs are the superior skills and resources that do the most to either lower costs or create superior customer value.

Lagging indicators

Performance measurements of past events.

Leading indicators

Metrics that signal future performance; that is, antecedents of future marketing performance.

Macromarketing

The study of marketing systems and institutions and the impact they have on society, as well as the impact that society has on marketing systems and institutions.

Macro environment

An alternative term to 'remote environment' referring to the external influences that impact on society as a whole, the organisation and the industry it competes in, especially the impact on the organisation's customers and competitors.

Market-driven

A synonymous term to describe market-oriented organisations.

Market orientation
A business philosophy that emphasises an organisation-wide commitment to creating and maintaining superior customer value by being customer focused and competitor oriented. That is, the implementation of the marketing concept.

Market pioneer
The first entrant into a new market.

Market segmentation
A process of partitioning a market into groups (or segments) of potential or existing customers who have similar characteristics and similar needs. Because of this they are likely to exhibit similar purchase behaviour.

Marketing concept
A term coined by Peter Drucker in the 1950s to describe a managerial philosophy that calls for managers to focus on their customers rather than on the products that they sell. It emphasises a long-term strategic orientation based on customer satisfaction rather than current sales volume.

Marketing ethics
Principles and standards that define acceptable marketing conduct as determined by the public, government regulators, private interest groups, competitors and the organisation itself.

Marketing myopia
A term popularised by Theodore Levitt in 1960 to describe the short-sighted view of defining a business in terms of what it makes or what it sells – instead of in terms of satisfying the wants and needs of its customers.

Marketplace
Where buyers (potential and actual customers) and sellers (including distributors, retailers and competitors) meet to exchange goods or services. The marketplace can be either a physical or virtual (electronic) setting. See also 'marketspace'.

Mass customisation
The provision of custom-tailored products and services.

Micromarketing
A strategy of targeting individual customers with individualised and customised marketing. It is also described as 'one-to-one marketing'.

Near environment
The external influences that directly impact on an industry, including demand characteristics and industry structure (market, competitor, distribution, customer and supplier structure). Also known as 'industry environment'.

Neuromarketing
The use of brain measuring technology to analyse an individual's sensorimotor, cognitive and affective responses to marketing stimuli.

Organisational culture
The shared meanings and understandings held by a group, or groups, of members in an organisation that guides the way they view their organisational world(s) and the way they act in that (those) world(s).

Penetration pricing strategy
Entering a market at a relatively low price with the aim of capturing a high market share. It is also referred to as a 'market share strategy'.

Perceptual map
A multidimensional scaling method graphically showing a brand or product's position in relation to those of its competitors on selected product traits.

Positioning statement
A one- to three-sentence statement of how a brand, product or company is to be communicated to its intended audience. Also referred to as a creative platform.

Predictive analytics
A variety of statistical techniques used to analyse current and historical data to make predictions about the future.

Product category
A grouping of products that serve similar functional needs.

Product life cycle (PLC)
A concept stipulating that products have a life and progress through several life cycle phases. The phases are introduction, growth, competitive turbulence, maturity and decline. This is reflected in the sales curve for a market, a product category or a brand. Changes are required in marketing strategies to meet changing consumer demand and competitive conditions at each phase. A product's position on the life cycle directly influences its positioning and marketing mix strategies.

Product line
A line of product offerings or brands within a product category.

Product-line extension
Introducing a new product or brand to an existing product line.

Product-line pruning
Deleting a product or brand from a product line.

Product mix
The mix of product lines marketed by an organisation.

Product portfolio models
A technique providing a framework, typically in the form of a matrix, displaying an organisation's operations as a portfolio of businesses, product lines, products or brands. These models are used as diagnostic aids and prescriptive guides for strategy development and resource allocation. Two of the most well-known portfolio models are the BCG growth/share matrix and the GE/McKinsey market attractiveness/business assessment matrix.

Production-oriented
Organisations that focus on what they make rather than on satisfying their customer needs.

Prognosis
The process of determining what is likely to happen; a forecast or a scenario including the implications for the organisation in terms of opportunities and threats.

Quick response (QR)
Technology that combines a JIT system with high-speed communication technology (product bar coding, point-of-sale scanning and electronic data interchange, and online computer linkage between the buying and selling organisations) to maximise ordering and delivery efficiency. See also 'just-in-time (JIT)'.

Radical innovation
The creation of a new product, product line, process, system or business model that is significantly different from the business unit's current product offerings but within the scope of its business mission. Radical innovation includes the development of new-to-the-world products and new-to-the organisation products.

Real-time experience tracking (RET)
A mobile-phone-based research technique that captures customers experiences with a brand as and when they occur.

Red ocean
The known market space representing all the industries in existence today. The opposite to a blue ocean.

Relationship marketing
An emphasis on developing and maintaining long-term relationships with a few rather than many suppliers. Both parties work towards a more cooperative long-term relationship with the aim of achieving mutual profitability and other objectives. It is alternatively termed 'one-to-one marketing'.

Remote environment
An alternative term to 'macro environment' referring to the external influences that impact on society as a whole, the organisation and the industry it competes in, especially the

impact on the organisation's customers and competitors.

Repositioning strategy
An attempt to change existing perceptions and beliefs about a brand.

Resource-based view (RBV)
A model based on the view that organisations that have superior systems and structures can achieve lower cost structures than their competitors thereby achieving a competitive advantage.

Rule of three and four
A concept that a stable and competitive environment never has more than three significant competitors with market share ratios of 4:2:1.

Segmentation, targeting and positioning (STP)
The emphasis at the strategic business unit level of strategy in defining how the organisation is to compete in its chosen markets.

Selective distribution
Distributing products via a relatively small number of selected intermediaries.

Service-dominant logic (SDL)
The view that service provision rather than goods is fundamental to economic exchange. Marketing is viewed as a facilitator of ongoing processes of voluntary exchange through collaborative, value-creating relationships among individuals and organisational actors.

Servicescape
The physical setting (including the layout, decor, ambience, background noise and music) of the service encounter, including other tangible cues such as the appearance of staff and the quality of promotional materials and stationery.

Skimming pricing strategy
Entering a market at a relatively high price with the aim of 'skimming the cream off the market' by targeting the most price insensitive segments.

Stealth marketing
An umbrella term coined in the mid-1990s to describe a range of marketing techniques that attempt to create a buzz or a sense of excitement about a new product in a subtle way so that it is not immediately obvious that it is a marketing promotion.

Steering-control system
A reactive marketing performance system that provides for the detection of problems and for the implementation of corrective action during the planning period under review rather than at the end of the period. It therefore facilitates corrective action to be taken before performance wanders too far off-track. See also 'after-the-fact control system' and 'adaptive control system'.

Strategic alliances
Forms of organisation that evolved during the 1980s. Strategic alliances are formed between organisations and their suppliers and resellers (customers), and with specialist manufacturers/providers of goods or services or in some cases alliances between competitors. The characteristics of strategic alliances are shared objectives and a commitment of resources by both parties.

Strategic business unit (SBU)
A free-standing business within a larger organisation that has a unique business mission, a clearly definable set of competitors, and is large enough to justify senior management attention but small enough to serve as a useful focus for resource allocation.

Strategic conflict approach
Instead of accepting market-defined rules of the game (as in the competitive forces approach), a competitor should seek to rewrite the rules based on its own particular strengths.

Strategic gap analysis

A tool for analysing strategic options for closing a revenue (or a profitability) shortfall between objectives and expected performance via a continuation of current marketing strategies over the next few years.

Strategic intent

A long-term vision (10–20 years) of what an organisation wants to be.

Strategic positioning

Strategies developed by an organisation to achieve a sustainable competitive advantage. Strategic positioning is all about being different and performing activities at an organisation-wide level to create, communicate and deliver customer value.

Supply chain management

A technique for linking a manufacturer's operations to those of its suppliers, its key intermediaries and its end-user customers with the aim of enhancing efficiency and effectiveness.

SWOT

An acronym standing for 'strengths, weaknesses, opportunities and threats'. It is used for analysing an organisation's internal capabilities and the external environment in which it competes.

Symbolic/expressive value

The extent to which customers attach or associate psychological meanings to a product. These associations are based on the individual's concept of self or self-worth (reflection of the way one feels about his/herself), self-expression (reflection of one's personality, taste or values), social meaning (reflection of prestige, status or image) and conditional meaning (symbolism relating to a specific sociocultural event or tradition, such as giving a birthday present).

Top-down planning

An approach to planning whereby decisions are made from the top and passed down the line. Also referred to as goals-down-plans-up planning.

Total quality management (TQM)

A management philosophy that extends statistical methodologies of measuring and controlling production quality to provide a company-wide awareness and focus on all quality issues from supply to production to marketing, selling and distribution of goods and services. It emphasises teamwork and the imperative of satisfying customer needs and establishing excellent supplier relationships.

Touchpoint

A point of direct customer contact or interaction either with the organisation's product or service itself or with representations of it by the organisation, its value chain partners or some other third party.

Undifferentiated marketing

A strategy, also known as 'mass marketing', where one marketing mix strategy is deployed to service an entire market.

Unique selling proposition (USP)

An advertising claim based on a unique product attribute that represents a meaningful and distinctive customer benefit.

Value-based planning models

Techniques designed to forecast the economic value to an organisation that a specific strategy or operating program will yield. Methods include shareholder value analysis (SVA), market value added (MVA) and economic value added (EVA).

Value chain

A model that disaggregates an organisation into strategically relevant activities to determine the behaviour of costs and existing and potential sources of differentiation.

Value proposition

The value an organisation provides for its customers in the exchange process that is meaningful and different from that of competitive offerings.

Vision statement

A view of a realistic, credible and attractive future for an organisation.

Voice-of-customer (VOC)

A term typically used to describe various market research techniques that provide a voice for the customer in the new-product development process.