

MKTG
Principles Of Marketing
Twelfth Edition



Chapter 2
Strategic Planning
For Competitive
Advantage

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Learning Outcomes (1 of 2)

- 2-1 Understand the importance of strategic planning
- 2-2 Define strategic business units (SBUs)
- 2-3 Identify strategic alternatives and know a basic outline for a marketing plan
- 2-4 Develop an appropriate business mission statement
- 2-5 Describe the components of a situation analysis
- 2-6 Identify sources of competitive advantage
- 2-7 Explain the criteria for stating good marketing objectives
- 2-8 Discuss target market strategies
- 2-9 Describe the elements of the marketing mix

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Learning Outcomes (2 of 2)

- 2-10 Explain why implementation, evaluation, and control of the marketing plan are necessary
- 2-11 Identify several techniques that help make strategic planning effective

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Learning Objective 1: The Nature of Strategic Planning

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Strategic Planning

- Creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities
- Addresses two questions:
 - What is the organization's main activity at a particular time?
 - How will it reach its goals?



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Learning Objective 2: Strategic Business Units



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Characteristics of Strategic Business Units (SBUs)

- Distinct mission and specific target market
- Control over its resources
- Its own competitors
- A single business or a collection of related businesses
- Plans independent of other SBUs in the total organization



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Learning Objective 3: Strategic Alternatives



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Ansoff's Strategic Opportunity Matrix

- A method for developing alternatives is Ansoff's strategic opportunity matrix, which matches products with markets
 - Market penetration:** Increase market share among existing customers
 - Market development:** Attract new customers to existing products
 - Product development:** A strategy entailing the creation of new products for present markets
 - Diversification:** A strategy of increasing sales by introducing new products into new markets



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Exhibit 2.1 Ansoff's Opportunity Matrix

	Present Product	New Product
Present Market	<i>Market Penetration</i> Starbucks sells more coffee to customers who register their reloadable Starbucks cards.	<i>Product Development</i> Starbucks develops powdered instant coffee called Via.
New Market	<i>Market Development</i> Starbucks opens stores in Brazil and Chile.	<i>Diversification</i> Starbucks launches Hear Music and buys Ethos Water.



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The Innovation Matrix (1 of 2)

- Critics of Ansoff's matrix mention that the matrix does not reflect the reality of how businesses grow—that modern businesses plan growth in a more fluid manner based on current capabilities rather than the clear-cut sectors outlined by the opportunity matrix.
- Core Innovation:** These decisions implement changes that use existing assets to provide added convenience to existing customers and potentially entice customers from other brands. Packaging changes, such as Tide's laundry detergent pods, fall into this category.



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The Innovation Matrix (2 of 2)

- Adjacent Innovation:** These decisions are designed to take company strengths into new markets. This space uses existing abilities in new ways. For example, Botox, the popular cosmetic drug, was originally developed to treat intestinal problems and to treat crossed eyes. Leveraging the drug into cosmetic medicine has dramatically increased the market for Botox.
- Transformational Innovation:** These decisions result in brand-new markets, products, and often new businesses. The company must rely on new, unfamiliar assets to develop the type of breakthrough decisions that fall in this category.



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Exhibit 2.2 Innovation Matrix

Based on Balaji Nagaj and Geoff Tuff, "A Simple Tool You Need to Manage Innovation," *Harvard Business Review*, May 2012 <https://hbr.org/2012/05/managing-your-innovation-portfolio/ar1> (accessed June 1, 2012).

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The Boston Consulting Group Model (1 of 2)

- The **portfolio matrix** classifies each SBU by its present or forecast growth and market share.
- The measure of market share used in the portfolio approach is *relative market share*, the ratio between the company's share and the share of the largest competitor.
- The portfolio matrix breaks SBUs into four categories:
 - Stars:** A **star** is a fast-growing market leader.
 - Cash cows:** A **cash cow** is an SBU that generates more cash than it needs to maintain its market share.

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The Boston Consulting Group Model (2 of 2)

- Problem children:** A **problem child**, also called a **question mark**, shows rapid growth but poor profit margins.
- Dogs:** A **dog** has low growth potential and a small market share.

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Exhibit 2.3 Portfolio Matrix for a Large Computer Manufacturer

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Strategies Used to Allocate Future Resources

- After classifying the SBUs, a company must determine how to allocate resources to each SBU.
- Build: If an SBU has the potential to be a star, building would be an appropriate goal.
- Hold: If an SBU is a successful cash cow, a key goal would be to hold or preserve market share.
- Harvest: This is an appropriate strategy for all SBUs except stars. The basic goal is to increase short-term cash return without much concern for the long-run impact.
- Divest: Getting rid of SBUs with low shares of low-growth markets is often appropriate. Problem children and dogs are suitable for this strategy.



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Exhibit 2.4 General Electric Model

		Market Attractiveness		
		High	Medium	Low
Business Position	High	CAUTIOUSLY INVEST	INVEST/GROW	INVEST/GROW
	Medium	HARVEST/DIVEST	CAUTIOUSLY INVEST	INVEST/GROW
	Low	HARVEST/DIVEST	HARVEST/DIVEST	CAUTIOUSLY INVEST



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Marketing Plan

- Planning**
 - Process of anticipating future events and determining strategies to achieve organizational objectives in the future*
- Marketing planning**
 - Designing activities relating to marketing objectives and the changing marketing environment*
- Marketing plan**
 - Written document that acts as a guidebook of marketing activities for the marketing manager*



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Objectives of a Marketing Plan

- To provide clearly stated activities that help employees and managers understand and work toward common goals
- To allow the examination of the marketing environment in conjunction with the inner workings of the businesses
- To help marketing managers enter the marketplace with an awareness of problems and opportunities



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Exhibit 2.5 Elements of a Marketing Plan



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Learning Objective 4: Defining the Business Mission

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Mission Statement

- Statement of a firm's business based on the analysis of:
 - Benefits sought by present and potential customers
 - Existing and anticipated environmental conditions
- Suffers from marketing myopia if stated narrowly
 - Marketing myopia:** Defining a business in terms of goods and services rather than the benefits customers seek

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Learning Objective 5: Conducting a Situational Analysis

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SWOT Analysis

- Situational analysis by which firms should:
 - Identify their internal strengths and weaknesses
 - Done by focusing on organizational resources
 - Examine their external opportunities and threats
 - Done via **environmental scanning**, which involves analyzing aspects of the marketing environment



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Learning Objective 6: Competitive Advantage



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Competitive Advantage

- Factor or factors that cause customers to patronize a firm and not the competition
- Types:
 - Cost
 - Product/service differentiation
 - Niche



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Cost Competitive Advantage (1 of 2)

- Being the low-cost competitor in an industry while maintaining satisfactory profit margins
- Sources of cost reduction:
 - Experience curves, efficient labor, no-frills products, government subsidies, product design, reengineering, production, innovations, and new methods of service delivery
 - Efficient labor: Labor costs can be an important component of total costs in low-skill, labor-intensive industries.
 - No-frills products: Removing frills and options from a product or service can reduce costs.
 - Government subsidies : Governments may provide grants and interest-free loans to target industries



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Cost Competitive Advantage (2 of 2)

- Product design: Cutting-edge design and reverse engineering can offset costs.
- Reengineering: Fundamental rethinking and redesign of business processes help achieve dramatic improvements in critical measures of performance.
- Product innovations: New technology and simplified production techniques can reduce the average production costs.
- New methods of service delivery: Medical expenses have been lowered by the use of outpatient surgery and walk-in clinics. Online-only magazines can help save on material and shipping costs



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Product/Service Differentiation Competitive Advantage

- Provision of something unique and valuable to buyers beyond simply offering a lower price than competitors
 - Brand names
 - Strong dealer network
 - Product reliability
 - Image
 - Service



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Niche Competitive Advantage

- Seeks to target and effectively serve a single segment of the market
- Used by small companies with limited resources
- May be used in a limited geographic market
- Effective for market segments with good growth potential but is not crucial to success of competitors



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Building Sustainable Competitive Advantage

- Advantage that cannot be copied by the competition
- Notion is that a successful firm will stake out a position unique in some manner from its rivals
- Sources: Skills and assets of an organization
 - Patents, copyrights, locations, equipment, technology, customer service, and promotion



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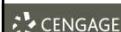
Learning Objective 7: Setting Marketing Plan Objectives



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Marketing Objective

- Statement of what is to be accomplished through marketing activities
- Should be:
 - Realistic: Managers should develop objectives that have a chance of being met.
 - Measurable: Managers need to be able to quantitatively measure whether or not an objective has been met.
 - Time specific: By what time should the objective be met?
 - Compared to a benchmark: The objective is to increase sales by 15 percent; it is important to know the baseline against which the objective will be measured.



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Effective Marketing Objectives

- Communicate marketing management philosophy
- Provide directions for lower-level marketing managers to integrate and point marketing efforts in a consistent direction
- Motivate employees
- Force executives to clarify their thinking
- Form a basis for control



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Learning Objective 8: Describing the Target Market



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Target Market Strategy (1 of 2)

- **Marketing strategy:** Produces mutually satisfying exchanges with target markets
 - By selecting and describing one or more target markets and developing and maintaining a marketing mix
- Segments based on groups with similar characteristics through **market opportunity analysis**
- Selects one or more target markets



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Target Market Strategy (2 of 2)

- Appeal to the entire market with one marketing mix
- Concentrate on one marketing segment
- Appeal to multiple market segments with multiple marketing mixes



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Learning Objective 9: The Marketing Mix



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The Marketing Mix

- Unique blend of product, place (distribution), promotion, and pricing strategies
 - Designed to produce mutually satisfying exchanges with a target market
- Elements are often referred to as the four Ps



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Marketing Mix: The “Four Ps” (1 of 4)

- **Product:**
 - The product is the starting point of the marketing mix. It is difficult to decide on a promotion campaign, determine a price, or design a distribution strategy until the product offering and product strategy are defined.
 - The product is not only the physical unit but also its package, warranty, after-sale service, brand name, company image, value, and other factors.
 - Product involves tangible goods, ideas, or services



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Marketing Mix: The “Four Ps” (2 of 4)

- **Place involves:**
 - Physical distribution that includes storage and transportation
 - Making product available where and when customers want them
 - Ensuring that products arrive in usable condition at designated places when needed



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Marketing Mix: The “Four Ps” (3 of 4)

- **Promotion:**
 - Includes advertising, public relations, sales promotion, and personal selling
 - Brings about mutually satisfying exchanges by informing, educating, persuading, and reminding buyers about the product
 - Each element of the promotion mix is coordinated with the others to create a promotional blend.
 - A good promotion strategy can increase sales.
- **Price:**
 - What a buyer must give up to obtain a product
 - Most flexible of the “four Ps”



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Marketing Mix: The “Four Ps” (4 of 4)

- Price is an important competitive weapon. Of the four Ps, it can be changed most quickly.
- Price multiplied by the number of units sold equals total revenue for the firm.



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Learning Objective 10: Following up on the Marketing Plan



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Steps Involved in Following up on the Marketing Plan (1 of 3)

- **Implementation:**

- Turns a marketing plan into action assignments
- Ensures these assignments are executed in a way that accomplishes the plan's objectives

- **Evaluation and Control:**

- Gauges the extent to which the marketing objectives have been achieved during the specified time period
- Provides the mechanisms for:
 - Evaluating marketing results in light of the plan's objectives
 - Correcting actions that do not help the organization reach those objectives within budget guidelines



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Steps Involved in Following up on the Marketing Plan (2 of 3)

- Exerted through **marketing audit**:

- Helps management allocate marketing resources efficiently



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Steps Involved in Following up on the Marketing Plan (3 of 3)

Post-Audit Tasks:

- To profile and make recommendations about weaknesses and inhibiting factors as well as strengths and new opportunities
- To ensure that the role of the audit has been clearly communicated
- To make someone accountable for implementing recommendations



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Learning Objective 11: Effective Strategic Planning



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Effective Strategic Planning

- Effective strategic planning requires continual attention, creativity, and management commitment.
- Strategic planning should not be an annual exercise in which managers go through the motions and forget about strategic planning until the next year.
- It should be an ongoing process because the environment is continually changing and the firm's resources and capabilities are continually evolving.
- Sound strategic planning is based on creativity. Managers should challenge assumptions about the firm and the environment and establish new strategies.
- Perhaps the most critical element in successful strategic planning is top management's support and participation.



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Techniques for Effective Strategic Planning

- Continual attention
- Creativity
- Management commitment



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Key Terms (1 of 4)

- Strategic planning
- Strategic business unit (SBU)
- Market penetration
- Market development
- Product development
- Diversification
- Portfolio matrix
- Star
- Cash cow
- Problem child (question mark)



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Key Terms (2 of 4)

- Dog
- Planning
- Marketing planning
- Marketing plan
- Mission statement
- Marketing myopia
- SWOT analysis
- Environmental scanning
- Competitive advantage
- Cost competitive advantage



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Key Terms (3 of 4)

- Experience curves
- Product/service differentiation competitive advantage
- Niche competitive advantage
- Sustainable competitive advantage
- Marketing objective
- Marketing strategy
- Market opportunity analysis (MOA)
- Marketing mix (four Ps)



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Key Terms (4 of 4)

- Implementation
- Evaluation
- Control
- Marketing audit



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