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Chapter 2
COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS

MARKETING STARTER: CHAPTER 2
Nike's Customer-Driven Marketing: Building Brand Engagement and Community

Synopsis

Nike began making running shoes in the 1960s and quickly expanded into numerous products for other sports and outdoor activities. From the beginning, Nike marketed aggressively through sports stars' endorsements, mega-events, and its "Just Do It" ads. It marketed a way of life, and an attitude, not simply athletic products. It also was perceived as antiestablishment, until it became the establishment and no longer cool.

Nike refocused and set about to create deeper and stronger customer relationships with the brand. The company did this by communicating with customers, rather than talking at them. It revolutionized sports marketing in its early days. It revolutionized customer-driven marketing and social networking. It has even moved into apps and mobile technologies as part of its products. It is showing the way to other companies about how to build deep customer relationships and how to truly connect with customers in meaningful ways.

Discussion Objective

A brief discussion of the Nike story will help to solidify the importance of creating a companywide marketing strategy that is customer-focused, and revamping it when necessary. This theme began in Chapter 1 and continues in Chapter 2. It also provides a nice opportunity to examine overall company strategy and mission, and their relationship to marketing strategy and activities. Finally, Nike provides a great example of how companies are taking new directions in building customer relationships and brand community. Nike has always focused on the brand experience. In the early years, it built the brand's image through media advertising and celebrity endorsements. Now, it focuses a sizable portion of its marketing efforts on creating more personal and involving brand experiences.

Starting the Discussion

To make the chapter-opening Nike story more personally relevant to the class, begin by asking, "How many of you wear Nike shoes or gear? Has Nike changed its offerings in the time you have been buying its products? In what way?" After a brief opening discussion, go online with students to explore Nike's website (http://www.nike.com).

Direct the discussion using the following questions. As always, keep the discussion moving with plenty of student input.

Discussion Questions

1. What is Nike really selling? What are customers really buying? How and how deeply do customers relate to the Nike brand? (Nike sells a lot more than just shoes. When customers purchase something at Nike, they are buying much more. They are buying a brand experience. Ask students what that brand experience feels like to them.)
2. If you worked as a Nike operations manager, financial analyst, IT specialist, or human resources manager, why would it be important for you to understand Nike's marketing strategy? This question digs into the relationship between corporate strategy and marketing strategy, and marketing's role in broader company strategy. Non-marketing students often ask, "Why do I need to understand marketing"? The

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answer—as noted in Chapter 1 and later in Chapter 2—everyone in the company needs to align behind the mission of creating customer value.

3. How does the chapter-opening Nike story relate to what comes later in the chapter? (This questions transitions the discussion into Chapter 2 topics such as overall company strategy and mission, marketing's role, customer-driven marketing strategy and planning, and measuring marketing ROI.)

CHAPTER OVERVIEW

Use Power Point Slide 2-1 Here

In the first chapter, we explored the marketing process by which companies create value for the consumer in order to capture value in return. In this chapter, we look at designing customer-driven marketing strategies and constructing marketing programs. First we look at the organizations overall strategic planning, which guides marketing strategy and planning. Next, we discuss how marketing partners closely with others inside and outside the firm to create value for customers. We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs. Lastly, we will look at the step of measuring and managing return on marketing investment.

CHAPTER OBJECTIVES

Use Power Point Slide 2-2 and 2-3 Here

1. Explain companywide strategic planning and its four steps.
2. Discuss how to design business portfolios and develop growth strategies.
3. Explain marketing's role under strategic planning and how marketing works with its partners to create and deliver customer value.
4. Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.

CHAPTER OUTLINE

p. 38	**INTRODUCTION** Nike began by making running shoes and quickly expanded into equipment and apparel for other sports and activities. When Nike stumbled, it overcame the struggles by focusing very intently on customers. In the digital age, Nike works to build deep and strong relationships with customers. It engages them by talking with them rather than at them. It builds a Nike community.	p. 38 Photo: Nike

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	Even during the Great Recession, Nike managed to continue growing and gaining market share, while competitors struggled. This seems to confirm the wisdom of Nike's marketing strategy.	
	➢ **Assignments, Resources** Use *Small Group Assignment 1* here Use *Individual Assignment 1* here	
	➢ **Opening Vignette Questions** 1. Discuss Nike's marketing strategy in terms of delivering increased customer value. What is inherently better about the current Nike marketing from the customer's point of view? 2. For a while, Nike lost its "cool" factor. Based on your experience and perception, has it gotten it back? Why or why not? 3. What comes next for Nike in the 21st century? What new marketing strategies might the company develop to remain fresh and relevant?	
p. 40 PPT 2-4	**Explain company-wide strategic planning and its four steps.** **COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE** The hard task of selecting an overall company strategy for long-run survival and growth is called strategic planning.	Learning Objective 1 p. 40 Key Term: Strategic Planning
PPT 2-5	**Strategic planning** is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing market opportunities. Strategic planning sets the stage for the rest of the planning in the firm. Companies typically prepare annual plans, long-range plans, and strategic plans.	
PPT 2-6	At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). It then creates detailed supporting objectives that guide the entire company. Next, headquarters reviews the portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops	p. 41 Figure 2.1: Steps in Strategic Planning

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	detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product, and market levels.	
	➢ **Assignment, Resources** Use *Discussion Question 2-1* here Use *Video Case* here ➢ **Troubleshooting Tip** Most students have had no experience with strategy or strategy formulation (especially at the under-graduate level). Because their background in strategy is weak, their ability to strategically plan is also weak. The best way to attack this problem is to follow the explanation sequence provided by the text. Before this discussion begins, however, it might be useful to find areas where students have had strategic planning experience (such as athletics, student politics, games, video games, chess, computer games, etc.). By asking the students to recall and relate these experiences, parallels can be drawn to business strategies and the plans that result from these strategies (for example, think of all the military and athletic terms that might be used to describe business strategy—i.e., flanker movement for flanker brands).	
p. 40 PPT 2-7	**Defining a Market-Oriented Mission** Many organizations develop formal mission statements. A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization. A market-oriented mission statement defines the business in terms of satisfying basic customer needs. Management should avoid making its mission too narrow or too broad. Missions should be realistic, specific, fit the market environment, based on the company's distinctive competencies, and motivating.	p. 41 Key Term: Mission Statement p. 41 Table 2.1: Product- versus Market-Oriented Business Definitions
	➢ **Assignments, Resources** Use *Critical Thinking Exercise 2-8* here	

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p. 44 PPT 2-8 PPT 2-9 PPT 2-10 p. 44 PPT 2-11 PPT 2-12 p. 45 PPT 2-13	**Setting Company Objectives and Goals** The company's mission needs to be turned into detailed supporting objectives for each level of management. The mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Marketing strategies and programs must be developed to support these marketing objectives. **Review Learning Objective 1:** Explain company-wide strategic planning and its four steps. Discuss how to design business portfolios and develop growth strategies. **Designing the Business Portfolio** A **business portfolio** is the collection of businesses and products that make up the company. The best portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. A strategic business unit (SBU) is a unit of the company which has a separate mission and objectives and that can be planned independently from other company businesses.	p. 44 Ad: Heinz Learning Objective 2 p. 44 Key Term: Business Portfolio
	➢ **Assignments, Resources** Use *Real Marketing 2.1* here Use *Additional Project 1* here Use *Think-Pair-Share 1* here	
p. 45 PPT 2-14 PPT 2-15	**Analyzing the Current Business Portfolio** The major activity in strategic planning is business **portfolio analysis**, whereby management evaluates the products and businesses making up the company. The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. Most standard portfolio-analysis methods evaluate SBUs on two important dimensions—the attractiveness of the SBU's market or industry and the strength of the SBU's position in	p. 45 Key Terms: Portfolio Analysis

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PPT 2-16	that market or industry. ***The Boston Consulting Group Approach.*** The best-known portfolio-planning method was developed by the Boston Consulting Group. This matrix defines four types of SBUs: • Stars: high-growth market, high-share product • Cash cows: low-growth market, high-share product • Question marks: low-share product, high-growth market • Dogs: low-share product, low-growth market Once it has classified its SBUs, the company must determine what role each will play in the future. The company can invest more in the business unit in order to grow its share. It can invest just enough to hold the SBU's share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Or it can divest the SBU by selling it or phasing it out.	p. 45 Key Term: Growth-Share Matrix p. 45 Figure 2.2: The BCG Growth-Share Matrix
	➢ **Assignments, Resources** Use *Discussion Question 2-2* here Use *Small Group Assignment 2* here Use *Individual Assignment 2* here ➢ **Troubleshooting Tip** This simple matrix is the basis for many portfolio analysis techniques. An easy way to cover this material quickly is to assign each of the four parts to four students in advance of class. Next, have them respond to example suggestions (illustrations of the four cells) from their classmates. This will reinforce the material for the entire class.	
p. 46 PPT 2-17	***Problems with Matrix Approaches*** Portfolio-analysis approaches have limitations. • They can be difficult, time-consuming, and costly to implement. • Management may find it difficult to define SBUs and measure market share and growth. • These approaches focus on classifying current businesses but provide little advice for future planning. Because of such problems, many companies have dropped formal matrix methods in favor of more customized	p. 46 Photo: Disney

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	approaches that are better suited to their specific situations.	
p. 47 PPT 2-18	**Developing Strategies for Growth and Downsizing** Designing the business portfolio involves finding businesses and products the company should consider in the future. Marketing has the main responsibility for achieving profitable growth for the company. Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them. The product/market expansion grid looks for new opportunities. The **product/market expansion grid** is shown in Figure 2.3.	p. 47 Photo: Starbucks p. 47 Figure 2.3: The Product/Market Expansion Grid
PPT 2-19 PPT 2-20	• **Market penetration** involves making more sales to current customers without changing its products. • **Market development** involves identifying and developing new markets for its current products. • **Product development** is offering modified or new products to current markets. • **Diversification** is where a company starts up or buys businesses outside of its current products and markets.	pp. 47 Key Terms: Product/Market Expansion Grid, Market Penetration, Market Development, Product Development p. 48 Photo: Starbucks
PPT 2-21 PPT 2-22	Companies must also develop strategies for downsizing their businesses. **Review Learning Objective 2:** Discuss how to design business portfolios and develop growth strategies.	
	➢ **Assignments, Resources** Use *Critical Thinking Exercises 2-6* and *2-7* here Use *Online, Mobile, and Social Media Marketing* here Use *Marketing Ethics* here ➢ **Troubleshooting Tip** Many students will have an incomplete understanding of the growth strategies shown in the *product/market expansion grid.* Though these areas are carefully described in the text, it is useful to make sure that students understand the mix of alternatives available to the strategist. One way to do this is to pick another example besides the Starbucks	

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	coffee example used in the text and have the students suggest acceptable alternatives. Remind students to think about how the example companies have expanded or contracted in recent years. Lastly, make students practice using the terms from the expansion grid in their discussions so a proper business strategy vocabulary will be built. This practice will really help the students when an exam rolls around.	
p. 48 PPT 2-23	**Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.** **PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS** Within each business unit, more detailed planning takes place. The major functional departments in each unit must work together to accomplish strategic objectives. Marketing provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important customer groups. Marketing provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Marketing designs strategies for reaching the unit's objectives.	Learning Objective 3 p. 48 Key Term: Value Chain
p. 48 PPT 2-24	**Partnering with Other Company Departments** Each company department can be thought of as a link in the company's value chain. A **value chain** is the series of departments that carry out value-creating activities to design, produce, market, deliver, and support the firm's products. A company's value chain is only as strong as its weakest link.	p. 49 Ad: True Value
PPT 2-25	Success depends on how well each department performs its work of adding customer value and on how well the	

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	activities of various departments are coordinated. In practice, departmental relations are full of conflicts and misunderstandings.	
p. 49 PPT 2-26	**Partnering with Others in the Marketing System** The firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and ultimately, customers. More companies today are partnering with other members of the supply chain to improve the performance of the customer **value delivery network**. Increasingly, today's competition no longer takes place between individual competitors. Rather, it takes place between the entire value-delivery networks created by these competitors.	p. 50 Key Term: Value Delivery Network
PPT 2-27	**Review Learning Objective 3:** Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.	
p. 50 PPT 2-28	**Describe the elements of a customer value-driven marketing strategy and mix, and the forces that influence it.**	Learning Objective 4
PPT 2-29 p. 50 PPT 2-30	**MARKETING STRATEGY AND THE MARKETING MIX** Marketing's role and activities are show in Figure 2.4; it summarizes the major activities involved in managing marketing strategy and the marketing mix. **Marketing strategy** is the marketing logic by which the company hopes to achieve these profitable relationships.	p. 50 Figure 2.4: Managing Marketing Strategies and the Marketing Mix p. 50 Key Term: Marketing Strategy
PPT 2-31	**Customer-Driven Marketing Strategy** Companies know that they cannot profitably serve all consumers in a given market—at least not all consumers in the same way. **Market Segmentation** The process of dividing a market into distinct groups of	

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	buyers with different needs, characteristics, or behavior who might require separate products or marketing programs is called **market segmentation**. A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts.	p. 51 Key Terms: Market Segmentation, Market Segment
	➢ **Troubleshooting Tip** Market segmentation and targeting is universally a new concept to students, unless they happen to have a parent who works in marketing. Although this is discussed in detail in a future chapter, showing how a large, amorphous market can be broken down in more and more detailed groups of buyers will help.	
p. 51 PPT 2-32	**Market Targeting** **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time. **Market Differentiation and Positioning** A product's position is the place the product occupies relative to competitors in consumers' minds. Marketers want to develop unique market positions for their products. Market **positioning** is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target customers. Positioning establishes differentiation.	p. 51 Key Term: Market Targeting p. 51 Key Term: Positioning p. 52 Ad: Del Monte
PPT 2-33	To gain competitive advantage, the company must offer value to target consumers. This is accomplished through product **differentiation**—actually differentiating the company's market offering so that it gives consumers more value.	p. 51 Key Term: Differentiation
	➢ **Troubleshooting Tip** Market positioning can be difficult to understand as well. Students will normally think of a product in terms of its features, and although positioning	

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	includes the features, it also spans the concepts of benefits and perceptions. Using examples of brands at opposite ends of a price continuum, such as Rolex versus Timex watches, helps drive home what positioning means.	
p. 54 PPT 2-34 PPT 2-35	**Developing an Integrated Marketing Mix** The **marketing mix** is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market. This is described in Figure 2.5. *Product* means the goods-and-services combination the company offers to the target market. *Price* is the amount of money customers must pay to obtain the product. *Place* includes company activities that make the product available to target consumers. *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. Some critics feel that the four Ps may omit or under-emphasize certain important activities. From the buyer's viewpoint, in this age of customer relationships, the four Ps might be better described as the four Cs: • Customer solution • Customer cost • Convenience • Communication PPT 2-36 **Review Learning Objective 4:** Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence it.	p. 54 Key Term: Marketing Mix p. 54 Figure 2.5: The Four P's of the Marketing Mix
	➢ **Assignments, Resources** Use *Additional Project 2* here Use *Real Marketing 2.2* here Use *Discussion Questions 2-3* and *2-4* here	

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	Use *Additional Project 3* here Use *Think-Pair-Share 2* here Use *Outside Example 1* and *2* here	
p. 55 PPT 2-37 p. 55 PPT 2-38 PPT 2-39	**List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment** **MANAGING THE MARKETING EFFORT** Managing the marketing process requires the four marketing management functions shown in Figure 2.6. • Analysis • Planning • Implementation • Control **Marketing Analysis** Managing the marketing function begins with a complete analysis of the company's situation. The company must analyze its markets and marketing environment to find attractive opportunities and avoid environmental threats. The marketer should conduct a **SWOT analysis**, by which it evaluates the company's overall strengths, weaknesses, opportunities, and threats.	Learning Objective 5 p. 55 Figure 2.6: Managing Marketing: Analysis, Planning, Implementation, and Control p. 55 Key Term: SWOT analysis p. 56 Figure 2.7: SWOT Analysis: Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T)
	➢ **Assignments, Resources** Use *Critical Thinking Exercise 2-7* here	
p. 56 PPT 2-40	**Marketing Planning** Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product, or brand. Table 2.2 outlines the major sections of a typical product or brand plan. See Appendix 1 for a sample marketing plan. A **marketing strategy** consists of specific strategies: target markets, positioning, the marketing mix, and marketing	p. 57 Table 2.2: Contents of a Marketing Plan

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	expenditure levels.	
p. 56 PPT 2-41	**Marketing Implementation** **Marketing implementation** is the process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives. Implementation involves day-to-day, month-to-month activities that effectively put the marketing plan to work. Implementation addresses the *who, where, when*, and *how*. In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. Successful marketing implementation depends on how well the company blends its people, organizational structure, decision and reward systems, and company culture into a cohesive action program that supports its strategies.	p. 56 Key Term: Marketing Implementation
p. 58 PPT 2-42	**Marketing Department Organization** The company must design a marketing organization that can carry out marketing strategies and plans. The most common form of marketing organization is the *functional organization.* Under this organization functional specialists head the various marketing activities. A company that sells across the country or internationally often uses a *geographic organization.* Companies with many very different products or brands often create a *product management organization.* A **product manager** develops and implements a complete strategy and marketing program for a specific product or brand. For companies that sell one product line to many different types of markets and customers that have different needs and preferences, a *market* or *customer management organization* might be best. A market management organization is similar to the product	p. Photo: Marketing Planning and Control

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	management organization. **Market managers** are responsible for developing marketing strategies and plans for their specific markets or customers. Large companies that produce many different products flowing into many different geographic and customer markets usually employ some combination of the functional, geographic, product, and market organization forms. Many companies are finding that today's marketing environment calls for less focus on products, brands, and territories and more focus on customers and customer relationships. More and more companies are shifting their brand management focus toward customer management.	
p. 58 PPT 2-43	**Marketing Control** **Marketing control** involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained. *Operating control* involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. *Strategic control* involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace.	p. 58 Key Term: Marketing Control
p. 59	**MEASURING AND MANAGING RETURN ON MARKETING INVESTMENT** Marketing managers must ensure that their marketing dollars are being well spent.	

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	In the past, many marketers spent freely on expensive programs, often without considering financial return on spending. In today's constrained economy, that is changing.	
p. 59 PPT 2-44	In response, marketers are developing better measures of **return on marketing investment (marketing ROI)**—the net return from a marketing investment divided by the costs of the marketing environment. A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.	p. 59 Key Term: Return on Marketing Investment (Marketing ROI)
p. 59 PPT 2-45	Some companies are combining such measures into *marketing dashboards*—useful sets of marketing performance measures in a single display. Increasingly marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, customer lifetime value, and customer equity.	p. 60 Figure 2.8: Marketing Return on Investment
PPT 2-46	**Review Learning Objective 5:** List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.	
	➢ **Assignments, Resources** Use *Discussion Question 2-5* here Use *Marketing by the Numbers* here Use *Think-Pair-Share 3* here Use *Company Case* here Use *Video Case* here	

END OF CHAPTER MATERIAL

Discussion Questions

2-1 Explain how marketing plays a key role in an organization's strategic planning. (Objective 1) (AACSB: Written and Oral Communication).

Answer:

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. At the

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corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the companywide plan. Marketing planning occurs at the business-unit, product, and market levels. Marketing supports company strategic planning with more detailed plans for specific marketing opportunities.
Marketing plays a key role in the company's strategic planning in several ways: (1) it provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups, (2) it provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them, and (3) within individual business units, marketing designs strategies for reaching the unit's objectives.

2-2 Name and describe the four product/market expansion grid strategies. Provide an example of a company implementing each strategy. (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

The four product/market expansion strategies are market penetration, market development, product development, and diversification. ***Market penetration*** involves making more sales without changing the original product. This can be achieved through marketing mix improvements, such as adjustments to its product design, advertising, pricing, and distribution efforts. One example is Apple coming out with the iPhone 6. ***Market development*** strategy involves identifying and developing new markets for its current products. New markets could be new geographic markets or other markets defined by demographics, lifestyle, or product use. For example, IKEA is expanding into India. Management could consider ***product development*** by offering modified or new products to current markets. For example, Amazon developed the Kindle Fire. Finally, a company may consider ***diversification*** by starting up or buying businesses outside of its current products and markets. In this strategy, the marketer offers an entirely different product to a completely different market than currently served. For example, Google is offering cloud-based services for businesses.

✪ 2-3 What is positioning and what role does differentiation play in implementing it? (Objective 4) (AACSB: Written and Oral Communication)

Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

✪ 2-4 What are the four Ps of marketing? What insights might a firm gain by considering the four Cs rather than the four Ps? (Objective 4) (AACSB: Written and Oral Communication; Reflective Thinking)

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Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

✪ 2-5 What is a marketing dashboard and how is it useful to marketers? What types of performance measures do marketers use to assess marketing performance? (Objective 5) (AACSB: Written and Oral Communication)

Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

Critical Thinking Exercises

2-6 Form a small group and conduct a SWOT analysis for your school, a group that you are a member of, a publicly-traded company, a local business, or a nonprofit organization. Based on your analysis, suggest a strategy from the product/market expansion grid and an appropriate marketing mix to implement that strategy. (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Students' analyses and recommendations will vary, but they should be aware of the elements of a marketing plan. A **SWOT analysis** evaluates an organization's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see Figure 2.7). Strengths include internal capabilities, resources, and positive situational factors that may help the company or organization to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the organization's performance. Opportunities are favorable factors or trends in the external environment that the organization may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance. Objectives should logically follow conclusions from the SWOT analysis, and the strategy recommended should support the objectives. The marketing strategy should identify the target market(s), positioning, and the marketing mix (product, price, place, and promotion).

✪ 2-7 The Boston Consulting Group (BSG) Matrix is a useful strategic tool. Another classic portfolio planning method useful to marketers is the GE/McKinsey Matrix (see http://www.quickmba.com/strategy/matrix/ge-mckinsey/). How is the GE/McKinsey Matrix similar to and different from the BCG Matrix? (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

✪ 2-8 Create a mission statement for a nonprofit organization you would be interested in starting. Have another student evaluate your mission statement while you evaluate the other student's statement, suggesting areas of improvement. (Objective 1) (AACSB: Written and Oral Communication; Reflective Thinking)

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Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

MINICASES AND APPLICATIONS

Online, Mobile, and Social Media Marketing: The PC-osourus

In 2011, Hewlett-Packard CEO Leo Apothekar made the strategic decision to exit the personal computer business, but he got fired and incoming CEO Meg Wittman reversed that decision. However, sales of personal computers have plummeted since the introduction of post-PC devices (tablets, e-readers, and smartphones). In 2013, total PC shipments fell 10 percent, and no one felt that more than leading PC-maker HP. PC-makers dropped prices—some more than 50 percent—on laptops and some are offering touch screens to compete with tablets and mobile devices in an attempt to gain back market share. HP's former CEO wanted to shift strategic focus more toward offering software to business markets. Maybe he had read the future correctly and was on the right strategic path. With the game-changing introduction of tablets, mobile technology, and social media, the future is not what it used to be. The growth in mobile technology is there; HP just "missed the boat."

2-9 Explain which product/market expansion grid strategy PC-makers are currently pursuing to deal with the threat of post-PC mobile devices. Is this a smart strategy? (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)
Answer:

As a response to the threat of post-PC mobile devices, PC-makers are pursuing two strategies, the market penetration strategy and the product development strategy. Dropping prices on laptops targets current customers without changing the original products, to make more sales. By offering touch screens to compete with mobile devices, PC-makers adopt the product development strategy of offering modified or new products to current markets.

2-10 Discuss how companies such as HP and other PC-makers can adapt to and capitalize on new online, mobile, or social media technologies. (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Student answers will vary. However, this is an opportunity for the students to review all the strategies in the product/market expansion grid. In particular, PC-makers can focus on product development and diversification strategies. Technology companies historically devote significant resources to product development and acquisition of products. The post-PC market need not require any change in that approach.

Marketing Ethics: Digital Dark Side

More than half of the world's population lives under autocratic regimes, limiting access to the Internet. But that is changing, opening new market opportunities for companies

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specializing in digital monitoring technologies. Everything an oppressive regime needs to build a digital police state is commercially available and is being implemented. Filtering devices manufactured by Blue Coat Systems, a Silicon Valley-based company, are used in Syria to suppress civil unrest. Although Blue Coat Systems acknowledges this, it claims it did not sell the product to the Syrian government. North Korea, China, Libya, and other oppressive states demand data mining software and surveillance cameras as well as cutting-edge technologies that collect, store, and analyze biometric information. As social media proliferate in these countries, off-the-shelf facial recognition software and cloud computing can identify people in a matter of seconds, enabling these states to quash dissent. Although the United States may have sanctions against U.S.-based companies selling products to these governments, others may not, resulting in their country's products, as well as U.S.-based products, getting into the hands of oppressive regimes.

✪ 2-11 In most cases, it is not illegal to sell such products to governments, oppressive or otherwise. But is it moral? Shouldn't companies be allowed to pursue a market development strategy wherever they find demand? (Objective 2) (AACSB: Written and Oral Communication; Ethical understanding and reasoning)

Answer: Refer to the Mylab for answers to this and all starred Mylab questions.

2-12 Research the Blue Coat Systems incident and write a report of your findings. Did the company illegally sell surveillance products to Syria? Which element of the marketing mix is most related to this issue? (Objective 2) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Students can easily research the incident and make their own assessments of the facts they find. .Product likely is the element of the marketing mix (product, price, place, and promotion) most related to this issue.

Marketing by the Numbers: McDonald's vs. Burger King

In 2013, McDonald's reported profits of almost $6 billion on sales of $28 billion. For that same period, Burger King posted a profit of almost $234 million on sales of $1.1 billion. So McDonald's is a better marketer, right? Sales and profits provide information to compare the profitability of these two competitors, but between these numbers is information regarding the efficiency of marketing efforts in creating those sales and profits. Appendix 2, Marketing by the Numbers, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the Appendix to answer the questions using the following information from McDonald's and Burger King's incomes statements (all numbers are in thousands):

	McDonald's	**Burger King**

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Sales	$28,105,700	$1,146,300
Gross Profit	$10,902,700	$ 951,000
Marketing Expenses	$ 1,600,500	$ 321,600
Net Income (Profit)	$ 5,585,900	$ 233,700

2-13 Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for both companies. Which company is performing better? (Objective 5) (AACSB: Written and Oral Communication; Information Technology; Analytical Thinking)

Answer:

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Net sales}}$$

$$\text{Profit Margin}_{\text{McDonald's}} = \frac{\$5{,}585{,}900}{\$28{,}105{,}700} = 0.1987 = 19.87\%$$

$$\text{Profit Margin}_{\text{Burger King}} = \frac{\$233{,}700}{\$1{,}146{,}300} = 0.2038 = 20.38\%$$

Net Marketing Contribution (NMC) = net sales – cost of goods sold – marketing expenses

Because Gross Profit = net sales – cost of goods sold, students just need to subtract marketing expenses from gross profit:

$$\text{NMC}_{\text{McDonald's}} = \$10{,}902{,}700 - \$1{,}600{,}500 = \$9{,}302{,}200$$

$$\text{NMC}_{\text{Burger King}} = \$951{,}000 - \$321{,}600 = \$629{,}400$$

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}}$$

$$\text{Marketing ROS}_{\text{McDonald's}} = \frac{\$9{,}302{,}200}{\$28{,}105{,}700} = 0.331 = 33.1\%$$

$$\text{Marketing ROS}_{\text{Burger King}} = \frac{\$629{,}400}{\$1{,}146{,}300} = 0.549 = 54.9\%$$

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$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}}$$

$$\text{Marketing ROI}_{\text{McDonald's}} = \frac{\$9{,}302{,}200}{\$1{,}600{,}500} = 5.812 = 585\%$$

$$\text{Marketing ROI}_{\text{Burger King}} = \frac{\$629{,}400}{\$321{,}600} = 1.957 = 195.7\%$$

While McDonald's has larger absolute sales, gross profits, expenses, net marketing contribution, profits and Marketing Return on Investment, Burger King is performing more efficiently as measured by the profit margin and marketing metric of Marketing Return on Sales.

2-14 Go to Yahoo! Finance (http://finance.yahoo.com/) and find the income statements for two other competing companies. Perform the same analysis for these companies that you performed in the previous question. Which company is doing better overall and with respect to marketing? For marketing expenses, use 75 percent of the company's reported "Selling General and Administrative" expenses. (Objective 5) (AACSB: Written and Oral Communication; Analytical Thinking; Reflective Thinking)

Answer:

Students' answers will vary. The information used in the previous question can be found at:

McDonald's - http://finance.yahoo.com/q/is?s=MCD+Income+Statement&annual

Burger King - http://finance.yahoo.com/q/is?s=BKW+Income+Statement&annual

The information students need is: Total Revenue, Gross Profit, Selling General and Administrative (use 75% to calculate the marketing expenses for the NMC calculation), and Net Income.

Company Case Notes

Dyson: Solving Customer Problems in Ways They Never Imagined

Synopsis

Dyson started out as so many storybook success stories do—by one person, in a garage, tinkering away at a product idea. In this case, it took James Dyson over 15 years and 5,000 prototypes to come up with his first product. Dyson quickly became known as an innovative vacuum cleaner company. But this story quickly reveals that Dyson is about much more than

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making vacuums. At its core, Dyson is a technology company that seeks to develop new and innovative versions of everyday products that wow customers. With this as its mission, Dyson has not limited itself to vacuums.

Teaching Objectives

The teaching objectives for this case are to:

1. Introduce students to the concepts of business and marketing strategy.
2. Highlight the difference between a mission statement and a market-oriented mission statement.
3. Establish the role of goals and objectives in marketing strategy.
4. Help students understand the importance of the business portfolio in growing a business.
5. Introduce the marketing mix as a core concept of marketing.

Discussion Questions

2-18 Write a market-oriented mission statement for Dyson.
Searches of the Internet in general and the Dyson site in specific do not reveal a mission statement for Dyson. But if there were one, it might read something like this: "Take everyday products that don't solve customer problems well, and make them better." This not only describes the core of what every Dyson product does, but it frames it in the context of satisfying customer needs and resolving customer problems, as a market-oriented mission statement should.
2-19 What are Dyson's goals and objectives?

1. *This is a question that will require students to do some thinking and not just "seek-and-find" the information in the case. The only real objective stated in this case is a business objective: to double the annual revenues of $1.5 billion "quite quickly." But students should be pressed to understand Dyson as thoroughly as possible. Then, based on the information given in the case, they should extrapolate business and marketing goals. Some possibilities include:*
    - *To expand into new businesses. They did this with the washing machine, the hand dryer, the fan, and how the bathroom faucet. What's next?*
    - *To support existing and new products with informational integrated marketing campaigns.*

To ensure every product meets customer needs through thorough market testing.

2-20 Does Dyson have a business portfolio? Explain.
Dyson most certainly has a business portfolio. Its original business was defined by vacuum cleaners. Then, it expanded into hand dryers. Then, into fans and heaters. The new bathroom faucet could be considered a subset of hand dryers as it seems to fit into the same category in terms of customers. It took a shot at washing machines with the Contrarotator, a product which was pulled from the market because it was not profitable. Each of these product lines represents a different business. Each has different characteristics in terms of size, revenues, profits, growth, etc. What is not apparent from this case is where Dyson will go next in terms of new businesses.

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2-21 Discuss Dyson's marketing mix techniques and how they fit within the context of its business and marketing strategy.

Product – Dyson does a lot of R&D and focuses on developing technology through the building of prototypes and trial-and-error. As a technology company, it also seeks to use the technologies it develops for a given product or product line by finding other uses for them. This is all in line with its mission of creating new versions of everyday products that solve customer problems in new and exciting ways.

Price – This is not discussed in the case. But Dyson prices its products at a premium. For example, its fans start at about $300. That's a huge price premium over typical household fans. Its new Airblade Tap retails for $1,500, a steep price for a bathroom faucet. But this pricing strategy fits the overall strategy of selling products that are innovative and high quality.

Promotion—With its no nonsense promotional strategy, Dyson supports its marketing strategy. These products are designed to do the job and its advertising focuses on demonstrating that.

Distribution—there is not enough information in the case to illustrate this element of the marketing mix.

2-22 Is Dyson a customer-centered company? Explain.

This is a good question for discussion and debate. Dyson seems to start with developing technology. It is an engineering/design driven company. That would suggest a product orientation. However, as with a few other design driven companies (think 3M and Bose), Dyson produces hit after hit of products that customers love. They seem to be just what customers need and seem to resolve customer problems in ways that existing products simply cannot. Dyson's market testing procedures certainly contribute to this. But it may also simply be that like Apple and Steve Jobs, Dyson (the man and the company) has an uncanny knack for identifying gaps in the market and filling them with new and exciting products.

Teaching Suggestions

This is a great story to illustrate some of the factors that go in to making a new company a huge success. These days, the marketing environment is littered with success stories that seem to be magical, Cinderella, rags-to-riches types of stories. This has been fueled by the success of online companies, where startup and growth are far faster than for manufactured goods and services that are more traditional. In any case, it is easy for students to see a company go from nothing to a billion dollars in revenue and perceive that it is luck or that it is easy.

Dyson's story certainly puts that to rest. For every person who has ever said, "Why didn't I just do that" when they see a company that succeeds, the answers here should be very clear. It took Dyson 15 years to get his first product to market. During that time, he had no income, needed to raise the funds the that would allow him to do the research and development, and ultimately had to produce over 5,000 prototypes. Once his product was finished, he then had to find someone to sell it. As students consider these factors that were very necessary for Dyson's success, it should become very clear why everyone doesn't just start their own company and become a billionaire.

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This case also works well with the consumer behavior chapter (Chapter 5) and the new product chapter (Chapter 9).

Go to **mymktlab.com** for the answers to the following Assisted-graded writing questions:

2-23 How are marketing departments organized? Which organization is best? (AACSB: Communication, Reflective Thinking)

2-24 Marketers are increasingly held accountable for demonstrating marketing success. Research the various marketing metrics, in addition to those described in the chapter and appendix 2, used by marketers to measure marketing performance. Write a brief report of your findings. (AACSB: Communication; Reflective Thinking)

ADDITIONAL PROJECTS, ASSIGNMENTS, AND EXAMPLES

Projects

1. Pick a company or brand from which you buy frequently. Visit their Web site and find the portfolio of products/services they sell. Pretend you are the company CEO. Categorize the products into logical groupings that will become your strategic business units (SBUs). Using your best judgment, allocate resources, using percentages, not dollar amounts, to each SBU (make sure the total comes to 100 percent). (Objective 2)
2. Visit the Web site for Food Television's Rachel Ray (http://www.rachaelray.com/). Consider the market for television cooking programs. Who do you believe Rachel Ray is targeting? How is this "product" differentiated in the marketplace? (Objective 4)
3. Get the current issue of *Fortune* magazine; most college libraries carry it. Read the cover story and define the four Ps of one of the company's products mentioned. Then define the four Cs of the same product. Are there differences? (Objective 4)

Small Group Assignments

1. Form students into groups of three to five. Each group should read the opening vignette to the chapter on Nike. Each group should answer the following questions and then share their findings with the class. (Objective 1)
    a. Define Nike's niche in the sporting goods marketplace, both in its early days and today.
    b. Discuss the factors that caused Nike's sales to stumble in the late 1990s. If you were the CEO at the time, how would you have reversed this trend?
    c. What comes next for Nike in the 21st century? What new marketing strategies might the company develop to remain fresh and relevant?

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2. Form students into groups of three to five. Each group should read Real Marketing 2.2 "Red Bull: This Nicher "Gives You Wings." Each group should then answer the following questions and share their findings with the class. (Objective 2)
    a. Describe Red Bull's major products through the use of the BCG matrix.
    b. Using the Product/Market Expansion Grid, shown in Figure 2.3, identify ways in which Red Bull has expanded.
    c. How has Red Bull been able to compete in an industry that is dominated by behemoths such as Coca-Cola and Pepsi-Cola?

Individual Assignments

1. Read the opening chapter vignette on Nike. Think about the answers to the following questions and share your answers with the class. (Objectives 1 and 4)
    a. Recap the main points of Nike's Customer-Driven Marketing. How does it reflect the elements of a customer-driven marketing strategy?
    b. In your mind, who was the typical Nike customer in the company's early days of the 1960s and 1970s? Who is the typical customer today?
    c. If Nike were simply an athletic shoes company, how would you describe the company's direction and product offering today?

2. How would you describe a "market niche"? Describe four product/services that you own or consume that you would consider to be "niche" products. Why do you believe this to be true? (Objective 2)

Think-Pair-Share

Consider the following questions, formulate and answer, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. Compare the Boston Consulting Group's portfolio analysis method to the product/market expansion grid. Which method would you rather use in your own business? Why? (Objective 2)
2. Why would a focus on the four Cs be more important than the four Ps? What is a value-delivery network? How does this concept differ from that of the value chain? (Objective 4)
3. Explain the concept of return on marketing. Why is this important? (Objective 5)

Outside Examples

1. The marketing mix is the set of controllable, tactical marketing tools the firm blends to produce the responses it wants from the target market. These marketing tools can all be collected into four sets of variables known as the "four Ps." Consider Southwest Airlines (www.southwest.com). Briefly describe the "four Ps" employed by Southwest. (Objective 4)

    Possible Solution:

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The product being offered, in the case of Southwest Airlines, is transportation. Just because it is not a physical entity does not mean it is not a product. Price is the amount of money customers pay in order to receive the product. In the case of airlines, this price is very volatile and changes frequently based on availability, time from departure, and myriad of other variables. Place involves everything that Southwest does to make its product available to the consumer. Not only the airports, but also the ticket counters and self-service kiosks. Finally, promotion is everything involved in communicating Southwest to the customer. This includes traditional television and billboard advertising. This also includes their easy to navigate Web site and their enthusiastic employees.

2. The marketing mix is composed of the "four Ps." Take a look at United Airlines (www.united.com). Let's concentrate on the P of pricing. Over a two-week period, track the fares charged for a round-trip ticket between two of your favorite locations (such as Las Vegas and Chicago). Be certain to keep your departure and return dates constant so that you can observe how fares change over time. How can you explain the constant variation in fares? (Objective 4)

   Possible Solution:

   Students will observe that there are wildly varying and constantly changing fares over time. Students may come up with a variety of reasons for fare differences: time of day; first class versus coach; popularity of the route; or time until departure are all possibilities. In essence, students will realize that there are a multitude of possibilities to consider when setting price.

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