CHAPTER

2 Company and marketing strategy: Partnering to build customer engagement, value and relationships

In Chapter 1, we explored the marketing process by which marketing organisations create value for customers in order to capture value from them in return. In this leg of the journey, we dig deeper into steps 2 and 3 of the marketing process – designing customer-driven marketing strategies and constructing marketing programs. First, we look at the organisation's overall strategic planning, which guides marketing strategy and planning. Next, we discuss how, guided by the strategic plan, marketers partner closely with others inside and outside the firm to engage customers and create value for them. 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. Finally, we look at the important step of measuring and managing marketing return on investment (marketing ROI).

For a visual representation of the chapter, please see the concept map on the following page.

Learning Objectives

Learning Objective 1	**Explain company-wide strategic planning and its four steps.** Company-wide strategic planning: Defining marketing's role *pp. 38–42*
Learning Objective 2	**Discuss how to design business portfolios and develop growth strategies.** Designing the business portfolio *pp. 42–45*
Learning Objective 3	**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 *pp. 45–48*
Learning Objective 4	**Describe the elements of a customer value-driven marketing strategy and mix, and the forces that influence it.** Marketing strategy and the marketing mix *pp. 48–52*
Learning Objective 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.** Managing the marketing effort *pp. 52–56* Measuring and managing return on marketing investment *pp. 56–59*

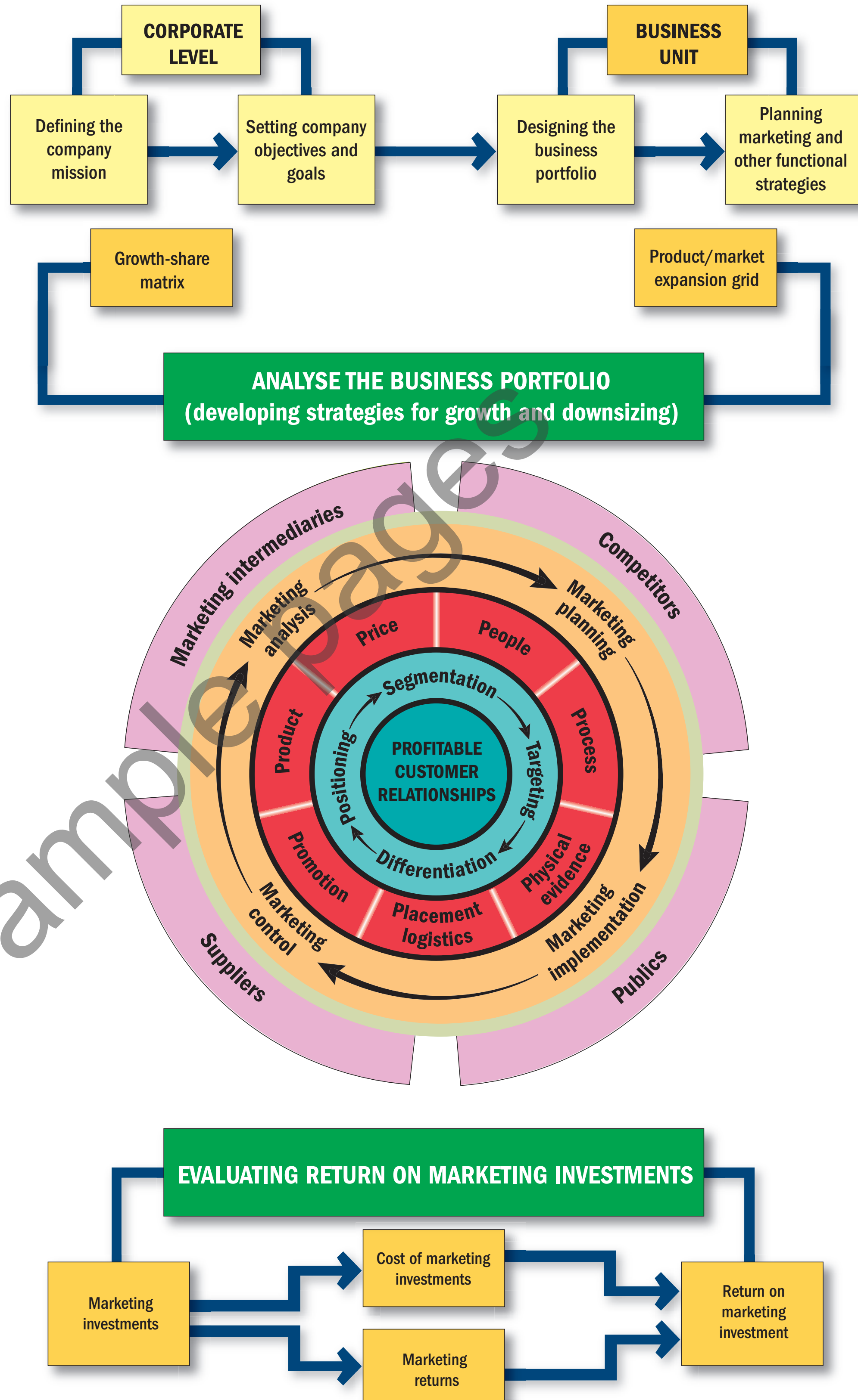
LO 1
Explain company-wide strategic planning and its four steps.
(pp. 38–42)

LO 2
Discuss how to design business portfolios and develop growth strategies.
(pp. 42–45)

LO 3
Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.
(pp. 45–48)

LO 4
Describe the elements of a customer value-driven marketing strategy and mix, and the forces that influence it.
(pp. 48–52)

LO 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.
(pp. 52–59)



Company-wide strategic planning: Defining marketing's role (pp. 38–42)

strategic planning The process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Each marketing organisation must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives and resources. This is the focus of **strategic planning** – the process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long-range plans and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the organisation to take advantage of opportunities in its constantly changing environment.

At the corporate level, the organisation starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission is then turned into detailed supporting objectives that guide the whole organisation. 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 company-wide plan. Thus, marketing planning occurs at the business-unit, product and market function levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.

Defining a market-oriented mission

An organisation exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: What is our business? Who is the customer? What do consumers value? What *should* our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely.

mission statement A statement of the organisation's purpose – what it wants to accomplish in the larger environment.

Many organisations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organisation'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 organisation.

Some companies define their missions myopically in product or technology terms (e.g. 'We make and sell furniture' or 'We are a chemical-processing firm'). But mission statements should be *market-oriented* and defined in terms of satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. For example, social scrapbooking site Pinterest does not define itself as just an online place to post pictures. Its mission is to give people a social media platform for collecting, organising and sharing things they love.[1] Likewise, World Vision's mission is not just to provide aid, but rather 'to be a Christian organisation that engages people to eliminate poverty and its causes'.[2] Table 2.1 provides several other examples of product-oriented versus market-oriented business definitions.

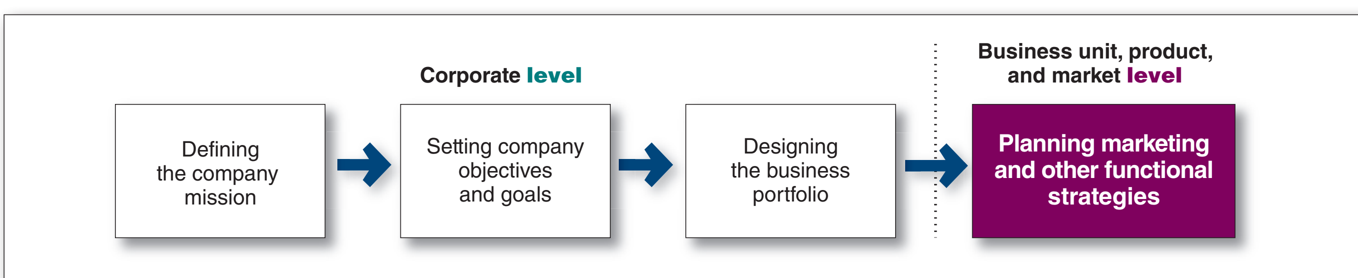


FIGURE 2.1 Steps in strategic planning

TABLE 2.1 Market-oriented business definitions

Company	Product-oriented definition	Market-oriented definition
Starbucks	We sell coffee and snacks.	We sell 'The Starbucks Experience', one that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time.
Cinnabon	We sell cinnamon buns baked fresh in our stores.	Our mission is to spread warmth – not only in our bakeries, but also in our community.
Instagram	We are a social networking app for posting photos and videos.	We help people capture and share the world's moments.
Ikea	We offer a wide range of well-designed, functional home furnishing products at prices so low, that as many people as possible will be able to afford them.	We help people create a better everyday life at home.
Triple J	We are the national youth broadcaster for young Australians.	We champion new music and artists, and bring young Australians the 'latest, greatest music and the stories that matter'.
Sephora	We are a beauty products retailer.	We sell lifestyle and self-expression by helping customers to unlock their beauty potential.
Ritz-Carlton Hotels & Resorts	We rent rooms.	We create 'The Ritz-Carlton experience' – a memorable stay that far exceeds guests' already-high expectations.
Walmart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people. 'Save Money. Live Better.'

Sources: See <www.cinnabon.com/company-info>; <www.ikea.com/gb/en/this-is-ikea/about-us/vision-and-business-idea-pub9cd02291>; <www.abc.net.au/triplej/about-page/8651702>; all accessed January 2020.

Mission statements should be meaningful and specific, yet motivating. They should emphasise the organisation's strengths in the marketplace. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Finally, a marketing organisation's mission should not be stated as making more sales or profits – profits are only a reward for creating value for customers. Instead, the mission should focus on customers and the customer experience the marketing organisation seeks to create. Thus, the mission of McDonald's is not 'to be the world's best and most profitable quick-service restaurant'; rather, it is 'to be our customers' favourite place and way to eat and drink'. If McDonald's accomplishes this customer-focused mission, profits will follow.

Marketing in action 2.1 illustrates how Wesfarmers employed strategic planning in the process of reinventing its Kmart brand from a no-frills, discount department store into cornering the market for budget-savvy, trendy consumers.

Setting company objectives and goals

The marketing organisation needs to turn its mission into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. For example, many companies are structured with a number of **strategic business units (SBUs)** – the key businesses that make up the company – that manufacture and market products in Australia, New Zealand and internationally. The corporate strategy of companies in fast-moving consumer goods (FMCG) tends to focus on the development and maintenance of strengths in technology and placement logistics, and on deepening customer relationships.

strategic business units (SBUs)
The key businesses that make up a company.

MARKETING IN ACTION 2.1

Great strategies require great leaders

With kind permission of Kmart Australia Marketing

A little over 10 years ago, Kmart was said to be on the brink of bankruptcy. Perceived as a cheap, no-frills department store, the retailer struggled to attract customers from its key competitors, Big W and Target, whose offerings were perceived to be of similar cost, but of better quality. Target, owned by the same parent company (Wesfarmers) as Kmart, had undergone a successful repositioning late in the previous century, with alignments with prestige fashion designers and high-profile brands helping to lift the image of the Target brand as a better-quality alternative to key market competitors Kmart and Big W. Any repositioning of Kmart would need to ensure a point of differentiation remained between itself and Target.

The primary objective of their parent company, Wesfarmers, is to 'deliver satisfactory returns to shareholders through financial discipline and strong management of a diversified portfolio of businesses'. Along with Kmart and Target, this portfolio includes Coles, Officeworks, Bunnings and a range of other businesses, including industrials, and the loyalty program FlyBuys. Any business within that portfolio not performing to expectations would be perceived negatively by shareholders, and may therefore have a negative impact on the overall portfolio. A new strategy for Kmart was needed, and with it, the right people to conceive and implement that strategy.

The first step was to appoint a new managing director for Kmart. Guy Russo, previously the managing director and chief executive of McDonald's Australia, was brought in to lead the new strategic direction. He quickly recognised a range of areas where Kmart's business could be streamlined, and where its value proposition could be refocused. Reducing the number of stocked lines from over 120 000 to 50 000 enabled the company to focus on volume: with fewer individual items but larger quantities of those items, Kmart was able to demand lower prices from suppliers, enabling it to pass on those cost savings to consumers. Discounting strategies were removed, with the business moving to an EDLP (everyday low prices) strategy, providing customers with an assurance that they would receive the same low price offer whenever they entered a Kmart store. Reducing complexity and simplifying its product lines enabled the business to refocus on the consumer.

The next step was to make 'cheap' trendy. With fashionable, on-trend product lines and improvements to the in-store experience (wider aisles, neater visual merchandising displays, brighter lighting), customers were given a light, modern shopping experience. Advertising campaigns targeting mothers and other women utilised catchy pop soundtracks, and consumers were engaged through social media and encouraged to co-create by hacking Kmart products and posting images of these online. *Influencers* posted images dressed in Kmart fashions, and the online aesthetic of the brand's own social media feeds was given a fresh look. Hashtags such as #kmarthacks, #kmartstyling and #kmartlove proliferated on Instagram, as did Facebook groups such as Kmart Hacks and Décor. Kmart Mums Australia has grown to over 300 000 members, with consumers posting their own images utilising Kmart products in their home décor and adapting the products in ingenious ways. The Kmart Australia page now has over 1 million followers.

The strategy was a resounding success. Between 2009 and 2016, EBIT (earnings before interest and taxes) rose from approximately $100 million to over $470 million. Within a few short years, Kmart had cornered the market for budget-savvy, trendy consumers, and it had done the unthinkable: making 'cheap' cool! Today, Kmart products have been featured in home design features on the social media pages of leading magazines such as *Home Beautiful* and *Better Homes and Gardens*.

The most successful strategists are aware, though, that no strategy can remain stagnant. Successful brands evolve to build ongoing connections with their consumers, aiming to achieve the high levels of brand engagement linked to long-term brand loyalty. With this in mind, in 2019, agency BWM Dentsu created a new campaign, 'Low Prices for Life', designed to strengthen Kmart consumers' emotional connection with the brand, and reinforce the value that Kmart's low-priced products play in consumers' lives. The strategy, launched across both traditional and social media platforms, focuses on storytelling as a key creative element, highlighting the use of Kmart products in the everyday lives of consumers, and the small 'moments of joy' to which the brand contributes. In a stagnant retail market, this strategy aims to protect Kmart's market share by retaining – and building – enduring emotional connections with the company's loyal customers.

Wesfarmers now faced a new challenge, which was to revive the Target brand. In 2016, Wesfarmers had combined financial reporting for Kmart and Target under their new Department Stores division (rebranded in 2018 to Kmart Group), and Guy Russo turned his attention to Target. In 2017, the brand reconsidered its competitive market to include H&M and Zara, both of which had become increasingly popular apparel brands. With plans to reduce the physical size of the Target retail stores and to focus on improving the brand's positioning as a quality, but low-cost, department store, the Target brand now aims to be perceived as being more closely aligned with Myer and H&M than with Big W.

In 2019, Russo left Wesfarmers to take on a new role as chairman of the restaurant chain, Guzman Y Gomez. After a decade of success, there are now new people at the helm of Wesfarmers' key department store brands, Kmart and Target. In a struggling domestic retail market, it will be a challenge to ensure continued growth and financial returns for shareholders while maintaining differentiation of these two brands and capturing the hearts and imaginations of increasingly price-driven consumers. Competing brands, Big W, Myer and David Jones face similar challenges, and it will be interesting to see which of these iconic Australian retail brands survive and grow through the 2020s.

Sources: <www.wesfarmers.com.au>; Arani Satgunaseelan, 'How Kmart made "cheap" cool', *Inside Retail Australia*, 30 March 2017, <https://insideretail.com.au/news/how-kmart-made-cheap-cool-201703>; Vanessa Mitchell, 'Kmart launches new brand positioning, campaign', *CMO*, 31 July 2019, <www.cmo.com.au/article/664750/kmart-launches-new-brand-positioning-campaign>; all accessed March 2020.

Questions

1. Describe the challenges of strategic planning for an organisation that holds two similar and competing brands. Are there any other companies (service brands, hospitality brands, product brands or other) you can think of that face similar challenges?
2. How would you describe Kmart's brand image, and how would you describe key customers of that brand? How do theses differ from Target's brand image and customers, or are they the same?
3. Having the right people in key positions can make or break a brand. How important do you consider to be the hiring of the right people for the successful development and implementation of the strategic planning process? What key skills would you expect these people to hold?

This broad mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Companies have the overall objective of building profitable customer relationships by adding value for their stakeholders. They do this by investing heavily in research and development (R&D). R&D is expensive and requires improved profits to plough back into research programs. So, improving profits becomes another major objective for the companies. Profits can be improved by increasing sales or by reducing costs. Sales can be increased by improving the companies' share of domestic and international markets. These goals then become the companies' current marketing objectives.

Marketing strategies and programs must be developed to support these marketing objectives. To increase customer engagement, sales and market share, a company's SBUs might increase its products' availability and promotion in existing markets and expand business via acquisitions. Each SBU develops broad marketing strategies that must then be defined in greater detail. For example, increasing the product's promotion may require more salespeople, advertising and public relations efforts; if so, both requirements will need to be spelled out. In this way, the organisation's mission is translated into a set of short-term objectives for the current period.

Designing the business portfolio (pp. 42–45)

business portfolio
The collection of businesses and products that make up the company.

Guided by the marketing organisation's mission statement and objectives, management now must plan its **business portfolio** – this is the collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First, the company must analyse its *current* business portfolio and decide which businesses should receive more, less or no investment. Second, the company must shape the *future* portfolio by developing strategies for growth and downsizing.

When we examine the Cotton On Group's retail brands, we see that they are some of Australia's most popular contemporary fashion brands, including Cotton On, Cotton On Kids, Cotton on Body, Factorie, Rubi and Supré. The stationery retailer, Typo, is also part of the Cotton On Group. The organisation seeks to add value by leveraging its success in targeting the youth market, and gaining efficiencies in designing and distributing fashion items across the group's various retail brands.

Analysing the current business portfolio

portfolio analysis
The process by which management evaluates the products and businesses that make up the company.

The major activity in strategic planning is business **portfolio analysis**, whereby management evaluates the products and businesses that make up the company. The company will want to put strong resources into its more profitable businesses and scale down or drop its weaker ones.

Management's first step is to identify the *strategic business units* that make up the company. An SBU can be a company division, a product line within a division or, sometimes, a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it is a good idea to add and support products and businesses that fit closely with the organisation's core philosophy and competencies.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So, 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 that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.[3]

The Boston Consulting Group approach

growth-share matrix
A portfolio-planning method that evaluates a company's strategic business units (SBUs) in terms of market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks or dogs.

Using the now-classic Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth-share matrix**, as shown in Figure 2.2. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth-share matrix defines four types of SBUs:

- *Stars*. Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually, their growth will slow down, and they will turn into cash cows.
- *Cash cows*. Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of cash that the company uses to pay its bills and to support other SBUs that need investment.

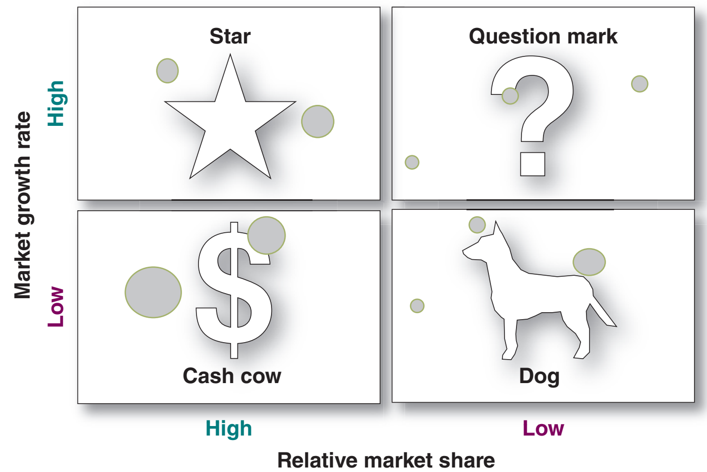


FIGURE 2.2 The BCG growth-share matrix

- *Question marks*. Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
- *Dogs*. Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

The 10 grey-filled circles in the growth-share matrix (refer Figure 2.2) represent a company's 10 current SBUs. The company has two stars, two cash cows, three question marks and three dogs. The areas of the circles are proportional to the SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more-promising question marks to make them stars and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, the company has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars and dogs. The company should take some decisive action concerning its dogs and its question marks.

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can (1) invest more in the SBU in order to *build* its share. Or it can (2) invest just enough to *hold* the SBU's share at the current level. It can (3) *harvest* the SBU, milking its short-term cashflow, regardless of the long-term effect. Finally, the company can (4) *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth-share matrix. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs towards the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

Problems with matrix approaches

While the BCG and other formal methods revolutionised strategic planning, such centralised 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. In addition, these approaches focus on classifying *current* businesses, but provide little advice for *future* planning.

Managing the business portfolio: Most people think of Disney as theme parks and wholesome family entertainment. However, it has now become a sprawling collection of media and entertainment businesses that requires big doses of the famed 'Disney Magic' to manage.

Martin Beddall/Alamy

Because of such problems, many companies have dropped formal matrix methods in favour of more customised approaches that better suit their specific situations. Moreover, unlike former strategic planning efforts that rested mostly in the hands of senior managers at company headquarters, today's strategic planning has been decentralised. Increasingly, companies are placing responsibility for strategic planning in the hands of cross-functional teams of divisional managers who are close to their markets.

Let us consider The Walt Disney Company. Most people think of Disney as theme parks and wholesome family entertainment. But, in the mid-1980s, Disney set up a powerful, centralised strategic planning group to guide the company's direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge and diverse collection of media and entertainment businesses. The sprawling Disney grew to include everything from theme resorts and film studios (Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, Pixar Animation and Marvel Studios) to media networks (ABC, Disney Channel, ESPN, A&E, History Channel and half a dozen others) to consumer products (from apparel and toys to interactive games) and a cruise line.

The newly transformed company proved difficult to manage and performed unevenly. To improve company performance, Disney disbanded the centralised strategic planning unit, decentralising its functions to Disney division managers. For example, although carefully coordinated with other Disney units, in many respects ESPN runs autonomously. As a result of such decisions, The Walt Disney Company retains its position at the head of the world's media conglomerates. And even through the recently uneven economy, Disney's sound strategic management of its broad mix of businesses, plus a touch of the famed 'Disney magic', has helped it fare better than rival media companies.[4] That strength has led to a recent move into the digital streaming space, with its new Disney+ taking on the likes of Netflix for market share in this growing category.

Developing strategies for growth and downsizing

product/market expansion grid
A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development or diversification.

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders and attract top talent. At the same time, an organisation must be careful not to make growth itself an objective. The company's objective must be to manage 'profitable growth'.

Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate and select market opportunities and lay down strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in Figure 2.3.[5]

market penetration
Company growth by increasing sales of current products to current market segments without changing the product.

To see how the product/market expansion grid works, let us apply it to fashion house Sass & Bide. As a first step, the company might consider whether it can achieve deeper **market penetration** – that is, by making more sales without changing its original product lines. It can spur growth through marketing mix improvements – adjustments to its product design, advertising, pricing and distribution efforts. For example, Sass & Bide might offer an ever-increasing range of styles and colours in its original apparel lines.

	Existing products	New products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

FIGURE 2.3 The product/market expansion grid

Second, Sass & Bide might consider possibilities for **market development** – identifying and developing new markets for its current products. Sass & Bide could review new *demographic markets*. For instance, the company continues to expand internationally, bringing its products to more young women in Japan and Asia and moving further beyond its Australasian and UK markets using its e-Boutique and stockists.

Third, Sass & Bide could consider **product development** – offering modified or new products to current markets. For example, Sass & Bide might add handbags to its current range of clothing and accessories.

Finally, Sass & Bide might consider **diversification** – starting up or buying businesses outside of its current products and markets. For example, it could move into performance leisurewear or begin making and marketing Sass & Bide running shoes. When diversifying, companies must be careful not to overextend their brands' positioning.

market development Company growth by identifying and developing new market segments for current company products.

product development Company growth by offering modified or new products to current market segments.

diversification Company growth through starting up or acquiring businesses outside the company's current products and markets.

Companies must develop strategies not only for *growing* their business portfolios, but also for *downsizing* them. There are many reasons that a firm might want to abandon products or markets. The firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many international markets without the appropriate research, or when it introduces new products that do not offer superior customer value. The market environment might change, making some of the company's products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less-profitable products and markets in order to focus their more limited resources on the strongest ones. Finally, some products or business units simply age and die.

When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest or divest them. Weak businesses usually require a disproportionate amount of management attention. Managers should focus on promising growth opportunities, not fritter away energy trying to salvage fading ones.

Planning marketing: Partnering to build customer relationships (pp. 45–48)

The company's strategic plan establishes what kinds of businesses the company will operate and its objectives for each. Then, within each business unit, more detailed planning takes place. The main functional departments in each unit – marketing, finance, accounting, purchasing, operations, information systems, human resources and others – must work together to accomplish strategic objectives.

Marketing plays a key role in the company's strategic planning in several ways. First, it provides a guiding *philosophy* – the marketing concept – which suggests that company strategy should revolve around building profitable relationships with important consumer groups. Second, 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. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably.

Customer engagement and value are the key ingredients in the marketer's formula for success. However, as we noted in Chapter 1, marketers alone cannot produce superior value for customers. Although marketing plays a leading role, it can be only a partner in attracting, keeping and growing customers. In addition to *customer relationship management*, marketers must also practise *partner relationship management*. They must work closely with partners in other company departments to form an effective internal *value chain* that serves the customer. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external *value delivery network*. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with other company departments

value chain
The series of internal departments that carry out value-creating activities to design, produce, market, deliver and support a firm's products.

Each company department can be thought of as a link in the company's internal **value chain**.[6] That is, each department carries out value-creating activities to design, produce, market, deliver and support the firm's products. The organisation's success depends not only on how well each department performs its work, but also on how well the various departments coordinate their activities.

For example, the goal of major grocery and liquor retailers ALDI, Coles and Woolworths is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at these chains play an important role. They learn what customers need and ensure the stores' shelves are stocked with the desired products at competitively low prices. They prepare advertising and merchandising programs and assist shoppers with customer service. Through these and other activities, the chain stores' marketers help deliver value to customers.

However, the marketing department needs help from the company's other departments. For instance, Coles' ability to offer the right products at low prices depends on the skill of its buyers and controllers in developing the needed suppliers and buying from them at low cost. Coles' information technology (IT) department must provide fast and accurate information about which products are selling in each store. And its operations people must provide effective, low-cost merchandise handling.

A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value, and on how well the activities of various departments are coordinated. At Coles, if buyers cannot obtain the lowest prices from suppliers, or if operations cannot distribute merchandise at the lowest costs, then marketing cannot deliver on its promise of everyday low prices.

Ideally, then, a company's different functions should work in harmony to produce value for consumers. However, in practice, departmental relationships are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view – but, when marketing tries to develop customer satisfaction, it can cause other departments to do a poorer job *in their terms*. Marketing department actions can increase purchasing costs, disrupt production schedules, increase inventories and create budget headaches. For example, if a loyalty program proves ineffective, this will impact on customer satisfaction and sales. Thus, the other departments may resist the marketing department's efforts.

Marketers must find ways to get all departments to 'think consumer' and to develop a smoothly functioning value chain. One marketing expert puts it this way: 'True market orientation does not mean becoming marketing-driven; it means that the entire company obsesses over creating value for the customer and views itself as a bundle of processes that profitably define, create, communicate, and deliver value to its target customers ... Everyone must do marketing regardless of function or department.'[7] Thus, whether you are an accountant, operations manager, financial analyst, IT specialist or HR manager, you need to understand marketing and your role in creating customer value.

Cooperation and competition: The Toyota GR Supra is a well-reviewed sports car developed in conjunction with the BMW Z4 Roadster.

Sjoerd van der Wal/Getty Images

Partnering with others in the marketing system

In its quest to create customer value, the firm needs to look beyond its own internal value chain and into the value chains of its suppliers, distributors and, ultimately, its customers. Consider McDonald's. People do not swarm to McDonald's only because they love the chain's hamburgers. Consumers flock to the McDonald's *system*, not just to its food products. Throughout the world, McDonald's' finely tuned value delivery system delivers a high standard of QSCV – quality, service, cleanliness and value. McDonald's is effective only to the extent that it successfully partners with its franchisees, suppliers and others to jointly create 'our customers' favourite place and way to eat'.

More companies today are partnering with the other members of the supply chain – suppliers, distributors and, ultimately, customers – to improve the performance of the customer **value delivery network**. Increasingly in today's marketplace, competition no longer takes place between individual competitors. Rather, it takes place between the entire value delivery networks created by these competitors. Thus, car maker Toyota's performance against Mazda and Ford depends on the quality of Toyota's overall value delivery network compared to those of its competitors. Despite recalls of various models in recent times, Toyota and Honda have been renowned for making good cars. Toyota's network provides very customer-satisfying sales and service. This, on top of speed to market

value delivery network
The network made up of the company, suppliers, distributors and, ultimately, customers who partner with each other to improve the performance of the entire system.

LINKING THE CONCEPTS

Pause here for a moment to apply what you have read in the first part of this chapter.

- Why are we talking about company-wide strategic planning in a marketing book? What *does* strategic planning have to do with marketing?
- What are the Kmart Group's strategy and mission? What role does marketing play in helping Kmart to accomplish its strategy and mission?
- What roles do the other Kmart Group divisions and retail brands play, and how can the marketers for each division partner to maximise overall customer value? What roles do suppliers play?

with innovative products – such as the Prius; the Toyota 86, a sports car manufactured in partnership with Subaru; and the new Supra, launched in 2020 with a limited release line of only 300 available – has extended Toyota's global success.

Marketing strategy and the marketing mix (pp. 48–52)

The strategic plan defines the company's overall mission and objectives. Marketing's role and activities are shown in Figure 2.4, which summarises the main activities involved in managing a customer-driven marketing strategy and the marketing mix.

Customers stand in the centre. The goal is to create value for customers and build profitable customer relationships. Next comes **marketing strategy** – the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

marketing strategy The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

Guided by marketing strategy, the company designs an integrated *marketing mix* made up of factors under its control – product, price, placement logistics, promotion, people, process and physical evidence. To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. We now look briefly at each activity. Then, in later chapters, we discuss each one in more depth.

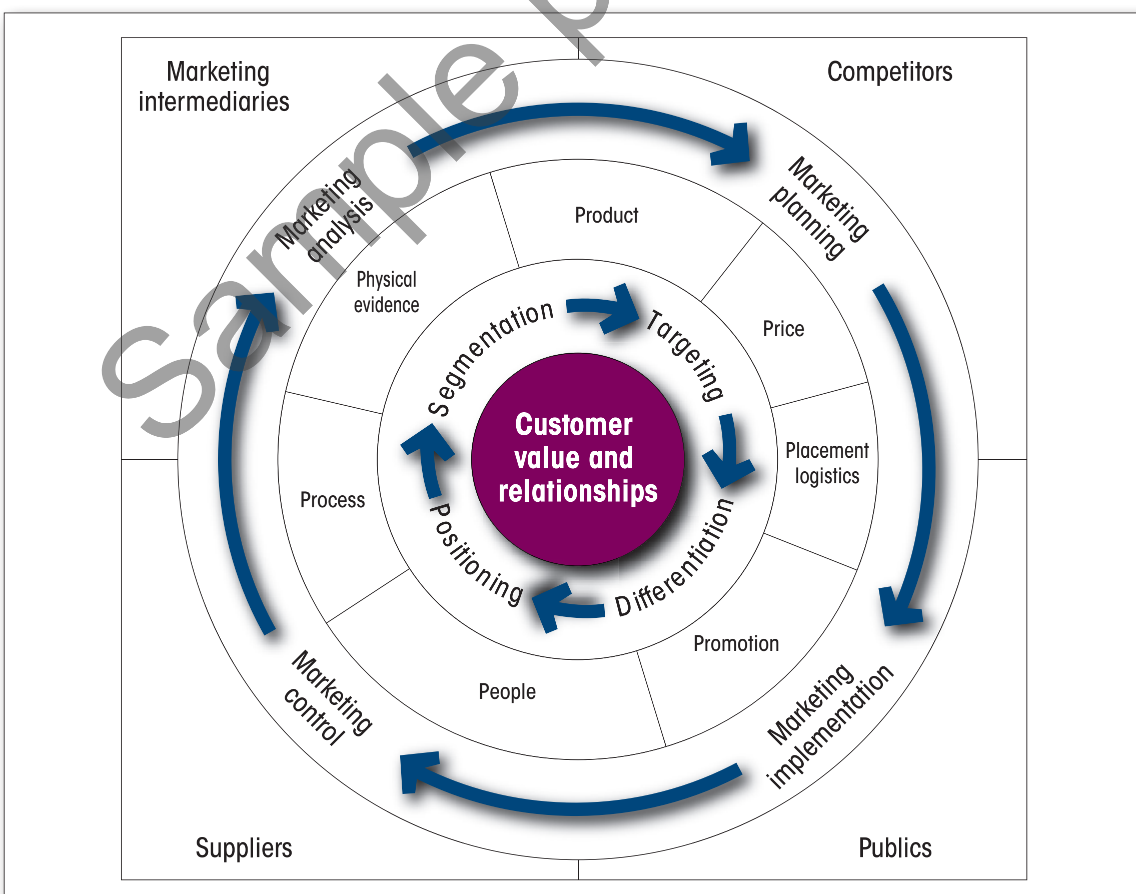


FIGURE 2.4 Managing marketing strategies and the marketing mix

Customer value-driven marketing strategy

As we emphasise throughout Chapter 1, to succeed in today's competitive marketplace, companies need to be customer-centred. They must win customers from competitors, then keep and grow them by delivering greater value. But before it can satisfy customers, a company must first understand their needs and wants. Thus, sound marketing requires careful customer analysis.

Companies know they cannot profitably serve all consumers in a given market – at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. And most companies are in a position to serve some segments better than they can serve others. Thus, each company must divide up the total market, choose the best segments and design strategies for profitably serving chosen segments. This process involves *market segmentation, market targeting, differentiation* and *positioning*.

Market segmentation

The market consists of many types of customers, products and needs. The marketer has to determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic and behavioural factors. The process of analysing and dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require tailored products or marketing programs, is called **market segmentation**.

market segmentation Analysing and dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require tailored products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful. For example, Panadol or Herron would gain little by distinguishing between low-income and high-income pain-reliever users if both segments respond the same way to marketing efforts for paracetamol analgesics. A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts. In the car market, for example, consumers who want the best-handling, high-performance car regardless of price make up one market segment. Consumers who care mainly about price and operating economy make up another segment. It would be difficult for a manufacturer to make one car model that was the first choice of consumers in both market segments. Thus, companies are wise to focus their efforts on meeting the distinct needs of individual market segments.

market segment A group of consumers who respond in a similar way to a given set of marketing efforts.

Market targeting

After a company has defined market segments, it can enter one or many of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to serve. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

market targeting The process of evaluating each market segment's attractiveness and selecting one or more segments to serve.

A company with limited resources might decide to serve only one or a few special segments or 'market niches'. Such 'nichers' specialise in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells fewer than 100 of its four-seater, V8-powered Californias in Australia each year, but at very high prices – at an eye-opening $400 000-plus. Most nichers are not quite so exotic. Yakult, maker of a fermented milk drink containing a beneficial bacterium called *Lactobacillus casei* Shirota strain, has found its niche as the nation's market leader of this type of acidophilus that helps get rid of unwanted bacteria in the body. And although Logitech is only a fraction of the size of giant Microsoft, through skilful niching it dominates the PC mouse market, with Microsoft as its runner-up.

Alternatively, a company might choose to serve several related segments – perhaps those with different kinds of customers who have the same basic wants. Or a large company, such as Toyota, might decide to offer a complete range of products to serve all market segments. Most companies enter a new market by serving a single segment and, if this proves successful, they add more segments.

For example, Nike started with innovative running shoes for serious runners. Large companies eventually seek full market coverage. Nike now makes and sells a broad range of sports products for just about anyone and everyone. It has different products designed to meet the special needs of each segment it serves.

Market differentiation and positioning

Once a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in those segments. A product's *position* is the place the product occupies relative to competitors' products in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be exactly like others in the market, consumers would have no reason to buy it.

positioning
Arranging for a product to occupy a clear, distinctive and desirable place in the minds of target consumers relative to competing products.

Positioning is arranging for a product to occupy a clear, distinctive and desirable place in the minds of target consumers relative to competing products. As one positioning expert puts it, positioning is 'why a shopper will pay a little more for your brand'.[8] Thus, marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

Bunnings promises: 'Lowest prices are just the beginning ...'; Kmart says it is: 'Cutting the cost of living'; Telstra professes: 'We strive to serve and know our customers better than anyone else';[9] whereas YouTube lets you 'Broadcast Yourself'. You can 'Think smarter, act faster' with Berocca; and with GSK's Nicabate aid to stop smoking, smokers are encouraged to 'Pledge to quit' and to join Facebook for more community support. While at Hungry Jack's 'Better Beef makes Better Burgers', people at McDonald's say, 'I'm lovin' it'. Such deceptively simple statements form the backbone of a product's marketing strategy.

differentiation
Differentiating the company's market offering from that offered by competitors, to create superior customer value.

In positioning its product, a company first identifies possible customer value differences that provide competitive advantages upon which to build the position. The company can offer greater customer value either by charging lower prices than competitors or by offering more benefits to justify higher prices. But if the company *promises* greater value, it must then *delive*r that greater value. Thus, effective positioning begins with **differentiation** – *differentiating* the company's market offering from that offered by competitors so that it gives consumers more value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing program should support the chosen positioning strategy. For example, BMW designs its entire integrated marketing campaign – from television and print commercials to its online marketing – around its 'The Ultimate Driving Machine' positioning. McDonald's does this integration on a global basis.

Developing an integrated marketing mix

marketing mix
The set of controllable tactical marketing tools – product, price, place, promotion, people, process and physical evidence – that the firm blends to produce the response it wants in the target market.

After deciding on its overall marketing strategy, the company is ready to begin planning the details of the marketing mix, one of the main concepts in modern marketing. The **marketing mix** is the set of controllable, tactical marketing tools that the company blends to produce the response it wants in the target market. The marketing mix consists of everything the company can do to influence the demand for its product. The many possibilities can be collected into groups of variables known as 'the extended marketing mix', which we touched on in Figure 1.5 in Chapter 1: *product, price, placement logistics, promotion, people, process* and *physical evidence*.

- *Product* means the combination of goods and services that the company offers to the target market. Thus, a Ford Focus consists of nuts and bolts, spark plugs, pistons, headlights and thousands of other parts. Ford Motor Company offers several Focus models and dozens of optional features,

such as self-assist parking. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.
- *Price* is the amount of money customers must pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Focus. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer's perception of the car's value.
- *Placement logistics* includes company activities that make the product available to target customers and end-consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford motor vehicles, demonstrate them to potential buyers, negotiate prices, close sales and service the cars after the sale.
- *Promotion* means activities that communicate the merits of the product and persuade target customers to buy it. Ford spends millions of dollars each year on advertising in Australia and New Zealand to tell consumers about the company and its many products. Dealership salespeople assist potential buyers and persuade them that the Ford brand is the best car for them. Ford and its dealers offer special promotions – sales, cash rebates, low financing rates – as added purchase incentives.

The subject of finance for motor vehicle purchases introduces the notion of financial services. As we discuss more fully in Chapter 7, services are intangible products. As such, they often require a variation in the marketing mix employed by service organisations. It is in this context that we briefly discuss three additional marketing mix variables.

- *People*. Services are often people-based, such as when a service manager attends to a customer's needs at a Ford service centre. Such service encounters can be highly variable. The variation may be because the organisation's people lack motivation or have attitudinal issues, in which case the organisation needs to engage in internal marketing and perhaps provide additional training.
- *Process*. When Ford Focus owners take their car in for service, or when people check-in or -out of airlines, hotels and motels, the process can be a satisfying experience, or one that causes the customer to vow never to return. Worse still, the latter customers may tell others of their poor experience, thereby negating the positive effects of any brand advertising. Marketers need to be involved in designing and monitoring the processes involved in buying and servicing any type of product.
- *Physical evidence*. Often, it is necessary to manage customer and potential customer expectations, commencing with an explanation of the criteria to use when comparing products. This also applies when buying any major product for the first time. For example, what criteria might young parents adopt in order to compare day-care centres for their young child? Clearly, one cannot ask a very young child if she or he liked the food provided or to provide feedback on other aspects of the day-care centre. Arguably, however, there are many criteria, ranging from the qualifications of the staff to the modernity of the centre, among others. The same young parents must also learn which are the relevant criteria upon which to compare brands when buying their first washing machine and many other such products. We might argue that physical evidence is an important aspect when buying other products, such as decay-prevention toothpaste. But when might we realistically say that a child's tooth decay has been prevented? It might be a decade or more later when we have the physical evidence to hand, by which time either the product was successful or it is now too late to do anything but visit the dentist for a filling or two.

An effective marketing program blends all of the marketing mix elements into an integrated marketing program designed to achieve the company's marketing objectives by delivering value to consumers. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets.

There is another concern, however, that is valid. It holds that the focus on marketing mix elements takes the seller's view of the market, not the buyer's view. From the buyer's viewpoint, in this age of customer value and relationships, the various Ps might be better described in terms of Cs, such as these four: customer solution, customer cost, convenience and communication.[10]

Thus, whereas marketers see themselves as selling products, customers see themselves as buying value or solutions to their problems. And customers are interested in more than just the price; they are interested in the total costs of obtaining, using and disposing of a product. Customers want the product and service to be as conveniently available as possible. Finally, they want two-way communication. Marketers would do well to think through the four Cs first and then build the marketing mix they use accordingly.

Managing the marketing effort (pp. 52–56)

In addition to being good at the *marketing* in marketing management, companies also need to pay attention to the *management*. Managing the marketing process requires the four marketing management functions shown in Figure 2.5 – *analysis, planning, implementation and organisation* and *control*. The company first develops company-wide strategic plans and then translates them into marketing and other plans for each division, product and brand. Through implementation, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides information and evaluations needed for all of the other marketing activities.

SWOT analysis An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O) and threats (T).

Marketing analysis

Managing the marketing function begins with a complete analysis of the marketing organisation's situation. The marketer should conduct a **SWOT analysis**, by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O) and threats (T) (see Figure 2.6). Strengths include

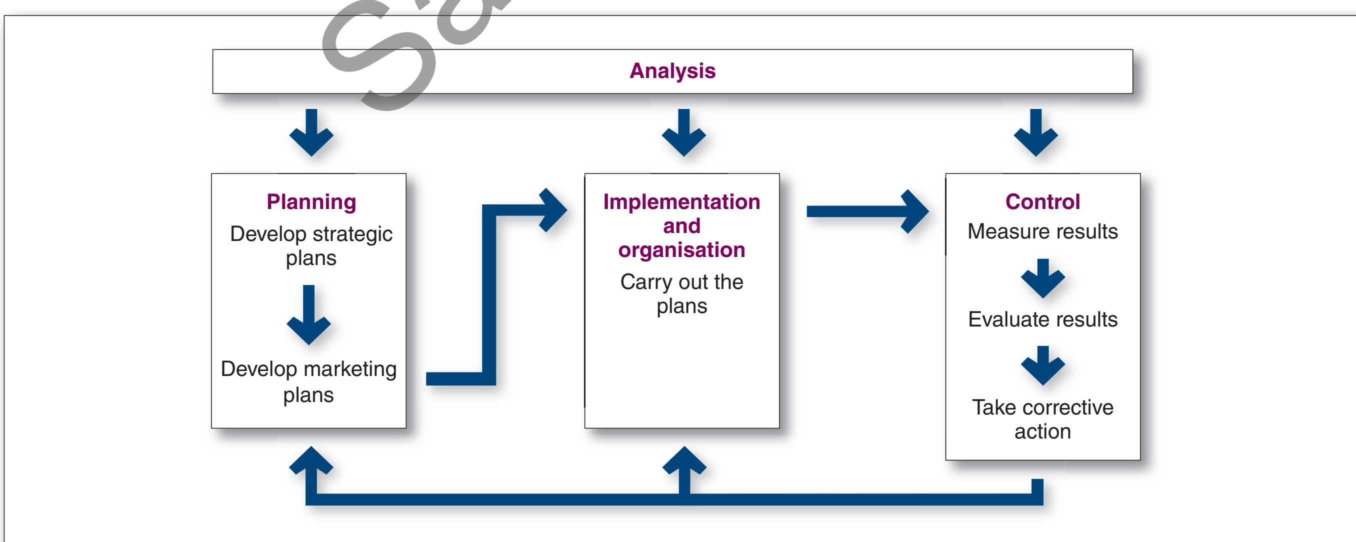


FIGURE 2.5 Managing marketing: Analysis, planning, implementation and control

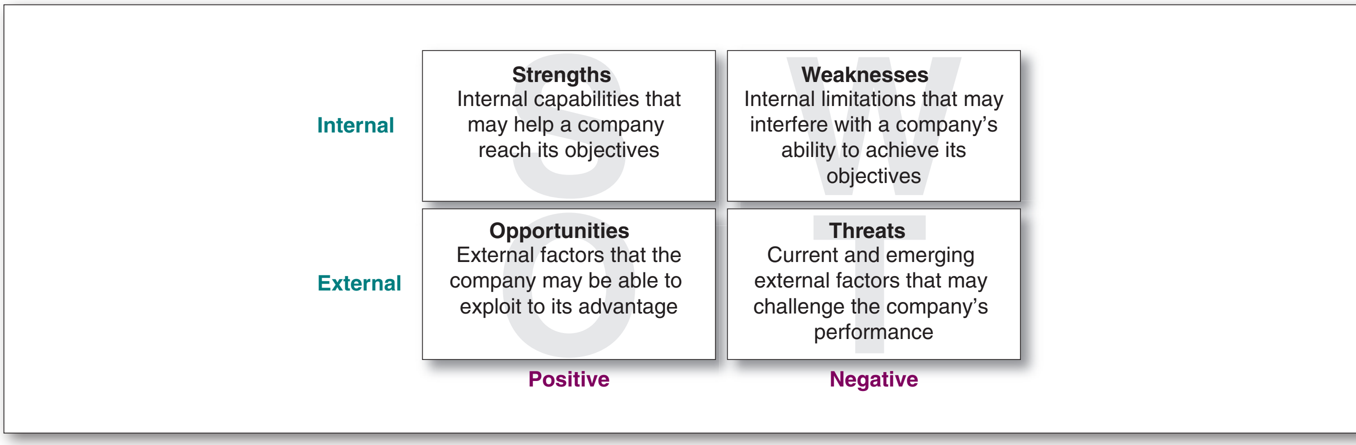


FIGURE 2.6 SWOT analysis: Strengths (S), weaknesses (W), opportunities (O) and threats (T)

internal capabilities, resources and positive situational factors that may help the company to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favourable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavourable external factors or trends that may present challenges to performance.

The company should analyse its markets and marketing environment to find attractive opportunities and identify environmental threats. It should analyse company strengths and weaknesses, as well as current and possible marketing actions, to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment, while eliminating or overcoming the weaknesses and minimising the threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Chapter 3.

Marketing planning

Through strategic planning, the company decides what it wants to do with each business unit. 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. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans.

Table 2.2 outlines the main sections of a typical product or brand marketing plan. (See Appendix 2 for a sample marketing plan.) The marketing plan begins with an executive summary that briefly reviews major assessments, goals and recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them.

A *marketing strategy* consists of specific strategies for target markets, positioning, the marketing mix and marketing expenditure levels. It outlines how the company intends to create value for target customers in order to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an action program for implementing the marketing strategy along with the details of a supporting *marketing budget*. The last section outlines the controls that will be used to monitor progress, measure return on marketing investment and take corrective action.

TABLE 2.2 Contents of a marketing plan

Section	Purpose
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management to find the plan's major points quickly. A table of contents should follow the executive summary.
Current marketing situation	Describes the target market and company's position in it, including information about the market, product performance, competition and distribution. This section includes: • A *market description*, which defines the market and major segments, then reviews customer needs and factors in the marketing environment that may affect customer purchasing. • A *product review*, which shows sales, prices and gross margins of the major products in the product line. • A review of *competition*, which identifies the main competitors and assesses their market positions and strategies for product quality, pricing, distribution and promotion. • A review of *marketing channels and logistics*, which evaluates recent sales trends and other developments in the major distribution channels.
Threats and opportunities analysis	Assesses major threats and opportunities that the product might face, helping management to anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	States the marketing objectives the company would like to attain during the plan's term and discusses key issues that will affect their attainment.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to create customer value and relationships and the specifics of target markets, positioning and marketing expenditure levels. How will the company create value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how each strategy responds to the threats, opportunities and critical issues spelled out earlier in the plan.
Action programs	Spells out how marketing strategies will be turned into specific action programs that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How much* will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit and loss statement. It shows expected revenues (forecasted number of units sold and the average net price) and expected costs of production, distribution and marketing. The difference is the projected profit. Once approved by higher management, the budget becomes the basis for materials buying, production scheduling, personnel planning and marketing operations.
Controls	Outlines the controls that will be used to monitor progress and allow higher management to review implementation results and identify products that are not meeting their goals. It includes measures of return on marketing investment.

Marketing implementation

marketing implementation The process that turns marketing strategies and plans into marketing actions in order to accomplish strategic marketing objectives.

Planning good strategies is only a start towards successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing *plans* into marketing *actions* in order to accomplish strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who*, *where*, *when* and *how*.

Many managers think that 'doing things right' (implementation) is as important as, or even more important than, 'doing the right things' (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another, yet win in the marketplace through faster or better execution. Still, implementation is difficult – it is often easier to think up good marketing strategies than it is to carry them out.

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. At Ryobi, for example, marketing implementation for the company's power tools, garden tools and other home products requires day-to-day decisions and actions by thousands of people both inside and outside the organisation. Marketing managers make decisions about target segments, branding, packaging, pricing, promoting and distributing. They talk with engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cashflows. They also connect with outside people, such as advertising agencies to plan ad campaigns and the news media to obtain publicity support. The salesforce urges Bunnings, Mitre 10 and other retailers to advertise Ryobi products, provide ample shelf space and use company displays.

Marketing department organisation

Companies must organise a marketing function that can carry out marketing strategies and plans. If the company is very small, one person might do all of the research, selling, advertising, customer service and other marketing work. As the company expands, a marketing department emerges to plan and carry out marketing activities. In large companies, this department contains many specialists, comprising product and market managers, sales managers and salespeople, market researchers, advertising experts, web designers and social media specialists, among others.

To lead such large marketing organisations, many companies have a *chief marketing officer* (or CMO) position. The CMO heads up the company's entire marketing operation and represents marketing on the company's top management team. The CMO position puts marketing on an equal footing with other 'C-level' executives, such as the chief executive officer (CEO) and the chief financial officer (CFO). As a member of top management, the CMO's role is to champion the customer's cause – to be the 'chief customer officer'. To that end, British Airways even went so far as to rename its top marketing position as Director of Customer Experience.[11]

Modern marketing departments can be arranged in several ways. The most common form of marketing organisation is the *functional organisation*. Under this organisation, different marketing activities are headed by a functional specialist – a sales manager, advertising manager, marketing research manager, customer service manager or new product manager. A company that sells across the country or internationally often uses a *geographic organisation*. Companies with many very different products or brands often create a *product management organisation*. Using this approach, a product manager develops and implements a complete strategy and marketing program for a specific product or brand.

Product management first appeared at Procter & Gamble (P&G) in 1929. A new company product, Camay soap, was not doing well and a young P&G executive was assigned to give his exclusive attention to developing and promoting this product. He was successful, and the company soon extended this approach to other products.[12] Since then, many firms, especially consumer-products companies, have set up product management organisations.

Marketing planning: Marketers must continually plan their analysis, implementation and control activities.

Dmitriy Shironosov/123RF

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 organisation* might be best. A market management organisation is similar to the product management organisation. Market managers are responsible for developing marketing strategies and plans for their specific markets or customers. This system's main advantage is that the company is organised around the needs of specific customer segments. Many companies develop special organisations to manage their relationships with large customers. For example, companies such as P&G and Black & Decker have large teams, or even whole divisions, set up to serve large customers such as Coles, Woolworths, ALDI or Kmart.

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 organisation forms.

Marketing organisation has become an increasingly important issue in recent years. More and more, companies are shifting their brand management focus towards *customer management* – moving away from managing only product or brand profitability and towards managing customer profitability and customer equity. They think of themselves not as managing portfolios of brands but as managing portfolios of customers. And rather than managing the fortunes of a brand, they see themselves as managing customer–brand experiences and relationships. This is particularly the case in direct and digital marketing, which we discuss in Chapter 13.

Marketing control

marketing control Measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are achieved.

Because many surprises occur during the implementation of marketing plans, marketers must practise constant **marketing control** – evaluating the results of marketing strategies and plans, and taking corrective action to ensure that objectives are attained. Marketing control involves four steps. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance. This may require changing the action programs or even changing the goals.

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. It also involves determining the profitability of different products, territories, markets and channels. *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.

LINKING THE CONCEPTS

Let's take a break at this point and reflect on the contents of a *marketing plan*. You might like to dig more deeply into the various sections by examining the sample marketing plan in Appendix 2. The marketing plan set out in Appendix 2 is for SonicaTab – makers of smartphones and tablets.

Measuring and managing return on marketing investment (pp. 56–59)

Marketing managers must ensure their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs and flashy advertising campaigns, often without thinking carefully about the financial returns on their spending. Their goal was often a general one – to 'build brands and consumer preference'. They believed that marketing produces intangible creative outcomes, which do not lend themselves readily to measures of productivity or return.

In today's tighter economic times, however, all that has changed. The free-spending days have been replaced by a new era of marketing measurement and accountability, as the marketing analytics spotlights in Appendix 3 illustrate. More than ever, today's marketers are being held accountable for linking their strategies and tactics to measurable marketing performance outcomes. One important marketing performance measure is *return on marketing investment*. **Return on marketing investment** (or **marketing ROI**) is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

return on marketing investment (marketing ROI) The net return from a marketing investment divided by the costs of the marketing investment.

Marketing returns can be difficult to measure. In measuring financial ROI, both the *R* and the *I* are uniformly measured in dollars. For example, when buying a piece of equipment, the productivity gains resulting from the purchase are fairly straightforward. But there is as yet no consistent definition of marketing ROI. For instance, returns such as advertising and brand-building impact are not easily put into dollar returns.

In one survey, 64 per cent of senior marketers rated accountability as a top three concern, well ahead of the 50 per cent who rated the hot topic of integrated marketing communications as a top concern. However, another survey found that only about 36 per cent of chief marketing officers felt able to quantitatively prove the short-term impact of marketing spending on their business; and only about 29 per cent felt able to prove long-term impact. Another CMO survey showed that a startling 57 per cent of CMOs do not take ROI measures into account when setting their marketing budgets, and an even more startling 28 per cent said they base their marketing budgets on 'gut instinct'. Clearly, marketers must think more strategically about the marketing performance returns of their marketing spending.[13]

A company can assess return on marketing investment in terms of standard marketing performance measures, such as brand awareness, sales or market share. Many companies are assembling such measures into *marketing dashboards* – meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance (see Figure 2.7). Just as automobile dashboards present drivers with details on how their cars are performing, the marketing dashboard gives marketers the detailed measures they need to assess and adjust their marketing strategies.[14]

Increasingly, however, beyond standard performance measures, marketers are using customer-centred measures of marketing impact, such as customer acquisition, customer retention, customer lifetime value and customer equity. These measures capture not just current marketing performance but also future performance resulting from stronger customer relationships. Figure 2.8 views marketing expenditures as investments that produce returns in the form of more profitable customer relationships.[15] Marketing investments result in improved customer value and satisfaction, which in turn increase customer attraction and retention. This increases individual customer lifetime values and the firm's overall customer equity. Increased customer equity, in relation to the cost of the marketing investments, determines marketing ROI.

Regardless of how it is defined or measured, the concept of return on marketing investment is here to stay. 'The marketing accountability revolution must continue,' says one marketer. 'In today's demanding business environment, companies must know the impact of their marketing investments.' Adds another, 'You gotta be accountable.'[16]

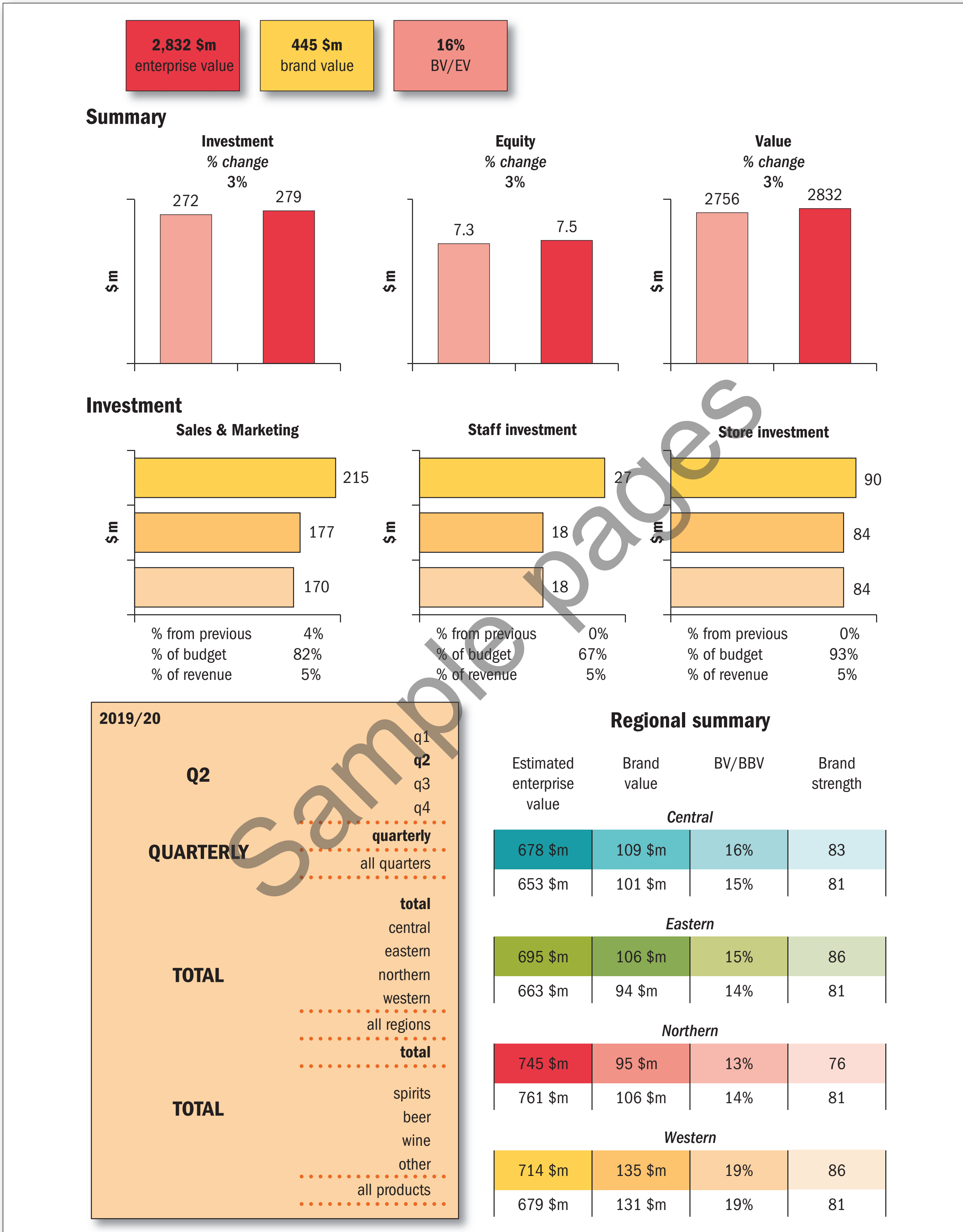


FIGURE 2.7 Brand Finance® dashboard

Source: Brand Finance® dashboard, courtesy Brand Finance Plc, with adaptations

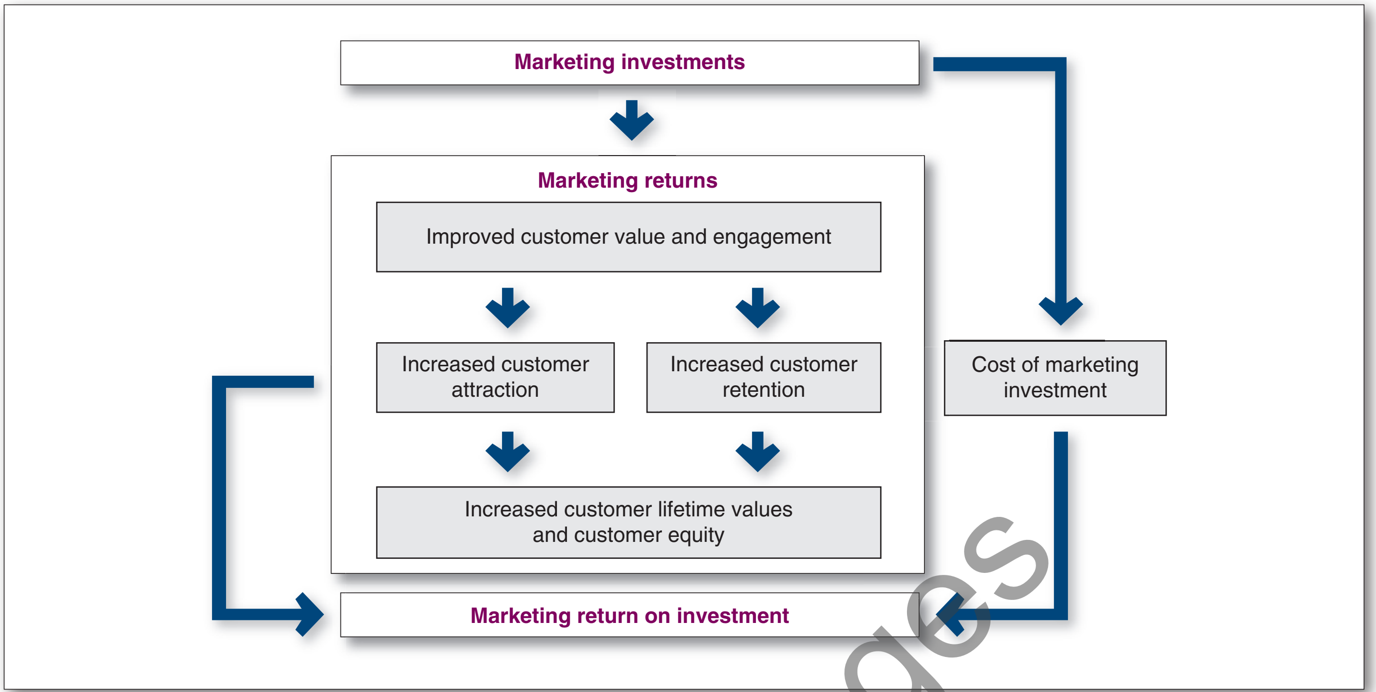


FIGURE 2.8 Return on marketing investment

Source: Adapted from Roland T Rust, Katherine N Lemon & Valerie A Zeithaml, 'Return on marketing: Using consumer equity to focus marketing strategy', *Journal of Marketing*, January 2004, 68(1), Figure 1, p. 112.

STUDENT LEARNING CENTRE

Reviewing the learning objectives

In Chapter 1, we defined *marketing* and outlined the steps in the marketing process. In this chapter, we examined organisation-wide strategic planning and the role of marketing in the organisation. Then, we looked more deeply into marketing strategy and the extended marketing mix, and reviewed the main marketing management functions. So, you have now had a pretty good overview of the fundamentals of modern marketing. In future chapters, we expand on these fundamentals.

Learning Objective 1. Explain company-wide strategic planning and its four steps. (pp. 38–42)

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: (1) defining the company's mission, (2) setting objectives and goals, (3) designing a business portfolio and (4) developing functional plans. The company's *mission* should be market-oriented, realistic, specific, motivating and consistent with the market environment. The mission is then transformed into detailed *supporting goals and objectives*, which in turn guide decisions about the business portfolio. Then, each business and product unit must develop *detailed marketing plans* in line with the company-wide plan.

Learning Objective 2. Discuss how to design business portfolios and develop growth strategies. (pp. 42–45)

Guided by the company's mission statement and objectives, management plans its *business portfolio*, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that best fits its strengths and weaknesses to opportunities in the environment. To do this, it must analyse and adjust its *current* business portfolio and develop growth and downsizing strategies for adjusting the *future* portfolio. The company might use a formal portfolio-planning method. But many companies are now designing more-customised portfolio-planning approaches that better suit their unique situations.

Learning Objective 3. Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value. (pp. 45–48)

Under the strategic plan, the main functional departments – marketing, finance, accounting, purchasing, operations, information systems, human resources and others – must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a *marketing concept philosophy* and *inputs* regarding attractive market opportunities. Within individual business units, marketing designs *strategies* for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. Marketers must practise *partner relationship management*, working closely with partners in other departments to form an effective *value chain* that serves the customer. And they must also partner effectively with other companies in the marketing system to form a competitively superior *value delivery network*.

Learning Objective 4. Describe the elements of a customer value-driven marketing strategy and mix, and the forces that influence it. (pp. 48–52)

Customer value and relationships are at the centre of marketing strategy and programs. Through market segmentation, targeting, differentiation and positioning, the company divides the total market into smaller segments, selects segments it can best serve and decides how it wants to bring value to target customers in the selected segments. It then designs an *integrated marketing mix* to produce the response it wants in the target market. The marketing mix consists of product, price, place and promotion decisions, and taking account of people, process and physical evidence, particularly in service encounters.

Learning Objective 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. (pp. 52–59)

To find the best strategy and mix and to put them into action, the company engages in marketing analysis, planning, implementation and control. The main components of a *marketing plan* are the executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programs, budgets and controls. To plan good strategies is often easier than to carry them out. To be successful, companies must also be effective at *implementation* – turning marketing strategies into marketing actions.

Marketing departments can be organised in one or a combination of ways: *functional marketing organisation, geographic organisation, product management organisation* or *market management organisation*. In this age of customer relationships, more and more companies are changing their organisational focus from product or territory management to customer relationship management. Marketing organisations carry out *marketing control*, both operating control and strategic control.

Marketing managers must ensure their marketing dollars are being well spent. In a tighter economy, today's marketers face growing pressures to show they are adding value in line with their costs. In response, marketers are developing better measures of *return on marketing investment*. Increasingly, they are using customer-centred measures of marketing impact as a key input into their strategic decision making.

Discussion questions

1. *Marketing planning*. When preparing marketing plans, some of the components are considered to be more important than others. Given this, discuss whether there is justification for leaving out some components from the marketing plan. (Learning Objectives 1, 3 and 4) (AACSB: Communication; Reflective Thinking)
2. *Market turbulence*. Sometimes the marketplace and products change so quickly there is no time to develop marketing plans. Businesses, such as Kmart (see Marketing in action 2.1), face such market turbulence. Discuss whether businesses should simply ignore the marketing planning process and just get on with meeting their competitors head on in marketing their offerings. (Learning Objectives 2, 3 and 4) (AACSB: Communication; Analytical Thinking; Reflective Thinking)
3. *Marketing plans and small businesses.* Do you agree or disagree with the following statement by a marketing commentator: 'Most small businesses don't prepare marketing plans because the information needed to complete them is too difficult to gather'? Justify your answer. What other reasons (if any) could there be why small businesses might not complete marketing plans? (Learning Objectives 1, 2 and 3) (AACSB: Communication; Analytical Thinking; Reflective Thinking)
4. *Strategic business unit planning.* Many organisations are restructuring as smaller SBUs. Does this action make it any easier to develop marketing plans? Justify your answer. What other reasons (if any) could explain why this is happening? (Learning Objectives 2, 3 and 4) (AACSB: Communication; Analytical Thinking; Reflective Thinking)
5. *Marketing planning process.* There is often confusion between the marketing plan and the marketing planning process. Elaborate on each, and discuss why they are important. (Learning Objectives 1, 2 and 3) (AACSB: Communication; Analytical Thinking; Reflective Thinking)
6. *Business plans versus marketing plans.* Is there a difference between a business plan and a marketing plan? Be sure to explain the reasoning behind your answer. (Learning Objectives 1, 2 and 3) (AACSB: Communication; Analytical Thinking; Reflective Thinking)

Critical thinking exercises

1. In a small group, give an example of how Remedy, makers of live-cultured drinks such as its flavoured kombucha, can grow by applying each of the product/market expansion grid strategies. Be sure to name and describe each strategy and discuss how the company might use each strategy to grow. (Learning Objective 2) (AACSB: Communication; Analytical Thinking; Reflective Thinking)
2. Marketers are increasingly held accountable for demonstrating the marketing success of their companies. Research the various marketing performance measures, in addition to those

described in this chapter and in Appendix 3, used by marketers to measure marketing performance. Write a brief report of your findings. (Learning Objective 5) (AACSB: Communication; Analytical Thinking; Reflective Thinking)

3. Explain the role of a chief marketing officer (CMO). Learn more about this C-level executive position and source an article that describes the importance of this position, the characteristics of an effective CMO and any issues surrounding this position. (Learning Objective 5) (AACSB: Communication; Analytical Thinking; Reflective Thinking)

Navigating the key terms

Learning Objective 1
mission statement (p. 38)
strategic business units (SBUs) (p. 39)
strategic planning (p. 38)

Learning Objective 2
business portfolio (p. 42)
diversification (p. 45)
growth-share matrix (p. 42)
market development (p. 45)
market penetration (p. 44)
portfolio analysis (p. 42)
product development (p. 45)
product/market expansion grid (p. 44)

Learning Objective 3
value chain (p. 46)
value delivery network (p. 47)

Learning Objective 4
differentiation (p. 50)
market segment (p. 49)
market segmentation (p. 49)
market targeting (p. 49)
marketing mix (p. 50)
marketing strategy (p. 48)
positioning (p. 50)

Learning Objective 5
marketing control (p. 56)
marketing implementation (p. 54)
return on marketing investment (marketing ROI) (p. 57)
SWOT analysis (p. 52)

MINI CASES

2.1 MARKETING STRATEGY

SERIOUS PLAY®: A new strategic direction for LEGO®

Established in 1934, the iconic plastic bricks, LEGO® (meaning 'play well'), are fixtures in innumerable homes around the globe and, today, LEGO® is considered to be one of the world's most valuable toy brands. From its early days manufacturing simple plastic bricks, The LEGO Group has expanded to include theme parks, movies, games and merchandise in its product portfolio. The company's mission is to 'inspire and develop the builders of tomorrow'. As the business diversified, a greater range of physical and entertainment products entered the product mix to capture the imagination of children worldwide. But it is not only children that the brand targets today. Recognising the nostalgia and brand loyalty among adult fans of the product, not to mention their role as purchasers for children, in recent years the LEGO® brand has expanded its marketing strategy to connect more deeply with adults. With the LEGO® Experts range, the LEGO® Friends line targeting Gen X and the co-created LEGO® Ideas range, more-mature builders are reinforcing LEGO®'s enduring power as a brand. Today, LEGO® is even used in organisations to support innovative thinking and to enhance the development of business strategy. LEGO® SERIOUS PLAY® is a workshop concept based on a reflective process, and utilising LEGO® bricks to encourage deep thinking in a group setting. As participants build models they develop stories and play out different scenarios – a process

Jason Pulley/Alamy Stock Photo

designed to stimulate creativity and team building. Run by trained facilitators in a work environment, LEGO® SERIOUS PLAY® brings a new element to strategy development, and a new direction for LEGO® itself.[17]

1. Conduct research on The LEGO Group to learn more about its products and services. Has the range expanded too far? Discuss. (AACSB: Communication; Reflective Thinking)
2. How are LEGO®'s brand values reflected in the products and services the company offers? Go to the LEGO® website (<www.lego.com>) to explore these values and brand promises, and consider whether these are being met through the organisation's current strategies. (AACSB: Communication; Reflective Thinking)

2.2 CUSTOMER FOCUS

Maccas' mission

More than half a century ago, Ray Kroc, a 52-year-old salesman of milkshake-mixing machines, set out on a mission to transform the way Americans ate and, in the process, influenced many people's eating habits around the world. In 1955, Kroc discovered a string of seven restaurants owned by Richard and Maurice McDonald. He saw the McDonald brothers' fast-food concept as a perfect fit for America's increasingly on-the-go, time-squeezed, family-oriented lifestyles. Kroc bought the small chain for US$2.7 million and the rest is history.

From the start, Kroc preached a motto of QSCV – quality, service, cleanliness and value. These goals became mainstays in McDonald's' customer-focused mission statement. Applying these values, the company perfected the fast-food concept – delivering convenient, good-quality food at affordable prices.

McDonald's grew quickly to become the world's largest 'fast-feeder'. The fast-food giant's more than 38 000 restaurants worldwide now serve 69 million customers each day, racking up system-wide sales of more than US$130 billion annually.[18] Arguably, the 'golden arches' are one of the world's most familiar symbols and, other than Santa Claus, no character in the world is more recognisable than Ronald McDonald.

After many ups and downs that saw the company actually losing money, in 2003 McDonald's adopted a new strategic blueprint which it called its 'Plan to Win'. The new mission was 'to be our customers' favourite place to eat'. As part of the strategic plan, the restaurants were redecorated and, more importantly, the menu was reworked by a well-recognised chef, resulting in many innovations, including the introduction of its 'Premium' salads. The company also launched a multifaceted education campaign that underscores the importance of eating right and staying active.

Helen Sessions/Alamy

'Maccas', as the chain is colloquially known in Australia and New Zealand, consistently outperforms its competitors. Updates to its restaurants and the constant introduction of innovations, such as salads, snack wraps, Angus Burgers, McCafé coffees and smoothies, have customers and the company alike humming the chain's catchy jingle, 'I'm lovin' it'.

1. Does McDonald's' marketing strategy of innovating via its menus differentiate it from (say) Hungry Jack's? Explain your answer. (Learning Objectives 3 and 4) (AACSB: Communication; Reflective Thinking)
2. Research the positioning statements for each of the major fast-food chains. In what way do their advertising lines, such as 'I'm lovin' it', position the brands differently? (Learning Objectives 3 and 4) (AACSB: Communication; Reflective Thinking)

2.3 MARKETING ANALYTICS AT WORK

Dick Smith's demise: Poor strategy?

As anyone who bought electronic components, CB radios and computers in the 1970s and '80s knows, Dick Smith was a solid player in that sphere of retailing, firstly in Australia and then in New Zealand. Having been founded for $610 by then-young electronics technician Dick Smith in Sydney in 1968 as a car-radio installation business, the store group went on to become a trusted iconic brand in consumer electronics, with sales revenue of $1.2 billion in the 2014 financial year.

Woolworths bought a 60 per cent shareholding in the company in 1981, then moved to 100 per cent ownership in 1983. The shareholding cost Woolworths $25 million. The company set up online access in 2000, including an eBay store. However, Woolworths could not seem to wring shareholder value from their acquisition.

Woolworths sold Dick Smith to private equity firm, Anchorage Capital, in 2012 for $94 million. Anchorage then turned around and floated the company on the stock exchange for five times their purchase price in 2014, or some $500 million. There are views that Anchorage, in making a leaner, meaner retail group, stripped the inventory out of the business, which Dick Smith management then replaced with the 'wrong' stock, comprising many generic house-brand electronic products. Moreover, supplier rebates were used to inflate earnings. This sent the company into a tailspin as the company's bankers and creditors circled ominously.

Competitor Gerry Harvey was one critic of the company's strategy, putting it this way: 'We virtually don't do any of that sort of [generic branded] stuff. I think there is room for some of that but if you are out there trying to establish a brand name with your company, you are better off doing it with other brand names as your partner ... When you go to house brands, you are basically looking for margin and mostly looking at inferior products and you are mostly trying to sell it as being superior product, which it mostly isn't.'

From holding the wrong stock, Dick Smith issued gift vouchers before Christmas 2015 in a fire sale, which they were unable to honour as creditors were clamouring for payment. This caused social media outrage among consumers, which added to the negativity already being expressed in consumers' dissatisfaction with fulfilment from the company's eBay store. The fire sale did not move the requisite stock levels. Larger suppliers to the company, such as Apple and Samsung, had already moved to cash-on-delivery terms, but the many smaller suppliers suddenly found themselves as creditors as receivers took control of the company's 393 outlets at the behest of the company's bankers.

In early 2016, online retailer Ruslan Kogan purchased Dick Smith's online retail business, including goodwill and brand, for an undisclosed sum. Kogan commented after the acquisition: 'We do know that by leveraging our existing systems and infrastructure, we are in the best position out of any retailer in Australia and New Zealand to run Dick Smith as an online only retailer. The Dick Smith online offering will soon be better than ever.' [19]

Richard Milnes/Alamy Live News

1. What marketing strategy options existed for Dick Smith when rebuilding the Dick Smith retail brand after being floated by Anchorage Capital in 2014? (Learning Objectives 1, 2, 3 and 4) (AACSB: Communication; Reflective Thinking)
2. What methods would you have used to assess consumers' perceptions of Dick Smith's positioning relative to retail competitors prior to the company's demise? (Learning Objectives 1, 2, 3 and 4) (AACSB: Communication; Reflective Thinking)
3. What part does inventory play in the strategy(ies) you put forward for rebuilding the Dick Smith brand? (Learning Objectives 3, 4 and 5) (AACSB: Communication; Reflective Thinking)
4. What method would you have used to analyse inventory turns? Assuming sales of $1.2 billion in the 2014 financial year (FY), and a beginning inventory of $400 000 and an end-of-year inventory of $700 000, calculate the inventory turns in FY 2014. How many days' worth of inventory would Dick Smith be holding in this example? (*Hint*: See Appendix 3.) (Learning Objectives 3, 4 and 5) (AACSB: Communication; Reflective Thinking)

2.4 ETHICAL REFLECTION

Making the figures tell a story

You are chief marketing officer (CMO) of a sub-division of your company. Your board of directors has asked you to submit a new marketing plan for your division, a plan that must show a return on marketing investment in year 1 and profit from year 2 onwards for it to be acceptable to the board. Otherwise, they will close your division, resulting in the loss of your position and the jobs of your staff.

Your investigations clearly identify that your division should invest in a product redesign that would improve the sustainability of one of your key product lines, utilising recycled materials and reclaiming products at end of life. However, the experience of almost all companies that are redesigning similar products in this way indicates that a return on investment in marketing is not usually possible until three or four years after the product redesign has entered the market. You are firmly convinced that your company will achieve very large profits and sales for this product in the long term. As you are the only executive with experience in this area, and your reputation is excellent with all the board members, they will accept your recommendation.

1. Would you 'sweeten' the figures to show profitability in the short term to save your division and your job from extinction, or would you present a realistic plan showing losses in the short term and profits in the long term? (Learning Objectives 1 to 5) (AACSB: Communication; Reflective Thinking; Ethical Reasoning)

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