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SCHOOL OF MANAGEMENT STUDIES

UNIT-1 - STRATEGIC MARKETING - SBAA7011

STRATEGIC MARKETING

UNIT I

Marketing is defined by the **American Marketing Association** as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

1. **Creating:** The process of collaborating with suppliers and customers to create offerings that have value.
2. **Communicating**: Broadly, describing those offerings, as well as learning from customers.
3. **Delivering**: Getting those offerings to the consumer in a way that optimizes value.
4. **Exchanging**: Trading value for those offerings.

The traditional way of viewing the components of marketing is via the four Ps

1. **Product:** Goods and services (creating offerings).
2. **Promotion:** Communication.
3. **Place:** Getting the product to a point at which the customer can purchase it (delivering).
4. **Price:** The monetary amount charged for the product (exchanging)

CORPORATE AND DIVISION STRATEGIC PLANNING

Marketing plays a critical role in corporate strategic planning within successful companies. **Market-oriented strategic planning** is the managerial process of developing and maintaining a viable fit among the organization's objectives, skills, and resources and its changing market opportunities.

The **aim of strategic planning** is to shape the company's businesses and products so that they yield target profits and growth and keep the company healthy despite any unexpected threats that may arise.

Strategic planning calls for action in three key areas.

The first area is managing a company's businesses as an **investment portfolio**.

The second area involves **assessing each business's strength** by considering the market's growth rate and the company's position and fit in that market.

And the third area is the **development of strategy**, a game plan for achieving long-term objectives.

Good mission statements focus on a limited number of goals, stress the company's major policies and values, and define the company's major competitive scopes. These include:

- **Industry scope:** The industry or range of industries in which a company will operate. For example, DuPont operates in the industrial market; Dow operates in the industrial and consumer markets.
- **Products and applications scope**: The range of products and applications that a company will supply. St. Jude Medical aims to "serve physicians worldwide with high quality products for cardiovascular care."
- **Competence scope**: The range of technological and other core competencies that a company will master and leverage. Japan's NEC has built its core competencies in computing, communications, and components to support production of laptop computers, televisions, and other electronics items.
- **Market-segment scope**: The type of market or customers a company will serve. For example, Porsche makes only expensive cars for the upscale market and licenses its name for high-quality accessories.
- **Vertical scope**: The number of channel levels from raw material to final product and distribution in which a company will participate. At one extreme are companies with a large vertical scope; at the other extreme are firms with low or no vertical integration that may outsource design, manufacture, marketing, and physical distribution.

❖ **Geographical scope**: The range of regions or countries in which a company will operate. At one extreme are companies that operate in a specific city or state. At the other extreme are multinationals such as Unilever and Caterpillar, which operate in almost every one of the world's countries.

Establishing Strategic Business Units

A business can be defined in terms of three dimensions:

a. **Customer groups,**
b. **Customer needs, and**
c. **Technolog**y.

For example, a company that defines its business as designing incandescent lighting systems for television studios would have

a. Television studios as its customer group;
b. Lighting as its customer need;
c. Incandescent lighting as its technology.

Market definitions of a business are superior to product definitions. These three dimensions describe the business in terms of a **customer-satisfying process, not a goods-producing process.**

Thus, Xerox's **product definition** would be "We make copying equipment;" while its **market definition** would be "We help improve office productivity."

Large companies normally manage quite different businesses, each requiring its own strategy; General Electric, as one example, has established 49 **strategic business units** (SBUs).

SBU has three characteristics:

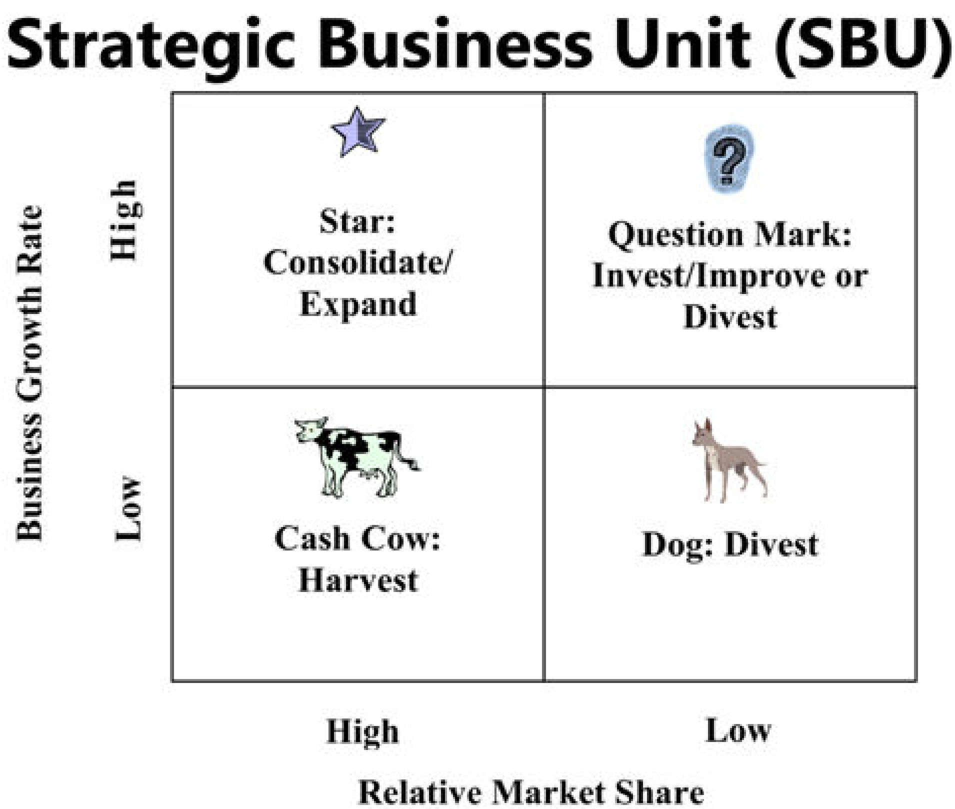
a. It is a single business or collection of related businesses that can be planned separately from the rest of the company;
b. It has its own set of competitors; and
c. It has a manager responsible for strategic planning and profit performance who controls most of the factors affecting profit.

Assigning Resources to SBUs

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding to the entire business portfolio. Senior managers generally apply analytical tools to classify all of their SBUs according to **profit potential. Two of the best-known business portfolio evaluation models are the Boston Consulting Group model and the General Electric model.**

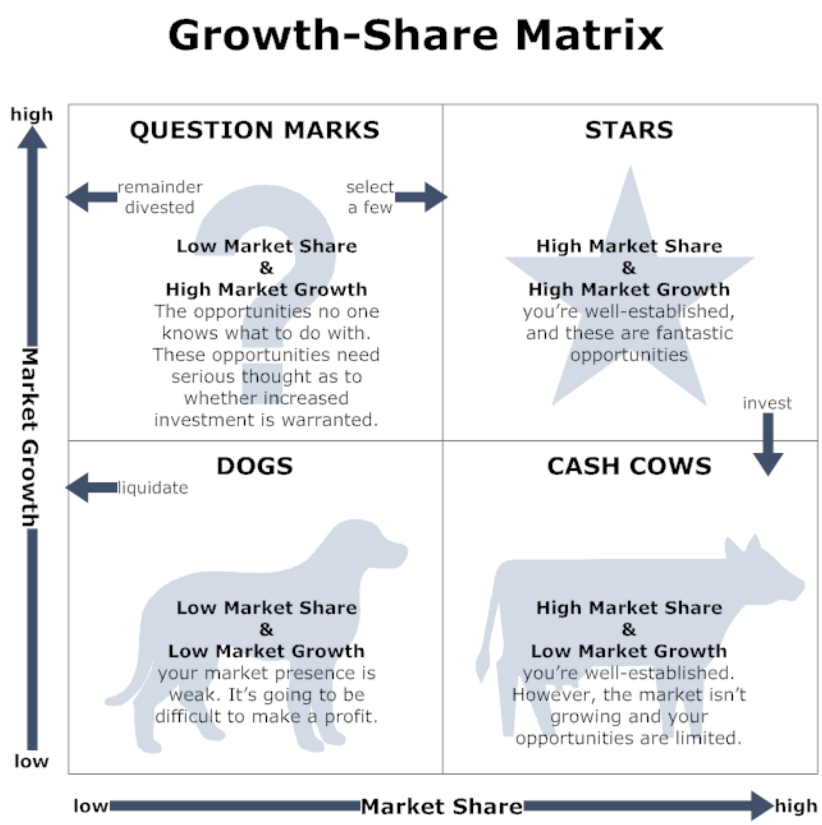
The Boston Consulting Group Approach

The Boston Consulting Group (BCG), a leading management consulting firm, developed and popularized the **growth-share matrix**. The growth-share matrix is divided into four cells, each indicating a different type of business:



- **Question marks** are businesses that operate in high-growth markets but have low relative market shares. Most businesses start off as question marks as the company tries to enter a high-growth market in which there is already a market leader. A question mark requires a lot of cash because the company is spending money on plant, equipment, and personnel. The term question mark is appropriate because the company has to think hard about whether to keep pouring money into this business.

- **Stars** are market leaders in a high-growth market. A star was once a question mark, but it does not necessarily produce positive cash flow; the company must still spend to keep up with the high market growth and fight off competition.
- **Cash cows** are former stars with the largest relative market share in a slow-growth market. A cash cow produces a lot of cash for the company (due to economies of scale and higher profit margins), paying the company's bills and supporting its other businesses.
- **Dogs** are businesses with weak market shares in low-growth markets; typically, these generate low profits or even losses. After plotting its various businesses in the growth-share matrix, a company must determine whether the portfolio is healthy. An unbalanced portfolio would have too many dogs or question marks or too few stars and cash cows.



The next task is to determine what objective, strategy, and budget to assign to each SBU.

Four strategies can be pursued:

1. Build: The objective here is to increase market share, even forgoing short-term earnings to achieve this objective if necessary. Building is appropriate for question marks whose market shares must grow if they are to become stars.

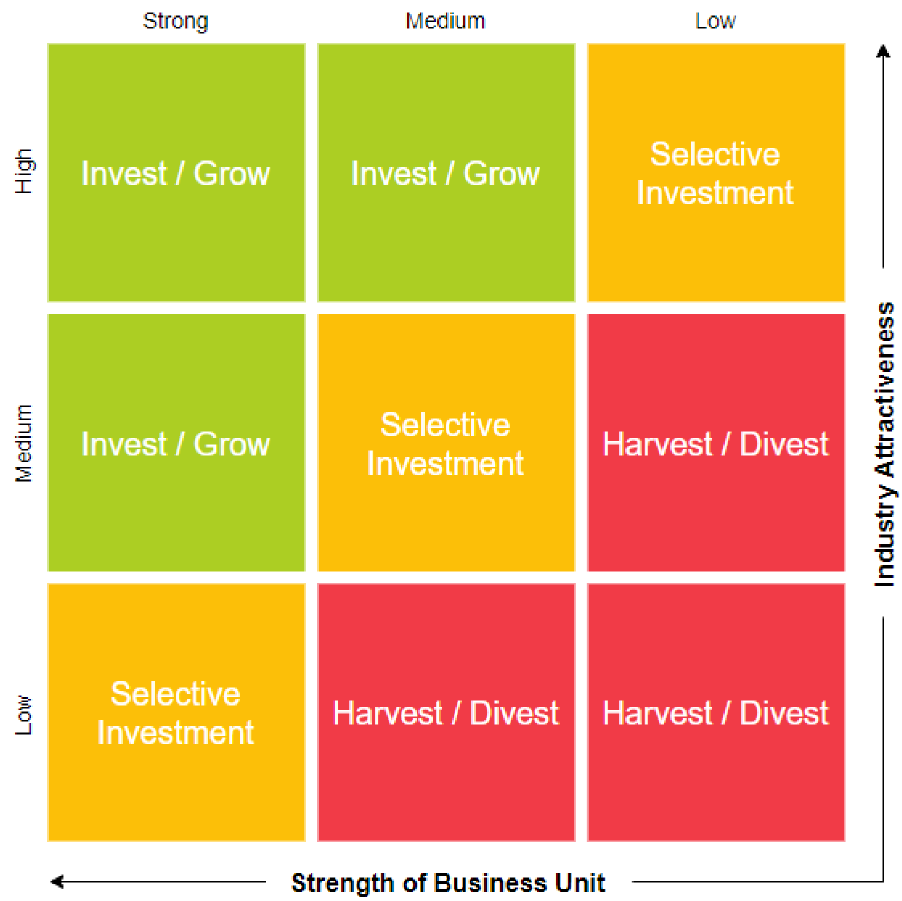
2. Hold: The objective in a hold strategy is to preserve market share, an appropriate strategy for strong cash cows if they are to continue yielding a large positive cash flow.

3. Harvest: The objective here is to increase short-term cash flow regardless of long-term effect. Harvesting involves a decision to withdraw from a business by implementing a program of continuous cost retrenchment. The hope is to reduce costs faster than any potential drop in sales, thus boosting cash flow. This strategy is appropriate for weak cash cows whose future is dim and from which more cash flow is needed. Harvesting can also be used with question marks and dogs.

4. Divest: The objective is to sell or liquidate the business because the resources can be better used elsewhere. This is appropriate for dogs and question marks that are dragging down company profits. Successful SBUs move through a life cycle, starting as question marks and becoming stars, then cash cows, and finally dogs. Given this life-cycle movement, companies should be aware not only of their SBUs' current positions in the growth-share matrix, but also of their moving positions. If an SBU's expected future trajectory is not satisfactory, the corporation will need to work out a new strategy to improve the likely trajectory.

The General Electric Model

An SBU's appropriate objective cannot be determined solely by its position in the growth-share matrix. If additional factors are considered, the growth-share matrix can be seen as a special case of a **multifactor portfolio matrix that General Electric (GE)** pioneered. In this model, each business is rated in terms of **two major dimensions—market attractiveness and business strength**. These two factors make excellent marketing sense for rating a business. Companies are successful to the extent that they enter attractive markets and possess the required business strengths to succeed in those markets. If one of these factors is missing, the business will not produce outstanding results. Neither a strong company operating in an unattractive market nor a weak company operating in an attractive market will do well.



Using these two dimensions, the GE matrix is divided into nine cells. The three cells in the upper-left corner indicate strong SBUs suitable for investment or growth. The diagonal cells stretching from the lower left to the upper right indicate SBUs of medium attractiveness; these should be pursued selectively and managed for earnings. The three cells in the lower-right corner indicate SBUs low in overall attractiveness, which the company may want to harvest or divest. In addition to identifying each SBU's current position on the matrix, management should also forecast its expected position over the next 3 to 5 years. Making this determination involves analyzing product life cycle, expected competitor strategies, new technologies, economic events, and so on.

Market Attractiveness	Strong	Medium	Weak
High	**Protect Position** •Invest to grow at maximum digestible rate •Concentrate effort on maintaining strength	**Invest To Build** •Challenge for leadership •Build selectively on strengths •Reinforce vulnerable areas	**Build Selectively** •Specialize around limited strengths •Seek ways to overcome weaknesses •Withdraw if indications of sustainable growth are lacking
Medium	**Build Selectively** •Invest heavily in most attractive segments •Build up ability to counter competition •Emphasize profitability by raising productivity	**Selectively Manage For Earnings** •Protect existing program •Concentrate investments in segments where profitability is good and risk is relatively low	**Limited Expansion Or Harvest** •Look for ways to expand without high risk; otherwise, minimise investment and rationalise operations
Low	**Protect And Refocus** •Manage for current earnings •Concentrate on attractive segments •Defend strengths	**Manage For Earnings** •Protect position in most profitable segments •Upgrade product line •Minimise investment	**Divest** •Sell at time that will maximise cash value •Cut fixed costs and avoid investment meanwhile

Competitive position of firm

BCG v/s GE

BCG	GE
Market Growth	Market Attractiveness
Market share	Market strength
4 cell	9 cell
Multi Products	Multi Business Units
Primary tools	Secondary tools

Planning New Businesses, Downsizing Older Businesses

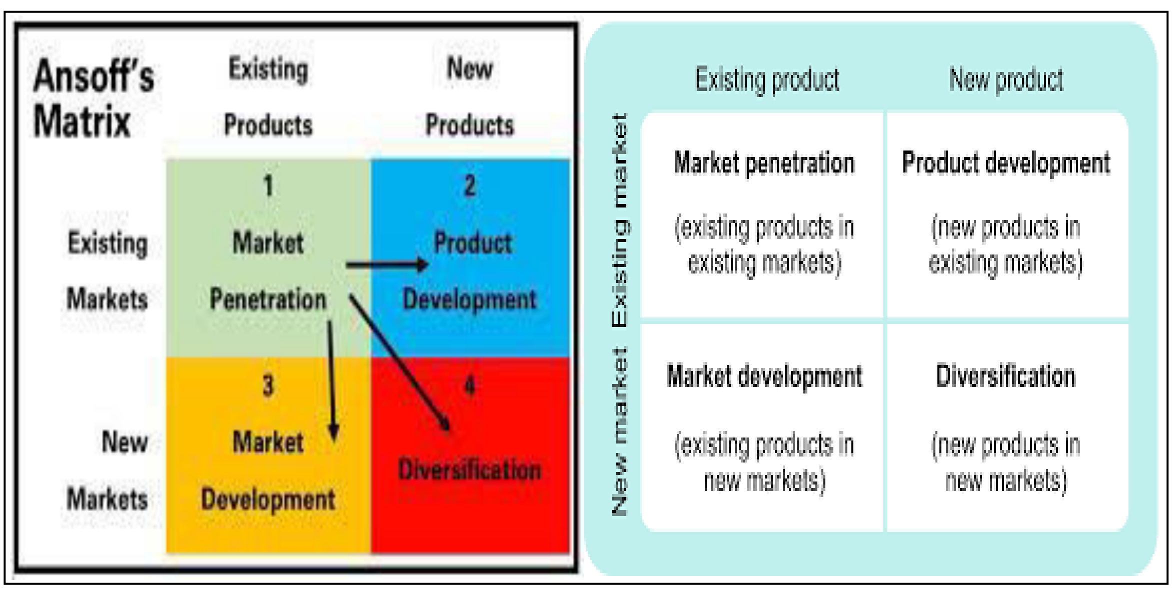
Corporate management often desires higher sales and profits than indicated by the projections for the SBU portfolio. The question then becomes how to grow much faster than the current businesses will permit.

One option is to identify opportunities to achieve further growth within the company's current businesses **(intensive growth opportunities).**

A second option is to identify opportunities to build or acquire businesses that are related to the company's current businesses **(integrative growth opportunities).**

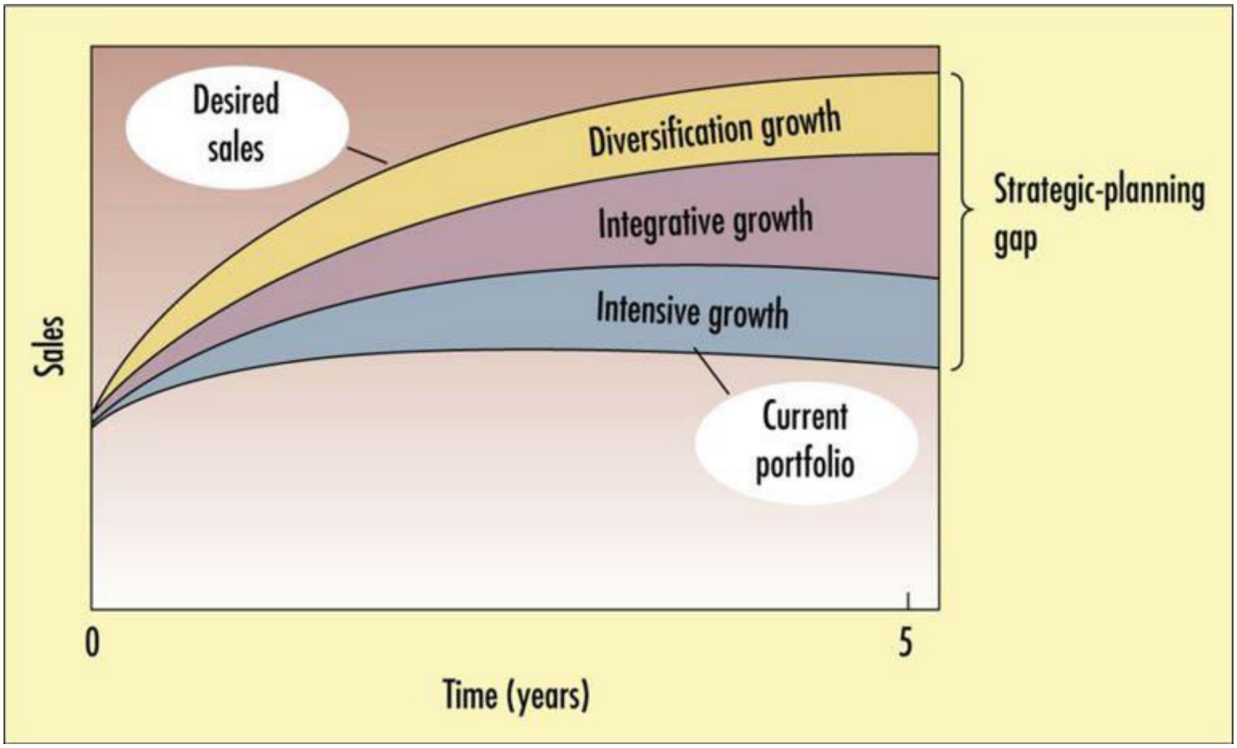
A third option is to identify opportunities to add attractive businesses that are unrelated to the company's current businesses **(diversification growth opportunities).**

- **Intensive growth**: Ansoff has proposed the product–market expansion grid as a framework for detecting new intensive growth opportunities. In this grid, the company first considers whether it could gain more market share with its current products in current markets (market-penetration strategy) by encouraging current customers to buy more, attracting competitors' customers, or convincing nonusers to start buying its products. Next it considers whether it can find or develop new markets for its current products (market-development strategy). Then it considers whether it can develop new products for its current markets (product-development strategy). Later it will also review opportunities to develop new products for new markets (diversification strategy).



	existing products	new products
existing markets	Market penetration strategies • Increase market share with new customers • Increase sale volume for with existing customers • Increase frequency of usage • Increase the amount of used products • Identification of new applications and usage possibilities for existing products	Product development strategies • Product improvement • Extension of product groups • Development of new products for the same market
new markets	Market development strategies • Develop new markets for existing products • Identification of new geographies • Identification of new market segments and new customer segments	Diversification strategies • Vertical diversification • Horizontal diversification / Diversification towards a related business (concentric diversification) • Diversification towards a new business (conglomerate diversification)

- **Integrative growth:** Often a business's sales and profits can be increased through backward integration (acquiring a supplier), forward integration (acquiring a distributor), or horizontal integration (acquiring a competitor).
- **Diversification growth:** This makes sense when good opportunities exist outside the present businesses. Three types of diversification are possible. The company could seek new products that have technological or marketing synergies with existing product lines, even though the new products themselves may appeal to a different group of customers (concentric diversification strategy). Second, the company might search for new products that appeal to its current customers but are technologically unrelated to the current product line (horizontal diversification strategy). Finally, the company might seek new businesses that have no relationship to the company's current technology, products, or markets (conglomerate diversification strategy). Of course, companies must not only develop new businesses, but also prune, harvest, or divest tired, old businesses in order to release needed resources and reduce costs. Weak businesses require a disproportionate amount of managerial attention; managers should therefore focus on growth opportunities rather than wasting energy and resources trying to save hemorrhaging businesses.

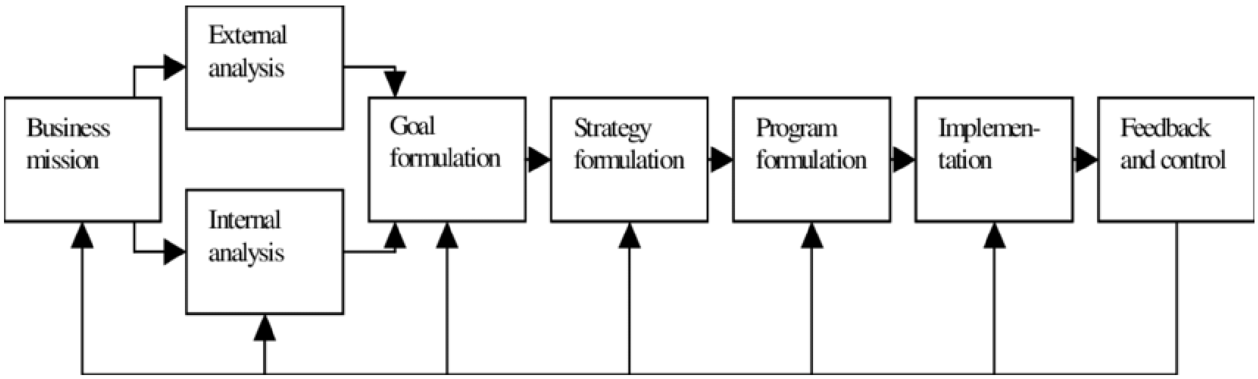


BUSINESS STRATEGIC PLANNING Below the corporate level, the strategic-planning process for each business or SBU consists of the eight steps.

Business Mission

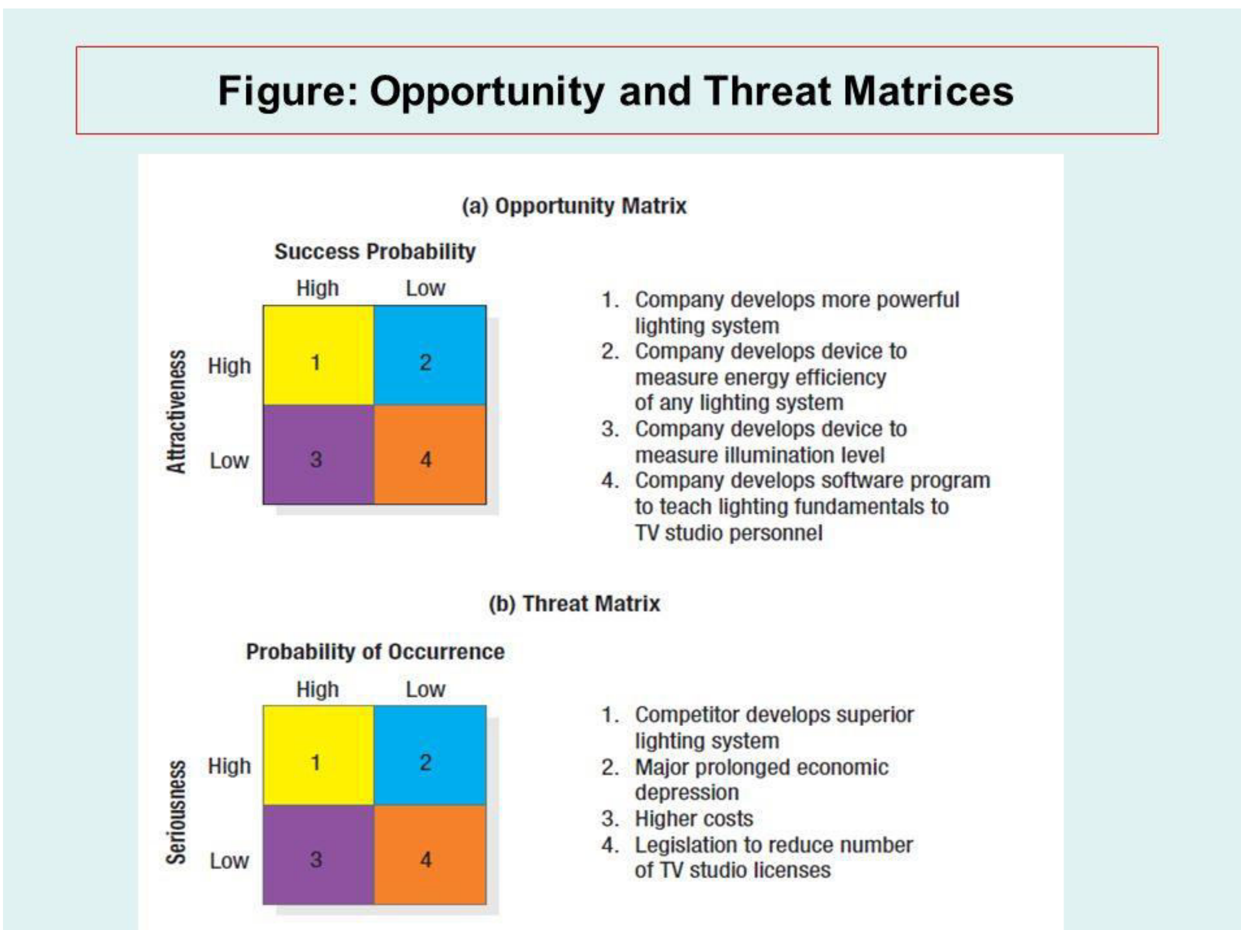
Each business unit needs to define its specific mission within the broader company mission. Thus, a television studio-lighting-equipment company might define its mission as "The Company aims to target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements."

The Business Strategic Planning Process



SWOT Analysis

The overall evaluation of a business's strengths, weaknesses, opportunities, and threats is called SWOT analysis. SWOT analysis consists of an analysis of the external and internal environments.



External Environment Analysis

In general, a business unit has to monitor key **macro environment forces** (demographic economic, technological, political-legal, and social-cultural) and **microenvironment actors** (customers, competitors, distributors, and suppliers) that affect its ability to earn profits. Then, for each trend or development, management needs to identify the associated marketing opportunities and threats.

A **marketing opportunity** is an area of buyer need in which a company can perform profitably. Opportunities can be classified according to their attractiveness and their success probability. The company's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market, but also exceed those of its competitors. Mere competence does not constitute a competitive advantage. The best-performing company will be the one that can generate the greatest customer value and sustain it over time. **An environmental threat** is a challenge posed by an unfavorable external trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit. Threats should be classified according to seriousness and probability of occurrence. Minor threats can be ignored; somewhat more serious threats must be carefully monitored; and major threats require the development of contingency plans that spell out changes the company can make if necessary.

Internal Environment Analysis

It is one thing to discern attractive opportunities and another to have the competencies to succeed in these opportunities. Thus, each business needs to periodically evaluate its internal strengths and weaknesses in marketing, financial, manufacturing, and organizational competencies. Clearly, the business does not have to correct all of its weaknesses, nor should it gloat about all of its strengths. The big question is whether the business should limit itself to those opportunities in which it possesses the required strengths or consider better opportunities to acquire or develop certain strengths. Sometimes a business does poorly because its departments do not work together well as a team. It is therefore critically important to assess interdepartmental working relationships as part of the internal environmental audit. Honeywell, for example, asks each department to annually rate its own strengths and weaknesses and those of the other departments with which it interacts. The notion is that each department is a "supplier" to some departments and a "customer" of other departments. If one department has weaknesses that hurt its "internal customers,"

Goal Formulation

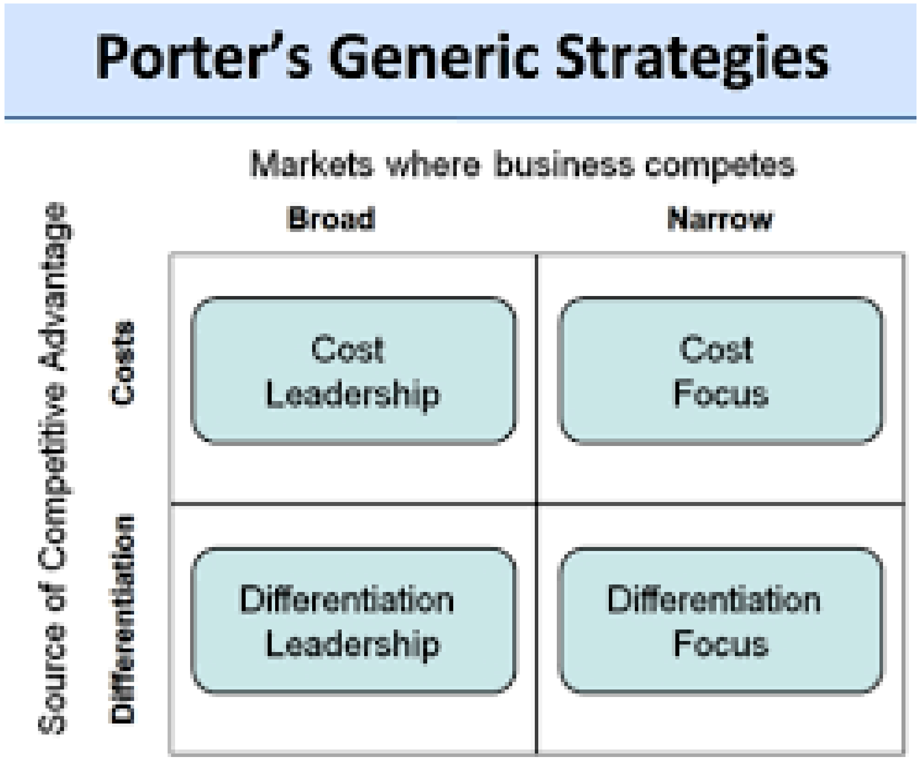
Once the company has performed a SWOT analysis of the internal and external environments, it can proceed to develop specific goals for the planning period in a process called goal formulation. Managers use the term goals to describe objectives that are specific with respect to magnitude and time. Turning objectives into measurable goals facilitates management planning, implementation, and control. To be effective, goals must be

1) Arranged hierarchically to guide the businesses in moving from broad to specific Objectives for departments and individuals;
2) Stated quantitatively whenever possible;
3) Realistic; and
4) Consistent.

Other important trade-offs in setting goals include: balancing short-term profit versus long-term growth; balancing deep penetration of existing markets with development of new markets; balancing profit goals versus nonprofit goals; and balancing high growth versus low risk. Each choice in this set of goal trade-offs calls for a different marketing strategy.

Strategy Formulation Goals indicate what a business unit wants to achieve; strategy describes the game plan for achieving those goals.

Every business strategy consists of a marketing strategy plus a compatible technology strategy and sourcing strategy. Although many types of marketing strategies are available, Michael Porter has condensed them into three generic types that provide a good starting point for strategic thinking: overall cost leadership, differentiation, or focus.



- **Overall cost leadership:** Here the business works to achieve the lowest production and distribution costs so that it can price lower than competitors and win more market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution; they need less skill in marketing.
- **Differentiation:** Here the business concentrates on achieving superior performance in an important customer benefit area, such as being the leader in service, quality, style, or technology—but not leading in all of these things. Intel, for instance, differentiates itself through leadership in technology, coming out with new microprocessors at breakneck speed.
- **Focus:** Here the business focuses on one or more narrow market segments, getting to know these segments intimately and pursuing either cost leadership or differentiation within the target segment. Air walk shoes, for instance, came to fame by focusing on the very narrow extreme-sports segment.

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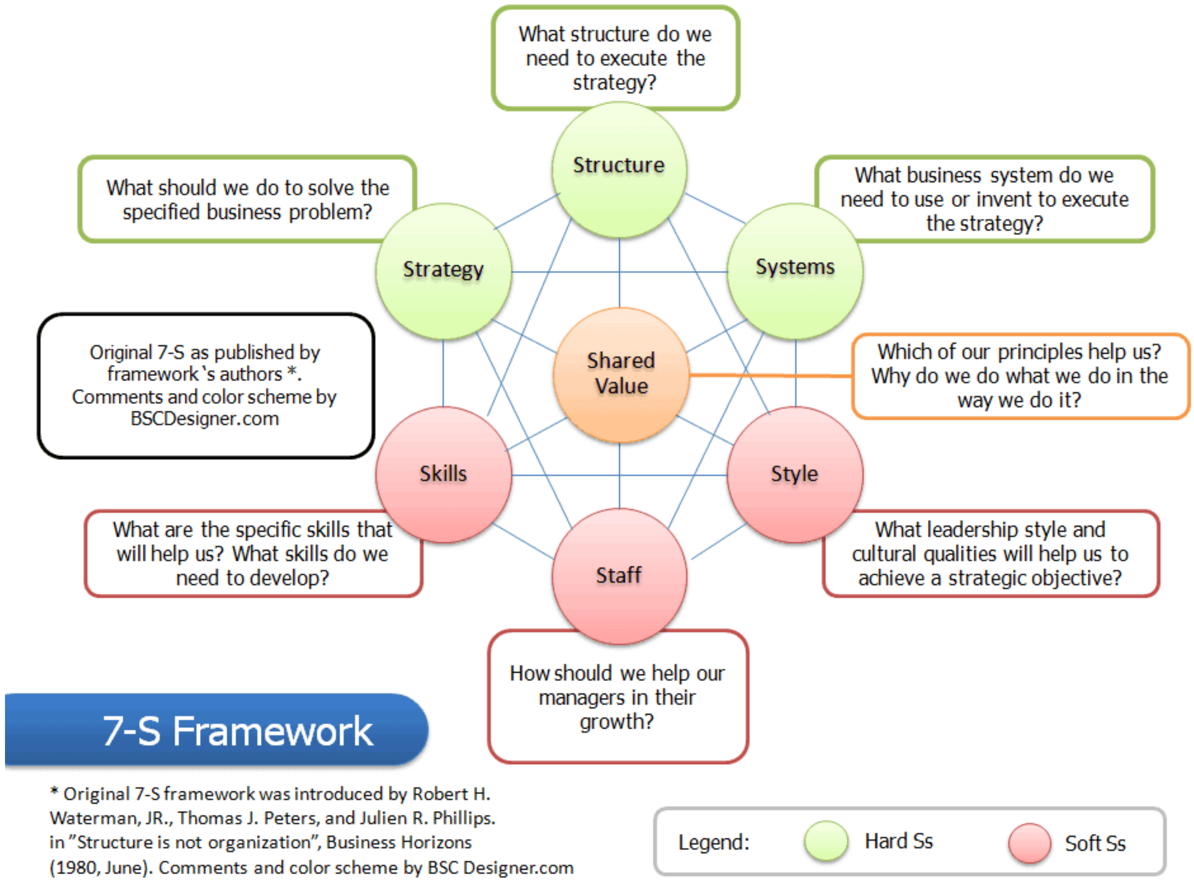
- **Overall cost leadership**: Here the business works to achieve the lowest production and distribution costs so that it can price lower than competitors and win more **markets.**

Program Formulation

Once the business unit has developed its principal strategies, it must work out detailed Supporting programs. Thus, if the business has decided to attain technological leadership, it must plan programs to strengthen its R&D department, gather technological intelligence, develop leading-edge products, train the technical sales force, and develop ads to communicate its technological leadership. After these marketing programs have been tentatively formulated, the marketing people must estimate their costs. Questions arise: Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost (ABC) accounting should be applied to each marketing program to determine whether it is likely to produce sufficient results to justify the cost.

Implementation

A clear strategy and well-thought-out supporting programs may be useless if the firm fails to implement them carefully. Indeed, strategy is only one of seven elements, according to McKinsey & Company, that the best-managed companies exhibit. In the McKinsey 7-S framework for business success, strategy, structure, and systems are considered the “hardware” of success, and style (how employees think and behave), skills (to carry out the strategy), staff (able people who are properly trained and assigned), and shared values (values that guide employees’ actions) are the "software."When these software elements are present, companies are usually more successful at strategy implementation. Implementation is vital to effective management of the marketing process.



The Marketing Process Feedback and Control

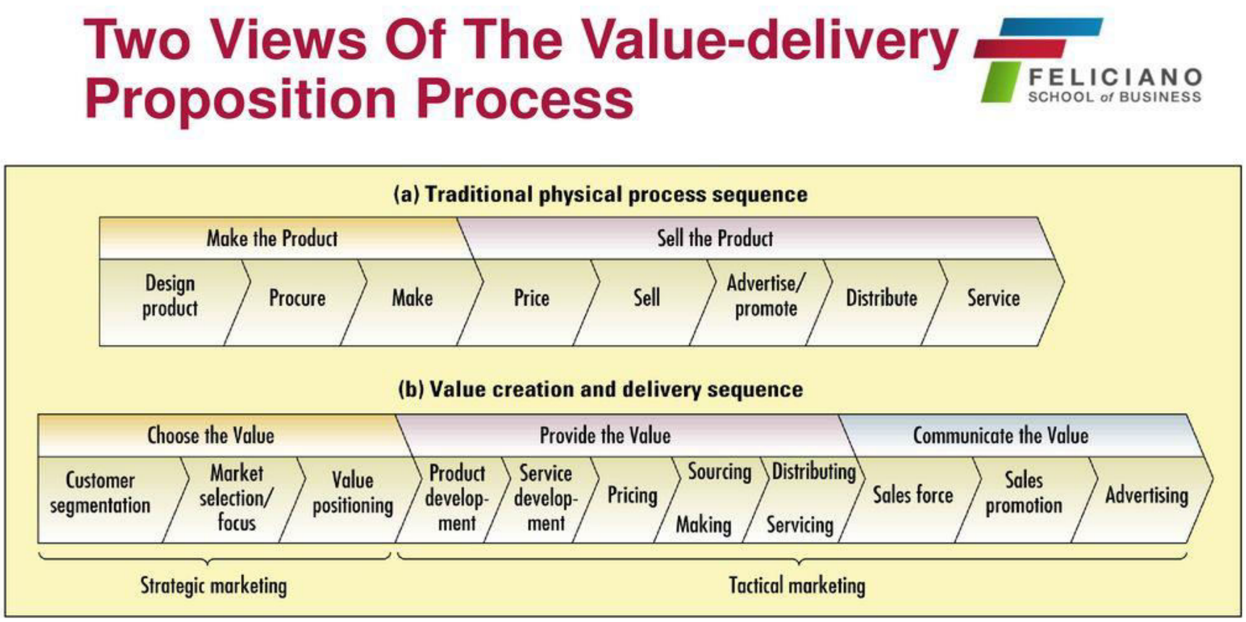
As it implements its strategy, the firm needs to track the results and monitor new developments in the internal and external environments. Some environments are fairly stable from year to year. Other environments evolve slowly in a fairly predictable way. Still other environments change rapidly in significant and unpredictable ways.

Nonetheless, the company can count on one thing: The marketplace will change. And when it does, the company will need to review and revise its implementation, programs, strategies, or even objectives.

A company's strategic fit with the environment will inevitably erode because the market environment changes faster than the company's 7-Ss. Thus a company might remain efficient while it loses effectiveness. Peter Drucker pointed out that it is more important to "**do the right thing" (effectiveness)** than **"to do things right" (efficiency).**

The most successful companies excel at both. Clearly, the key to organizational health is the firm's willingness to examine the changing environment and to adopt appropriate new goals and behaviors. High-performance organizations continuously monitor the environment and use flexible strategic planning to maintain a viable fit with the evolving environment.

THE MARKETING PROCESS



Planning at the corporate, division, and business levels is an integral part of planning for the marketing process. To understand that process fully, we must first look at how a company defines its business. The task of any business is to deliver value to the market at a profit. There are at least two views of the value-delivery process. The traditional view is that the firm makes something and then sells it. In this view, marketing takes place in the second half of the value-delivery process. The traditional view assumes that the company knows what to make and that the market will buy enough units to produce profits for the company. Companies that subscribe to this traditional view have the best chance of succeeding in economies marked by goods shortages in which consumers are not fussy about quality, features, or style. But the traditional view of the business process will not work in more competitive economies in which people face abundant choices. The “mass market” is actually splintering into numerous micro markets, each with its own wants, perceptions, preferences, and buying criteria. The smart competitor therefore must design the offer for well-defined target markets.

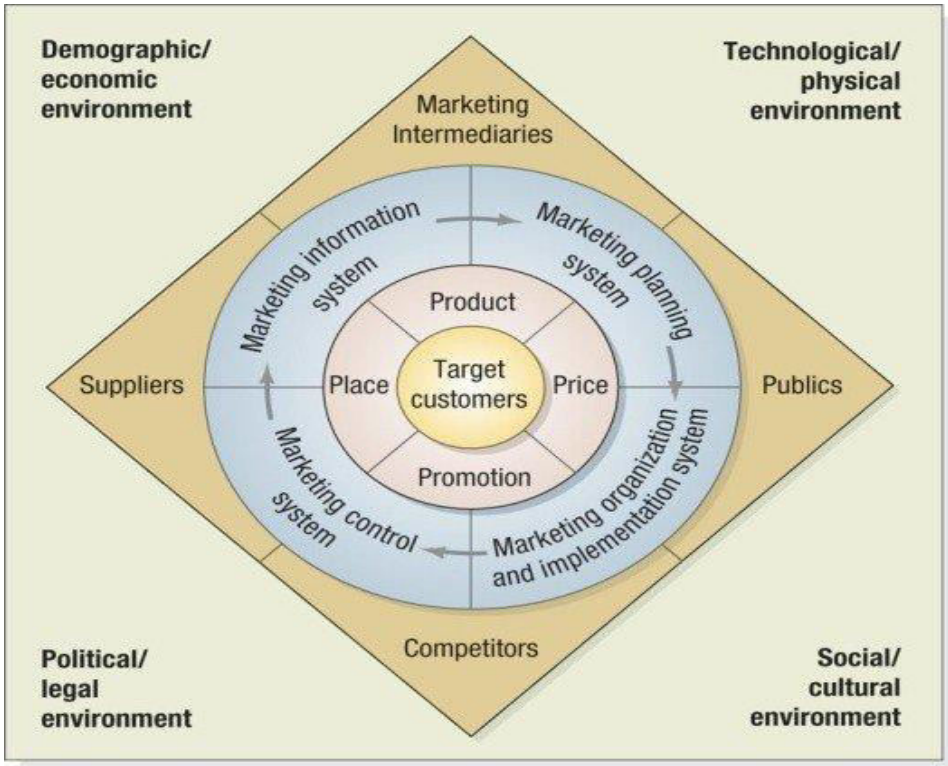
The Value-Delivery Sequence

This belief is at the core of the new view of business processes, which places marketing at the beginning of the planning process. Instead of emphasizing making and selling, companies see themselves involved in a three-phase value creation and delivery sequence. The first phase, choosing the value, represents the strategic “homework” that marketing must do before any product exists. The marketing staff must segment the market, select the appropriate market target, and develop the offer’s value positioning. In the second phase, providing the value, marketers detail the product’s specifications and services, set a target price, then make and distribute the product. Developing specific product features, prices, and distribution occurs at this stage and is part of tactical marketing. The task in the third phase is communicating the value. Here, further tactical marketing occurs in utilizing the sales force, sales promotion, advertising, and other promotional tools to inform the market about the product. Thus, the marketing process actually begins before there is a product and continues while it is being developed and after it becomes available.

Steps in the Marketing Process

The marketing process consists of analyzing market opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programs, and organizing, implementing, and controlling the marketing effort. The four steps in the marketing process are:

1. **Analyzing market opportunities.** The marketer's initial task is to identify potential long run opportunities given the company's market experience and core competencies. To evaluate its various opportunities, assess buyer wants and needs, and gauge market size, the firm needs a marketing research and information system. Next, the firm studies consumer markets or business markets to find out about buying behavior, perceptions, wants, and needs. Smart firms also pay close attention to competitors and look for major segments within each market that they can profitably serve.
2. **Developing marketing strategies.** In this step, the marketer prepares a positioning strategy for each new and existing product's progress through the life cycle, makes decisions about product lines and branding, and designs and markets its services.
3. **Planning marketing programs.** To transform marketing strategy into marketing programs, marketing managers must make basic decisions on marketing expenditures, marketing mix, and marketing allocation. The first decision is about the level of marketing expenditures needed to achieve the firm's marketing objectives. The second decision is how to divide the total marketing budget among the various tools in the marketing mix: product, price, place, and promotion. And the third decision is how to allocate the marketing budget to the various products, channels, promotion media, and sales areas. **4. Managing the marketing effort.** In this step marketers organize the firm's marketing resources to implement and control the marketing plan. Because of surprises and disappointments as marketing plans are implemented, the company also needs feedback and control.



- **The Nature and Contents of a Marketing Plan:** The marketing plan created for each product line or brand is one of the most important outputs of planning for the marketing process. A typical marketing plan has eight sections:
- **Executive summary and table of contents:** This brief summary outlines the plan's main goals and recommendations; it is followed by a table of contents.
- **Current marketing situation:** This section presents relevant background data on sales, costs, profits, the market, competitors, distribution, and the macro environment, drawn from a fact book maintained by the product manager.
- **Opportunity and issue analysis:** This section identifies the major opportunities and threats, strengths and weaknesses, and issues facing the product line or brand.
- **Objectives:** This section spells out the financial and marketing objectives to be achieved.
- **Marketing strategy:** This section explains the broad marketing strategy that will be Implemented to accomplish the objectives.

- **Action programs:** This section outlines the broad marketing programs for achieving the business objectives. Each marketing strategy element must be elaborated to answer these questions: What will be done? When will it be done? Who will do it? How much will it cost?
- **Projected profit-and-loss statement:** Action plans allow the product manager to build a supporting budget with forecasted sales volume (units and average price), costs (production, physical distribution, and marketing), and projected profit. Once approved, the budget is the basis for developing plans and schedules for material procurement, production scheduling, employee recruitment, and marketing operations.
- **Controls:** This last section outlines the controls for monitoring the plan. Typically,the goals and budget are spelled out for each month or quarter so senior management can review the results each period. Sometimes contingency plans for handling specific adverse developments are included. No two companies handle marketing planning and marketing plan content exactly the same way. Most marketing plans cover one year and vary in length; some firms take their plans very seriously, while others use them as only a rough guide to action. The most frequently cited shortcomings of marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus.
- Marketing Implementation Organization is one factor contributing to effective marketing implementation, the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan’s stated objectives. This part of the marketing process is critical, because a brilliant strategic marketing plan counts for little if it is not implemented properly. Whereas strategy addresses the what and why of marketing activities, implementation addresses the who, where, when, and how. Strategy and implementation are closely related in that one layer of strategy implies certain tactical implementation assignments at a lower level. For example, top management’s strategic decision to “harvest” a product must be translated into specific actions and assignments

Bonoma identified four sets of skills for implementing marketing programs:

1) diagnostic skills (the ability to determine what went wrong);
2) identification of company level (the ability to discern whether problems occurred in the marketing function, the marketing program, or the marketing policy);
3) implementation skills (the ability to budget resources, organize effectively, motivate others); and
4) Evaluation skills (the ability to evaluate results). These skills are as vital for nonprofits as they are for businesses,

Evaluating and Controlling the Marketing Process

To deal with the many surprises that occurs during the implementation of marketing plans, the marketing department has to monitor and control marketing activities continuously. The four types of marketing control needed by companies:
annual plan control, profitability control, efficiency control, and strategic control.

Annual-Plan Control

The purpose of annual-plan control is to ensure that the company achieves the sales,profits, and other goals established in its annual plan. The heart of annual-plan control is the four-step management by objectives process in which management

1) Sets monthly or quarterly goals;
2) Monitors the company’s marketplace performance;
3) Determines the causes of serious performance deviations; and
4) Takes corrective action to close the gaps between goals and performance.

This control model applies to all levels of the organization. Top management sets sales and profit goals for the year that are elaborated into specific goals for each Lower level. In turn, each product manager commits to attaining specified levels of sales and costs; each regional district and sales manager and each sales representative also commits to specific goals. Each period, top management reviews and interprets performance results at all levels, using these five tools:

Sales analysis Sales analysis consists of measuring and evaluating actual sales in relation to goals, using two specific tools. Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Microsales analysis looks at specific products, territories, and other elements that failed to produce expected sales. The point of these analyses is to determine what factors (pricing, lower volume, specific territories, etc.) contributed to a failure to meet sales goals.

Market-share analysis Company sales do not reveal how well the company is performing relative to competitors. To do this, management needs to track its market share. Overall market share is the company's sales expressed as a percentage of total market sales. Served market share is its sales expressed as a percentage of the total sales to its served market—all of the buyers who are able and willing to buy the product. Relative market share can be expressed as market share in relation to the largest competitor; a rise in relative market share means a company is gaining on its leading competitor. A useful way to analyze market-share movements is in terms of customer penetration, customer loyalty, customer selectivity, and price selectivity.

Marketing expense-to-sales analysis this is a key ratio because it allows management to be sure that the company is not overspending to achieve sales goals. Minor fluctuations in the expense-to-sales ratio can be ignored, but major fluctuations are cause for concern.

Financial analysis Management uses financial analysis to identify the factors that affect the company's rate of return on net worth. To improve its return on net worth, the company must increase its ratio of net profits to its assets or increase the ratio of its assets to its net worth. The company should analyze the composition of its assets (i.e., cash, accounts receivable, inventory, and plant and equipment) and see if it can improve its asset management.

Market-based scorecard analysis Companies should also prepare two market-based scorecards that reflect performance and provide possible early warning signals of problems. A customer-performance scorecard records how well the company is doing on such customer-based measures as new customers, dissatisfied customers, lost customers,target market awareness, target market preference, relative product quality, and relative service quality. A stakeholder-performance scorecard tracks the satisfaction of constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, banks, distributors, retailers, and stockholders.

Profitability Control

Successful companies also measure the profitability of their products, territories, customer groups, segments, trade channels, and order sizes. This information helps management determine whether any products or marketing activities should be expanded, reduced, or eliminated. The first step in marketing-profitability analysis is to identify the functional expenses (such as advertising and delivery) incurred for each activity. Next, the firm measures how much functional expense was associated with selling through each type of channel. Third, the company prepares a profit-and-loss statement for each type of channel.

In general, marketing-profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities. However, it does not prove that the best course of action is to drop the unprofitable marketing entities, nor does it capture the likely profit improvement if these marginal marketing entities are dropped. Therefore, the company must examine its alternatives closely before taking corrective action.

Efficiency Control

Suppose a profitability analysis reveals poor profits for certain products, territories, or markets. This is when management must ask whether there are more efficient ways to manage the sales force, advertising, sales promotion, and distribution in connection with these marketing entities. Some companies have established a marketing controller position to work on such issues and improve marketing efficiency. Marketing controllers work out of the controller's office but specialize in the marketing side of the business. At companies such as General Foods, DuPont, and Johnson & Johnson, they perform a sophisticated financial analysis of marketing expenditures and results, analyzing adherence to profit plans, helping prepare brand managers' budgets, measuring the efficiency of promotions, analyzing media production costs, evaluating customer and geographic profitability, and educating marketing personnel on the financial implications of marketing decisions.

Strategic Control

From time to time, companies need to undertake a critical review of overall marketing goals and effectiveness. Each company should periodically reassess its strategic approach to the marketplace with marketing-effectiveness reviews and marketing audits.

The marketing-effectiveness review. Marketing effectiveness is reflected in the degree to which a company or division exhibits the five major attributes of a marketing orientation: customer philosophy (serving customers' needs and wants), integrated marketing organization (integrating marketing with other key departments), adequate marketing information (conducting timely, appropriate marketing research), strategic orientation (developing formal marketing plans and strategies), and operational efficiency (using marketing resources effectively and flexibly). Unfortunately, most companies and divisions score in the fair-to-good range on measures of marketing effectiveness.

The marketing audit. Companies that discover marketing weaknesses should undertake a marketing audit, a comprehensive, systematic, independent, and periodic examination of a company's (or SBU's) marketing environment, objectives, strategies, and activities to identify problem areas and opportunities and recommend a plan of action for improving the company's marketing performance. The marketing audit examines six major marketing components:

(1) the macro environment and task environment,

(2) marketing strategy,

(3) marketing organization,

(4) marketing systems,

(5) marketing productivity, and

(6) marketing function (the 4 Ps).

Highly successful companies also perform marketing excellence reviews and ethical social responsibility reviews to gain an outside-in perspective on their marketing activities.

The marketing excellence review. This best-practices excellence review rates a firm's performance in relation to the best marketing and business practices of high performing businesses. The resulting profile exposes weaknesses and strengths and highlights where the company might change to become a truly outstanding player in the marketplace.

The ethical and social responsibility review. In addition, companies need to evaluate whether they are truly practicing ethical and socially responsible marketing. Business success and continually satisfying customers and other stakeholders are intimately tied to adoption and implementation of high standards of business and marketing conduct. The most admired companies abide by a code of serving people's interests, not only their own. Thus, the ethical and social responsibility review allows management to determine how the firm is grappling with ethical issues and exhibiting a "social conscience" in its business dealings. Effective control of the marketing process ultimately depends on accurate, timely, and complete information about markets, demand, and the marketing environment

QUESTION BANK

PART – A

1. Marketing strategy is defined as a process that can allow an organization to concentrate its resources. Justify this statement
2. Marketing has become extremely complex between hundreds of channels, many software options, tons of data, and audiences. Justify this statement
3. Marketing strategy formulation is the process of defining an organization's marketing goals and objectives. Justify
4. Prove that the steps in the strategy formulation points out towards choosing the most appropriate course of action for the realization of organizational goals and objectives.
5. Agree that "Marketing is essential for success of a business firm". If so give reasons in support of your answer along with relevant examples from business and non-business sectors.
6. Predict the relative importance of all macro environmental forces affecting the marketing decisions of a firm.

QUESTION BANK

PART – B

1. SWOT analysis is the concluding part of competitive analysis. Analyze the main considerations that will make SWOT more effective?
2. Marketing strategy alone can make a success of any product the core competencies of a business can develop'. Is this true? Elucidate with examples.
3. Analyze the Boston consulting group approach in an effort to help the company decide what it should keep, sell or invest more in.
4. Examine how positioning serves as a platform for the brand to reach Target customer.
5. Planning at the corporate, division, and business levels is an integral part of planning for the marketing process. Support this statement by explaining the two views of the value –delivery proposition process
6. Recall the term marketing and point out the three characteristics of strategic business units

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SCHOOL OF MANAGEMENT STUDIES

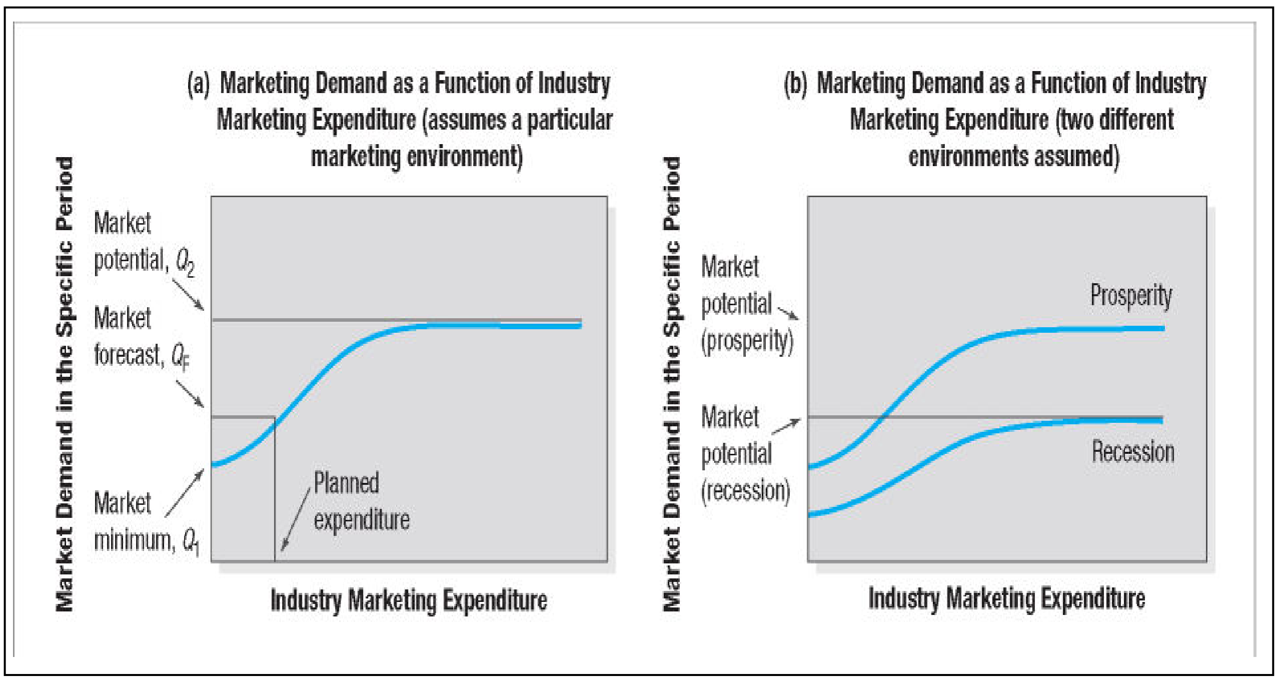
UNIT II - STRATEGIC MARKETING - SBAA7011

UNIT 2

Market Demand

The first step in evaluating marketing opportunities is to estimate total market demand. Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.

Market demand is not a fixed number but rather a function of the stated conditions. For this reason, it can be called the **market demand function**. The dependence of total market demand on underlying conditions is illustrated in the figure.



Some base sales (called the **market minimum**, labeled Q1 in the figure) would take place without any demand-stimulating expenditures. Higher levels of industry marketing expenditures would yield higher levels of demand, first at an increasing rate, then at a decreasing rate. Marketing expenditures beyond a certain level would not stimulate much further demand, thus suggesting an upper limit to market demand called the **market potential** (labeled Q2 in the figure).

The distance between the market minimum and the market potential shows the overall **marketing sensitivity of demand**. We can think of two extreme types of markets, the **expansible** and the **non-expansible**. An expansible market, such as the market for racquetball playing, is very much affected in its total size by the level of industry marketing expenditures. In terms of Figure, the distance between Q1 and Q2 is relatively large. A non-expansible market—for example, the market for opera—is not much affected by the level of marketing expenditures; the distance between Q1 and Q2 is relatively small. Organizations selling in a non-expansible market must accept the market's size (the level of **primary demand** for the product class) and direct their efforts to winning a **larger market share** for their product (the level of selective demand for the company's product).

It is important to emphasize that the market demand function is not a picture of market demand over time. Rather, the curve shows alternative current forecasts of market demand associated with alternative possible levels of industry marketing effort in the current period.

Market Forecast

Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the market forecast.

Market Potential

The market forecast shows expected market demand, not maximum market demand. For the latter, we have to visualize the level of market demand resulting from a "very high" level of industry marketing expenditure, where further increases in marketing effort would have little effect in stimulating further demand.

Market potential is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. The phrase "for a given market environment" is crucial. Consider the market potential for automobiles in a period of recession versus a period of prosperity. The market potential is higher during prosperity. Anything about the position of the market demand function, which is determined by the marketing environment. However, companies influence their particular location on the function when they decide how much to spend on marketing.

Company Demand

Company demand is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. The company's share of market demand depends on how its products, services, prices, communications, and so on are perceived relative to the competitors'. If other things are equal, the company's market share would depend on the size and effectiveness of its market expenditures relative to competitors. Marketing model builders have developed sales-response functions to measure how a company's sales are affected by its marketing expenditure level, marketing mix, and marketing effectiveness.

Company Sales Forecast

Once marketers have estimated company demand, their next task is to choose a level of marketing effort. The chosen level will produce an expected level of sales. The company sales forecast is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment. The company sales forecast is represented graphically with company sales on the vertical axis and company marketing effort on the horizontal axis. Too often the sequential relationship between the company forecast and the company marketing plan is confused. One frequently hears that the company should develop its marketing plan on the basis of its sales forecast. This forecast-to-plan sequence is valid if "forecast" means an estimate of national economic activity or if company demand is non expansible. The sequence is not valid, however, where market demand is expansible or where "forecast" means an estimate of company sales. The company sales forecast does not establish a basis for deciding what to spend on marketing. On the contrary, the sales forecast is the result of an assumed marketing expenditure plan. Two other concepts are worth mentioning in relation to the company sales forecast.

A sales quota is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort. Management sets sales quotas on the basis of the company sales forecast and the psychology of stimulating its achievement. Generally, sales quotas are set slightly higher than estimated sales to stretch the sales force's effort.

A sales budget is a conservative estimate of the expected volume of sales and is used primarily for making current purchasing, production, and cash flow decisions. The sales budget considers the sales forecast and the need to avoid excessive risk. Sales budgets are generally set slightly lower than the sales forecast.

Company Sales Potential

Company sales potential is the sales limit approached by company demand as company marketing effort increases relative to competitors. The absolute limit of company demand is, of course, the market potential. The two would be equal if the company achieved 100 percent of the market. In most cases, company sales potential is less than market potential, even when company marketing expenditures increase considerably relative to competitors'. The reason is that each competitor has a hard core of loyal buyers who are not very responsive to other companies' efforts to woo them.

ESTIMATING CURRENT DEMAND

We are now ready to examine practical methods for estimating current market demand. Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

Total Market Potential

Total market potential is the maximum amount of sales that might be available to all the firms in an industry during a given period under a given level of industry marketing effort and given environmental conditions. A common way to estimate total market potential is as follows: Estimate the potential number of buyers times the average quantity purchased by a buyer times the price. If 100 million people buy books each year, and the average book buyer buys three books a year, and the average price of a book is $10, then the total market potential for books is $3 billion (100 million 3 $10). The most difficult component to estimate is the number of buyers in the specific product or market. One can always start with the total population in the nation, say 261 million people. The next step is to eliminate groups that obviously would not buy the product. Let us assume that illiterate people and children under 12 do not buy books, and they constitute 20 percent of the population. This means that only 80 percent of the population, or approximately 209 million people, would be in the suspect pool. We might do further research and find that people of low income and low education do not read books, and they constitute over 30 percent of the suspect pool. Eliminating them, we arrive at a prospect pool of approximately 146.3 million book buyers. We would use this number of potential buyers to calculate total market potential.

A variation on this method is the **chain-ratio method**. It involves multiplying a base number by several adjusting percentages. Suppose a brewery is interested in estimating the market potential for a new light beer. An estimate can be made by the following calculation:

Demand for the new light beer = Population **x** personal discretionary income per capita **x** average percentage of discretionary income spent on food **x** average percentage of amount spent on food that is spent on beverages **x** average percentage of amount spent on beverages that is spent on alcoholic beverages **x** average percentage of amount spent on alcoholic beverages that is spent on beer **x** expected percentage of amount spent on beer that will be spent on light beer.

Area Market Potential

Companies face the problem of selecting the best territories and allocating their marketing budget optimally among these territories. Therefore, they need to estimate the market potential of different cities, states, and nations. Two major methods of assessing area market potential are available: the market-buildup method, which is used primarily by business marketers, and the multiple-factor index method, which is used primarily by consumer marketers.

Market-Buildup Method The market-buildup method calls for identifying all the potential buyers in each market and estimating their potential purchases. This method produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, this information is not always easy to gather.

Consider a machine-tool company that wants to estimate the area market potential for its wood lathe in the Boston area. Its first step is to identify all potential buyers of wood lathe in the area. The buyers consist primarily of manufacturing establishments that have to shape or ream wood as part of their operation, so the company could compile a list from a directory of all manufacturing establishments in the Boston area. Then it could estimate the number of lathes each industry might purchase based on the number of lathes per thousand employees or per $1 million of sales in that industry.

Multiple-Factor Index Method. Like business marketers, consumer companies also have to estimate area market potentials. But the customers of consumer companies are too numerous to be listed. Thus the method most commonly used in consumer markets is a straightforward index method. A drug manufacturer, for example, might assume that the market potential for drugs is directly related to population size. If the state of Virginia has 2.28 percent of the U.S. population, the company might assume that Virginia will be a market for 2.28 percent of total drugs sold.

A single factor, however, is rarely a complete indicator of sales opportunity. Regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. Thus it makes sense to develop a multiple-factor index with each factor assigned a specific weight.

The numbers are the weights attached to each variable. For example, suppose Virginia has 2.00 percent of the U.S. disposable personal income, 1.96 percent of U.S. retail sales, and 2.28 percent of U.S. population, and the respective weights are 0.5, 0.3, and 0.2. The buying-power index for Virginia would be

$0.5(2.00) + 0.3(1.96) + 0.2(2.28) = 2.04$

Thus 2.04 percent of the nation’s drug sales might be expected to take place in Virginia. The weights used in the buying-power index are somewhat arbitrary. Other weights can be assigned if appropriate. Furthermore, a manufacturer would want to adjust the market potential for additional factors, such as competitors’ presence in that market, local promotional costs, seasonal factors, and local market idiosyncrasies.

Many companies compute other area indexes as a guide to allocating marketing resources. Normally,the lower the BDI, the higher the market opportunity, in that there is room to grow the brand. However, other marketers would argue the opposite, that marketing funds should go into the brand’s strongest markets—where it might be easy to capture more brand share. After the company decides on the city-by-city allocation of its budget, it can refine each city allocation down to census tracts or zip4 code centers. Census tracts are small, locally defined statistical areas in metropolitan areas and some other counties. They generally have stable boundaries and a population of about 4,000. zip4 code centers (which were designed by the U.S. Post Office) are a little larger than neighborhoods. Data on population size, median family income, and other characteristics are available for these geographical units. Marketers have found these data extremely useful for identifying high-potential retail areas within large cities or for buying mailing lists to use in direct-mail campaigns. Industry Sales and Market Shares Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying its competitors and estimating their sales.

The industry's trade association will often collect and publish total industry sales, although it usually does not list individual company sales separately. Using this information, each company can evaluate its performance against the whole industry.

Suppose a company's sales are increasing 5 percent a year, and industry sales are increasing 10 percent. This company is actually losing its relative standing in the industry.

Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales. For example, Nielsen Media Research audits retail sales in various product categories in supermarkets and drugstores and sells this information to interested companies. These audits can give a company valuable information about its total product-category sales as well as brand sales. It can compare its performance to the total industry and/or any particular competitor to see whether it is gaining or losing share. Business-goods marketers typically have a harder time estimating industry sales and market shares than consumer-goods manufacturers do. Distributors typically will not supply information about how much of competitors' products they are selling. Business-goods marketers therefore operate with less knowledge of their market-share results.

ESTIMATING FUTURE DEMAND

Methods of estimating future demand very few products or services lend themselves to easy forecasting. Those that do generally involve a product whose absolute level or trend is fairly constant and where competition is nonexistent (public utilities) or stable (pure oligopolies). In most markets, total demand and company demand are not stable.

Good forecasting becomes a key factor in company success. The more unstable the demand, the more critical is forecast accuracy, and the more elaborate is forecasting procedure.

Companies commonly use a three-stage procedure to prepare a sales forecast. They prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast. The macroeconomic forecast calls for projecting inflation, unemployment, interest rates, consumer spending, business investment, government expenditures, net exports, and other variables. The end result is a forecast of gross national product, which is then used, along with other environmental indicators, to forecast industry sales. The company derives its sales forecast by assuming that it will win a certain market share.

How do firms develop their forecasts? Firms may do it internally or buy forecasts from outside sources such as: Marketing research firms, which develop a forecast by interviewing customers, distributors, and other knowledgeable parties. Specialized forecasting firms, which produce long-range forecasts of particular macro-environmental components, such as population, natural resources, and technology. Some examples are Data Resources, Wharton Econometric, and Chase Econometric. Futurist research firms, which produce speculative scenarios. Some examples are the Hudson Institute, the Futures Group, and the Institute for the Future.

All forecasts are built on one of three information bases: what people say, what people do, or what people have done. The first basis—what people say—involves surveying the opinions of buyers or those close to them, such as salespeople or outside experts. It encompasses three methods: surveys of buyer's intentions, composites of sales force opinions, and expert opinion. Building a forecast on what people do involves another method, putting the product into a test market to measure buyer response. The final basis—what people have done—involves analyzing records of past buying behavior or using time-series analysis or statistical demand analysis.

Survey of Buyers' Intentions

Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. Because buyer behavior is so important, buyers should be surveyed. In regard to major consumer durables (for example, major appliances), several research organizations conduct periodic surveys of consumer buying intentions. These organizations ask questions like the following:

Do you intend to buy an automobile within the next six months?

0.00 0.20 0.40 0.60 0.80 1.00

No chance Slight possibility Fair possibility Good possibility High probability Certain

This is called a **purchase probability scale**. The various surveys also inquire into consumer's present and future personal finances and their expectations about the economy. The various bits of information are then combined into a consumer sentiment measure (Survey Research Center of the University of Michigan) or a consumer confidence measure (Sindlinger and Company). Consumer durable-goods producers subscribe to these indexes in the hope of anticipating major shifts in consumer buying intentions so that they can adjust their production and marketing plans accordingly.

Composite of Sales Force Opinions

Where buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales. Each sales representative estimates how much each current and prospective customer will buy of each of the company's products. Few companies use their sales force's estimates without making some adjustments. Sales representatives might be pessimistic or optimistic, or they might go from one extreme to another because of a recent setback or success. Furthermore, they are often unaware of larger economic developments and do not know how their company's marketing plans will influence future sales in their territory. They might deliberately underestimate demand so that the company will set a low sales quota. Or they might lack the time to prepare careful estimates or might not consider the effort worthwhile. To encourage better estimating, the company could supply certain aids or incentives to the sales force. For example, sales reps might receive a record of their past forecasts compared with their actual sales and also a description of company assumptions on the business outlook, competitor behavior, and marketing plans. Involving the sales force in forecasting brings a number of benefits. Sales reps might have better insight into developing trends than any other single group. After participating in the forecasting process, sales reps might have greater confidence in their sales quotas and more incentive to achieve them.38 Also, a “grassroots” forecasting procedure provides very detailed estimates broken down by product, territory, customer, and sales reps.

Expert Opinion

Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Large appliance companies survey dealers periodically for their forecasts of short-term demand, as do car companies. Dealer estimates are subject to the same strengths and weaknesses as sales force estimates. Many companies buy economic and industry forecasts from well-known economic-forecasting firms. These specialists are able to prepare better economic forecasts than the company because they have more data available and more forecasting expertise. Occasionally companies will invite a group of experts to prepare a forecast. The experts exchange views and produce a group estimate (group-discussion methods). Or the experts supply their estimates individually, and an analyst combines them into a single estimate (pooling of individual estimates). Alternatively, the experts supply individual estimates and assumptions that are reviewed by the company, then revised. Further rounds of estimating and refining follow **(Delphi method).**

Past-Sales Analysis

Sales forecasts can be developed on the basis of **past sales**. **Time-series analysis** consists of breaking down past time series into four components (trend, cycle, seasonal, and erratic) and projecting these components into the future.

Exponential smoothing consists of projecting the next period’s sales by combining an average of past sales and the most recent sales, giving more weight to the latter.

Statistical demand analysis consists of measuring the impact level of each of a set of causal factors (e.g., income, marketing expenditures, price) on the sales level. Finally, econometric analysis consists of building sets of equations that describe a system and proceeding to fit the parameters statistically.

Market-Test Method Where buyers do not plan their purchases carefully or experts are not available or reliable, a direct market test is desirable. A direct market test is especially desirable in forecasting new-product sales or established product sales in a new distribution channel or territory.

QUESTION BANK

PART – A

1. Industry represents a large number of companies which manufacture a particular product or provide a specific service, while market is the place where buyers and sellers meet. Justify this statement.
2. Market forecast is a core component of a market analysis. It projects the future numbers, characteristics, and trends in your target market. Justify this statement
3. Prove Market demand function is not a fixed number but rather a function of the stated conditions
4. In the business strategic planning process many business owners struggle to move from a tactical to strategic mindset. Support this statement by explaining the strategic planning process.
5. Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. Because buyer behavior is so important, buyers should be surveyed. Correlate this statement by explaining the purchase probability scale.
6. Justify this statement “Sales forecasts can be developed on the basis of past sales. Time-series analysis consists of breaking down past time series into four components.” by explaining the Past- Sales Analysis

QUESTION BANK

PART – B

1. There are several methods to estimate the future demand. Selection of a method depends on analysis of many factors. Support this statement by explaining how to estimate the future demand.
2. Compare the differences between a marketing, strategic and business plan
3. In order to identify market opportunities, the business model as a whole must be evaluated by identifying consumers and companies. Analyze this statement by explaining the ways to identify market opportunities.
4. Good forecasting becomes a key factor in company success. Interpret the Methods of estimating future demand for products.
5. Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Justify this statement
6. Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Justify this statement

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SCHOOL OF MANAGEMENT STUDIES

UNIT-III - STRATEGIC MARKETING - SBAA7011

UNIT 3

A company cannot serve everyone in broad markets such as soft drinks (for consumers) and computers (for businesses), because the customers are too numerous and diverse in their buying requirements. This is why successful marketers look for specific market segments that they can serve more effectively. Instead of scattering their marketing efforts (a “shotgun” approach), they will be able to focus on the buyers whom they have the greatest chance of satisfying (a “rifle” approach).
The most targeted marketing strategies are built around meeting each customer’s unique requirements. Such mass customization strategies are particularly well
suited to Internet marketing, where leaders such as Dell can maintain an interactive dialogue with customers and create a unique bundle of goods and services specifically for their individual needs and wants.
Target marketing requires marketers to take three major steps:

1. Identify and profile distinct groups of buyers who might require separate products or marketing mixes (market segmentation);
2. select one or more market segments to enter (market targeting); and
3. establish and communicate the products’ key distinctive benefits in the market (market positioning).

USING MARKET SEGMENTATION

Market segmentation aims to increase a company’s precision marketing. In contrast, sellers that use mass marketing engage in the mass production, distribution, and promotion of one product for all buyers. Henry Ford epitomized this strategy when he offered the Model T Ford “in any color, as long as it is black.” Coca-Cola also used mass marketing when it sold only one kind of Coke in a 6.5-ounce bottle. The argument for mass marketing is that it creates the largest potential market,

which leads to the lowest costs, which in turn can lead to lower prices or higher margins. However, many critics point to the increasing splintering of the market, which makes mass marketing more difficult. According to Regis McKenna, “[Consumers] have more ways to shop: at giant malls, specialty shops, and superstores; through mail-order catalogs, home shopping networks, and virtual stores on the Internet. And they are bombarded with messages pitched through a growing number of channels: broadcast and narrow-cast television, radio, on-line computer networks, the Internet, telephone services such as fax and telemarketing, and niche magazines and other print media.” This proliferation of media and distribution channels is making it difficult to practice “one size fits all” marketing. Some observers even claim that mass marketing is dying. Therefore, to stay focused rather than scattering their marketing resources, more marketers are using market segmentation. In this approach, which falls midway between mass marketing and individual marketing, each segment’s buyers are assumed to be quite similar in wants and needs, yet no two buyers are really alike. To use this technique, a company must understand both the levels and the patterns of market segmentation.

Levels of Market Segmentation

Regardless of whether they serve the consumer market or the business market—offering either goods or services—companies can apply segmentation at one of four levels:

1) **Segments,**
2) **Niches,**
3) **Local areas, and**
4) **Individuals.**

Segment Marketing

A market segment consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits.

For example, an automaker may identify four broad segments in the car market: buyers who are primarily seeking (1) basic transportation, (2) high performance, (3) luxury, or (4) safety. Because the needs, preferences, and behavior of segment members are similar but not identical, Anderson and Narus urge marketers to present flexible market offerings instead of one standard offering to all members of a segment. A flexible market offering consists of the product and service elements that all segment members value, plus options (for an additional charge) that some segment members value. For example, Delta Airlines offers all economy passengers a seat, food, and soft drinks, but it charges extra for alcoholic beverages and earphones. Segment marketing allows a firm to create a more fine-tuned product or service offering and price it appropriately for the target audience. The choice of distribution channels and communications channels becomes much easier, and the firm may find it faces fewer competitors in certain segments.

Niche Marketing

A niche is a more narrowly defined group, typically a small market whose needs are not being well served. Marketers usually identify niches by dividing a segment into sub segments or by defining a group seeking a distinctive mix of benefits. For example, a tobacco company might identify two sub segments of heavy smokers: those who are trying to stop smoking, and those who don’t care.

In an attractive niche, customers have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the nicher gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and may attract only one or two rivals. Still, giants such as IBM can and do lose pieces of their market to nichers: Dalgic labeled this confrontation “guerrillas against gorillas. ”Some larger firms have therefore turned to niche marketing. Ramada Franchises Enterprises, for example, offers lodgings in several niches: Ramada Limited for economy travelers; Ramada Inn as a mid-price, full-service hotel; Ramada Plaza for the upper-mid-price niche; Ramada Hotels for good quality, three-star service; and Ramada Renaissance hotels, offering excellent, four-star service. Many German midsize companies are also profiting through smart niching

Local Marketing

Target marketing is leading to some marketing programs that are tailored to the needs and wants of local customer groups (trading areas, neighborhoods, even individual stores). Citibank, for instance, adjusts its banking services in each branch depending on neighborhood demographics; Kraft helps supermarket chains identify the cheese assortment and shelf positioning that will optimize cheese sales in low-, middle-, and high-income stores and in different ethnic neighborhoods. Those favoring local marketing see national advertising as wasteful because it fails to address local needs. On the other hand, opponents argue that local marketing drives up manufacturing and marketing costs by reducing economies of scale. Moreover, logistical problems become magnified when companies try to meet varying local requirements, and a brand's overall image might be diluted if the product and message differ in different localities.

Individual Marketing

The ultimate level of segmentation leads to "segments of one," "customized marketing " or "one-to-one marketing." For centuries, consumers were served as individuals: The tailor made the suit and the cobbler designed shoes for the individual. Much business to-business marketing today is customized, in that a manufacturer will customize the offer, logistics, communications, and financial terms for each major account. Now technologies such as computers, databases, robotic production, intranets and extranets, e-mail, and fax communication are permitting companies to return to customized marketing, also called "mass customization." **Mass customization** is the ability to prepare individually designed products and communications on a mass basis to meet each customer's requirements. In fact, the Internet is bringing mass customization to an astonishing array of products. Mattel's Barbie.com site invites girls to log on and design their own Barbie Pal doll by specifying skin tone, eye color, hairdo and hair color, clothes, accessories, and name. Although individual customers are taking more initiative in designing and buying products, marketers still need to influence the process in a variety of ways. They need toll-free phone numbers and e-mail addresses to enable buyers to reach them with questions, suggestions, and complaints; they must involve customers more in the product-specification process; and they need a Web site with complete, updated information about the company’s products, service guarantees, and locations.

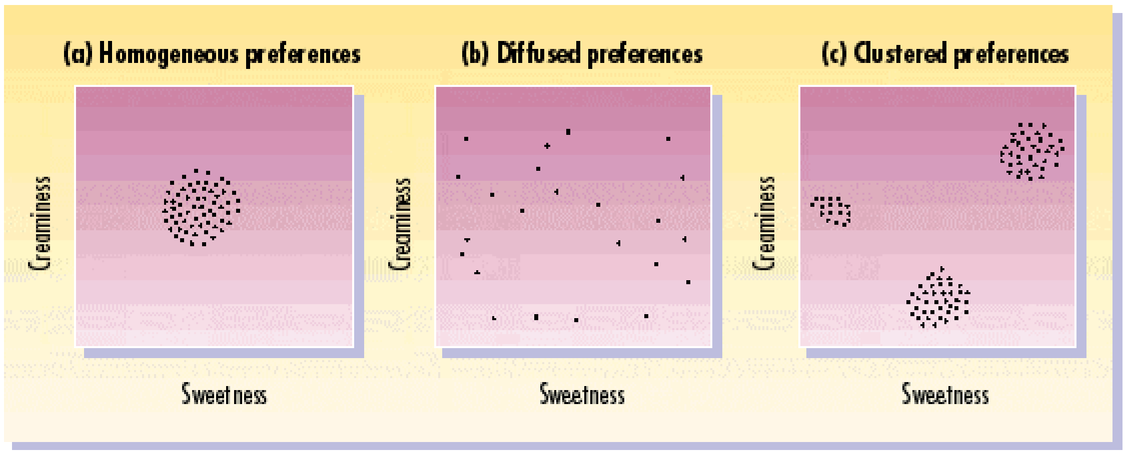
- **Patterns of Market Segmentation**
  Market segments can be built up in many ways. One common method is to identify preference segments. Suppose ice cream buyers are asked how much they value sweetness and creaminess as two product attributes. Three different patterns can emerge.

- **Homogeneous preferences**: a market in which all of the consumers have roughly the same preference, so there are no natural segments. We predict that existing brands would be similar and cluster around the middle of the scale in both sweetness and creaminess.

- **Diffused preferences**: At the other extreme, consumer preferences may be scattered throughout the space, indicating great variance in consumer preferences. One brand might position in the center to appeal to the most people; if several brands are in the market, they are likely to position throughout the space and show real differences to reflect consumer-preference differences.

- **Clustered preferences**: The market might reveal distinct preference clusters, called natural market segments .The first firm in this market might position in the center to appeal to all groups, choose the largest market segment (concentrated marketing), or develop several brands for different segments. If the first firm has only one brand, competitors would enter and introduce brands in the other segments.

Basic market preference patterns



Market-Segmentation Procedure

Marketers use a three-step procedure for identifying market segments:

1. Survey stage. The researcher conducts exploratory interviews and focus groups to gaininsight into customer motivations, attitudes, and behavior. Then the researcher prepares a questionnaire and collects data on attributes and their importance ratings, brand awareness and brand ratings, product-usage patterns, attitudes toward the product category, and respondents' demographics, geographics, psychographics, and mediagraphics.

2. Analysis stage. The researcher applies factor analysis to the data to remove highly correlated variables, then applies cluster analysis to create a specified number of maximally different segments.

3. Profiling stage. Each cluster is profiled in terms of its distinguishing attitudes, behavior, demographics, psychographics, and media patterns, then each segment is given a name based on its dominant characteristic. In a study of the leisure market, Andreasen and Belk found six segments: passive homebody, active sports enthusiast, inner-directed self-sufficient, culture patron, active homebody, and socially active. They found that performing arts organizations could sell the most tickets by targeting culture patrons as well as socially active people.

Companies can uncover new segments by researching the hierarchy of attributes that customers consider when choosing a brand. For instance, car buyers who first decide on price are price dominant; those who first decide on car type (e.g.,passenger, sport-utility) are type dominant; those who first decide on brand are brand dominant. With these segments, customers may have distinct demographics, psychographics, and mediagraphics to be analyzed and addressed through marketing programs.

SEGMENTING CONSUMER AND BUSINESS MARKETS

Because of the inherent differences between consumer and business markets, marketers cannot use exactly the same variables to segment both. Instead, they use one broad group of variables as the basis for consumer segmentation and another broad group for business segmentation.

Bases for Segmenting Consumer Markets

In segmenting consumer markets, marketers can apply geographic, demographic, and psychographic variables related to consumer characteristics as well as behavioral variables related to consumer responses. Once the segments are formed, the marketer sees whether different characteristics are associated with each consumer response segment. For example, the researcher might examine whether car buyers who want "quality" versus "low price" differ in their geographic, demographic, and psychographic makeup. This will determine whether the segments are useful for marketing purposes.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few geographic areas or operate in all but pay attention to local variations. Some marketers even segment down to a specific zip code. Consider Blockbuster, which has databases to track the video preferences of its 85 million members and buys additional demographic data about each store's local area. As a result of this segmentation, it stocks its San Francisco stores with more gay-oriented videos, reflecting the city's large gay population, while it stocks Chicago stores with more family-oriented videos. Blockbuster can even distinguish between patterns of East Dallas and South Dallas customers.

Demographic Segmentation

In demographic segmentation, the market is divided into groups on the basis of age and the other variables. One reason this is the most popular consumer segmentation method is that consumer wants, preferences, and usage rates are often associated with demographic variables. Another reason is that demographic variables are easier to measure. Even when the target market is described in non demographic terms (say, a personality type), the link back to demographic characteristics is needed in order to estimate the size of the target market and the media that should be used to reach it efficiently. Here is how certain demographic variables have been used to segment consumer markets:

➢ **Age and life-cycle stage.** Consumer wants and abilities change with age, as Gerber realized when it decided to expand beyond its traditional baby foods line because the market was growing more slowly due to lower birthrates, babies staying on formula longer, and children moving to solid foods sooner. The company hopes that parents who buy its baby food will go on to buy its Graduates foods for 1- to 3 year olds.13 However, age and life cycle can be tricky variables. For example, Ford originally designed its Mustang automobile to appeal to young people who wanted an inexpensive sport car. But when Ford found that the car was being purchased by all age groups, it recognized that the target market was not the chronologically young, but the psychologically young.

Gender. Gender segmentation has long been applied in clothing, hairstyling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for gender segmentation. The Internet portal Village.com reaped the benefits of gender segmentation after initially trying to appeal to a broader market of baby boomers. Noticing that Parent Soup and other offerings for women were the most popular, Village soon evolved into the leading women's on-line community. Its home page entreats visitors to "Join our community of smart, compassionate, real women.

Income. Income segmentation is a long-standing practice in such categories as automobiles, boats, clothing, cosmetics, and travel. However, income does not always predict the best customers for a given product. The most economical cars are not bought by the really poor, but rather by those who think of themselves as poor relative to their status aspirations; medium-price and expensive cars tend to be purchased by the overprivileged segments of each social class.

➢**Generation** Each generation is profoundly influenced by the times in which it grows up—the music, movies, politics, and events of that period. Some marketers target Generation Xers (those born between 1964 and 1984), while others target Baby Boomers (those born between 1946 and 1964).15 Meredith and Scheme have proposed a more focused concept they call cohort segmentation.16 Cohorts are groups of people who share experiences of major external events (such as World War II) that have deeply affected their attitudes and preferences. Because members of a cohort group feel a bond with each other for having shared these experiences, effective marketing appeals use the icons and images that are prominent in the targeted cohort group's experience.

Social class Social class strongly influences preference in cars, clothing, home furnishings, leisure activities, reading habits, and retailers, which is why many firms design products for specific social classes. However, the tastes of social classes can change over time. The 1980s were about greed and ostentation for the upper classes, but the 1990s were more about values and self-fulfillment. Affluent tastes now run toward more utilitarian rather than ostentatious products.

Psychographic Segmentation In psychographic segmentation, buyers are divided into different groups on the basis of lifestyle or personality and values. People within the same demographic group can exhibit very different psychographic profiles.

Lifestyle People exhibit many more lifestyles than are suggested by the seven social classes, and the goods they consume express their lifestyles. Meat seems an unlikely product for lifestyle segmentation, but one Kroger supermarket in Nashville found that segmenting self-service meat products by lifestyle, not by type of meat, had a big payoff. This store grouped meats by lifestyle, creating such sections as "Meals in Minutes" and "Kids Love This Stuff" (hot dogs, hamburger patties, and the like). By focusing on lifestyle needs, not protein categories, Kroger's encouraged habitual beef and pork buyers to consider lamb and veal as well—boosting sales and profits.18 But lifestyle segmentation does not always work: Nestlé introduced a special brand of decaffeinated coffee for “late nighters,” and it failed, presumably because people saw no need for such a specialized product.

Personality. Marketers can endow their products with brand personalities that correspond to consumer personalities. Apple Computer’s iMac computers, for example, have a friendly, stylish personality that appeals to buyers who do not want boring, ordinary personal computers.19 Values. Core values are the belief systems that underlie consumer attitudes and behaviors. Core values go much deeper than behavior or attitude, and determine, at a basic level, people’s choices and desires over the long term. Marketers who use this segmentation variable believe that by appealing to people’s inner selves, it is possible to influence purchase behavior. Although values often differ from culture to culture, Roper Reports has identified six values segments stretching across 35 countries: **strivers** (who focus more on material and professional goals), **devouts** (who consider tradition and duty very important), **altruists** (who are interested in social issues), **intimates** (who value close personal relationships and family highly), **fun seekers** (who tend to be younger and usually male), and **creative** (who are interested in education, knowledge, and technology).

Behavioral Segmentation In behavioral segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. Many marketers believe that behavioral variables occasions, benefits, user status, usage rate, loyalty status, buyer-readiness stage, and attitude—are the best starting points for constructing market segments.

Occasions. Buyers can be distinguished according to the occasions on which they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family, so an airline can specialize in one of these occasions. Thus, charter airlines serve groups of people who fly to a vacation destination. Occasion segmentation can help firms expand product usage, as the Curtis Candy Company did when it promoted trick-or-treating at Halloween and urged consumers to buy candy for the eager little callers. A company can also consider critical life events to see whether they are accompanied by certain needs. This kind of analysis has led to service providers such as marriage, employment, and bereavement counselors.

Benefits Buyers can be classified according to the benefits they seek. One study of travelers uncovered three benefit segments: those who travel to be with family, those who travel for adventure or education, and those who enjoy the “gambling” and “fun” aspects of travel.

User status Markets can be segmented into nonusers, ex-users, potential users, first time users, and regular users of a product. The company’s market position also influences its focus. Market leaders (such as America Online) focus on attracting potential users, whereas smaller firms (such as Earth link, a fast-growing Internet service provider) try to lure users away from the leader.

Usage rate Markets can be segmented into light, medium, and heavy product users.

Heavy users are often a small percentage of the market but account for a high percentage of total consumption. Marketers usually prefer to attract one heavy user rather than several light users, and they vary their promotional efforts accordingly. Repp’s Big & Tall Stores, which operates 200 stores and a catalog business, has identified 12 segments by analyzing customer response rates, average sales, and so on. Some segments get up to eight mailings a year, while some get only one to three mailings. The chain tries to steer low-volume catalog shoppers into nearby stores, and it offers infrequent customers an incentive such as 15 percent off to buy during a particular period.

Loyalty status. Buyers can be divided into four groups according to brand loyalty status: (1) hard-core loyals (who always buy one brand), (2) split loyals (who are loyal to two or three brands), (3) shifting loyals (who shift from one brand to another, and (4) switchers (who show no loyalty to any brand).23 Each market consists of different numbers of these four types of buyers; thus, a brand-loyal market has a high percentage of hard-core loyals. Companies that sell in such a market have a hard time gaining more market share, and new competitors have a hard time breaking in. 152 CHAPTER 8 IDENTIFYING MARKET SEGMENTS AND SELECTING TARGET MARKETS brands. For this reason, marketers must carefully interpret what is behind observed purchasing patterns.

Buyer-readiness stage A market consists of people in different stages of readiness to buy a product: Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. The relative numbers make a big difference in designing the marketing program.

Attitude Five attitude groups can be found in a market: (1) enthusiastic, (2) positive, (3) indifferent, (4) negative, and (5) hostile. So, for example, workers in a political campaign use the voter's attitude to determine how much time to spend with that voter. They may thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters. Multi-Attribute Segmentation (Geoclustering) Marketers are increasingly combining several variables in an effort to identify smaller, better defined target groups. Thus, a bank may not only identify a group of wealthy retired adults, but within that group may distinguish several segments depending on current income, assets, savings, and risk preferences. One of the most promising developments in multi-attribute segmentation is geoclustering, which yields richer descriptions of consumers and neighborhoods than does traditional demographics. Geoclustering can help a firm answer such questions as: Which clusters (neighborhoods or zip codes) contain our most valuable customers? How deeply have we already penetrated these segments? Which markets provide the best opportunities for growth? Claritas Inc. has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets), classifying over half a million U.S. residential neighborhoods into 62 lifestyle groupings called PRIZM Clusters.24 The groupings take into consideration 39 factors in five broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility, and cover specific geographic areas defined by Zip code, Zip 4, census tract, and block group. Each cluster has a descriptive title, such as American Dreams and Rural Industries. Within each cluster, members tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. The American Dreams cluster, for example, is upscale and ethnic—a big-city mosaic of people likely to buy imported cars, Elle magazine, Mueslix cereal, tennis weekends, and designer jeans. In contrast, Rural Industria contains young families in heartland offices and factories whose lifestyle is typified by trucks, True Story magazine, Shake n' Bake, fishing trips, and tropical fish.

Geoclustering is an especially valuable segmentation tool because it captures the increasing diversity of the American population. Moreover, it can help even smaller firms identify microsegments that are economically feasible because of lower database costs, more sophisticated software, increased data integration, and wider use of the Internet.

Bases for Segmenting Business Markets

Business markets can be segmented with some variables that are employed in consumer market segmentation, such as geography, benefits sought, and usage rate. Yet business marketers can also use several other variables. Bonoma and Shapiro proposed segmenting the business market with the variables. The demographic variables are the most important, followed by the operating variables— down to the personal characteristics of the buyer. A company should first decide which industries it wants to serve. Then, within a chosen target industry, the company can further segment by company size, possibly setting up separate operations for selling to large and small customers. Small businesses, in particular, have become a Holy Grail for business marketers, both on and off the Internet.27 Small businesses are now responsible for 50 percent of the U.S. gross domestic product, according to the Small Business Administration—and this segment is growing even faster than the large company segment IBM, already successful in marketing to corporate giants, is one of many companies targeting small businesses. Within the segment of U.S. firms with 1,000 or fewer employees, IBM is further targeting the segment of minority-owned businesses. IBM's strategy is to devote some field salespeople exclusively to small and mediumsize businesses, hire executives responsible for targeting subsegments, become more involved in professional associations frequented by minority small-business owners, and offer more flexible contact options such as telesales and service. Looking beyond small businesses, marketers can be more effective even within mature commodity industries if they use segmentation for better targeting. For example, Rangan, Moriarty, and Swartz found these four business segments within the steelstrapping industry:

1. Programmed buyers: Buyers who see the product as not very important to their operation. This is a very profitable segment: The buyers view the product as a routine purchase item, usually paying full price and receiving below-average service.

2. Relationship buyers: Buyers who regard the product as moderately important and are knowledgeable about competitive offerings. They get a small discount and a modest amount of service and prefer the vendor as long as the price is not far out of line. This is the second most profitable segment.

3. Transaction buyers: Buyers who see the product as very important to their operations. They are price and service sensitive and receive some discounts, but they know the competition and will switch for a better price, even at the sacrifice of some service.

4. Bargain hunters: Buyers who see the product as very important and demand low prices and top service. They know the alternative suppliers, bargain hard, and are ready to switch if dissatisfied. The company needs these buyers for volume purposes, but they are not very profitable. Clearly, developing a segmentation scheme for this kind of industry will help a business marketer determine where to increase or decrease price and service, since each segment reacts differently.

Effective Segmentation

Even after applying segmentation variables to a consumer or business market, marketers must realize that not all segmentations are useful. For example, table salt buyers could be divided into blond and brunette customers, but hair color is not relevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market would be minimally segmentable from a marketing perspective. To be useful, market segments must be:

➢ **Measurable:** The size, purchasing power, and characteristics of the segments can be measured.

➢ **Substantial:** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program.

➢ **Accessible:** The segments can be effectively reached and served.

➢ **Differentiable:** The segments are conceptually distinguishable and respond differently to different marketing mixes. If two segments respond identically to a particular offer, they do not constitute separate segments.

➢ **Actionable:** Effective programs can be formulated for attracting and serving the segments.

MARKET TARGETING STRATEGIES

Once the firm has identified its market-segment opportunities, it is ready to initiate market targeting. Here, marketers evaluate each segment to determine how many and which ones to target and enter.

Evaluating Market Segments

In evaluating different market segments, the firm must look at two factors: (1) the segment's overall attractiveness, and (2) the company's objectives and resources. First, the firm must ask whether a potential segment has the characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk. Second, the firm must consider whether investing in the segment makes sense given the firm's objectives and resources. Some attractive segments could be dismissed because they do not mesh with the company's long-run objectives; some should be dismissed if the company lacks one or more of the competences needed to offer superior value. Selecting and Entering Market Segments Having evaluated different segments, the company can consider five patterns of target market selection.

Single-Segment Concentration

Many companies concentrate on a single segment: Volkswagen, for example, concentrates on the small-car market, while Porsche concentrates on the sports car market. Through concentrated marketing, the firm gains a thorough understanding of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies by specializing its production, distribution, and promotion; if it attains segment leadership, it can earn a high return on its investment. However, concentrated marketing involves higher than normal risks if the segment turns sour because of changes in buying patterns or new competition. For these reasons, many companies prefer to operate in more than one segment. Selective Specialization Here the firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each segment promises to be a moneymaker. This multi segment coverage strategy has the advantage of diversifying the firm's risk. Consider a radio broadcaster that wants to appeal to both younger and older listeners using selective specialization.

Product Specialization

Another approach is to specialize in making a certain product for several segments. An example would be a microscope manufacturer that sells microscopes to university laboratories, government laboratories, and commercial laboratories. The firm makes different microscopes for different customer groups but does not manufacture other instruments that laboratories might use. Through a product specialization strategy, the firm builds a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.

Market Specialization

With market specialization, the firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products only to university laboratories, including microscopes, oscilloscopes, and chemical flasks. The firm gains a strong reputation in serving this customer group and becomes a channel for further products that the customer group could use. However, the downside risk is that the customer group may have its budgets cut.

Full Market Coverage

Here a firm attempts to serve all customer groups with all of the products they might need. Only very large firms can undertake a full market coverage strategy. Examples include IBM (computer market), General Motors (vehicle market), and Coca-Cola (drink market). Large firms can cover a whole market in two broad ways: through undifferentiated marketing or differentiated marketing. In undifferentiated marketing, the firm ignores market-segment differences and goes after the whole market with one market offer. Focusing on a basic buyer need, it designs a product and a marketing program that will appeal to the broadest number of buyers. To reach the market, the firm uses mass distribution backed by mass advertising to create a superior product image in people's minds. The narrow product line keeps down costs of research and development, production, inventory, transportation, marketing research, advertising, and product management; the undifferentiated advertising program keeps down advertising costs. Presumably, the company can turn its lower costs into lower prices to win the price-sensitive segment of the market. In differentiated marketing, the firm operates in several market segments and designs different programs for each segment. General Motors does this with its various vehicle brands and models; Intel does this with chips and programs for consumer, business, small business, networking, digital imaging, and video markets.

Differentiated marketing typically creates more total sales than does undifferentiated marketing. However, the need for different products and marketing programs also increases the firm's costs for product modification, manufacturing, administration, inventory, and promotion. Because differentiated marketing leads to both higher sales and higher costs, we cannot generalize regarding this strategy's profitability. Still, companies should be cautious about over segmenting their market. Smith Kline Beecham introduced Aqua fresh toothpaste to attract three benefit segments simultaneously: those seeking fresh breath, whiter teeth, and cavity protection. Next, the company moved deeper into counter segmentation by launching flavored toothpastes for children, toothpaste for people with sensitive teeth, and other toothpaste products.

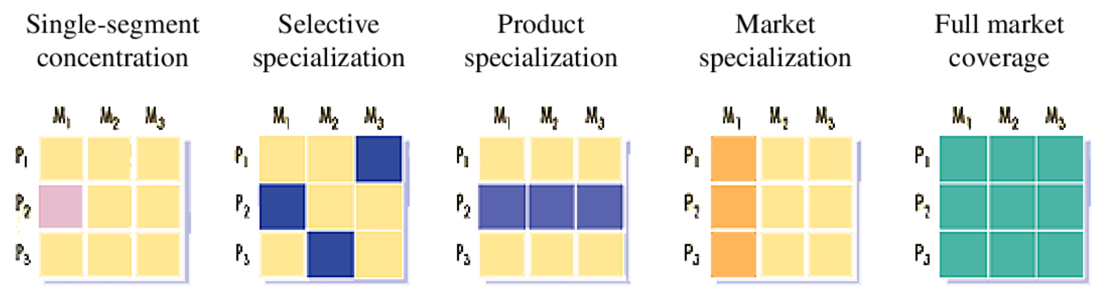
Targeting Multiple Segments and Super segments Very often, companies start out by marketing to one segment, then expand to others. For example, Paging Network Inc.—known as PageNet—is a small developer of paging systems, and was the first to offer voice mail on pagers. To compete with Southwestern Bell and other Bell companies, it sets its prices about 20 percent below rivals' prices. Initially, PageNet used geographic segmentation to identify attractive markets in Ohio and Texas where local competitors were vulnerable to its aggressive pricing. Next, the firm developed a profile of users for paging services so it could target salespeople, messengers, and service people. PageNet also used lifestyle segmentation to target additional consumer groups, such as parents who leave their children with a sitter. Finally, PageNet began distributing its pagers through Kmart, Wal-Mart, and Home Depot, offering attractive discounts in return for the right to keep the monthly service charge revenues on any pagers sold.

In targeting more than one segment, a company should examine segment interrelationships on the cost, performance, and technology side. A company that is carrying fixed costs, such as a sales force or store outlets, can generally add products to absorb and share some of these costs. Smart companies know that economies of scope can be just as important as economies of scale. Moreover, companies should look beyond isolated segments to target a super segment, a set of segments that share some exploitable similarity. For example, many symphony orchestras target people with broad cultural interests, rather than only those who regularly attend concerts. Still, a company's invasion plans can be thwarted when it confronts blocked markets. This problem calls for mega marketing, the strategic coordination of economic, psychological, political, and public-relations skills to gain the cooperation of a number of parties in order to enter or operate in a given market. Pepsi used mega marketing to enter India after Coca-Cola left the market. First, it worked with a local business group to gain government approval for its entry over the objections of domestic soft-drink companies and anti multinational legislators. Pepsi also offered to help India export enough agricultural products to more than cover the cost of importing soft-drink concentrate and promised economic development for some rural areas. By winning the support of these and other interest groups, Pepsi was finally able to crack the Indian market.

Ethical Choice of Market Targets Market targeting sometimes generates public controversy. The public is concerned when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city poor people), or promote potentially harmful products. For example, the cereal industry has been criticized for marketing to children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defenses and lead them to eat too much sugared cereal or poorly balanced breakfasts.

IDENTIFYING MARKET SEGMENTS AND SELECTING TARGET MARKETS

Not all attempts to target children, minorities, or other segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Golden Ribbon Playthings has developed a highly acclaimed and very successful black character doll named "Huggy Bean" to connect minority consumers with their African heritage. Other companies are also responding to the needs of specific segments. Black-owned ICE theaters noticed that although movie-going by blacks has surged, there is a dearth of inner-city theaters, so it began opening theaters in Chicago and other cities. Thus, in the choice of market targets, the issue is not who is targeted, but rather how and for what purpose. Socially responsible marketing calls for targeting and positioning that serve not only the company's interests but also the interests of those targeted.



P - product M - market

QUESTION BANK

PART – A

1. The most targeted marketing strategies are built around meeting each customer's unique requirements. Explain marketing segmentation to justify this statement.
2. Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. Explain Geographic segmentation to justify this statement
3. All marketing strategy is built on segmentation, targeting, and positioning Justify this statement
4. Survival strategies play a vital role for very survival of local companies in emerging market. Justify the statement.
5. Market orientation is an approach to business that prioritizes identifying the needs and desires of consumers and creating products and services that satisfy them. Justify this statement.
6. Positioning is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market. Justify this statement

QUESTION BANK

PART – B

1. Market segmentation divides a market into well-defined slices. A market segment consists of a group of customers who share a similar set of needs and wants. Justify this statement by explaining the major segmentation variables.
2. Prepare a harvesting strategy for your business and the product to minimize all types of spending on a specific product to maximize profitability
3. Prepare a harvesting strategy for your business and the product to minimize all types of spending on a specific product to maximize profitability
4. Buzzell identified several causes for the slow growth. Point out these causes as well elucidate using marketing strategies in the Introduction Stage
5. Prove that 'Segmentation is at the heart of marketing strategy' and examine the importance of market segmentation.
6. Regardless of whether they serve the consumer market or the business market offering either goods or services companies can apply segmentation at one of four level. Justify this statement by explaining the four levels of market segmentation

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UNIT-IV- STRATEGIC MARKETING - SBAA7011

UNIT 4

Market segmentation divides a market into well-defined slices. A market segment consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target. We use two broad groups of variables to segment consumer markets. Some researchers define segments by looking at descriptive characteristics—geographic, demographic, and psychographic—and asking whether these segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a product benefit. Other researchers define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands, then seeing whether different characteristics are associated with each consumer response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and/or psychographic makeup? Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences.

The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called grassroots marketing, marketers concentrate on making such activities as personally relevant to individual customers as possible. Much of Nike's initial success came from engaging target consumers through grassroots marketing efforts such as sponsorship of local school teams, expert conducted clinics, and provision of shoes, clothing, and equipment to young athletes. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Retail firms such as Starbucks, Costco, have found great success emphasizing local marketing initiatives, and other types of firms have also jumped into the action.

More and more, regional marketing means marketing right down to a specific zip code. Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas. By mapping the densest areas, the retailer can rely on customer cloning, assuming the best prospects live where most of the customers already come from. Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods.

Those who favor such localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are too different in different localities.

Demographic Segmentation

One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in non demographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently. Here's how marketers have used certain demographic variables to segment markets. Age and Life-Cycle Stage Consumer wants and abilities change with age. Toothpaste brands such as Colgate offers three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). Indirect age effects also operate for some products. One study of kids ages 8–12 found that 91 percent decided or influenced clothing or apparel buys, 79 percent grocery purchases, and 54 percent vacation choices, while 14 percent even made or swayed vehicle purchase decisions.

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles. One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS is based on psychological traits for people and classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 9.1). You can find out which VALS type you are by going to the SBI Web site. The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, andvanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

Behavioral Segmentation

In behavioral segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

Needs and Benefits Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications.

Decision Roles It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment and women choose their pantyhose, but even here marketers must be careful in making targeting decisions because buying roles change. When ICI, the giant British chemical company now called AkzoNobe, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women.

People play five roles in a buying decision: **Initiator, Influencer, Decider, Buyer, and User.** For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

User and Usage-Related Variables Many marketers believe variables related to users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments.

Occasions Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage.

User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits? Included in the potential-user group are consumers who will become users in connection with some life stage or event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain from them. Smaller firms focus on trying to attract current users away from the market leader.

Usage Rate We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for87 percent of beer consumption—almost seven times as much as light drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption. Light users may be more responsive to new marketing appeals.

Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, recall from Chapter 5 that marketers can employ a marketing funnel to break the market into buyer-readiness stages. The proportions of consumers at different stages make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test.. Compared with Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared with 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold. Loyalty Status Marketers usually envision four groups based on brand loyalty status:

1. Hard-core loyals—Consumers who buy only one brand all the time
2. Split loyals—Consumers who are loyal to two or three brands
3. Shifting loyals—Consumers who shift loyalty from one brand to another
4. Switchers—Consumers who show no loyalty to any brand

A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals can help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands. Attitude Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Workers in a political campaign use attitude to determine how much time and effort to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters. Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments.

Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment. A flexible market offering consists of two parts: a naked solution containing the product and service elements that all segment members value and discretionary options that some segment members value. Each option might carry an additional charge. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty, but it also offers installation, tests, and communication peripherals as extra-cost options.

Market Targeting There are many statistical techniques for developing market segments. Once the firm has identified its market segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a needs-based market segmentation approach. Roger Best proposed the seven-step approach shown in Table.

Effective Segmentation Criteria

Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view. To be useful, market segments must rate favorably on five key criteria:

• **Measurable.** The size, purchasing power, and characteristics of the segments can be measured.

• Substantial. The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.

• **Accessible.** The segments can be effectively reached and served. • Differentiable. The segments are conceptually distinguishable and respond differently to different marketingmix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments.

• **Actionable.** Effective programs can be formulated for attracting and serving the segments. Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are as follows.

1.**Threat of intense segment rivalry**—A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It’s even more unattractive if it’s stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete. The mobile phone market has seen fierce competition due to segment rivalry.

2. Threat of new entrants—The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case occurs when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times.

3. Threat of substitute products—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall. Air travel has severely challenged profitability for Greyhound and Amtrak.

4. Threat of buyers' growing bargaining power—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.

5. Threat of suppliers' growing bargaining power—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sourcesEvaluating and Selecting the Market Segments In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more competencies necessary to offer superior value. Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions. At one end is a mass market of essentially one segment; at the other are individuals or segments of one person each. Between lie multiple segments and single segments. We describe approaches to each of the four levels next. Full Market Coverage With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing. In undifferentiated or mass marketing, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black. The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience. When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better reflect competitors' marketing. In differentiated marketing, the firm sells different products to all the different segments of the market. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients. Perhaps Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid. Multiple Segment Specialization With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. When Procter & Gamble launched Crest Whitestrips, initial target segments included newly engaged women and brides-to-be as well as gay males. The multisegment strategy also has the advantage of diversifying the firm's risk. Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A supersegment is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts. A firm can also attempt to achieve some synergy with product or market specialization. With product specialization, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology. With market specialization, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The downside risk is that the customer group may suffer budget cuts or shrink in size. Single-Segment Concentration With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car enthusiast and Volkswagen on the small-car market— its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment. A niche is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. Whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By creating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable. Another up-and-coming niche marketer is Allegiant Air. What does an attractive niche look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable. See “Marketing Insight: Chasing the Long Tail.” Individual Marketing The ultimate level of segmentation leads to “segments of one,” “customized marketing,” or “one-to-one marketing.” As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. Mass customization is the ability of a company to meet each customer’s requirements—to prepare on a mass basis individually designed products, services, programs, and communications. **Developing a Brand Positioning All marketing strategy is built on segmentation, targeting, and positioning (STP)**. A company discovers different needs and groups of consumers in the marketplace, targets those it can satisfy in a superior way, and then positions its offerings so the target market recognizes its distinctive offerings and images. By building customer advantages, companies can deliver high customer value and satisfaction, which lead to high repeat purchases and ultimately to high company profitability.

Understanding Positioning and Value Propositions Positioning is the act of designing a company’s offering and image to occupy a distinctive place in the minds of the target market.The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand’s essence, identifying the goals it helps the consumer achieve, and showing how it does so in a unique way. Everyone in the organization should understand the brand positioning and use it as context for making decisions. A useful measure of the effectiveness of the organization’s positioning is the brand substitution test. If, in some marketing activity—an ad campaign, a viral video, a new product introduction—the brand were replaced by a competitive brand, then that marketing activity should not work as well in the marketplace. A well-positioned brand should be distinctive in its meaning and execution. If a sport or music sponsorship, for example, would work as well if it were for a leading competitor, then either the positioning is not sharply defined well enough or the sponsorship as executed does not tie closely enough to the brand positioning. A good positioning has one foot in the present and one in the future. It needs to be somewhat aspirational so the brand has room to grow and improve. Positioning on the basis of the current state of the market is not forward looking enough, but at the same time, the positioning cannot be so removed from reality that it is essentially unobtainable. The real trick is to strike just the right balance between what the brand is and what it could be. One result of positioning is the successful creation of a customer-focused value proposition, a cogent reason why the target market should buy a product or service. A value proposition captures the way a product or service's key benefits provide value to customers by satisfying their needs. Positioning requires that marketers define and communicate similarities and differences between their brand and its competitors. Specifically, deciding on a positioning requires:

(1) choosing a frame of reference by identifying the target market and relevant competition,

(2) identifying the optimal points-of-parity and pointsof-difference brand associations given that frame of reference, and

(3) creating a brand mantra summarizing the positioning and essence of the brand.

Choosing a Competitive Frame of Reference

The competitive frame of reference defines which other brands a brand competes with and which should thus be the focus of competitive analysis. Decisions about the competitive frame of reference are closely linked to target market decisions. Deciding to target a certain type of consumer can define the nature of competition because certain firms have decided to target that segment in the past (or plan to do so in the future) or because consumers in that segment may already look to certain products or brands in their purchase decisions. Identifying Competitors A good starting point in defining a competitive frame of reference for brand positioning is category membership—the products or sets of products with which a brand competes and that function as close substitutes. It would seem a simple task for a company to identify its competitors. PepsiCo knows Coca-Cola's Dasani is a major bottled-water competitor for its Aquafina brand; Wells Fargo knows Bank of America is a major banking competitor; and Petsmart.com knows a major online retail competitor for pet food and supplies is Petco.com. The range of a company's actual and potential competitors, however, can be much broader than the obvious. To enter new markets, a brand with growth intentions may need a broader or maybe even a more aspirational competitive frame. And it may be more likely to be hurt by emerging competitors or new technologies than by current competitors. The energy-bar market created by Power Bar ultimately fragmented into a variety of subcategories, including those directed at specific segments (such as Luna bars for women) and some possessing specific attributes (such as the protein-laden Balance and the calorie-control bar Pria). Each represented a subcategory for which the original Power Bar may not be as relevant.4 Firms should broaden their competitive frame to invoke more advantageous comparisons. Consider these examples: • In the United Kingdom, the Automobile Association positioned itself as the fourth "emergency service"—along with police, fire, and ambulance—to convey greater credibility and urgency.

The International Federation of Poker is attempting to downplay some of the gambling image of poker to emphasize the similarity of the card game to other “mind sports” such as chess and bridge.The U.S. Armed Forces changed the focus of its recruitment advertising from the military as patriotic duty to the military as a place to learn leadership skills—a much more rational than emotional pitch that better competes with private industry.We can examine competition from both an industry and a market point of view. An industry is a group of firms offering a product or class of products that are close substitutes for one another. Marketers classify industries according to several different factors, such as the number of sellers; degree of product differentiation; presence or absence of entry, mobility, and exit barriers; cost structure; degree of vertical integration; and degree of globalization. Using the market approach, we define competitors as companies that satisfy the same customer need. For example, a customer who buys a word-processing software package really wants “writing ability”—a need that can also be satisfied by pencils, pens, or, in the past, typewriters. Marketers must overcome “marketing myopia” and stop defining competition in traditional category and industry terms.8 Coca-Cola, focused on its soft drink business, missed seeing the market for coffee bars and fresh-fruit-juice bars that eventually impinged on its soft-drink business. The market concept of competition reveals a broader set of actual and potential competitors than competition defined in just product category terms. Jeffrey Rayport and Bernard Jaworski suggest profiling a company’s direct and indirect competitors by mapping the buyer’s steps in obtaining and using the product. This type of analysis highlights both the opportunities and the challenges a company faces.

Analyzing Competitors A company needs to gather information about each competitor’s real and perceived strengths and weaknesses. Competitor A turns out to be well known and respected for producing high-quality products sold by a good sales force, but poor at providing product availability and technical assistance. Competitor B is good across the board and excellent in product availability and sales force. Competitor C rates poor to fair on most attributes. This result suggests that in its positioning, the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but it should not attack B, which has no glaring weaknesses. As part of this competitive analysis for positioning, the firm should also ascertain the strategies and objectives of its primary competitors. Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitor’s behavior? Many factors shape a competitor’s objectives, including size, history, current management, and financial situation. If the competitor is a division of a larger company, it’s important to know whether the parent company is running it for growth or for profits, or milking it. Finally, based on all this analysis, marketers must formally define the competitive frame of reference to guide positioning. In stable markets where little short-term change is likely, it may be fairly easy to define one, two, or perhaps three key competitors. In dynamic categories where competition may exist or arise in a variety of different forms, multiple frames of reference may be present, as we discuss below.

Identifying Potential Points-of-Difference and Points-of-Parity Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and pointsof-parity associations.

Points-of-Difference

Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand. Associations that make up points-of-difference can be based on virtually any type of attribute or benefit. Louis Vuitton may seek a point-of-difference as having the most stylish handbags, Energizer as having the longest-lasting battery, and Fidelity Investments as offering the best financial advice and planning. Strong brands often have multiple points-of-difference. Some examples are Apple (design, ease-of-use, and irreverent attitude), Nike (performance, innovative technology, and winning), and Southwest Airlines (value, reliability, and fun personality). Creating strong, favorable, and unique associations is a real challenge, but an essential one for competitive brand positioning. Although successfully positioning a new product in a well-established market may seem particularly difficult, Method Products shows that it is not impossible. Three criteria determine whether a brand association can truly function as a point-of-difference: desirability, deliverability, and differentiability. Some key considerations follow. Desirable to consumer. Consumers must see the brand association as personally relevant to them. Select Comfort made a splash in the mattress industry with its Sleep Number beds, which allow consumers to adjust the support and fit of the mattress for optimal comfort with a simple numbering index. Consumers must also be given a compelling reason to believe and an understandable rationale for why the brand can deliver the desired benefit. Mountain Dew may argue that it is more energizing than other soft drinks and support this claim by noting that it has a higher level of caffeine. Chanel No. 5 perfume may claim to be the quintessentially elegant French perfume and support this claim by noting the long association between Chanel and haute couture. Substantiators can also come in the form of patented, branded ingredients, such as NIVEA Wrinkle Control Crème with Q10 co-enzyme.

Deliverable by the company The company must have the internal resources and commitment to feasibly and profitably create and maintain the brand association in the minds of consumers. The product design and marketing offering must support the desired association. Does communicating the desired association require real changes to the product itself or just perceptual shifts in the way the consumer thinks of the product or brand? Creating the latter is typically easier. General Motors has had to work to overcome public perceptions that Cadillac is not a youthful, modern brand and has done so through bold designs, solid craftsmanship, and active, contemporary images.The ideal brand association is preemptive, defensible, and difficult to attack. It is generally easier for market leaders such as ADM, Visa, and SAP to sustain their positioning, based as it is on demonstrable product or service performance, than it is for market leaders such as Fendi, Prada, and Hermès, whose positioning is based on fashion and is thus subject to the whims of a more fickle market.

Differentiating from competitors. Finally, consumers must see the brand association as distinctive and superior to relevant competitors. Splenda sugar substitute overtook Equal and Sweet'N Low to become the leader in its category in 2003 by differentiating itself as a product derived from sugar without the associated

Points-of-Parity Points-of-parity (POPs), on the other hand, are attribute or benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in three basic forms: category, correlational, and competitive. Category points-of-parity are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not sufficient— conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends, but to use a golfing analogy, they are the "greens fees" necessary to play the marketing game. Correlational points-of-parity are potentially negative associations that arise from the existence of positive associations for the brand. One challenge for marketers is that many attributes or benefits that make up their POPs or PODs are inversely related. In other words, if your brand is good at one thing, such as being inexpensive, consumers can't see it as also good at something else, like being "of the highest quality." Consumer research into the trade-offs consumers make in their purchasing decisions can be informative here. Below, we consider strategies to address these trade-offs. Competitive points-of-parity are associations designed to overcome perceived weaknesses of the brand in light of competitors' points-of-difference. One good way to uncover key competitive points-of-parity is to role-play competitors' positioning and infer their intended points-of-difference. Competitor's PODs will, in turn, suggest the brand's POPs. Regardless of the source of perceived weaknesses, if, in the eyes of consumers, a brand can "break even" in those areas where it appears to be at a disadvantage and achieve advantages in other areas, the brand should be in a strong—and perhaps unbeatable—competitive position. Consider the introduction of Hyundai Motor Company—the biggest carmaker in South Korea and one of the top ten global auto companies.

Points-of-Parity Versus Points-of-Difference

For an offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is "good enough" on that dimension. There is a zone or range of tolerance or acceptance with points-of-parity. The brand does not literally need to be seen as equal to competitors, but consumers must feel it does well enough on that particular attribute or benefit. If they do, they may be willing to base their evaluations and decisions on other factors more favorable to the brand. A light beer presumably would never taste as good as a full-strength beer, but it would need to taste close enough to be able to effectively compete. Often, the key to positioning is not so much achieving a point-of-difference as achieving points-of-parity!

MARKETING THROUGH THE PRODUCT LIFE CYCLE

In today's highly dynamic marketing environment, a company's marketing strategy must change as the product, market, and competitors change over time. Here, we describe the concept of the product life cycle (PLC) and the changes that companies make as the product passes through each stage of the life cycle.

The Concept of the Product Life Cycle

To say that a product has a life cycle is to assert four things: (1) Products have a limitedlife;

(2) product sales pass through distinct stages with different challenges, opportunities, and problems for the seller;

(3) profits rise and fall at different stages of the
product life cycle; and

(4) products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each stage.

The PLC curve is typically divided into four stages:

➤ **Introduction:** A period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses incurred with product introduction.

➤ **Growth:** A period of rapid market acceptance and substantial profit improvement.

➤ **Maturity:** A period of a slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.

➤ **Decline**: The period when sales show a downward drift and profits erode.

Marketing Strategies: Introduction Stage

Because it takes time to roll out a new product and fill dealer pipelines, sales growth tends to be slow at this stage. Buzzell identified several causes for the slow growth: delays in the expansion of production capacity, technical problems ("working out the bugs"), delays in obtaining adequate distribution through retail outlets, and customer reluctance to change established behaviors. Sales of expensive new products are retarded by additional factors such as product complexity and fewer buyers. Profits are negative or low in the introduction stage because of low sales and heavy distribution and promotion expenses. Much money is needed to attract distributors.

Promotional expenditures are high because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution. Firms focus their selling on those buyers who are the readiest to buy, usually higher-income groups. Prices tend to be high because costs are high due to relatively low output rates, technological problems in production, and high required margins to support the heavy promotional expenditures. Companies must decide when to enter the market with a new product. Most studies indicate that the market pioneer gains the most advantage. Such pioneers as Amazon.com, Cisco, Coca-Cola, eBay, Eastman Kodak, Hallmark, Microsoft, Peapod.com, and Xerox developed sustained market dominance. However, the pioneer advantage is not inevitable. Schnaars studied 28 industries in which the imitators surpassed the innovators and found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously, or using brute market power to overtake the pioneer.22 As one example, Apple's Newton, the first handheld personal digital assistant, failed because it could not decipher the handwriting of users consistently. In contrast, imitator Palm Pilot's smaller, more advanced product was enormously successful because it allowed users to input information with a few standardized strokes of the stylus.23 Still, the pioneer knows that competition will eventually enter the market and charge a lower price, which will force the pioneer to lower prices. As competition and market share stabilize, buyers will no longer pay a price premium; some competitors will withdraw at this point, and the pioneer can then build share if it chooses.24

Marketing Strategies:

Growth Stage: The growth stage is marked by a rapid climb in sales, as DVD players are currently experiencing.

Early adopters like the product, and additional consumers start buying it. Attracted by the opportunities, new competitors enter with new product features and expanded distribution. Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain or increase their promotional expenditures to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion-sales ratio.

Profits increase during this stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the producer learning effect. During this stage, the firm uses several strategies to sustain rapid market growth as long as possible:

(1) improving product quality and adding new product features and improved styling;

(2) adding new models and flanker products;

(3) entering new market segments;

(4) increasing distribution coverage and entering new distribution channels;

(5) shifting from product-awareness advertising to product-preference advertising; and

(6) lowering prices to attract the next layer of price-sensitive buyers.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages, and poses formidable challenges to marketing management. Most products are in the maturity stage of the life cycle, and most marketing managers cope with the problem of marketing the mature product Three strategies for the maturity stage are market modification, product modification, and marketing-mix modification:

➤ **Market modification**. The company might try to expand the market for its mature brand by working to expand the number of brand users. This is accomplished by (1) converting nonusers; (2) entering new market segments (as Johnson & Johnson did when promoting baby shampoo for adult use); or (3) winning competitors' customers (the way Pepsi-Cola tries to woo away Coca-Cola users). Volume can alsobe increased by convincing current brand users to increase their usage of the brand.

➤ Product modification. Managers try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement. Quality improvement aims at increasing the product's functional performance—its durability, reliability, speed, taste. New features build the company's image as an innovator and win the loyalty of market segments that value these features; this is why America Online regularly introduces new versions of its Internet software. However, feature improvements are easily imitated; unless there is a permanent gain from being first, the feature improvement might not pay off in the long run.

➤ Marketing-mix modification. Product managers can try to stimulate sales by modifying other marketing-mix elements such as prices, distribution, advertising, sales promotion, personal selling, and services. For example, Goodyear boosted its market share from 14 to 16 percent in 1 year when it began selling tires through Wal-Mart, Sears, and Discount Tire. Sales promotion has more impact at this stage because consumers have reached an equilibrium in their buying patterns, and psychological persuasion (advertising) is not as effective as financial persuasion (sales-promotion deals). However, excessive sales-promotion activity can hurt the brand's image and long-run profit performance. In addition, price reductions and many other marketing-mix changes are easily imitated. The firm may not gain as much as expected, and all firms might experience profit erosion as they step up their marketing attacks on each other.

Marketing Strategies: Decline Stage

The sales of most product forms and brands eventually decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All of these factors lead ultimately to overcapacity, increased price cutting, and profit erosion. As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budget and reduce their prices further.

In a study of company strategies in declining industries, Harrigan identified five possible decline strategies:

1. **Increasing the firm's investment** (to dominate the market or strengthen its competitive position);
2. **Maintaining the firm's investment level** until the uncertainties about the industry are resolved;
3. **Decreasing the firm's investment level selectively**, by dropping unprofitable customergroups, while simultaneously strengthening the firm's investment in lucrative niches;
4. **Harvesting ("milking")** the firm's investment to recover cash quickly; and
5. **Divesting** the business quickly by disposing of its assets as advantageously as possible.

The appropriate decline strategy depends on the industry's relative attractiveness and the company's competitive strength in that industry. Procter & Gamble has,on a number of occasions, successfully restaged disappointing brands that were competing in strong markets. One example is its "not oily" hand cream called Wondra, which came packaged in an inverted bottle so the cream would flow out from the bottom. Although initial sales were high, repeat purchases were disappointing.Consumers complained that the bottom got sticky and that “not oily” suggested itwould not work well. P&G carried out two restagings for this product: First, it reintroduced Wondra in an upright bottle, and later, it reformulated the ingredients so they would work better. Sales then picked up. If the company were choosing between harvesting and divesting, its strategies would be quite different. Harvesting calls for gradually reducing a product’s or business’s costs while trying to maintain its sales. The first costs to cut are R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures. It would try to cut these costs without letting customers, competitors, and employees know what is happening. Harvesting is an ethically ambivalent strategy, and it is also difficult to execute. Yet harvesting can substantially increase the company’s current cash flow.

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and innovators	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain most loyal customers
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

QUESTION BANK

PART – A

1. Predict the full form of STP and justify the statement Developing a Brand Positioning All marketing strategy is built on segmentation, targeting, and positioning
2. The competitive frame of reference defines which other brands a brand competes with and which should thus be the focus of competitive analysis. Justify this statement
3. A company needs to gather information about each competitor's real and perceived strengths and weaknesses. Support this statement by explaining the importance of analyzing the competitors
4. Prove that the Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand.
5. During the growth stage the firm uses several strategies to sustain rapid market growth as long as possible. Point out the different strategies
6. Justify –"Understanding the consumer behavior of the target market is the essential task of the marketing manager."

QUESTION BANK

PART – B

1. In a study of company strategies in declining industries, Harrigan identified five possible decline strategies. Point out the five possible decline strategies that Harrigan identified
2. Prepare a harvesting strategy for your business and the product to minimize all types of spending on a specific product to maximize profitability
3. The life cycle of a product is associated with marketing and management decisions within businesses? Support this statement using the five stages of product life cycle.
4. The three strategies for the maturity stage are market modification, product modification, and marketing mix modification. Justify this statement
5. Regardless of whether they serve the consumer market or the business market offering either goods or services companies can apply segmentation at one of four level. Justify this statement by explaining the four levels of market segmentation
6. Infer the three-step procedure that the marketers use as a three-step procedure for identifying market segments

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SCHOOL OF MANAGEMENT STUDIES

UNIT-V - STRATEGIC MARKETING - SBAA7011

UNIT 5

Competitive Strategies for Market Leader

Suppose a market is occupied by the firms ,Forty percent is in the hands of a market leader, another 30 percent belongs to a market challenger, and 20 percent is claimed by a market follower willing to maintain itsshare and not rock the boat. Market nichers, serving small segments larger firmsdon't reach, hold the remaining 10 percent. Sometimes growth depends onadopting the right competitive strategies.

A market leader has the largest market share and usually leads in price changes, new-product introductions, distribution coverage, and promotional intensity. Some historical market leaders are Microsoft (computer software), Gatorade (sports drinks), Best Buy (retail electronics), McDonald's (fast food), BlueCross BlueShield (health insurance), and Visa (credit cards).

Although marketers assume well-known brands are distinctive in consumers' minds, unless a dominant firm enjoys a legal monopoly, it must maintain constant vigilance. A powerful product innovation may come along, a competitor might find a fresh marketing angle or commit to a major marketing investment, or the leader's cost structure might spiral upward. One well-known brand and market leader that has worked hard to stay on top is Xerox.

To stay number one, the firm must first find ways to expand total market demand. Second, it must protect its current share through good defensive and offensive actions. Third, it should increase market share, even if market size remains constant. Let's look at each strategy.

Expanding Total Market Demand

When the total market expands, the dominant firm usually gains the most. If Heinz can convince more people to use ketchup, or to use ketchup with more meals, or to use more ketchup on each occasion, the firm will benefit considerably because it already sells almost two-thirds of the country's ketchup. In general, the market leader should look for new customers or more usage from existing customers.

New Customers

A company can search for new users among three groups: those who might use it but do not (market-penetration strategy), those who have never used it (new-market segment strategy), or those who live elsewhere (geographical-expansion strategy). Here is how Starbucks has described its multipronged approach to growth on its corporate Web site.

Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, richbrewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment—primarily through its company-operated retail stores. In addition to sales through our company-operated retail stores, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino®coffee drinks and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world.

In targeting new customers, the firm should not lose sight of existing ones. Daimler, maker of Mercedes-Benz, has developed a balanced approach to capitalize on both the established demand from mature markets in the European Union, United States, and Japan and the enormous potential offered by fast-growing emerging markets. As the company's chairman Dieter Zetsche proclaimed, "You cannot do either/or. You have to maintain your strength in traditional markets and even expand it."

More Usage Marketers can try to increase the amount, level, or frequency of consumption. They can sometimes boost the amount through packaging or product redesign. Larger package sizes increase the amount of product consumers use at one time. Consumers use more of impulse products such as soft drinks and snacks when the product is made more available.

Ironically, some food firms such as Hershey's have developed smaller packaging sizes that have actually increased sales volume through more frequent usage. In general, increasing frequency of consumption requires either

(1) identifying additional opportunities to use the brand in the same basic way or

(2) identifying completely new and different ways to use the brand.

Additional Opportunities to Use the Brand

A marketing program can communicate the appropriateness and advantages of using the brand. Pepto-Bismol stomach remedies are in 40 percent of U.S. households, but only 7 percent of people claim to have used them in the previous 12 months. To expand usage and make the brand more top of mind, a holiday campaign linked it to party festivities and celebrations with the tag line "Eat, Drink, and Be Covered." In a somewhat similar vein, on the inside of the front flap of its package, Orbit chewing gum puts the message, "Eat. Drink. Chew. A Good Clean Feeling." to reinforce that the brand can be a substitute for brushing teeth. Another opportunity arises when consumers' perceptions of their usage differs from reality. Consumers may fail to replace a short-lived product when they should because they overestimate how long it stays fresh or operates effectively. One strategy is to tie the act of replacing the product to a holiday, event, or time of year. Marketers of household products such as batteries for alarms and filters for vacuum cleaners, furnaces, and air conditioners use the beginning and end of Daylight Savings Time twice a year as a means to remind consumers. Another approach might be to provide consumers with (1) better information about when they first used the product or need to replace it or (2) a gauge of the current level of product performance. Gillette razor cartridges feature colored stripes that slowly fade with repeated use, signaling the user to move on to the next cartridge. Marketers for Monroe® shock absorbers and struts launched the clever, fully integrated "Everything Gets Old. Even Your Shocks." campaign, which drew comparisons between worn shocks and struts and familiar consumer items that eventually wear out and need to be replaced such as shoes, socks, tires, and even bananas!

Protecting Market Share

While trying to expand total market size, the dominant firm must actively defend its current business: Boeing against Airbus, Staples against Office Depot, and Google against Yahoo! and Microsoft.

How can the leaderdo so? The most constructive response is continuous innovation. The front-runner should lead the industry in developing new products and customer services, distribution effectiveness, and cost cutting. Comprehensive solutions increase competitive strength and value to customers so they feel appreciative or even privileged to be a customer as opposed to feeling trapped or taken advantage of.

Proactive Marketing

In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing, and creative marketing. A responsive marketer finds a stated need and fillsit. An anticipative marketer looks ahead to needs customers may have in the near future. A creative marketer discovers solutions customers did not ask for but to which they enthusiastically respond.

Creative marketers are proactive market-driving firms, not just market-driven ones.

Many companies assume their job is simply to adapt to customer needs. They are reactive mostly because they are overly faithful to the customer-orientation paradigm and fall victim to the "tyranny of the served market."

Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game.

A company needs two proactive skills: (1) responsive anticipation to see the writing on the wall, as when IBM changed from a hardware producer to a service business, and (2) creative anticipation to devise innovative solutions. Note that responsive anticipation is performed before a given change, while reactive response happens after the change takes place. Accenture maintains that 10 consumer trends covering areas like e-commerce, social media, and a desire to express individuality will yield market opportunities worth more than $2 trillion between 2013 and 2016. Proactive companies will reap the most benefit from those shifts.

Proactive companies create new offers to serve unmet—and maybe even unknown—consumer needs. In thelate 1970s, Akio Morita, the Sony founder, was working on a pet project that would revolutionize the way peoplelistened to music: a portable cassette player he called the Walkman. Engineers at the company insisted therewas little demand for such a product, but Morita refused to part with his vision. By the 20th anniversary of theWalkman, Sony had sold more than 250 million in nearly 100 different models.23

Proactive companies may redesign relationships within an industry, like Toyota did with its relationship to itssuppliers. Or they may educate and engage customers, as lululemon does with yoga and workouts.Defensive Marketing Even when it does not launch offensives, the market leader must not leave anymajor flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to lessthreatened areas, and lessen their intensity. A leader would like to do anything it legally and ethically can to reducecompetitors' ability to launch a new product, secure distribution, and gain consumer awareness, trial, and repeat.

In any strategy, speed of response can make an important difference to profit.

A dominant firm can use the six defense strategies Decisions about which strategy to adopt will depend in part on the company's resources and goals and its expectations about how competitors will react.

Position defense Position defense means occupying the most desirable position in consumers' minds, making the brand almost impregnable. Procter & Gamble "owns" the key functional benefit in many product categories, with Tide detergent for cleaning, Crest toothpaste for cavity prevention, and Pampers diapers for dryness.

Flank defense The market leader should erect outposts to protect a weak front or support a possible counterattack. Procter & Gamble brands such as Gain and Cheer laundry detergent and Luvs diapers have played strategic offensive and defensive roles in support of the Tide and Pampers brands, respectively.

Preemptive defense A more aggressive maneuver is to attack first, perhaps with guerrilla action across the market—hitting one competitor here, another there—and keeping everyone off balance. Another is to achieve broad market envelopment that signals competitors not to attack.

Yet another preemptive defense is to introduce a stream of new products and announce them in advance, signaling competitors that they will need to fight to gain market share. If Microsoft announces plans for a new-product development, smaller firms may concentrate their development efforts in other directions to avoid head-to-head competition. Some high-tech firms have been accused of selling "vaporware"—announcing products that miss delivery dates or are never introduced.

Counteroffensive defense In a counteroffensive, the market leader can meet the attacker frontally and hit its flank or launch a pincer movement so the attacker will have to pull back to defend itself. Another form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for a vulnerable product with revenue from its more profitable products, or it may prematurely announce a product upgrade to prevent customers from buying the competitor's product. Or the leader may lobby legislators to take political action to inhibit the competition or initiate appropriate legal actions. Tech leaders like Apple, Intel, and Microsoft have aggressively defended their brands in court.

Mobile defense In mobile defense, the leader stretches its domain over new territories through market broadening and market diversification. Market broadening shifts the company's focus from the current product to the underlying generic need. Thus, "petroleum" companies such as BP sought to recast themselves as "energy" companies. This change required them to research the oil, coal, nuclear, hydroelectric, and chemical industries. Market diversification shifts the company's focus into unrelated industries. When U.S. tobacco companies such as Reynolds and Philip Morris acknowledged the growing curbs on cigarette smoking, instead of defending their market position or looking for cigarette substitutes, they moved quickly into new industries such as beer, liquor, soft drinks, and frozen foods.

Contraction defense Sometimes large companies can no longer defend all their territory. In planned contraction (also called strategic withdrawal), they give up weaker markets and reassign resources to stronger ones.

Beginning in 2006, Sara Lee sold off products that accounted for a large percentage of its revenues—including its strong Hanes hosiery brand and global body care and European detergents businesses. In 2012, it split its remaining products into two businesses. Hillshire Brands became the new name of the company, which focused on its core Hillshire Farms packaged meats business in North America, and D.E. Master Blenders1753 was a spin-off company for its successful European coffee-and-tea business.

Increasing Market Share

No wonder competition has turned fierce in so many markets: One share point can be worth tens of millions of dollars. Gaining increased share does not automatically produce higher profits, however—especially for labor intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.

Because the cost of buying higher market share through acquisition may far exceed its revenue value, a company should consider four factors first:

•The possibility of provoking antitrust action. Frustrated competitors are likely to cry "monopoly" and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous lawsuits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power.

Economic cost Profitability might fall with market share gains after some level. In the illustration, the firm's optimal market share is 50 percent. The cost of gaining further market share might exceed the value if holdout customers dislike the company, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. And the costs of legal work, public relations, and lobbying rise with market share. Pushing for higher share is less justifiable when there are unattractive market segments, buyers who want multiple sources of supply, high exit barriers, and few scale or experience economies. Some market leaders have even increased profitability by selectively decreasing market share in weaker areas

The danger of pursuing the wrong marketing activities Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product quality, and marketing expenditures. Companies that attempt to increase market share by cutting prices more deeply than competitors typically don't achieve significant gains because rivals meet the price cuts or offer other values so buyers don't switch.

The effect of increased market share on actual and perceived quality Too many customers can put a strain on the firm's resources, hurting product value and service delivery. Charlotte-based FairPoint Communications struggled to integrate the 1.3 million customers it gained in buying Verizon Communications's New England franchise. A slow conversion and significant service problems led to customer dissatisfaction, regulator's anger, and eventually short-term bankruptcy.

Other Competitive Strategies

Firms that occupy second, third, and lower ranks in an industry are often called runner-up or trailing firms. Some, such as PepsiCo, Ford, and Avis, are quite large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share as market challengers, or they can choose to not "rock the boat" as market followers.

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader. Toyota today produces more cars than General Motors, Lowe's is putting pressure on Home Depot, and AMD has found some success chipping away at Intel's market share. Challengers set high aspirations, while market leaders can fall prey to running business as usual. Challengers can also tap into public perceptions that they are the underdog.38

Kraft split its company into two to better focus on fast-growing categories and markets, as well as to adequately support its solid core of heritage brands.

Defining the Strategic Objective and Opponent(s)

A market challenger must first define its strategic objective, which is usually to increase market share. It then must decide whom to attack:

• It can attack the market leader. This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. Xerox wrested the copy market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers. This strategy often has the added benefit of distancing the firm from other challengers.

• It can attack firms its own size that are not doing the job and are underfinanced. These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways.

• It can attack small local and regional firms. Several major banks grew to their present size by gobbling up smaller regional banks, or "guppies."

• It can attack the status quo. A challenger might not attack a specific firm as much as an industry as a whole or a pervasive way of thinking that doesn't adequately address customer needs. Firms like Jet Blue, Ally Bank, and Netflix have succeeded by contrasting their services with those of competitors.

Choosing a General Attack Strategy Given clear opponents and objectives, what attack options are available?

We can distinguish five: frontal, flank, encirclement, bypass, and guerilla attacks.

•**Frontal attack.** In a pure frontal attack, the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says the side with the greater resources will win. A modified frontal -attack, such as cutting price, can work if the market leader doesn't retaliate and if the competitor convinces the market its product is equal to the leader's. Helene Curtis is a master at convincing the market that its hair-care brands—such as Suave and Finesse—are equal in quality but a better value than higher-priced brands.

•**Flank attack**. A flanking strategy is another name for identifying shifts that cause gaps to develop in the market, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. Top communications companies such as Verizon, AT&T, and T-Mobile found themselves losing sales in the specialized but fast-growing prepaid smart-phone market when smaller carriers such as Boost Mobile, Virgin Mobile, and MetroPCS offered lower prices and greater selection. Another flanking strategy is to serve uncovered market needs. Ariat's cowboy boots have challenged long-time market leaders Justin Boots and Tony Lama by making boots that are every bit as ranch-ready but ergonomically designed to feel as comfortable as a running shoe—a totally new benefit in the category. With a geographic attack, the challenger spots areas where the opponent is underperforming.

•**Encirclement attack.** Encirclement attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources. Back when it was pitched in a heated battle with much bigger rival Microsoft, Sun Microsystems licensed its Java software to hundreds of companies and thousands of software developers for all sorts of consumer devices. As consumer electronics began to go digital, Java started appearing in a wide range of gadgets.

•**Bypass attack.** Bypassing the enemy altogether to attack easier markets instead offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies. In the "cola wars," Pepsi used a bypass strategy against Coke by (1) rolling out Aquafina bottled water nationally in 1997 before Coke launched its Dasani brand; (2) purchasing orange juice giant Tropicana in 1998, when it owned almost twice the market share of Coca-Cola's Minute Maid; and (3) purchasing the Quaker Oats Company, owner of market leader Gatorade sports drink, for $14 billion in 2000.43 Coca-Cola has responded in turn with its own acquisitions. In technological leapfrogging, the challenger patiently researches and develops the next technology, shifting the battleground to its own territory where it has an advantage. Google used technological leapfrogging to overtake Yahoo! And become the market leader in search.

• **Guerrilla attack.** Guerrilla attacks consist of small, intermittent attacks, conventional and unconventional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds. A guerrilla campaign can be expensive, though less so than a frontal, encirclement, or flank attack, but it typically must be backed by a stronger attack to beat the opponent.

Choosing a Specific Attack Strategy

Any aspect of the marketing program can serve as the basis for attack, such as lower-priced or discounted products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies. A challenger's success depends on combining several, more specific strategies to improve its position over time. Once successful, a challenger brand must retain a challenger mentality even if it becomes a market leader, highlighting the way it does things differently.

Market-Follower Strategies

Theodore Levitt argues that a strategy of product imitation might be as profitable as a strategy of product innovation. In "innovative imitation," as he calls it, the innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it may not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Many companies prefer to follow rather than challenge the market leader. Patterns of "conscious parallelism" are common in capital-intensive, homogeneous-product industries such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is comparable, and price sensitivity runs high. The mood in these industries is against short-run grabs for market share because that only provokes retaliation. Instead, most firms present similar offers to buyers, usually by copying the leader. Market shares show high stability. That's not to say market followers lack strategies. They must know how to hold current customers and win a fair share of new ones. Each follower tries to bring distinctive advantages to its target market—location, services, financing—while defensively keeping its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up.

"Marketing Insight: The Costs and Benefits of Fast Fashion" describes how a set of firms is changing the fashion industry, both for better and for worse. Followers must define a growth path, but one that doesn't invite competitive retaliation. We distinguish three broad strategies:

1. **Cloner**—The cloner emulates the leader's products, name, and packaging with slight variations. Technology firms are often accused of being cloners: Similar-sounding knockoffs copy mobile-messaging app maker WhatsApp's products, and Berlin-based Rocket Internet has copied competitors' business models and attempted to out-execute them. Ralston Foods, now owned by ConAgra, sells imitations of name-brand cereals in look-alike boxes as part of its "Value+Brands" platform. Its Apple Cinnamon Tasteeos (versus Cheerios), Cocoa Crunchies (versus Cocoa Puffs), and Corn Biscuits (versus Corn Chex) take aim at successful General Mills brands, but with much lower price points.

2. **Imitator**—The imitator copies some things from the leader but differentiates on packaging, advertising, pricing, or location. The leader doesn't mind as long as the imitator doesn't attack

aggressively. Fernandez Pujals grew up in Fort Lauderdale, Florida, and took Domino's pizza home delivery idea to Spain, where he borrowed $80,000 to open his first store in Madrid. His Telepizza chain now holds about 70 percent of the Spanish pizza delivery market and operates more than 1,200 stores in Europe and Latin America.

3. **Adapter**—The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into a future challenger, as many Japanese firms have done after improving products developed elsewhere.

Note that we can contrast these three follower strategies from an illegal and unethical follower strategy.

Counterfeiters duplicate the leader's product and packages and sell them on the black market or through disreputable dealers. High-tech firms like Apple and luxury brands like Rolex have been plagued by the counterfeiter

Market-Nicher Strategies An alternative to being a follower in a large market is to be a leader in a small market, or niche. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. Over time, those markets can sometimes end up being sizable in their own right, as Huy Fong Foods has found. Firms with low shares of the total market can become highly profitable through smart niching. They know their target customers so well they can meet their needs better than other firms by offering high value, but they can also charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision. The nicher achieves high margin, whereas the mass marketer achieves high volume. Paul Reed Smith founded PRS Guitars to compete with big rivals Fender and Gibson and supply "the Stradivarius of guitars." PRS instruments are carefully constructed of selected mahogany and figured maple, kiln-dried and sanded five times, followed by eight very thin coats of finish. They cost from $3,000 to $60,000, but endorsements from top musicians like Carlos Santana and distribution through well-respected retailers like Rudy's Music Shop in Manhattan have helped the brand establish a foothold.

Nichers have three tasks: creating niches, expanding niches, and protecting niches. The risk is that the niche might dry up or be attacked. The company is then stuck with highly specialized resources that may not have highvalue alternative uses. Zippo has successfully addressed the problem of a fast-shrinking niche market.

Niche Specialist Roles

The key idea in successful nichemanship is specialization. Here are some possible niche roles:

• **End-user specialist**. The firm specializes in one type of end-use customer. For example, a value-added reseller (VAR) customizes computer hardware and software for specific customer segments and earns a price premium in the process.

• **Vertical-level specialist.** The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products. • Customer-size specialist. The firm concentrates on either small, medium-sized, or large customers. Many nichers serve small customers neglected by the majors.

• **Specific-customer specialist.** The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Walmart or General Motors.

• **Geographic specialist**. The firm sells only in a certain locality, region, or area of the world.

• **Product or product line specialist.** The firm carries or produces only one product line or product. A manufacturer may produce only lenses for microscopes. A retailer may carry only ties.

• **Product-feature specialist.** The firm specializes in producing a certain type of product or product feature. • Job-shop specialist. The firm customizes its products for individual customers.

• **Quality-price specialist.** The firm operates at the low- or high-quality ends of the market. McIntosh Laboratory only makes high-performance luxury audio systems—its hand-built audio products appeal to audiophiles everywhere**.**

• **Service specialist**. The firm offers one or more services not available from other firms. A bank might take loan requests over the phone and hand-deliver the money to the customer.

• **Channel specialist.** The firm specializes in serving only one channel of distribution. For example, a soft drink company makes a very large-sized serving available only at gas stations.

QUESTION BANK

PART – A

1. The key idea in successful nichemanship is specialization. Justify this statement by explaining the some possible niche roles
2. The competitive frame of reference defines which other brands a brand competes with and which should thus be the focus of competitive analysis. Justify this statement
3. Justify –"Understanding the consumer behavior of the target market is the essential task of the marketing manager."
4. Point out the effect of increased market share on actual and perceived quality
5. Justify – Choosing a General Attack Strategy Given clear opponents and objectives, what attack options are available by distinguishing frontal, flank, encirclement, bypass, and guerilla attacks.
6. A marketing program can communicate the appropriateness and advantages of using the brand. Correlate this statement by explaining the Additional Opportunities to Use the Brand

QUESTION BANK

PART – B

1. Gaining increased share does not automatically produce higher profits, however—especially for labor intensive service companies that may not experience many economies of scale. Justify thus statement
2. Point out the company two proactive skills to justify the statement "Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game"
3. The life cycle of a product is associated with marketing and management decisions within businesses? Support this statement using the five stages of product life cycle.
4. When the total market expands, the dominant firm usually gains the most. Justify this statement by explaining total Market Demand by taking example of any product
5. Regardless of whether they serve the consumer market or the business market offering either goods or services companies can apply segmentation at one of four level. Justify this statement by explaining the four levels of market segmentation
6. The three strategies for the maturity stage are market modification, product modification, and marketing mix modification. Justify this statement

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