

Chapter 2

COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER ENGAGEMENT, VALUE, AND RELATIONSHIPS

MARKETING STARTER: CHAPTER 2

Rolex: Building Brand Equity through a Customer-driven Marketing Mix

Synopsis

Rolex has become an outward expression of exclusiveness. Rolex pursues a premium pricing policy and sets its prices with little regard to the competition, setting instead the price that others follow. Rolex uses a number of marketing communication tools to effectively convey its positioning strategy, like print advertising in upmarket publications, sponsorships, testimonials, and endorsements of sports that are generally considered upscale.

The company has also reacted to its rivals' strategy to target a younger audience by sponsoring more current testimonials in sports. With similar goals in mind, in 2013 Rolex created a page on Facebook and launched a raft of digital content. Rolex adapted its marketing mix strategy by launching its Tudor brand to compete within the accessible luxury market and also target a younger audience.

Discussion Objective

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

Starting the Discussion

To make the chapter-opening Rolex story more personally relevant to the class, begin by asking, "How many of you own a Rolex or Tudor watch? Has Rolex changed its offerings in recent years? In what way?" After a brief opening discussion, go online with students to explore Rolex's website (<http://www.rolex.com>).

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

Discussion Questions

1. What is Rolex really selling? What are customers really buying? How and how deeply do customers relate to the Rolex brand? (Rolex sells a lot more than just watches; they are buying a brand experience. Ask students what that a luxury brand experience seems like to them.)
2. If you worked as a Rolex operations manager, financial analyst, IT specialist, or human resources manager, why would it be important for you to understand its marketing strategy? This question digs into the relationship between corporate strategy and marketing strategy, and marketing's role in the broader company strategy. Non-marketing students often ask, "Why do I need to understand marketing?" The answer—as noted in Chapter 1 and later in Chapter 2—everyone in the company needs to align behind the mission of creating customer value.

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

CHAPTER OVERVIEW

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

CHAPTER OBJECTIVES

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

CHAPTER OUTLINE

p. 62	<p>INTRODUCTION</p> <p>Rolex began by positioning itself in terms of its unmatched precision. By association with distinguished pioneers, it came to be associated with achievement, robustness, and reliability as well. It has become an outward expression of exclusiveness and cultivates this through its limited network of fine jewelry stores.</p> <p>It pursues a premium pricing policy and sets its prices with little regard to the competition, setting instead the price that others follow. Consumers are willing to pay the high prices set by the company even during an economic</p>	p. 63 Photo: Rolex
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	<p>downturn, when other brands began discounting their watches.</p> <p>In response to competition from large global conglomerates, Rolex targeted a younger audience with a customer-driven marketing mix in concert with constant innovation.</p>	
	<p>➤ Assignments, Resources Use <i>Small Group Assignment 1</i> here Use <i>Individual Assignment 1</i> here</p>	
	<p>➤ Opening Vignette Questions</p> <ol style="list-style-type: none"> 1. Discuss Rolex marketing strategy in terms of customer value. What is inherently better about the current Rolex marketing from the customer's point of view? 2. For a while, Rolex was in danger of being outperformed by global luxury conglomerates. Based on your experience and perception, has the company maintained its position? Why or why not? 3. What comes next for Rolex in the 21st century? What new marketing strategies might the company develop to remain fresh and relevant? 	
<p>p. 64 PPT 2-3</p>	<p>Explain company-wide strategic planning and its four steps.</p> <p>COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE</p> <p>The hard task of selecting an overall company strategy for long-run survival and growth is called strategic planning.</p> <p>Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing market opportunities.</p> <p>Strategic planning sets the stage for the rest of the planning in the firm.</p> <p>Companies typically prepare annual plans, long-range plans, and strategic plans.</p> <p>At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). It then creates detailed supporting</p>	<p>Learning Objective 1</p> <p>p. 64 Key Term: Strategic planning</p> <p>p. 65 Figure 2.1: Steps in Strategic Planning</p>
<p>PPT 2-4</p>		
<p>PPT 2-5</p>		

	<p>objectives that guide the entire company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product, and market levels.</p>	
	<ul style="list-style-type: none"> ➤ Assignment, Resources Use <i>Discussion Question 2-1</i> here Use <i>Video Case</i> here ➤ Troubleshooting Tip Most students have had no experience with strategy or strategy formulation (especially at the undergraduate level). Because their background in strategy is weak, their ability to strategically plan is also weak. The best way to attack this problem is to follow the explanation sequence provided by the text. Before this discussion begins, however, it might be useful to find areas where students have had strategic planning experience (such as athletics, student politics, games, video games, chess, computer games, etc.). By asking the students to recall and relate these experiences, parallels can be drawn to business strategies and the plans that result from these strategies (for example, think of all the military and athletic terms that might be used to describe a business strategy—i.e., flanker movement for flanker brands). 	
<p>p. 64 PPT 2-6</p>	<p>Defining a Market-Oriented Mission</p> <p>Many organizations develop formal mission statements. A mission statement is a statement of the organization’s purpose—what it wants to accomplish in the larger environment.</p> <p>A clear mission statement acts as an “invisible hand” that guides people in the organization.</p> <p>A market-oriented mission statement defines the business in terms of satisfying basic customer needs.</p> <p>Management should avoid making its mission too narrow or too broad.</p> <p>Missions should be realistic, specific, consistent with the market environment, based on the company’s distinctive</p>	<p>p. 65 Key Term: Mission statement</p> <p>p. 65 Table 2.1: Product-versus Market-Oriented Business Definitions</p>

	competencies, and motivating.	
<p>➤ Assignments, Resources Use <i>Critical Thinking Exercise 2-8</i> here</p>		
p. 66 PPT 2-7	<p>Setting Company Objectives and Goals</p> <p>The company’s mission needs to be turned into detailed supporting objectives for each level of management.</p> <p>The mission leads to a hierarchy of objectives, including business objectives and marketing objectives.</p> <p>Marketing strategies and programs must be developed to support these marketing objectives.</p> <p>Review Learning Objective 1: Explain company-wide strategic planning and its four steps.</p>	p. 66 Photo: CVS Health
p. 66 PPT 2-8	<p>Discuss how to design business portfolios and develop growth strategies.</p> <p>Designing the Business Portfolio</p>	Learning Objective 2
PPT 2-9	<p>A business portfolio is the collection of businesses and products that make up the company.</p> <p>The best portfolio is the one that best fits the company’s strengths and weaknesses to opportunities in the environment.</p>	p. 67 Key Term: Business portfolio
<p>➤ Assignments, Resources Use <i>Real Marketing 2.1</i> here Use <i>Additional Project 1</i> here Use <i>Think-Pair-Share 1</i> here</p>		
p. 67	<p>Analyzing the Current Business Portfolio</p> <p>The major activity in strategic planning is business portfolio analysis, whereby management evaluates the products and businesses making up the company.</p>	p. 67 Key Terms: Portfolio analysis
p. 69 PPT 2-10	<p>The first step in business portfolio analysis is to identify the key businesses that make up the company, the strategic business units (SBUs). An SBU can be a company division, a product line within a division, or a single product or brand.</p> <p>The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs</p>	

<p>p. 70 PPT 2-13</p>	<p>Problems with Matrix Approaches</p> <p>Portfolio-analysis approaches have limitations.</p> <ul style="list-style-type: none"> • They can be difficult, time-consuming, and costly to implement. • Management may find it difficult to define SBUs and measure market share and growth. • These approaches focus on classifying current businesses but provide little advice for future planning. <p>Because of such problems, many companies have dropped formal matrix methods in favor of more customized approaches that are better suited to their specific situations.</p>	<p>p. 70 Photo: GE</p>
<p>p. 70</p> <p>PPT 2-14</p> <p>PPT 2-15</p>	<p>Developing Strategies for Growth and Downsizing</p> <p>Designing the business portfolio involves finding businesses and products the company should consider in the future.</p> <p>Marketing has the main responsibility for achieving profitable growth for the company.</p> <p>Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them. The product/market expansion grid looks for new opportunities.</p> <p>The product/market expansion grid is shown in Figure 2.3.</p> <ul style="list-style-type: none"> • Market penetration involves making more sales to current customers without changing the product. • Market development involves identifying and developing new markets for its current products. • Product development involves offering modified or new products to current markets. • Diversification involves a company starting up or buying businesses outside of its current products and markets. 	<p>p. 71 Figure 2.3: The Product/Market Expansion Grid</p> <p>p. 70 Key Term: Product/market expansion grid</p> <p>p. 71 Key Terms: Market penetration, market development, product development, diversification</p> <p>p. 71 Ad: Under Armour</p>
<p>PPT 2-16</p>	<p>Companies must also develop strategies for downsizing their businesses. The company must carefully prune, harvest, or divest brands or businesses that no longer fit its overall strategy or are unprofitable.</p> <p>Review Learning Objective 2: Discuss how to design business portfolios and develop growth strategies.</p>	

	<p>➤ Assignments, Resources Use <i>Critical Thinking Exercise 2-6</i> here Use <i>Online, Mobile, and Social Media Marketing</i> here Use <i>Marketing Ethics</i> here</p> <p>➤ Troubleshooting Tip Many students will have an incomplete understanding of the growth strategies shown in the <i>product/market expansion grid</i>. Though these areas are carefully described in the text, it is useful to make sure that students understand the mix of alternatives available to the strategist. One way to do this is to pick another example besides the Under Armour example used in the text and have the students suggest acceptable alternatives. Remind students to think about how the example companies have expanded or contracted in recent years. Lastly, make students practice using the terms from the expansion grid in their discussions so a proper business strategy vocabulary will be built. This practice will really help the students when an exam rolls around.</p>	
<p>p. 72 PPT 2-17</p> <p>p. 72</p>	<p>Explain marketing’s role in strategic planning and how marketing works with its partners to create and deliver customer value.</p> <p>PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER RELATIONSHIPS</p> <p>Within each business unit, more detailed planning takes place. The major functional departments in each unit must work together to accomplish strategic objectives.</p> <p>Marketing provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important customer groups.</p> <p>Marketing provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm’s potential to take advantage of them.</p> <p>Marketing designs strategies for reaching the unit’s objectives.</p> <p>Partnering with Other Company Departments</p>	<p>Learning Objective 3</p>

<p>PPT 2-18</p>	<p>Each company department can be thought of as a link in the company's value chain.</p> <p>A value chain is the series of departments that carry out value-creating activities to design, produce, market, deliver, and support the firm's products.</p> <p>A company's value chain is only as strong as its weakest link.</p>	<p>p. 72 Key Term: Value chain</p> <p>p. 73 Ad: True Value</p>
<p>PPT 2-19</p> <p>p. 73</p>	<p>Success depends on how well each department performs its work of adding customer value and on how well the activities of various departments are coordinated.</p> <p>In practice, departmental relations are full of conflicts and misunderstandings.</p> <p>Partnering with Others in the Marketing System</p>	
<p>PPT 2-20</p>	<p>The firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and, ultimately, its customers.</p> <p>More companies today are partnering with other members of the supply chain to improve the performance of the customer value delivery network.</p> <p>Increasingly, today's competition no longer takes place between individual competitors. Rather, it takes place between the entire value-delivery networks created by these competitors.</p> <p>Review Learning Objective 3: Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.</p>	<p>p. 74 Key Term: Value delivery network</p>
	<p>➤ Assignments, Resources Use <i>Additional Project 2</i> here Use <i>Real Marketing 2.2</i> here Use <i>Discussion Question 2-3</i> here</p>	
<p>p. 74 PPT 2-21</p>	<p>Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence them.</p>	<p>Learning Objective 4</p>

<p>PPT 2-22</p> <p>p. 74</p> <p>PPT 2-23</p> <p>PPT 2-24</p>	<p>MARKETING STRATEGY AND THE MARKETING MIX</p> <p>Marketing’s role and activities are shown in Figure 2.4, which summarizes the major activities involved in managing marketing strategy and the marketing mix.</p> <p>Marketing strategy is the marketing logic by which the company hopes to achieve profitable customer relationships.</p> <p>Customer Value-Driven Marketing Strategy</p> <p>Companies know that they cannot profitably serve all consumers in a given market—at least not all consumers in the same way.</p> <p>Market Segmentation</p> <p>The process of dividing a market into distinct groups of buyers with different needs, characteristics, or behaviors who might require separate products or marketing programs is called market segmentation.</p> <p>A market segment consists of consumers who respond in a similar way to a given set of marketing efforts.</p>	<p>p. 74 Figure 2.4: Managing Marketing Strategies and the Marketing Mix</p> <p>p. 74 Key Term: Marketing strategy</p> <p>p. 75 Key Terms: Market segmentation, market segment</p>
	<p>➤ Troubleshooting Tip Market segmentation and market targeting are universally new concepts to students, unless they happen to have a parent who works in marketing. Although this is discussed in detail in a future chapter, showing how a large, amorphous market can be broken down into more and more detailed groups of buyers will help.</p>	
<p>p. 75</p> <p>PPT 2-25</p>	<p>Market Targeting</p> <p>Market targeting involves evaluating each market segment’s attractiveness and selecting one or more segments to enter.</p> <p>A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.</p> <p>Market Differentiation and Positioning</p>	<p>p. 75 Key Term: Market targeting</p>

PPT 2-26	<p>Differentiation begins the positioning process. To gain competitive advantage, the company must offer value to target consumers. This is accomplished through product differentiation—actually differentiating the company’s market offering so that it gives consumers more value.</p> <p>A product’s position is the place the product occupies relative to competitors in consumers’ minds.</p> <p>Marketers want to develop unique market positions for their products.</p> <p>Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target customers.</p>	<p>p. 75 Key Term: Positioning</p> <p>p. 75 Ad: Southwest</p> <p>p. 77 Key Term: Differentiation</p>
	<p>➤ Troubleshooting Tip Market positioning can be difficult to understand as well. Students will normally think of a product in terms of its features, and although positioning includes the features, it also spans the concepts of benefits and perceptions. Using examples of brands at opposite ends of a price continuum, such as Rolex and Timex watches, helps drive home what positioning means.</p>	
<p>p. 77</p> <p>PPT 2-27</p> <p>PPT 2-28</p>	<p>Developing an Integrated Marketing Mix</p> <p>The marketing mix is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market. This is described in Figure 2.5.</p> <p><i>Product</i> refers to the goods-and-services combination the company offers to the target market.</p> <p><i>Price</i> is the amount of money customers must pay to obtain the product.</p> <p><i>Place</i> includes company activities that make the product available to target consumers.</p> <p><i>Promotion</i> refers to activities that communicate the merits of the product and persuade target customers to buy it.</p> <p>An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company’s marketing objectives by delivering</p>	<p>p. 77 Key Term: Marketing mix</p> <p>p. 78 Figure 2.5: The Four P’s of the Marketing Mix</p>

	<p>value to consumers.</p> <p>Some critics feel that the four Ps may omit or under-emphasize certain important activities.</p> <p>From the buyer’s viewpoint, in this age of customer relationships, the four Ps might be better described as the four Cs:</p> <ul style="list-style-type: none"> • Customer solution • Customer cost • Convenience • Communication <p>Review Learning Objective 4: Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence them.</p>	
	<p>➤ Assignments, Resources</p> <p>Use <i>Additional Project 2</i> here</p> <p>Use <i>Real Marketing 2.2</i> here</p> <p>Use <i>Discussion Question 2-4</i> here</p> <p>Use <i>Additional Project 3</i> here</p> <p>Use <i>Think-Pair-Share 2</i> here</p> <p>Use <i>Outside Example 1</i> and <i>2</i> here</p>	
<p>p. 79 PPT 2-29</p> <p>p. 79 PPT 2-30</p>	<p>List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment</p> <p>MANAGING THE MARKETING EFFORT AND MARKETING RETURN ON INVESTMENT</p> <p>Managing the marketing process requires the four marketing management functions shown in Figure 2.6.</p> <ul style="list-style-type: none"> • Analysis • Planning • Implementation • Control <p>Marketing Analysis</p> <p>Managing the marketing function begins with a complete analysis of the company’s situation.</p> <p>The company must analyze its markets and marketing environment to find attractive opportunities and avoid environmental threats.</p>	<p>Learning Objective 5</p> <p>p. 79 Figure 2.6: Managing Marketing: Analysis, Planning, Implementation, and Control</p> <p>p. 79 Key Term: SWOT analysis</p> <p>p. 80 Figure 2.7: SWOT Analysis: Strengths (S), Weaknesses</p>
<p>PPT 2-31</p>	<p>The company must analyze its markets and marketing environment to find attractive opportunities and avoid environmental threats.</p>	

	The marketer should conduct a SWOT analysis by which it evaluates the company's overall strengths, weaknesses, opportunities, and threats.	(W), Opportunities (O), and Threats (T)
	➤ Assignments, Resources Use <i>Critical Thinking Exercise</i> 2-7 here	
p. 80 PPT 2-32	<p>Marketing Planning</p> <p>Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives.</p> <p>A detailed marketing plan is needed for each business, product, or brand.</p> <p>Table 2.2 outlines the major sections of a typical product or brand plan. See Appendix 1 for a sample marketing plan.</p> <p>A marketing strategy consists of specific strategies: target markets, positioning, the marketing mix, and marketing expenditure levels.</p>	p. 81 Table 2.2: Contents of a Marketing Plan
p. 80 PPT 2-33	<p>Marketing Implementation</p> <p>Marketing implementation is the process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives.</p> <p>Implementation involves day-to-day, month-to-month activities that effectively put the marketing plan to work.</p> <p>Implementation addresses the <i>who, where, when, and how</i>.</p> <p>In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans.</p> <p>Successful marketing implementation depends on how well the company blends its people, organizational structure, decision and reward systems, and company culture into a cohesive action program that supports its strategies.</p>	p. 80 Key Term: Marketing implementation
p. 82	<p>Marketing Department Organization</p> <p>The company must design a marketing organization that can carry out marketing strategies and plans.</p>	

	Use <i>Marketing by the Numbers</i> here Use <i>Think-Pair-Share 3</i> here Use <i>Company Case</i> here Use <i>Video Case</i> here	
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END OF CHAPTER MATERIAL

Discussion Questions

2-1 Define *strategic planning* and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process. (Objective 1) (AACSB: Communication).

Answer:

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Marketing planning occurs at the business-unit, product, and market levels. Marketing supports company strategic planning with more detailed plans for specific marketing opportunities.

Marketing plays a key role in the company's strategic planning in several ways: (1) it provides a guiding philosophy—the marketing concept—that suggests the company strategy should revolve around building profitable relationships with important consumer groups; (2) it provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them; and (3) within individual business units, marketing designs strategies for reaching the unit's objectives.

★2-2 Describe how a company's mission statement and objectives affect the way management plans its business portfolio. (AACSB: Communication; Reflective Thinking)

Answer: Guided by the company's mission statement and objectives, management plans its business portfolio, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that plays its strengths and weaknesses with respect to the opportunities in the market.

2-3 Describe the differences between a value chain and a value delivery network. (AACSB:

Communication; Reflective Thinking)

Answer:

Each company department can be thought of as a link in the company's internal **value chain**. That is, each department carries out value-creating activities to design, produce, market, deliver, and support the firm's products. The firm's success depends not only on how well each department performs its work but also on how well the various departments coordinate their activities. More companies today are partnering with other members of the supply chain—suppliers, distributors, and, ultimately, customers—to improve the performance of the customer **value delivery network**. Competition no longer takes place only between individual competitors. Rather, it takes place between the entire value delivery network created by these competitors.

- ✪2-4 Discuss how a new brand manufacturer would go about defining their market segments and then begin to target them. (AACSB: Communication; Reflective Thinking)

*Answer:*The manufacturer would use market segmentation to profile and define their target markets. They would then have to decide whether to target more than one segment. It needs to choose segments that are likely to respond well to the brand and allow them to generate a profit from sales. Once the first one or more segments prove successful and profitable, the brand can then be rolled out to other segments.

- 2-5 Identify different marketing department organization and suggest why they are chosen. (AACSB: Communication; Reflective Thinking)

*Answer:*Marketing departments can be organized in several different ways. A function organization suggests that each discrete marketing discipline is separate and headed by a specialist in the field (e.g. sales, advertising, and public relations). This approach is adopted by large organizations with centralized control. Geographical organization assigns roles to specific countries or regions in order to take advantage of local expertise. Product management organization involves duplicate marketing departments dedicated to specific products, brands, or lines. Market or customer management organization again has duplicate departments; this time they are focused entirely on specific target markets.

Critical Thinking Exercises

- 2-6 As a student you have individual experiences with your college or university. These may include managing the application process, enrolling, orientation, choosing a major, setting schedules, and many more. Conduct a SWOT analysis for your school from your perspective. Discuss how your SWOT analysis would provide strategic insight for future decisions at your college or university. (AACSB: Communication; Reflective Thinking)

Answer:

Students' analyses and recommendations will vary, but they should be aware of the

elements of a marketing plan. A **SWOT analysis** evaluates an organization's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see Figure 2.7). Strengths include internal capabilities, resources, and positive situational factors that may help the college or university to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the organization's performance. Opportunities are favorable factors or trends in the external environment that the organization may be able to exploit to its advantage. Threats are unfavorable external factors or trends that may present challenges to performance.

Students may examine program and course offerings, scheduling options, campus facilities, tutoring services, faculty availability, student life, off-campus activities, economic variables, cost and financial support, competition, etc.

Colleges and universities benefit from understanding how their student populations value what they offer. Students' perceptions of the value they receive have a direct impact on enrollment, retention, and, ultimately, revenue.

Objectives should logically follow conclusions from the SWOT analysis, and the strategy recommended should support the objectives. The marketing strategy should identify the target market(s), positioning, and the marketing mix (product, price, place, and promotion).

- ★2-7 Examine the integrated marketing mix of the Japanese clothing brand UNIQLO. What are their key marketing mix ingredients? What about their brand, service and IMC? (AACSB: Communication)

Answer: UNIQLO has a tried-and-tested integrated marketing mix that it adapts to some extent when it launches in a new territory. Students will be able to correctly identify many of the aspects of this marketing mix.

Product – stylish, affordable, high quality, specially designed colours and fabrics
Price – mid-range pricing, overseas territories are more expensive than Japanese prices
Place – brand-owned, high profile, flagship stores, own delivery chain
Brand – unique positioning with innovative products that combine value for money and quality
Service – customer service is paramount and all store employees are trained in Japanese customer service techniques
IMC – widespread use of mass media, mix depends on territory but includes TV, magazines and newspapers. High use of social media, email lists, and membership lists.

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

Answer:

Some organizations define their missions myopically in product or technology terms, but mission statements should be *market oriented* and defined in terms of satisfying basic customer needs—even for non-profit organizations. For example, a nonprofit organization might be a house that offers emergency shelter for people in need, but defining its mission as a house could be too narrow. Perhaps the organization can also provide funds to pay for a hotel room for someone in need, thus defining its mission as providing shelter is broader than providing a house for people to stay in emergencies. Mission statements should be *meaningful and specific yet motivating*. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Instead, they should emphasize the company's strengths and tell forcefully how it intends to succeed. Finally, an organization's mission should focus on customers and the customer experience the organization seeks to create.

APPLICATIONS AND CASES

Online, Mobile, and Social Media Marketing: Google's (Alphabet's) Mission

Founded in 1998 as an Internet search engine, Google's mission statement remains the same to this day: to “organize the world's information and make it universally accessible and useful.” Google is certainly successful, with revenues growing from \$3.2 billion in 2002 to \$74.5 billion in 2015, 90 percent of which comes from advertisers. Google is expanding rapidly into other areas well beyond its search engine, such as self-driving cars, smart contact lenses that measure a person's blood sugar levels, Internet-bearing balloons to create Internet hotspots anywhere on earth, and even magnetic nanoparticles to search for disease within the human bloodstream. In fact, Google has innovated into so many diverse new ventures that it recently created a broader organization—a parent holding company called Alphabet—to contain them all. Google/Alphabet has been on a buying frenzy recently, purchasing security, biotech, and robotic companies in a quest to capitalize on the Internet of Things (IoT) phenomenon. Experts predict there will be 25 million connected devices in our homes and workplaces by 2020. Google recently announced its new IoT operating system, dubbed Brillo (after the Brillo scrubbing pad because it is a scrubbed-down version of its Android operating system), targeted to developers of smart products connected to the Internet, such as ovens, thermostats, and even toothbrushes. It's also developed Weave, the corresponding IoT language that will allow smart products to speak to each other. Perhaps one day you will be sitting in your Google/Alphabet self-driving car, streaming the news, checking your blood sugar, and cooling your home by turning down your thermostat on the way home from work.

2-9 Conduct research on Google/Alphabet to learn more about its products and services. Some say the time has come for Google to create a new mission statement. Do you agree? Explain. (AACSB: Communication; Reflective Thinking)

Answer:

For a list of Google's current products, see www.google.com/about/products/. Another source lists Google's products as well as discontinued products: http://en.wikipedia.org/wiki/List_of_Google_products. A list of Google's mergers and acquisitions since 2001 can help students see the direction the company might be heading: http://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Google. For more on Alphabet, see <https://abc.xyz/> and Mike Nudelman, "Google's Parent Company, Alphabet, Explained in One Chart," *Business Insider*, January 12, 2016, www.businessinsider.com/chart-of-alphabet-google-parent-company-infographic-x-gv-2016-1?r=UK&IR=T

Students could argue that even though Google's/Alphabet's products have expanded to tangible products, the focus is still on making information useful. For example, self-driving cars rely on organizing information from the Internet (such as Google Maps) and sensors around the car to make it accessible and usable to perform its function. Therefore, Google is still organizing information and making it useful. However, in setting up Alphabet, the company seems to realize that many of its major projects no longer fit under the old Google umbrella. If Google doesn't need a new mission statement, perhaps Alphabet does.

2-10 Create a new mission statement for Google/Alphabet that will take it through the rest of this century. (AACSB: Communication; Reflective Thinking)

Answer:

Student answers will vary. However, this is an opportunity for the students to review all the directions in which Google/Alphabet may devote resources in the future. A new mission statement will need to account for the current structure of the company and its products, as well as be appropriate as the company moves forward with new products. Perhaps instead of organizing the world's information, the company's mission could focus more on harnessing information to make the world a better place. Or, perhaps students will create an entirely new mission statement for Alphabet.

Marketing Ethics: Creating Value or Distracting Consumers?

In 1966, *Time* magazine made a prediction of the retail world in 2000. It confidently predicted that remote shopping, although feasible, would never be likely to catch on. *Time* made this prediction based on the reasoning that women, in particular, like to handle merchandise before they purchase it. Not only was the prediction hugely inaccurate, it was chauvinistic as well. Global online sales are now in excess of \$500 billion. It is not only men who spend massive sums online, but also women, in direct contradiction of *Time*'s prediction. In contrast to this poor prediction, there are cases of articles in the press correctly predicting digital trends in the future, but many predictions still fall short of reality. For example, Robert Metcalf, the inventor of Ethernet, made a prediction in 1995 that, within a year, the Internet would spectacularly collapse. In 2007, *The New York Times* predicted that Twitter would never be any more relevant to modern-day communication than an old-

fashioned short-wave radio. Tuning into predictions can be dangerous, but should they really be ignored?

2-11 In some cases, short-term predictions are far more reliable than long-term ones. To what extent should businesses base their long-term planning on the views of “experts”? (AACSB: Communication; Ethical understanding and reasoning)

Answer:

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

2-12 Business Monitor International is one of the several organizations that seek to predict future trends in sectors, countries, and financial markets. How are these services sold to businesses as legitimate business planning tools. (AACSB: Communication; Reflective Thinking)

Answer:

A whole industry has been built around the prediction and forecasting business. Business Monitor International is trusted by many leading global brands. They operate in nearly 200 different countries and have the advantage of being able to see the bigger picture than a global company that may be focused on a selected number of markets and opportunities. BMI has been operating for around 30 years, in that time, if there were issues about the accuracy of the research and predictions; it would not have achieved the status it has today.

Marketing by the Numbers: Apple vs. Microsoft

In 2014, Apple reported profits of more than \$50 billion on sales of \$182 billion. For that same period, Microsoft posted a profit of almost \$30 billion on sales of \$88 billion. So Apple is a better marketer, right? Sales and profits provide information to compare the profitability of these two competitors, but between these numbers is information regarding the efficiency of marketing efforts in creating those sales and profits. Appendix 2, Marketing by the Numbers, discusses other marketing profitability measures beyond the return on marketing investment (marketing ROI) measure described in this chapter. Review the Appendix to answer the questions using the following information from the two companies’ incomes statements (all numbers are in thousands):

	Apple	Microsoft
Sales	\$182,795,000	\$86,833,000
Gross Profit	\$ 70,537,000	\$59,899,000
Marketing Expenses	\$ 8,994,750	\$15,474,000
Net Income (Profit)	\$ 52,503,000	\$27,759,000

2-13 Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for both companies. Which company is performing better? (AACSB: Communication; Use of IT; Analytic Thinking)

Answer:

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

$$\text{Profit Margin}_{\text{Apple}} = \frac{\$52,503,000}{\$182,795,000} = 0.2872 = 28.72\%$$

$$\text{Profit Margin}_{\text{Microsoft}} = \frac{\$27,759,000}{\$86,833,000} = 0.3197 = 31.97\%$$

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

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

$$\text{NMC}_{\text{Apple}} = \$70,537,000 - \$8,994,750 = \$61,542,250$$

$$\text{NMC}_{\text{Microsoft}} = \$59,899,000 - \$15,474,000 = \$44,425,000$$

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

$$\text{Marketing ROS}_{\text{Apple}} = \frac{\$61,542,250}{\$182,795,000} = 0.3367 = 33.67\%$$

$$\text{Marketing ROS}_{\text{Microsoft}} = \frac{\$44,425,000}{\$86,833,000} = 0.5116 = 51.16\%$$

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

$$\$61,542,250$$

$$\text{Marketing ROI}_{\text{Apple}} = \frac{\$44,425,000}{\$8,994,750} = 6.8420 = 684.20\%$$

$$\text{Marketing ROI}_{\text{Microsoft}} = \frac{\$44,425,000}{\$15,474,000} = 2.8709 = 287.09\%$$

While Apple has larger absolute sales, gross profits, expenses, net marketing contribution, profits, and marketing ROI, Microsoft is performing more efficiently as measured by the profit margin and marketing metric of marketing ROS. However, Apple is performing significantly better on marketing ROI, which means Microsoft is not getting as great of a marketing return, although it is still very good, for the investment it has made in marketing compared to Apple.

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

Answer:

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

Apple - <http://finance.yahoo.com/q/is?s=AAPL+Income+Statement&annual>

Microsoft - <http://finance.yahoo.com/q/is?s=MSFT+Income+Statement&annual>

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

Company Case Notes

Facebook: Making the World More Open and Connected

Synopsis

As the world has rapidly adopted social media, Facebook dominates the market. In little more than a decade, it has accumulated more than 1.6 billion active monthly users—more than 20 percent of the world's total population—and some 1.5 billion people now access the network on a mobile device. More than one billion Facebook members log on daily and five new Facebook profiles are created every second. In the United States, more collective time is spent on Facebook than on any other website. Hordes of people have made Facebook their digital home 24/7. Having achieved such phenomenal impact in such a short period of time, Facebook's success can be attributed to tenacious focus on its mission—"to give people the

power to share and make the world more open and connected.”

Teaching Objectives

The teaching objectives for this case are to:

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

Discussion Questions

2-18 Is Facebook’s mission statement market oriented? Explain.

A market-oriented mission statement is defined in terms of satisfying customer needs. Facebook’s mission statement is: “to give people the power to share and make the world more open and connected.” The “power to share” and “open and connected” parts specify customer needs. The fact that the mission statement starts with “to give people” suggests a strong customer orientation. Therefore, Facebook’s mission statement is clearly a market-oriented mission statement.

2-19 How is Facebook’s strategy driven by its mission?

Basically, everything that Facebook has done adheres to the mission of giving people the power to share and making the world more open and connected. Internal features like News Feed, picture and video posts, and endless settings that allow for the customization of a person’s network are designed to enable individual users to quickly and easily share their lives with others. The part about making the world more open and connected is evident in Facebook’s portfolio of products. When Facebook realized that its original “one site for all” approach could not serve the needs of everyone, it adapted and developed a portfolio of multiple apps that provides something for any and every individual. Facebook, Facebook Mobile, Instagram, and WhatsApp (even though Facebook already had Messenger) are all fulfillments of its strategy to reach everyone, even if it means doubling up on competing products. The Aquila project that aims to make the Internet available to developing countries demonstrates a fulfillment of its “power to share” objective.

2-20 Is it wise for Facebook to give away its technologies for free? Why or why not?

Different companies have taken different approaches to the “giving it away for free” part and done so successfully. Apple is notorious for guarding its technologies and making them proprietary. In its early years, this hindered its growth. But looking at where Apple is today, that approach has clearly served it well. Facebook has taken a different approach. From its beginning, Facebook wanted its platform(s) to be adopted and used by as many people as possible as quickly as possible. The only way to achieve that is to

make it free. Now, it has taken the same approach to releasing core technologies such as all that it has developed for drones, lasers, data analytics, virtual reality, and 3D. Facebook recognizes that its best chance at success is to focus on making its portfolio of products as usable and attractive and available to as many people as possible. When it does that, its primary revenue generator (advertising) generates more and more revenue. “We’re not selling [servers] or cameras or connectivity services. But if no one else is building them, we’re going to.” The “giving it away” approach is also a tremendous competitive tactic. If Facebook is giving things away, it makes it very difficult for other companies to make money on those same types of things.

2-21 As it moves forward in fulfilling its mission, what challenges does Facebook face in the future?

Facebook has had more failures of products and features than it has had successes. While product failure is a challenge, Facebook sees such failures as just another part of building the greatest social network on the planet. It isn’t that which fails, but what ultimately becomes an integrated part of a very usable tool.

Likely Facebook’s greatest challenge is to avoid the “MySpace” syndrome. That is, the nature of a social network product is such that users can abandon it as quickly as they adopt it. Everyone was on MySpace. But almost overnight, nobody was on MySpace. Facebook has been careful to prevent this thus far. When Facebook bought Instagram, that was its first clear signal that it wasn’t going to stick with “one thing” and try to force it on everyone. But as Facebook has made it easier and easier for customers to use its products, they become deeply engrained in them. For many, Facebook is where they store and share their lives. It isn’t so easy to switch away from that.

Teaching Suggestions

The only way to really demonstrate the power of Facebook is to take students right inside that social network that they are all too familiar with. The goal here is to guide them in a way that will give them a different perspective. To do this, take them inside your own Facebook page. If this is not possible, prepare ahead of time by asking for a student volunteer to serve as the tour guide of their own Facebook page. Then ask the following questions to guide the discussion:

1. How many of you are on Facebook? How many of you check in to it at least a few times a week? Daily? Why?
2. How is Facebook valuable to marketers?

This case was developed for use with Chapter 2. This case also works well with the new products chapter (Chapter 9), the advertising chapter (Chapter 15), and the digital marketing chapter (Chapter 17).

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

2-22 How are marketing departments organized? Which organization is best?

2-23 Explain the roles of market segmentation, market targeting, differentiation, and positioning in implementing an effective marketing strategy.

ADDITIONAL PROJECTS, ASSIGNMENTS, AND EXAMPLES

Projects

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

Small Group Assignments

1. Form students into groups of three to five. Each group should read the opening vignette to the chapter on Rolex. Each group should answer the following questions and then share their findings with the class. (Objective 1)
 - a. Define Rolex's niche in the coffeehouse marketplace, both in its early days and today.
 - b. Discuss the factors that allowed Rolex to maintain its exclusivity during the Global Financial Crisis.
 - c. What comes next for Rolex in the 21st century? What new marketing strategies might the company develop to remain fresh and relevant?
2. Form students into groups of three to five. Each group should read Real Marketing 2.2 "DuckDuckGo: Google's Tiniest, Fiercest Competitor". Each group should then answer the following questions and share their findings with the class. (Objective 2)
 - a. Identify DuckDuckGo's marketing strategy as it fits into market segmentation, targeting, positioning, and differentiation, as shown in Figure 2.4, Managing Marketing Strategies and the Marketing Mix.
 - b. How has DuckDuckGo been able to compete in an industry that is dominated by behemoths such as Google and Bing?

Individual Assignments

1. Read the opening chapter vignette on Rolex. Think about the answers to the following questions and share your answers with the class. (Objectives 1 and 4)
 - a. Recap the main points of Rolex's Customer-Driven Marketing. How does it reflect the elements of a customer-driven marketing strategy?
 - b. In your mind, who was the typical Rolex customer in the company's early days? Who is the typical customer today?
 - c. If Rolex were simply a watch company, how would you describe the company's direction and product offering today?
2. How would you describe a "market niche"? Describe four product/services that you own or consume that you would consider to be "niche" products. Why do you believe this to be true? (Objective 2)

Think-Pair-Share

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

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

Outside Examples

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

Possible Solution:

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

traditional television and billboard advertising. This also includes their easy to navigate Web site and their enthusiastic employees.

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

Possible Solution:

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