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CHAPTER 2
COMPANY AND MARKETING STRATEGY: PARTNERING TO BUILD CUSTOMER ENGAGEMENT, VALUE AND RELATIONSHIPS

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

JUST THE BASICS

CHAPTER OVERVIEW

In this chapter, we dig deeper into steps two and three of the marketing process—designing customer value-driven marketing strategies and constructing marketing programs.

First, we look at the organization's overall strategic planning.

Next, we discuss how marketers partner closely with others inside and outside the firm to serve 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.

Finally, we look at measuring and managing return on marketing investment (marketing ROI).

ANNOTATED CHAPTER NOTES/OUTLINE

FIRST STOP

Starbucks's Marketing Strategy: Delivering "The Starbucks Experience"

Starbucks didn't sell just coffee, it sold "The Starbucks Experience"— "an uplifting experience that enriches people's lives one moment, one human being, one extraordinary

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cup of coffee at a time." Starbucks gave customers what it calls a "third place"—a place away from home and away from work.

Over the next two decades, customers flocked to Starbucks cafés. By 2007, some 15,000 Starbucks stores dotted the nation and globe, and the company's sales and profits rose like steam off a mug of hot java.

The more Starbucks grew, however, the more it drifted away from the core mission and values that had made it so successful. The company's almost obsessive focus on growth for growth's sake began to take a toll on the prized Starbucks Experience.

Founder Howard Schultz, who had stepped down as CEO in 2000, expressed concern. Schultz was right that something was wrong. By early 2008, when Schultz reassumed his role as Starbucks president and CEO, the company found itself in hot water.

Within just the previous two years, Starbucks's stock had tumbled nearly 80 percent. According to one analyst, "The financial vultures circled. Obituaries were drafted."

Instead of presiding over the brand's demise, however, Schultz reacted quickly to restore its luster. Starbucks needed to shift its focus back to customers—to "reignite the emotional attachment with customers."

To emphasize the point, Schultz transported 10,000 Starbucks store managers to a morale-building reorientation in New Orleans. A short time later, Starbucks closed all of its U.S. locations for three hours to conduct nationwide employee training on the basics of producing satisfying customer experiences.

Today, a rejuvenated Starbucks is once again fully engaged with customers and delivering the one-of-a-kind Starbucks Experience. And once again, sales and profits are really perking. Over the past six years, revenues have increased 70 percent and profits have shot up fivefold.

The moral of the Starbucks story: Good marketing strategy means keeping your eye squarely on delivering customer value. The objective isn't just growth or sales or profits; it's engaging customers in a meaningful way and creating value for them.

COMPANY-WIDE STRATEGIC PLANNING: DEFINING MARKETING'S ROLE

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

Strategic planning sets the stage for the rest of the planning in the firm.

Companies usually prepare annual plans, long-range plans, and strategic plans.

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The annual and long-range plans deal with the company's current businesses and how to keep them going.

In contrast, the **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment.

The strategic planning process begins with the company defining its overall purpose and mission.

The stages of the strategic planning process are outlined in Figure 2.1.

This mission is turned into objectives that guide the whole company.

Marketing planning occurs at the business-unit, product, and market levels.

Use **Key Term** *Strategic Planning* here.
Use **Chapter Objective 1** here.
Use **Figure 2.1** here.

Defining a Market-Oriented Mission

An organization exists to accomplish something, and this purpose should be clearly stated.

A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment.

A clear mission statement acts as an "invisible hand" that guides people in the organization.

Mission statements should be ***market oriented*** and defined in terms of customer needs.

A *market-oriented* mission statement defines the business in terms of satisfying basic customer needs.

Mission statements should be meaningful and specific, yet motivating.

A company's mission statement should not be stated as making more sales or profits; profits are a reward for creating value for customers.

Use **Key Term** *Mission Statement* here.
Use **Discussion Question 2-1** here.
Use **Critical Thinking Exercise 2-9** here.
Use **Table 2.1** here.

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Use **Online, Social Media, and Mobile Marketing** here.

Setting Company Objectives and Goals

The company turns its mission into detailed supporting objectives for each level of management.

Each manager should have objectives and be responsible for reaching them.

Marketing strategies and programs must be developed to support these marketing objectives.

Each broad marketing strategy must then be defined in greater detail.

Designing the Business Portfolio

A **business portfolio** is the collection of businesses and products that make up the company.

The best business portfolio is the one that matches the company's strengths and weaknesses to opportunities in the environment.

Business portfolio planning involves two steps:

1. The company must analyze its ***current*** business portfolio and decide which businesses should receive more, less, or no investment.
2. It must shape the ***future*** portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

The major activity in strategic planning is business **portfolio analysis**.

Use **Key Term** *Business Portfolio* here.
Use **Marketing at Work 2.1** here.
Use **Chapter Objective 2** here.

Portfolio analysis is where management evaluates the products and businesses making up the company.

The steps in portfolio analysis are:

1. To identify the *strategic business units* (SBU). An SBU is a separately managed unit of the company with its own missions and objectives.
2. To assess the attractiveness of its various SBUs and decide how much support

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each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment.

Most standard portfolio-analysis methods evaluate SBUs on two dimensions:

1. The attractiveness of the market or industry, and
2. The strength of the position in that market or industry.

The Boston Consulting Group Approach

A company classifies its SBUs according to the **growth-share matrix** (see Figure 2.2).

The vertical axis: ***market growth rate*** provides a measure of market attractiveness.

The horizontal axis: ***relative market share*** provides a measure of company strength in the market.

Use **Key Terms** *Portfolio Analysis* and *Growth-Share Matrix* here.
Use **Figure 2.2** here.

The growth-share matrix defines four types of SBUs:

Stars. High-growth, high-share businesses or products. They will turn into cash cows.

Cash cows. Low-growth, high-share businesses or products. They produce a lot of cash that the company uses to pay its bills and support other SBUs that need investment.

Question marks. Low-share business units in high-growth markets. They require a lot of cash to hold their position.

Dogs. Low-growth, low-share businesses and products.

One of four strategies can be pursued for each SBU:

1. The company can invest to *build* its share.
2. It can invest just enough to *hold* its share.
3. It can milk its short-term cash flow, or *harvest.*
4. It can *divest* by selling it or phasing out.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle.

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Problems with Matrix Approaches

Difficult, time consuming, and costly to implement.

These approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Many companies have dropped matrix methods in favor of customized approaches better suited to their specific situations.

Use **Critical Thinking Exercise 2-7** here.

Developing Strategies for Growth and Downsizing

A company's objective must be "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company.

The **product/market expansion grid** is used in identifying growth opportunities (see Figure 2.3).

- **Market penetration**—making more sales to current customers without changing its products.
- **Market development**—identifying and developing new markets for its current products.
- **Product development**—offering modified or new products to current markets.
- **Diversification**—starting up or buying businesses outside of its current products and markets.

Use **Key Terms** *Product/Market Expansion Grid, Market Penetration, Market Development, Product Development,* and *Diversification* here.
Use **Figure 2.3** here.
Use **Discussion Question 2-2** here.

Companies must also develop strategies for **downsizing**.

When a firm finds brands/businesses that are unprofitable or no longer fit the overall strategy, it may prune, harvest, or divest them.

PLANNING MARKETING: PARTNERING TO BUILD CUSTOMER

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RELATIONSHIPS

Marketing plays a key role in the company's strategic planning.

1. Marketing provides a guiding *philosophy*—the marketing concept.
2. Marketing provides *inputs* to strategic planners.
3. Marketing designs *strategies* for reaching the unit's objectives.

Customer value is the key ingredient in the marketer's formula for success.

In addition to ***customer relationship management***, marketers must also practice ***partner relationship management*.**

Use **Chapter Objective 3** here.

Partnering with Other Company Departments

Each company department can be thought of as a link in the company's internal **value chain.**

Use **Key Term** *Value Chain* here.

Success depends on how well the various departments coordinate their activities.

A company's value chain is only as strong as its weakest link.

Ideally, a company's different functions should work in harmony to produce value for consumers.

Other departments may resist marketing's efforts because their actions can increase purchasing costs, disrupt production schedules, increase inventories, and create budget headaches.

Yet marketers must find ways to get all departments to "think consumer."

Partnering with Others in the Marketing System

Firms need to look beyond their own value chains and into the value chains of their suppliers, distributors, and customers.

Companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**.

Competition takes place between the entire value-delivery networks created by competitors.

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Use **Key Term** *Value Delivery Network* here.
Use **Discussion Question 3-**3 here.
Use **Linking the Concepts** here.

MARKETING STRATEGY AND THE MARKETING MIX

Figure 2.4 shows the major activities in managing marketing strategy and the marketing mix.

Consumers are in the center. Profitable customer relationships are the goal.

Marketing strategy is next—this is the broad logic under which the company attempts to develop profitable relationships.

Guided by the strategy, the company develops its marketing mix—product, price, place, and promotion.

Use **Key Term** *Marketing Strategy* here.
Use **Figure 2.4** here.

Customer Value-Driven Marketing Strategy

Marketing requires a deep understanding of customers.

There are many different kinds of consumers, and they exhibit many different kinds of needs.

Companies cannot profitably serve them all.

Companies must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments.

This process involves ***market segmentation*, *market targeting*, *differentiation*,** and ***positioning***.

Market Segmentation

Market segmentation is the process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors and who might require separate products or marketing programs.

Every market has segments, but not all ways of segmenting a market are equally useful.

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

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Use **Key Terms** *Market Segment, Market Segmentation, Market Targeting, Differentiation,* and *Positioning* here.
Use **Chapter Objective 4** here.
Use **Marketing Ethics** here.

Market Targeting

Market targeting involves evaluating each market segment's attractiveness and selecting one or more segments to enter.

A company with limited resources might serve only a few "market niches."

Market niches are segments that major competitors overlook or ignore.

Most companies enter a new market by serving a single segment. If this proves successful, they add segments.

Use **Marketing at Work 2.2** here.

Market Differentiation and Positioning

Product ***position*** is the place the product occupies relative to competitors in consumers' minds.

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

Positioning begins with **differentiation**—*differentiating* the company's market offering so that it gives consumers more value.

Use **Discussion Question 2-4** here
Use **Critical Thinking Exercise 2-8** here.

Developing an Integrated Marketing Mix

Use **Key Term** *Marketing Mix* here.
Use **Figure 2.5** here.
Use **Discussion Question 2-5** here.

The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

The marketing mix consists of the "four *P*s": ***product*, *price*, *place***, and ***promotion***. (Figure 2.5)

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- ***Product:*** the goods-and-services combination the company offers to the target market.
- ***Price:*** the amount of money customers have to pay to obtain the product.
- ***Place:*** the company activities that make the product available to target consumers.
- ***Promotion:*** the activities that communicate the merits of the product.

From the buyer's viewpoint, the four Ps might be better described as the four As:

- ***Product = Acceptability***
- ***Price = Affordability***
- ***Place = Accessibility***
- ***Promotion = Awareness***

Acceptability: extent to which the product exceeds customer expectations
Affordability: extent to which customers are willing and able to pay the product's price
Accessibility: extent to which customers can readily acquire the product
A*wareness*: extent to which customers are informed.

MANAGING THE MARKETING EFFORT AND MAREKTING RETURN ON INVESTMENT

MANAGING THE MARKETING EFFORT

Managing the marketing process requires the four marketing management functions of ***analysis***, ***planning***, ***implementation***, and ***control***.

Use **Figure 2.6** here.

Marketing Analysis

Analysis should be performed to understand the markets and marketing environment the company faces.

Use **Key Term** *SWOT Analysis* here.

SWOT analysis is used to evaluate the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

- Strengths include capabilities, resources, and positive situational factors.
- Weaknesses include negative internal factors and negative situational factors.
- Opportunities are favorable external factors.
- Threats are unfavorable external factors.

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Use **Figure 2.7** here.

Marketing Planning

A detailed marketing plan has to be developed for each business, product, or brand.

Table 2.2 shows the major sections of a marketing plan for a product or a brand.

A ***marketing strategy*** consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels.

Use **Table 2.2** here.
Use **Chapter Objective 5** here.

Marketing Implementation

Marketing implementation turns ***plans*** into ***actions***.

Use **Key Term** *Marketing Implementation* here.
Use **Discussion Question 2-6** here.

Implementation addresses the ***who, where, when,*** and ***how***.

Marketing Department Organization

The marketing organization must be designed so it can carry out the strategies/plans that are developed.

In small companies, one person may perform all the marketing functions. In large companies, many specialists are found. Many companies have now created the ***Chief Marketing Officer (CMO)*** position.

The ***functional*** organization is the most common form. This organizational form has the different activities headed by a functional specialist, such as sales, advertising, marketing research, etc.

Use **Discussion Question 2-5** here.

A ***geographic*** organization might be utilized in a company that sells nationally or internationally.

A ***product management*** organization can be found in companies with many different products or brands.

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A ***market*** or ***customer management*** organization is used in companies that sell one product to many different kinds of markets and customers.

Very large companies might utilize a ***combination*** of all these forms.

Marketing Control

Marketing control involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained.

The control process includes the following:

- ***Operating control*** checks the ongoing performance of the marketing programs against the annual plan.

- ***Strategic control*** looks at whether the company's basic strategies are matched to its opportunities.

Use **Discussion Question 2-6** here.
Use **Key Term** *Marketing Control* here.

MEASURING AND MANAGING MARKETING RETURN ON MARKETING INVESTMENT

Marketing managers must ensure that their marketing dollars are being well spent.

Return on marketing investment (or ***marketing ROI***) is the net return from a marketing investment divided by the costs of the marketing investment. (Figure 2.8)

Use **Key Term** *Marketing Return on Investment* here.
Use **Chapter Objective 5** here.
Use **Marketing by the Numbers** here.
Use **Figure 2.8** here.

Marketing ROI measures the profits generated by investments in marketing activities.

A company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share.

Marketing dashboards—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance.

Marketers are using customer-centered measures of marketing impact, such as customer acquisition, customer retention, and customer lifetime value.

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END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion Questions

2-1. Discuss the role marketing plays in the company-wide strategic planning process. (AASCB: Written and Oral Communication)

Answer:

Strategic planning sets the stage for the rest of planning in the firm. Company-wide strategic planning guides marketing strategy and planning. The mission of the firm is turned into detailed supporting 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 develop detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product, and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.

2-2. How does a firm evaluate and analyze its business portfolio? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

The best *business portfolio* is the one that fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First, the company must analyze its *current* business portfolio and determine which businesses should receive more, less, or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing.

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

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

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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. Why do companies use market segmentation, market targeting, differentiation, and positioning in implementing an effective marketing strategy? (AACSB: Written and Oral Communication)

Answer:

To succeed in today's competitive marketplace, companies must be customer centered. The goal is to create value for customers and build profitable customer relationships. To do this, the company must decide which customers it will serve (segmentation and targeting) and how (differentiation and positioning). A company must first understand customer needs and wants. Thus, sound marketing requires careful customer analysis.

Companies know that they cannot profitably serve all consumers in a given market—at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. Most companies can serve some segments better than others. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably servicing them.

2-5. What is an integrated marketing mix and why is it important for a firm's marketing strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

The marketing mix consists of everything the firm can do to engage consumers and deliver customer value. An effective marketing program blends the marketing mix elements—product, price, place, and promotion—into an integrated marketing program designed to achieve the company's marketing objectives by engaging consumers and delivering value to them. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets.

2-6. Describe the five marketing management functions. How are they related to one another? (AACSB: Written and Oral Communication)

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Answer:

Managing the marketing process requires the five marketing management functions—*analysis, planning, implementation, organization,* and *control*. The company first develops company-wide strategic plans and then translates them into marketing and other plans for each division, product, and brand. Through implementation and organization, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides the information and evaluations needed for all the other marketing activities.

Critical Thinking Exercises

2-7. Go to www.kellogs.com and examine the brands offered by Kellogg's. Using the BCG growth-share matrix, classify 10 brands as either stars, question marks, cash cows, or dogs. Find at least one product you believe fits into each of the four quadrants. Support your position. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Student answers will vary but should include supporting evidence for their choices. For example, Corn Flakes and Rice Krispies may be classified as a cash cows; they have high market shares in a mature, slow-growth segment of the dry cereal market. In contrast, Portabella, Kale & Quinoa Quiche, a new product, is most likely a question mark.

2-8. Examine Starbucks and determine how its marketers have positioned the company relative to the competition. How has Starbucks used differentiation to create customer value? (AACSB: Written and Oral Communication)

Answer:

Student answers will vary based on their personal experiences.

2-9. Locate the mission statements for the following organizations: (a) USAA, (b) United Airlines, (c) South Carolina State University (SC State), and (d) IKEA. Evaluate each statement using the criteria for creating a sound mission statement. What could be done to improve each organization's mission statement? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

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Students answers will vary but should include a discussion of whether the mission statements address the following questions: What *is* our business? Who is the customer? What do consumers value? What *should* our business be? They should also assess whether the mission statements are market oriented, meaningful and specific, and motivating.

Minicases and Applications

Online, Social Media, and Mobile Marketing: Diff Eyewear

Diff Eyewear is a successful business built around a socially conscious mission. The company makes and sells stylish eyewear with comparable quality but a significantly lower price than luxury eyewear brands. The best part of Diff is its "buy one, get one free" charitable mission. For every pair of Diff sunglasses purchased, the company donates a pair of reading glasses to someone in need. Diff has provided more than 180,000 pairs of reading glasses to underserved communities throughout Africa. Additionally, through its Sabo Project "Pouch Program," Diff provides fair wages to artisans in Uganda who make protective eyewear carrying cases. It invests the proceeds of that program in a local school and provides health and literacy workshops for community members. Diff promotes its products and mission via a range of social media platforms, primarily Instagram, Facebook, Snapchat, Pinterest, Twitter, and YouTube. It also enlists celebrities such as Demi Lovato and Jessie James Decker. Visit www.diffeyewear.com/ for more information.

2-10. Research Diff Eyewear to learn more about its products and to review its mission statement. What recommendations would you make to Diff regarding the visibility of its mission statement on various social media outlets? Explain. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Students' answers will vary. Discussion may include how companies use their social media presence to target their audience on a personal level, further building the customer relationship and the company's personality. Social media are also positively used to seek input from followers and incorporate positive brand perception feedback.

Students could argue that Diff goes into enough or not enough in depth with in touting its mission online. While there's an abundance of information about the company's mission on Diff's website, it does not tout much beyond the "buy one, get one" charitable mission. This could be an opportunity for Diff to further explain its mission and realize even more brand loyalty from customers.

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2-11. Create a new social media campaign for Diff that highlights its socially conscious mission. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Students' answers will vary. For example, on Facebook, Diff devotes more effort to strongly marketing its products instead of its mission-oriented work.

Marketing Ethics: Creating Value or Distracting Consumers?

In early 2014, Chipotle Mexican Grill announced that it would stop using genetically modified ingredients (GMOs) in its restaurants. Many observers applauded this move. However, critics of the fast-food chain cited a lack of evidence to support its anti-GMO stance. They suspected that Chipotle's anti-GMO claim was simply a ploy to distract consumers from a larger issue: the company's risky sanitation practices. Chipotle's anti-GMO policies may have won the burrito chain some health-conscious customers, but at the same time customers were becoming sick after eating at some Chipotle locations, calling into question the firm's food handling and safety practices.

Steve Ells, founder and co-CEO of Chipotle, said the GMO decision was "another step toward the visions we have of changing the way people think about and eat fast food. Just because food is served fast doesn't mean it has to be made with cheap raw ingredients, highly processed with preservatives and fillers and stabilizers and artificial colors and flavors." However, ridding Chipotle's supply chain of genetically altered components proved difficult. The chain discovered GMOs in basic ingredients such as baking powder, cornstarch, canola and soy oils, cornmeal, and sugar. And many non-GMO ingredients were in short supply. For example, at one point, Chipotle found that it could not supply all its locations with enough non-GMO pork to make carnitas. Given the supply chain challenges, Chipotle decided to use non-GMO products in its food preparation but to continue to serve some soft drinks with sweeteners derived from genetically engineered corn.

2-12. Has Chipotle's focus on eliminating GMOs created value for its customers? Defend this market strategy. (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Answer:

Students' responses will vary, but they should discuss ways Chipotle impacted its value delivery network, including suppliers, distributors, and customers. Chipotle is trying to deliver the healthiest product to health-conscious consumers. Avoiding GMOs is one strategy to meet the customer needs and wants, thus creating value.

Under a company-wide strategic plan, marketing must work closely with other

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departments to form an effective internal company value chain and with other companies in the marketing system to create an external value delivery network that jointly serves customers. Chipotle's decision to source non-GMO food products includes both internal and external value delivery partnerships.

Students may access the *New York Times* article for additional information www.nytimes.com/2015/04/27/business/chipotle-to-stop-serving-genetically-altered-food.html?_r=1.

2-13. From an ethics standpoint, discuss Chipotle's focus on sourcing non-GMO food products rather than attention to food safety. The company's oversights in food safety resulted in numerous customers becoming ill (E. coli, norovirus, and salmonella). Discuss the challenges Chipotle still faces in overcoming the negative image that resulted. (AACSB: Written and Oral Communication; Reflective Thinking; Ethical Understanding and Reasoning)

Answer:

Chipotle's focus was on its health-conscious consumers, specifically those who have concerns about genetically modified foods. Although this is a valid target for the company, the good of the masses must never be ignored. In the food service industry, it is critically important to monitor and train employees in all safe-handling practices.

Chipotle's sales were negatively impacted after directly being linked to a number of food-borne illnesses. Its stock price dropped more than 22 percent as a result. Some analysts even speculated that the company would not be able to recover from this crisis. Marketers are challenged with creating and communicating a message to rebuild the trust of customers, investors, and suppliers. This may need to be done at a slow, steady pace to win back stakeholders.

Marketing by the Numbers: Facebook vs. Google

Facebook and Google are both giants in the tech industry. However, if you just compare sales, you would think that Google is a far better marketer than Facebook, considering Google's sales last year were almost triple Facebook's sales. Comparing net profits, Facebook bests Google by a slim margin. Sales and profits provide information to compare the profitability of companies, but between these numbers is information regarding the efficiency of marketing efforts in creating those sales and profits. Appendix 3, Marketing by the Numbers: Marketing Performance Measures 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):

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	Facebook	**Google**
Sales	$40,653,000	$110,855,000
Gross Profit	$35,199,000	$65,272,000
Marketing Expenses	$ 5,431,501	$16,875,750
Net Income (Profit)	$ 15,920,000	$12,662,000

2-14. Calculate profit margin, net marketing contribution, marketing return on sales (or marketing ROS), and marketing return on investment (or marketing ROI) for each company. Which company is performing better? (AACSB: Written and Oral Communication; Information Technology; Analytical Thinking)

Answer:

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

$$\text{Profit Margin}_{\text{Facebook}} = \frac{\$15{,}920{,}000}{\$40{,}653{,}000} = 0.3916 = 13.16\%$$

$$\text{Profit Margin}_{\text{Google}} = \frac{\$12{,}662{,}000}{\$110{,}855{,}000} = 0.1142 = 11.42\%$$

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:

$$\text{NMC}_{\text{Facebook}} = \$35{,}199{,}000 - \$5{,}431{,}501 = \$29{,}767{,}499$$

$$\text{NMC}_{\text{Google}} = \$65{,}272{,}000 - \$16{,}875{,}750 = \$48{,}396{,}250$$

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

$$\text{Marketing ROS}_{\text{Facebook}} = \frac{\$29{,}767{,}499}{\$40{,}653{,}000} = 0.7322 = 73.22\%$$

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$$\text{Marketing ROS}_{\text{Google}} = \frac{\$48{,}396{,}250}{\$110{,}855{,}000} = 0.4366 = 43.66\%$$

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

$$\text{Marketing ROI}_{\text{Facebook}} = \frac{\$29{,}767{,}499}{\$5{,}431{,}501} = 5.48 = 548\%$$

$$\text{Marketing ROI}_{\text{Google}} = \frac{\$48{,}396{,}250}{\$16{,}875{,}750} = 2.87 = 287\%$$

Although Google has larger absolute sales, gross profits, expenses, and net marketing contribution, Facebook is performing more efficiently as measured by the profit margin, Marketing ROS, and Marketing ROI. While other factors besides marketing are likely driving Google's profits down, such as research and development, this analysis suggests that Google is not getting as great of a marketing return, albeit still very good, for the investment it has made in marketing compared to Facebook.

2-15. Go to Yahoo! Finance (http://finance.yahoo.com/) and find the income statements for two other competing companies. Perform the same analyses for these companies that you performed for 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, as not all of the expenses in that category are marketing expenses. (AACSB: Written and Oral Communication; Analytical Reasoning; Reflective Thinking)

Answer:

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

Facebook: https://finance.yahoo.com/quote/FB/financials/
Google: https://finance.yahoo.com/quote/GOOGL/financials/

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

<u>Company Case Teaching Notes</u>

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Company Cases 2 Facebook/8 Bose/13 Procter & Gamble
See Appendix 1 for cases appropriate for this chapter.

Case 2, Facebook: Making the World More Open and Connected. Facebook has amassed more than two billion active monthly users by focusing on its mission—"to give people the power to share and make the world more open and connected."

Case 8, Bose: Better Products by Focusing on the Product. Bose has been successful for more than 50 years by focusing on a strategy of creating superior products.

Case 13, Procter & Gamble: Selling Through Customer Business Development. Using a sales strategy it calls Customer Business Development, P&G succeeds by ensuring that its retail customers succeed.

GREAT IDEAS

Barriers to Effective Learning

1. Students will largely be unfamiliar with strategic planning and its concepts and objectives. Making this come alive with the examples in the textbook, or your own examples from your own experience, will help them deal with the complex issues in this section.
2. Working through a mission statement for the marketing department of your university, or for the business college within which it exists, may give the students a greater appreciation for the difficulty and importance of defining a mission that lives and breathes life into the objectives that follow.
3. The Boston Consulting Group's portfolio analysis tool can also be difficult to understand. Again, working through examples with companies the students should be familiar with will aid understanding.
4. University business courses rarely talk about cross-functional teamwork, so this may come as a surprise to students. If they have worked in internships with large companies, they may well have seen functional silos at work, and their coursework only serves to reinforce that mentality. Examples of companies failing because of a lack of teamwork—which can happen frequently at small companies in particular—will open many students' eyes to the importance of ensuring that all functions work in concert to make the company a success.
5. Value chains and supply chains are important concepts that also are typically not discussed in other courses. Getting students to understand these concepts is important for their understanding of the remainder of the course. Showing how sloppy quality in a component purchased from a vendor ultimately affects customer satisfaction will help.
6. Market segmentation and targeting are universally new concepts to students, unless they happen to have a parent who works in marketing. Although this is

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discussed in detail in a future chapter, showing how a large, amorphous market can be broken down in more and more detailed groups of buyers will help.

7. 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 versus Swatch watches, helps drive home what positioning means.

Student Projects

1. Look at the mission statements of five companies in the same industry. How do their mission statements differ and how are they alike? Which ones do you believe are good?
2. A business portfolio is the collection of businesses or products that make up the company. Take a look at Ford (www.ford.com). Describe Ford's business portfolio in terms of both businesses and products.
3. Using the Boston Consulting Group's growth-share matrix, place Ford's vehicles on the grid. Which are the stars, the cash cows, the question marks, and the dogs?
4. Still using Ford as our example, discuss the product positioning of their SUVs and trucks.

Small Group Assignment

Form students into groups of three to five. Each group should read the opening vignette to the chapter on Starbucks. Each group should answer the following questions:

1. What has caused Starbucks lasting popularity?
2. What has been the company's primary strategy?
3. What is Starbucks doing to ensure its future growth and success?

Each group should then share its findings with the class.

Individual Assignment

Consider the fashion retailers H&M (http://www.hm.com/us/) and Zara (http://www.zara.com/us/). What is the positioning strategy of each? How are they similar? How are they different?

Think-Pair-Share

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

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1. Design a mission statement for your college/university.
2. What are some of the problems with using a matrix approach (e.g., the BCG matrix)?
3. What is the difference between market development and product development?
4. Under what conditions might downsizing be a usable strategy?

Classroom Exercise/Homework Assignment

Develop a strategy for attracting new students to your college or university. Write a statement that describes your college/university's fit between the goal of attracting the best students and its capabilities for then educating those students

Classroom Management Strategies

This chapter starts outlining some fairly difficult subjects for students. Strategic planning, growth-share matrices, and even the development of the marketing mix are relatively tough concepts for a second chapter in a beginning marketing text. Therefore, when planning how to present the material, be sure to leave plenty of time to go through at least some of the Applying the Concepts, as well as defining what the Key Terms really mean in the everyday working world. Several of the concepts presented in this chapter become important later in the text, and if the students come away understanding this chapter, they will have an easier time later in the semester.

1. Company-wide Strategic Planning can be covered in about 15 minutes. Focus on the "thread" that ties together the corporate strategic plan, corporate and business unit objectives, and the business or product portfolio. This last topic should be prominent in the discussion, as it sets the stage for later discussions of new product development.
2. The second major section of the chapter, Planning Marketing, can be covered in 5 minutes. Although this section is important and touches on issues that will come up later in the text, it does not need to have the same level of focus as the other topics in this chapter.
3. The next section, Marketing Strategy, is extremely important; 20 minutes should be devoted to this topic. In particular, ensuring the students understand the true meaning of developing an intelligent marketing mix will set the stage for such later topics as integrated marketing communications, because they will already have thought about how different components of a plan should work together. Finally, 20 minutes should also be devoted to Managing the Marketing Effort. This section should really drive home the notion that marketing isn't just a creative endeavor. For instance, when discussing marketing analysis and the marketing environment, you can point out how these topics are a big part of what market research is all about.

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PROFESSORS ON THE GO

Company and Marketing Strategy: Partnering to Build Customer Engagement, Value and Relationships

Key Concepts

Market-oriented mission statements
Setting goals and objectives
Designing and analyzing a business portfolio

- In a small group, discuss whether the following statement from Amazon.com meets the criteria of a good mission statement. "Our vision is to be the earth's most concentric company; to build a place where people can come to find and discover anything they might want to buy online."
- The BCG growth-share matrix identifies four classifications of SBUs: Stars, Cash Cows, Question Marks, and Dogs. Briefly discuss why management may find it difficult to dispose of a "Question Mark."
- Which of the following two terms do you think best describes the process of developing and maintaining a fit between the organization's goals and capabilities and its changing marketing opportunities: strategic planning or corporate planning. Why?

Key Concepts

Market segmentation, target marketing, and market positioning
The 4 Ps of marketing

- Discuss each of the three steps that a company must perform in choosing the best market segments and designing strategies to maximize profitability in selected segments.
- Nordstrom's and Kohl's are two department stores. Visit their Web sites (www.nordstroms.com and www.kohls.com) to familiarize yourself with each. Who do you think each is targeting? How might they be trying to position themselves in the marketplace?
- Do you think that the "4 Ps" marketing mix framework does an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
- Why would a focus on the 4 Cs be more important than the 4 Ps?

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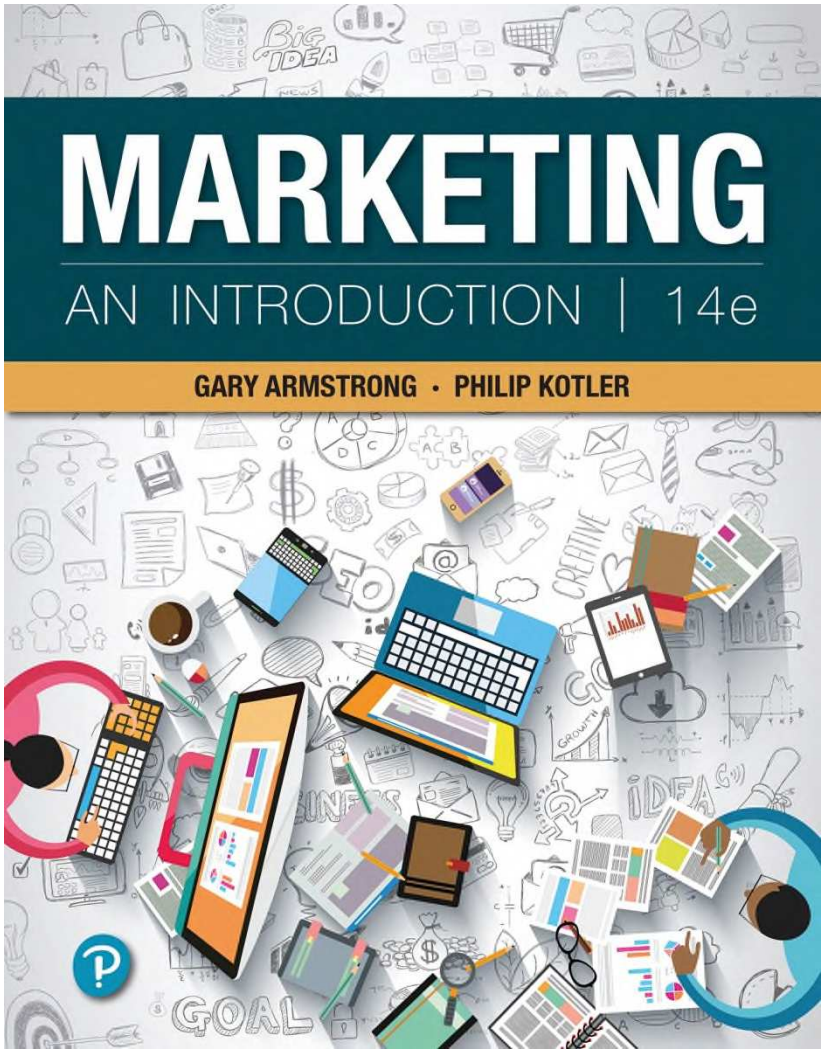
Marketing: An Introduction

Fourteenth Edition



Chapter 02

Company and Marketing Strategy: Partnering to Build Customer Engagement, Value, and Relationships

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Objectives Outline (1 of 4)

2.1 Explain company-wide strategic planning and its four steps.

2.2 Discuss how to design business portfolios and develop growth strategies.

2.3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

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Objectives Outline (2 of 4)

2.4 Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence it.

2.5 List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

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First Stop: Starbucks's Customer Value-Driven Marketing Strategy

More than just coffee, Starbucks sells the Starbucks Experience, one that "enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time."

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Objective Outline 2-1

- Explain company-wide strategic planning and its four steps.

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Strategic Planning

- Game plan for long-run survival and growth
- Helps to maintain a strategic fit between its goals and capabilities and changing marketing opportunities.

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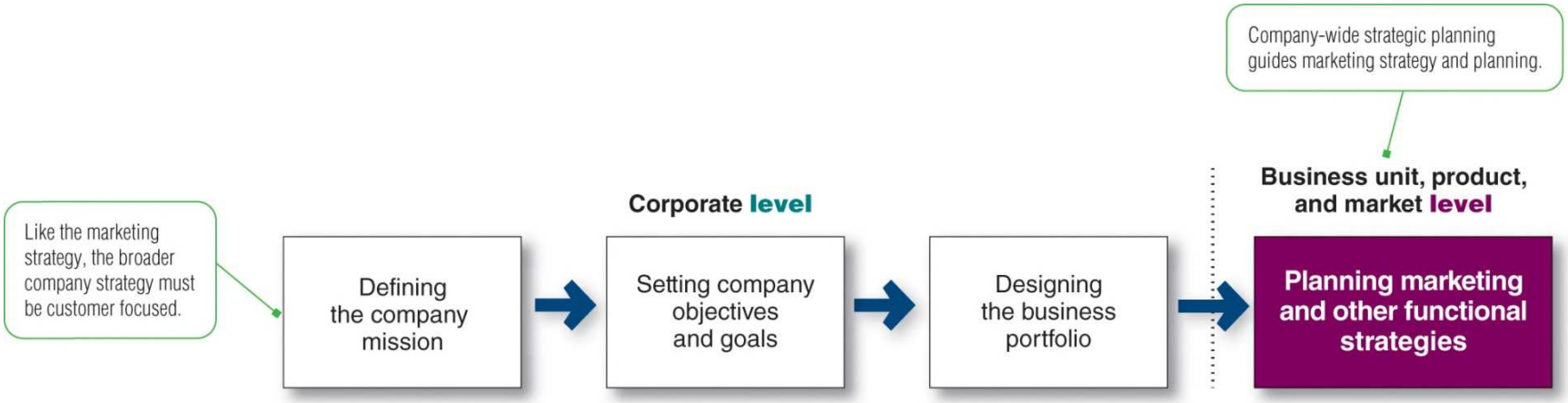
Figure 2.1 Steps in Strategic Planning



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Mission Statement

- Statement of the organization's purpose
- Market oriented—defined in terms of satisfying basic customer needs
- Emphasize the company's strengths
- Focus on customers and the customer experience

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Table 2.1 Product- versus Market-Oriented Business Definitions

Company	Product-Oriented Definition	Market-Oriented Definition
Starbucks	We sell coffee and snacks.	We sell "The Starbucks Experience," one that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time.
Panera	We sell fast-casual food in our restaurants.	We give customers "Food as it should be": food that tastes good; food that feels good; food that does good things for them and the world around them.
Instagram	We are a social networking app for posting photos and videos.	We help people capture and share the world's moments.
Home Depot	We sell tools and home repair and improvement items.	We empower consumers to achieve the homes of their dreams.
NPR	We are a public radio network.	We create a more informed public—one challenged and invigorated by a deeper understanding and appreciation of events, ideas, and cultures.
Sephora	We are a beauty products retailer.	We sell lifestyle and self-expression by helping customers to unlock their beauty potential.
Ritz-Carlton Hotels & Resorts	We rent rooms.	We create "The Ritz-Carlton experience"—a memorable stay that far exceeds guests' already-high expectations.
Walmart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people. "Save Money. Live Better."

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Setting Company Objectives and Goals (1 of 2)

- Detailed supporting objectives for each level of management
- Setting a hierarchy of objectives
  - Business objectives
  - Marketing objectives

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Setting Company Objectives and Goals (2 of 2)

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Objective Outline 2-1 Summary

- Strategic planning
  - Defining the company's mission
  - Setting objectives and goals
  - Designing a business portfolio
  - Developing functional plans
- Company mission statement
  - Market-oriented, realistic, specific
  - Motivating, consistent with market environment

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Objective Outline 2-2

- Discuss how to design business portfolios and develop growth strategies.

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Business Portfolio (1 of 2)

- Collection of businesses and products that make up the company
- Steps in business portfolio planning:
  - Analyze the firm's **current** business portfolio
  - Develop strategies to shape the **future** portfolio

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Business Portfolio (2 of 2)

- Mars Inc. is not only the world's number one candy maker but a world-leading pet nutrition and health-care company.

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Portfolio Analysis

- Management's evaluation of the products and businesses that make up the company
  - Identify the strategic business units (SBUs)
  - Assess SBUs' attractiveness and decide on the level of support SBU deserves
- Direct resources toward more profitable businesses and phase down or drop its weaker ones

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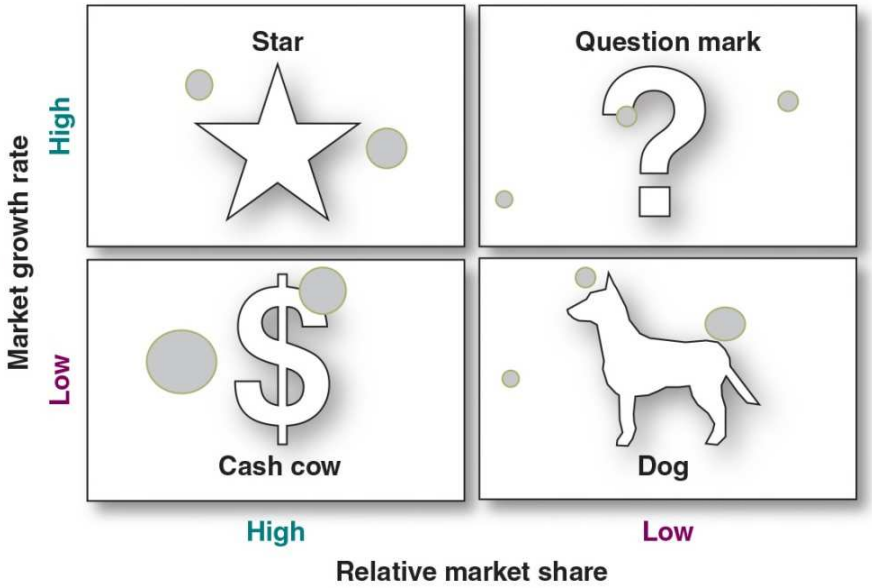
Figure 2.2 The BCG Growth-Share Matrix

Under the classic BCG portfolio planning approach, the company invests funds from mature, successful products and businesses (cash cows) to support promising products and businesses in faster-growing markets (stars and question marks), hoping to turn them into future cash cows.



The company must decide how much it will invest in each product or business (SBU). For each SBU, it must decide whether to build, hold, harvest, or divest.

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Growth-Share Matrix

- Evaluates a company's SBUs in terms of market growth rate and relative market share
- Problems with Growth-Share Matrix
  - Difficult, time consuming, and costly
  - Difficult to define and measure
  - Provides little advice for future planning

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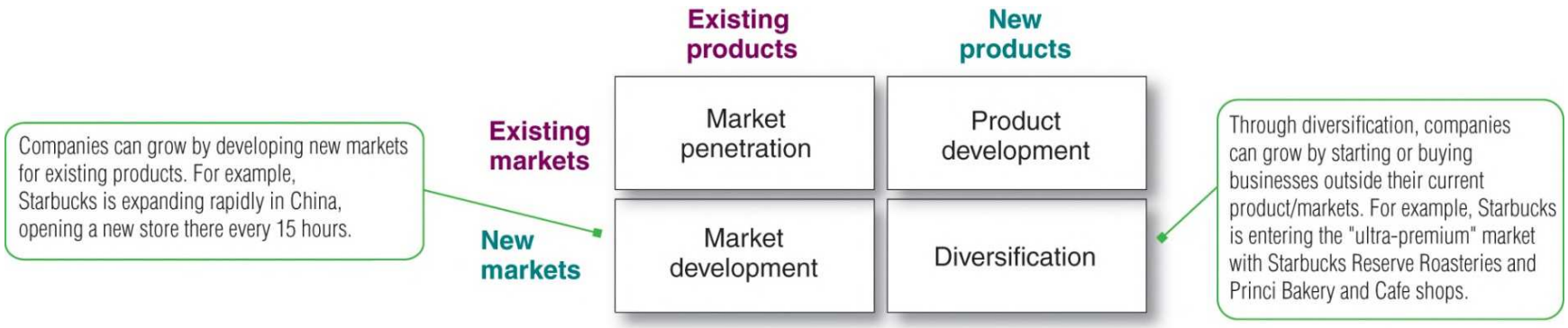
Figure 2.3 The Product/Market Expansion Grid



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Developing Strategies for Growth

In only three decades, Starbucks has grown at an astounding pace from a small Seattle coffee shop to an over $22 billion powerhouse with more than 27,000 retail stores in more than 75 countries.

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Downsizing

- Products or business units that are unprofitable or no longer fit the company's overall strategy
- Reasons to abandon products or markets
  - Rapid growth of the company
  - Lack of experience in a market
  - Change in market environment
  - Decline of a particular product

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Objective Outline 2-2 Summary

- Portfolio analysis
- BCG Growth-Share Matrix
- Product market expansion grid
- Strategies for growth and downsizing

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Objective Outline 2-3

- Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

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Planning Marketing: Partnering to Build Customer Relationships

- Provides a guiding philosophy
  - Marketing concept—company strategy should create customer value and build profitable relationships
- Provides inputs to strategic planners
  - Identify market opportunities and potential to take advantage of them
- Designs strategies for reaching the business unit's objectives

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Partnering with Other Company Departments (1 of 2)

- Company departments are links in the company's internal **value chain**.
- Firm's success depends on how well the various departments coordinate their activities.
- Marketers should ensure all the departments are customer-focused and develop a smooth functioning value chain.

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Partnering with Other Company Departments (2 of 2)

True Value's Internal Value Chain.

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Partnering with Others in the Marketing System

- Companies should assess value chains
  - Internal departments
  - External: suppliers, distributors and customers
- **Value delivery network** is composed of the company, its suppliers, its distributors, and its customers

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Objective Outline 2-3 Summary

- Planning Marketing
- Partnering to build customer relationships
- Partnering with other company departments
- Partnering with suppliers, distributors, and customers
- Value delivery network

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Objective Outline 2-4

- Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence it.

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Figure 2.4 Managing Marketing Strategy and the Marketing Mix

At its core, marketing is all about creating customer value and profitable customer relationships.

Marketing strategy involves two key questions: Which customers will we serve (segmentation and targeting)? and How will we create value for them (differentiation and positioning)? Then the company designs a marketing program—the four *P*s—that delivers the intended value to targeted consumers.

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Customer Value-Driven Marketing Strategy

- Marketing logic by which the company creates customer value and achieves profitable customer relationships
- Integrated marketing mix: product, price, place, and promotion
- Activities for best marketing strategy and mix
  - Marketing analysis
  - Planning, implementation, and control

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Market Segmentation and Market Targeting

Market segmentation

- Dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, and who might require separate products or marketing programs

Market targeting

- Evaluating each market segment's attractiveness and selecting one or more segments to enter

Market targeting

- Evaluating each market segment's attractiveness and selecting one or more segments to enter

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Market Differentiation and Positioning (1 of 2)

- **Positioning** the product to occupy a clear, distinctive, and desirable place relative to competing products
- **Differentiating** the market offering to create superior customer value
- The entire marketing program should support the chosen positioning strategy.

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Positioning (2 of 2)

Car sharing service Uber positions itself as "Everyone's private driver." This simple statement provides the backbone for its marketing strategy.

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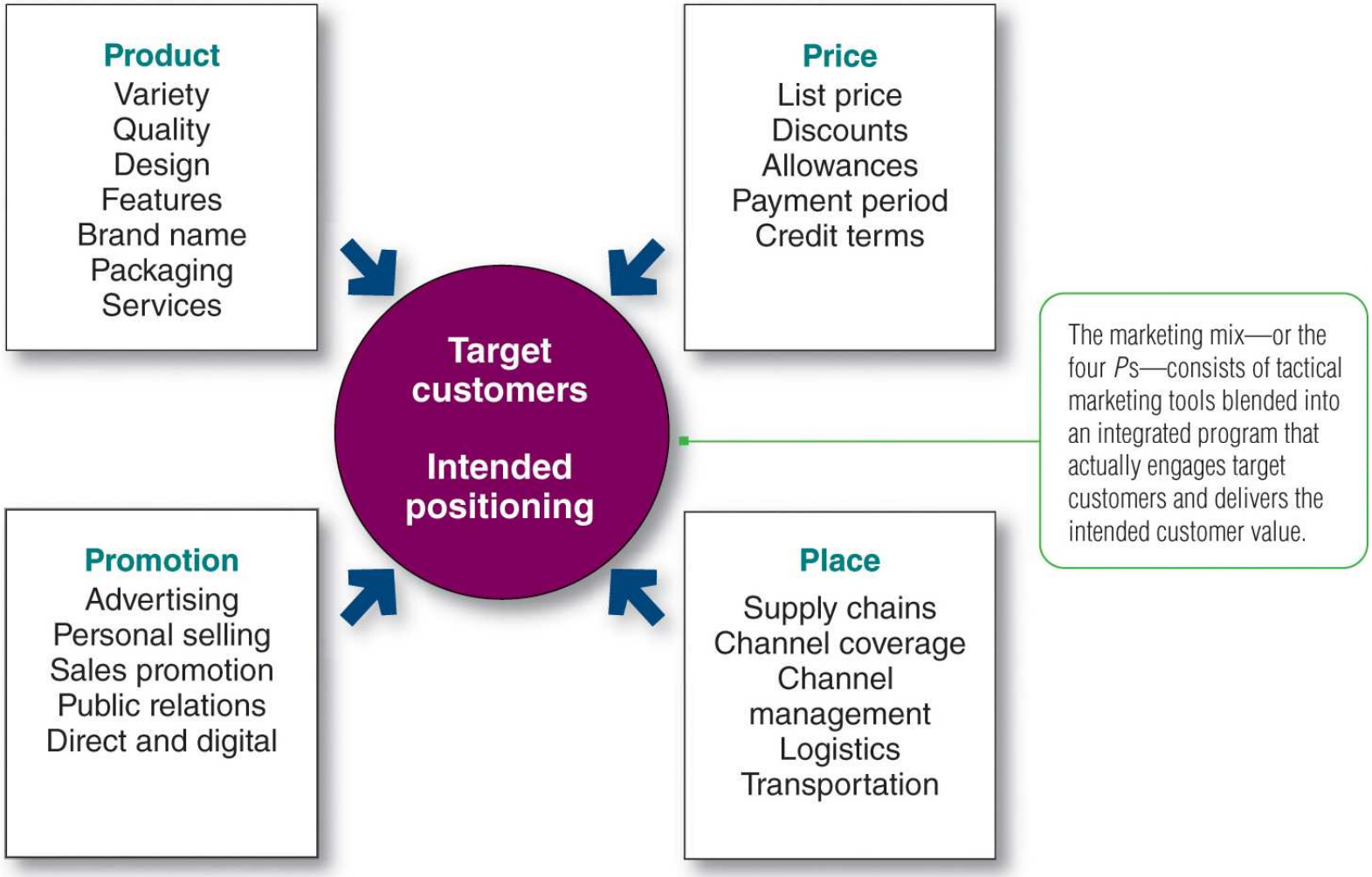
Figure 2.5 The Four Ps of the Marketing Mix



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Criticisms of the Four Ps

- Omits or underemphasizes service products
- Needs to include packaging as a product decision
- Buyer's perspective would emphasize the four **A** s:
  - Acceptability
  - Affordability
  - Accessibility
  - Awareness

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Objective Outline 2-4 Summary

- Customer value-driven marketing strategy
- Market segmentation and market segment
- Market targeting
- Positioning and differentiating
- Four Ps of the marketing mix

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Objective Outline 2-5 (1 of 2)

- List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

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Figure 2.6 Managing Marketing: Analysis, Planning, Implementation, and Control

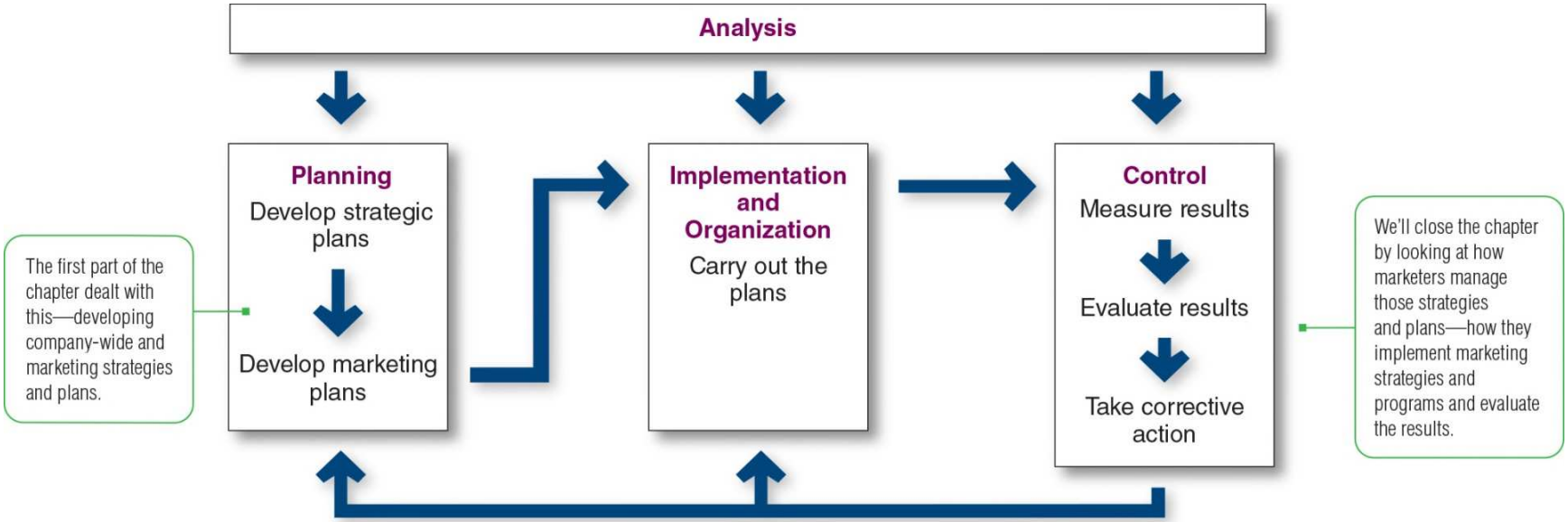

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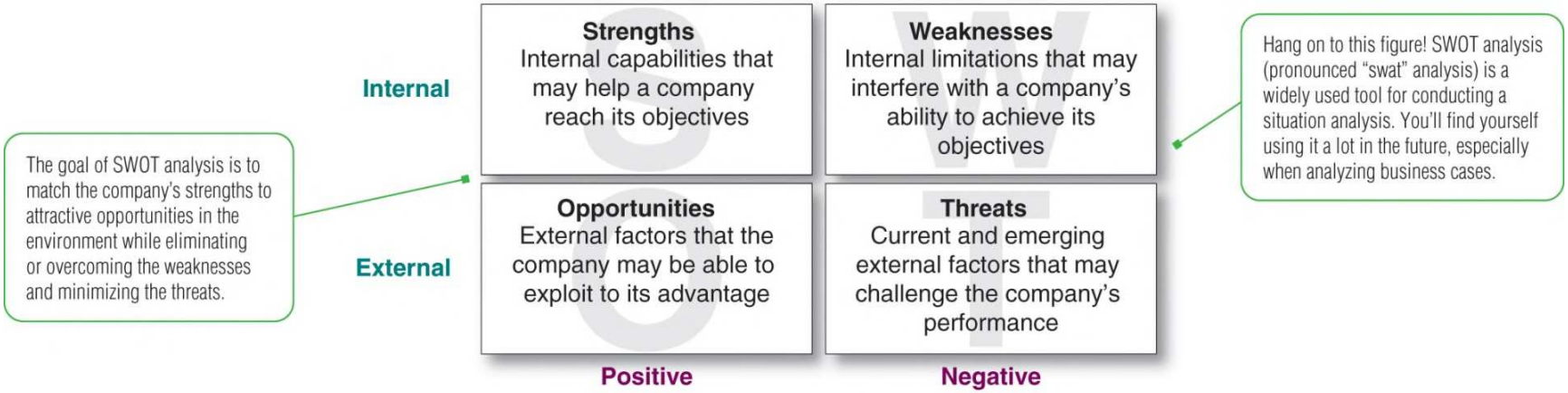
Figure 2.7 SWOT Analysis: Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T)



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Contents of a Marketing Plan (1 of 2)

Section	Purpose
Executive summary	Brief summary of the main goals and recommendations
Current marketing situation	Gives the market description and the product, competition, and distribution review
Threats and opportunities analysis	Helps management to anticipate important positive or negative developments
Objectives and issues	States and discusses marketing objectives and key issues

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Contents of a Marketing Plan (2 of 2)

Section	Purpose
Marketing strategy	Outlines the broad marketing logic and the specifics of target markets, positioning, marketing expenditure levels, and strategies for each marketing mix element
Action programs	Spells out how marketing strategies will be turned into specific action programs
Budgets	Details a supporting marketing budget that is a projected profit-and-loss statement
Controls	Outlines the controls that will be used to monitor progress, allow management to review implementation results, and spot products that are not meeting their goals

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Market Implementation

- Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives
- Addresses the who, where, when, and how of the marketing activities

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Marketing Department Organization

- Functional organization
- Geographic organization
- Product management organization
- Market or customer management organization
- Combination organization

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Marketing Control

- Measuring and evaluating the results of marketing strategies and plans
- Operating control ensures that the company achieves its sales, profits, and other goals.
- Strategic control involves looking at whether the company's basic strategies are well matched to its opportunities.

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Measuring and Managing Marketing Return on Investment (ROI)

- Net return from a marketing investment divided by the costs of the marketing investment
- Assessment measures
  - Standard marketing performance measures
  - Customer-centered measures

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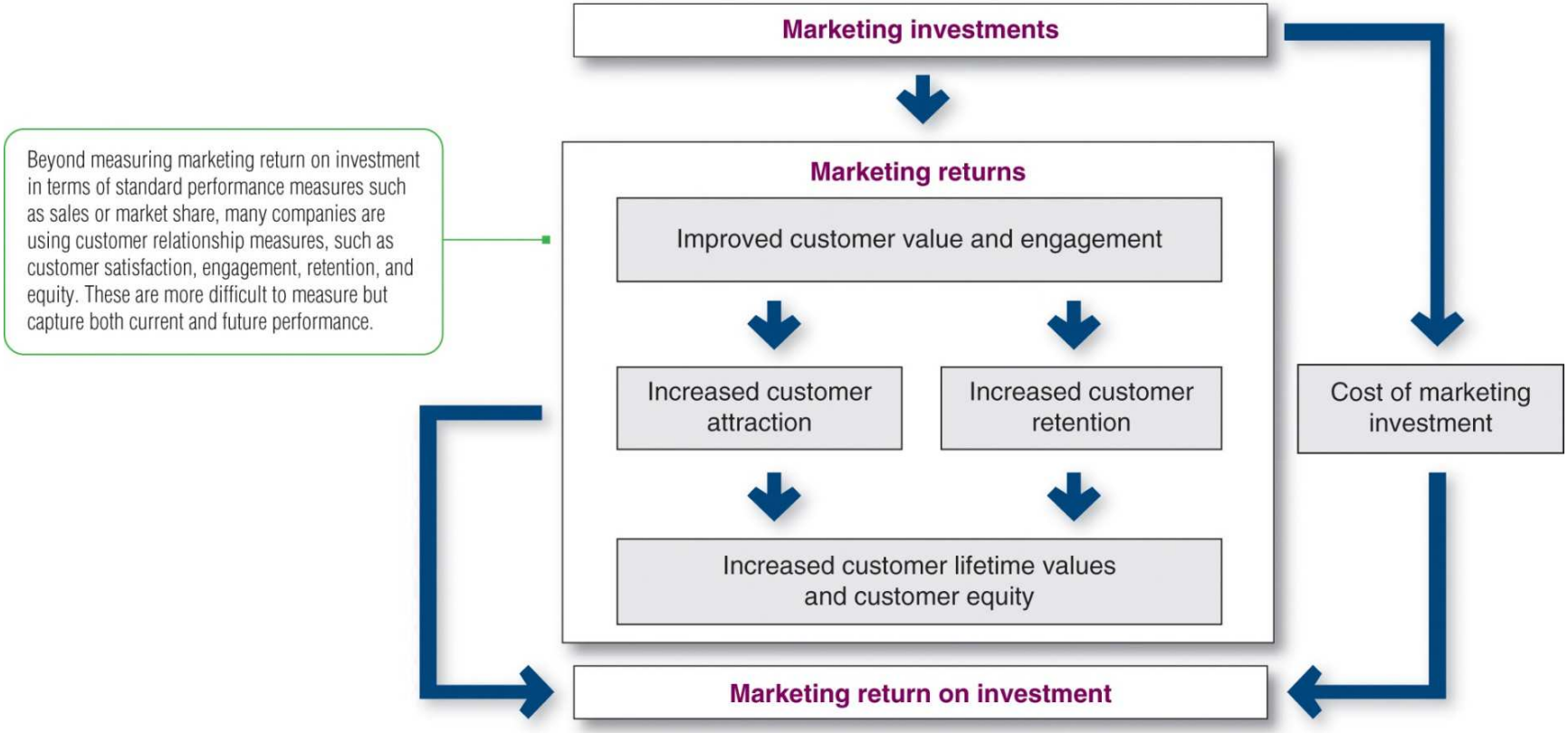
Figure 2.8 Marketing Return on Investment



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Objective Outline 2-5 Summary

- Contents of a marketing plan
- Analysis, planning and implementation
- Operating and strategic marketing control
- Marketing department organization
- Marketing return on investment

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Objectives Outline (3 of 4)

2.1 Explain company-wide strategic planning and its four steps.

2.2 Discuss how to design business portfolios and develop growth strategies.

2.3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

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Objectives Outline (4 of 4)

2.4 Describe the elements of a customer value-driven marketing strategy and mix and the forces that influence it.

2.5 List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.

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