Winning Markets Through Strategic Planning, Implementation, and Control

We will address the following questions:

- How is strategic planning carried out at the corporate, division, and business-unit levels?
- What are the major steps in planning the marketing process?
- How can a company effectively manage the marketing process?

How do companies compete in a global marketplace? One part of the answer is a commitment to creating and retaining satisfied customers. We can now add a second part: Successful companies know how to adapt to a continuously changing marketplace through strategic planning and careful management of the marketing process.

In most large companies, corporate headquarters is responsible for designing a corporate *strategic plan* to guide the whole enterprise and deciding about resource allocations as well as starting and eliminating particular businesses. Guided by the corporate strategic plan, each division establishes a *division plan* for each business unit within the division; in turn, each business unit develops a *business unit strategic plan.* Finally, the managers of each product line and brand within a business unit develop a *marketing plan* for achieving their objectives.

However, the development of a marketing plan is not the end of the marketing process. High-performance firms must hone their expertise in organizing, implementing, and controlling marketing activities as they follow marketing results closely, diagnose problems, and take corrective action when necessary. In today's fast-paced business world, the ability to effectively manage the marketing process—beginning to end—has become an extremely important competitive advantage.

CORPORATE AND DIVISION STRATEGIC PLANNING

Marketing plays a critical role in corporate strategic planning within successful companies. **Market-oriented strategic planning** is the managerial process of developing and maintaining a viable fit among the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth and keep the company healthy despite any unexpected threats that may arise.

Strategic planning calls for action in three key areas. The first area is managing a company's businesses as an investment portfolio. The second area involves assessing each business's strength by considering the market's growth rate and the company's position and fit in that market. And the third area is the development of *strategy,* a game plan for achieving long-term objectives. The complete strategic planning, implementation, and control cycle is shown in Figure 1-4.

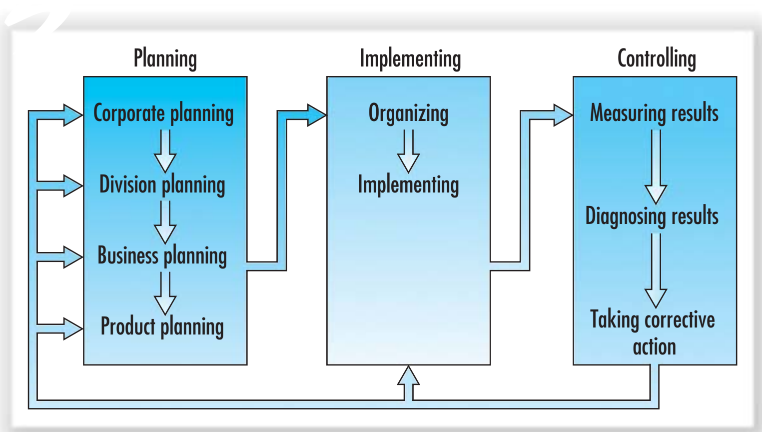
Corporate headquarters starts the strategic planning process by preparing statements of mission, policy, strategy, and goals, establishing the framework within which the divisions and business units will prepare their plans. Some corporations allow their business units a great deal of freedom in setting sales and profit goals and strategies. Others set goals for their business units but let them develop their own strategies. Still others set the goals and get involved heavily in the individual business unit strategies.[1] Regardless of the degree of involvement, all strategic plans are based on the corporate mission.

Defining the Corporate Mission

An organization exists to accomplish something: to make cars, lend money, provide a night's lodging, and so on. Its specific mission or purpose is usually clear when the business starts. Over time, however, the mission may lose its relevance because of changed market conditions or may become unclear as the corporation adds new products and markets.

When management senses that the organization is drifting from its mission, it must renew its search for purpose. According to Peter Drucker, it is time to ask some fundamental questions.[2] *What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be?* Successful companies continuously raise these questions and answer them thoughtfully and thoroughly.

Figure 1-4 The Strategic Planning, Implementation, and Control Process



A well-worked-out mission statement provides employees with a shared sense of purpose, direction, and opportunity. It also guides geographically dispersed employees to work independently and yet collectively toward realizing the organization's goals. The mission statement of Motorola, for example, is "to honorably serve the needs of the community by providing products and services of superior quality at a fair price to our customers; to do this so as to earn an adequate profit which is required for the total enterprise to grow; and by so doing provide the opportunity for our employees and shareholders to achieve their reasonable personal objectives."

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

- *Industry scope:* The industry or range of industries in which a company will operate. For example, DuPont operates in the industrial market; Dow operates in the industrial and consumer markets; and 3M will go into almost any industry where it can make money.
- *Products and applications scope:* The range of products and applications that a company will supply. St. Jude Medical aims to "serve physicians worldwide with high-quality products for cardiovascular care."
- *Competence scope:* The range of technological and other core competencies that a company will master and leverage. Japan's NEC has built its core competencies in computing, communications, and components to support production of laptop computers, televisions, and other electronics items.
- *Market-segment scope:* The type of market or customers a company will serve. For example, Porsche makes only expensive cars for the upscale market and licenses its name for high-quality accessories.
- *Vertical scope:* The number of channel levels from raw material to final product and distribution in which a company will participate. At one extreme are companies with a large vertical scope; at the other extreme are firms with low or no vertical integration that may outsource design, manufacture, marketing, and physical distribution.[3]
- *Geographical scope:* The range of regions or countries in which a company will operate. At one extreme are companies that operate in a specific city or state. At the other extreme are multinationals such as Unilever and Caterpillar, which operate in almost every one of the world's countries.

A company must redefine its mission if that mission has lost credibility or no longer defines an optimal course for the company.[4] Kodak redefined itself from a film company to an image company so that it could add digital imaging;[5] Sara Lee redefined itself by outsourcing manufacturing and becoming a marketer of brands. The corporate mission provides direction for the firm's various business units.

Establishing Strategic Business Units

A business can be defined in terms of three dimensions: *customer groups, customer needs,* and *technology*.[6] For example, a company that defines its business as designing incandescent lighting systems for television studios would have television studios as its customer group; lighting as its customer need; and incandescent lighting as its technology.

In line with Levitt's argument that market definitions of a business are superior to product definitions,[7] these three dimensions describe the business in terms of a customer-satisfying process, not a goods-producing process. Thus, Xerox's product definition would be "We make copying equipment," while its market definition would be "We help improve office productivity." Similarly, Missouri-Pacific Railroad's product definition would be "We run a railroad," while its market definition would be "We are a people-and-goods mover."

Large companies normally manage quite different businesses, each requiring its own strategy; General Electric, as one example, has established 49 *strategic business units (SBUs)*. An SBU has three characteristics: (1) It is a single business or collection of related businesses that can be planned separately from the rest of the company; (2) it has its own set of competitors; and (3) it has a manager responsible for strategic planning and profit performance who controls most of the factors affecting profit.

Assigning Resources to SBUs

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding to the entire business portfolio. Senior managers generally apply analytical tools to classify all of their SBUs according to profit potential. Two of the best-known business portfolio evaluation models are the Boston Consulting Group model and the General Electric model.[8]

The Boston Consulting Group Approach

The Boston Consulting Group (BCG), a leading management consulting firm, developed and popularized the *growth-share matrix* shown in Figure 1-5. The eight circles represent the current sizes and positions of eight business units in a hypothetical company. The dollar-volume size of each business is proportional to the circle's area. Thus, the two largest businesses are 5 and 6. The location of each business unit indicates its market growth rate and relative market share.

The *market growth rate* on the vertical axis indicates the annual growth rate of the market in which the business operates. *Relative market share,* which is measured on the horizontal axis, refers to the SBU's market share relative to that of its largest competitor in the segment. It serves as a measure of the company's strength in the relevant market segment. The growth-share matrix is divided into four cells, each indicating a different type of business:

- *Question marks* are businesses that operate in high-growth markets but have low relative market shares. Most businesses start off as question marks as the company tries to enter a high-growth market in which there is already a market leader. A question mark requires a lot of cash because the company is spending money on plant, equipment, and personnel. The term *question mark* is appropriate because the company has to think hard about whether to keep pouring money into this business.
- *Stars* are market leaders in a high-growth market. A star was once a question mark, but it does not necessarily produce positive cash flow; the company must still spend to keep up with the high market growth and fight off competition.
- *Cash cows* are former stars with the largest relative market share in a slow-growth market. A cash cow produces a lot of cash for the company (due to economies of scale and higher profit margins), paying the company's bills and supporting its other businesses.
- *Dogs* are businesses with weak market shares in low-growth markets; typically, these generate low profits or even losses.

After plotting its various businesses in the growth-share matrix, a company must determine whether the portfolio is healthy. An unbalanced portfolio would have too many

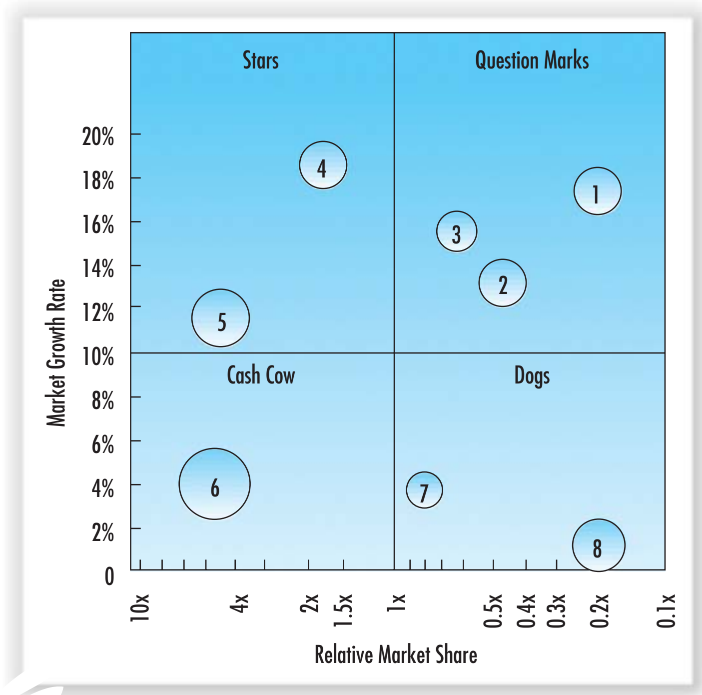


Figure 1-5 The Boston Consulting Group's Growth-Share Matrix

dogs or question marks or too few stars and cash cows. The next task is to determine what objective, strategy, and budget to assign to each SBU. Four strategies can be pursued:

1. *Build:* The objective here is to increase market share, even forgoing short-term earnings to achieve this objective if necessary. Building is appropriate for question marks whose market shares must grow if they are to become stars.
2. *Hold:* The objective in a hold strategy is to preserve market share, an appropriate strategy for strong cash cows if they are to continue yielding a large positive cash flow.
3. *Harvest:* The objective here is to increase short-term cash flow regardless of long-term effect. Harvesting involves a decision to withdraw from a business by implementing a program of continuous cost retrenchment. The hope is to reduce costs faster than any potential drop in sales, thus boosting cash flow. This strategy is appropriate for weak cash cows whose future is dim and from which more cash flow is needed. Harvesting can also be used with question marks and dogs.
4. *Divest:* The objective is to sell or liquidate the business because the resources can be better used elsewhere. This is appropriate for dogs and question marks that are dragging down company profits.

Successful SBUs move through a life cycle, starting as question marks and becoming stars, then cash cows, and finally dogs. Given this life-cycle movement, companies should be aware not only of their SBUs' current positions in the growth-share matrix (as in a snapshot), but also of their moving positions (as in a motion picture). If an SBU's expected future trajectory is not satisfactory, the corporation will need to work out a new strategy to improve the likely trajectory.

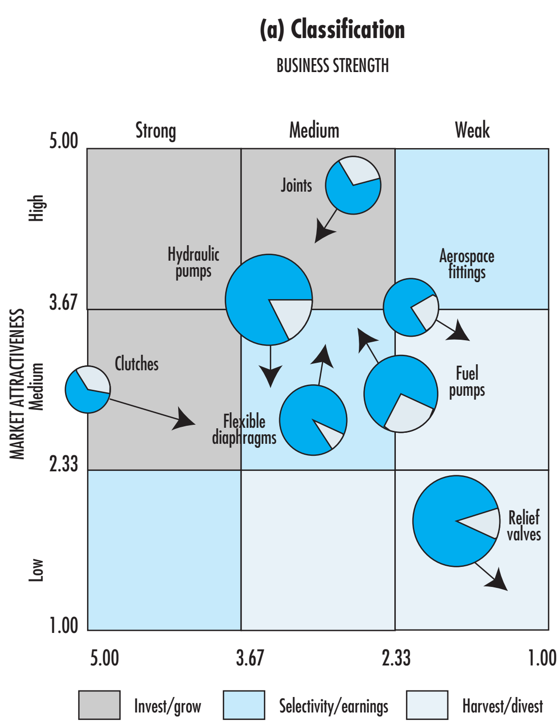
The General Electric Model

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

Using these two dimensions, the GE matrix is divided into nine cells, as shown in Figure 1-6. The three cells in the upper-left corner indicate strong SBUs suitable for investment or growth. The diagonal cells stretching from the lower left to the upper right indicate SBUs of medium attractiveness; these should be pursued selectively and managed for earnings. The three cells in the lower-right corner indicate SBUs low in overall attractiveness, which the company may want to harvest or divest.[9]

In addition to identifying each SBU's current position on the matrix, management should also forecast its expected position over the next 3 to 5 years. Making this determination involves analyzing product life cycle, expected competitor strategies,

Figure 1-6 Market-Attractiveness Portfolio Strategies



(b) Strategies

BUSINESS STRENGTH

Strong	Medium	Weak
PROTECT POSITION • Invest to grow at maximum digestible rate • Concentrate effort on maintaining strength	INVEST TO BUILD • Challenge for leadership • Build selectively on strengths • Reinforce vulnerable areas	BUILD SELECTIVELY • Specialize around limited strengths • Seek ways to overcome weaknesses • Withdraw if indications of sustainable growth are lacking
BUILD SELECTIVELY • Invest heavily in most attractive segments • Build up ability to counter competition • Emphasize profitability by raising productivity	SELECTIVITY/MANAGE FOR EARNINGS • Protect existing program • Concentrate investments in segments where profitability is good and risks are relatively low	LIMITED EXPANSION OR HARVEST • Look for ways to expand without high risk; otherwise, minimize investment and rationalize operations
PROTECT AND REFOCUS • Manage for current earnings • Concentrate on attractive segments • Defend strengths	MANAGE FOR EARNINGS • Protect position in most profitable segments • Upgrade product line • Minimize investment	DIVEST • Sell at time that will maximize cash value • Cut fixed costs and avoid investment meanwhile

new technologies, economic events, and so on. Again, the purpose is to see where SBUs are as well as where they appear to be headed.

Critique of Portfolio Models

Both the BCG and GE portfolio models have a number of benefits. They can help managers think more strategically, better understand the economics of their SBUs, improve the quality of their plans, improve communication between SBU and corporate management, identify important issues, eliminate weaker SBUs, and strengthen their investment in more promising SBUs.

However, portfolio models must be used cautiously. They may lead a firm to overemphasize market-share growth and entry into high-growth businesses or to neglect its current businesses. Also, the models' results are sensitive to ratings and weights and can be manipulated to produce a desired location in the matrix. Finally, the models fail to delineate the synergies between two or more businesses, which means that making decisions for one business at a time might be risky. There is a danger of terminating a losing SBU that actually provides an essential core competence needed by several other business units. Overall, though, portfolio models have improved managers' analytical and strategic capabilities and allowed them to make better decisions than they could with mere impressions.[10]

Planning New Businesses, Downsizing Older Businesses

Corporate management often desires higher sales and profits than indicated by the projections for the SBU portfolio. The question then becomes how to grow much faster than the current businesses will permit. One option is to identify opportunities to achieve further growth within the company's current businesses (*intensive growth opportunities*). A second option is to identify opportunities to build or acquire businesses that are related to the company's current businesses (*integrative growth opportunities*). A third option is to identify opportunities to add attractive businesses that are unrelated to the company's current businesses (*diversification growth opportunities*).

- *Intensive growth.* Ansoff has proposed the *product–market expansion grid* as a framework for detecting new intensive growth opportunities.[11] In this grid, the company first considers whether it could gain more market share with its current products in current markets (*market-penetration strategy*) by encouraging current customers to buy more, attracting competitors' customers, or convincing nonusers to start buying its products. Next it considers whether it can find or develop new markets for its current products (*market-development strategy*). Then it considers whether it can develop new products for its current markets (*product-development strategy*). Later it will also review opportunities to develop new products for new markets (*diversification strategy*).
- *Integrative growth.* Often a business's sales and profits can be increased through *backward integration* (acquiring a supplier), *forward integration* (acquiring a distributor), or *horizontal integration* (acquiring a competitor).
- *Diversification growth.* This makes sense when good opportunities exist outside the present businesses. Three types of diversification are possible. The company could seek new products that have technological or marketing synergies with existing product lines, even though the new products themselves may appeal to a different group of customers (*concentric diversification strategy*). Second, the company might search for new products that appeal to its current customers but are technologically unrelated to the current product line (*horizontal diversification strategy*). Finally, the company might seek new businesses that have no relationship to the company's current technology, products, or markets (*conglomerate diversification strategy*).

Of course, companies must not only develop new businesses, but also prune, harvest, or divest tired, old businesses in order to release needed resources and reduce costs. Weak businesses require a disproportionate amount of managerial attention; managers should therefore focus on growth opportunities rather than wasting energy and resources trying to save hemorrhaging businesses.

BUSINESS STRATEGIC PLANNING

Below the corporate level, the strategic-planning process for each business or SBU consists of the eight steps shown in Figure 1-7. We examine each step in the sections that follow.

Business Mission

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

SWOT Analysis

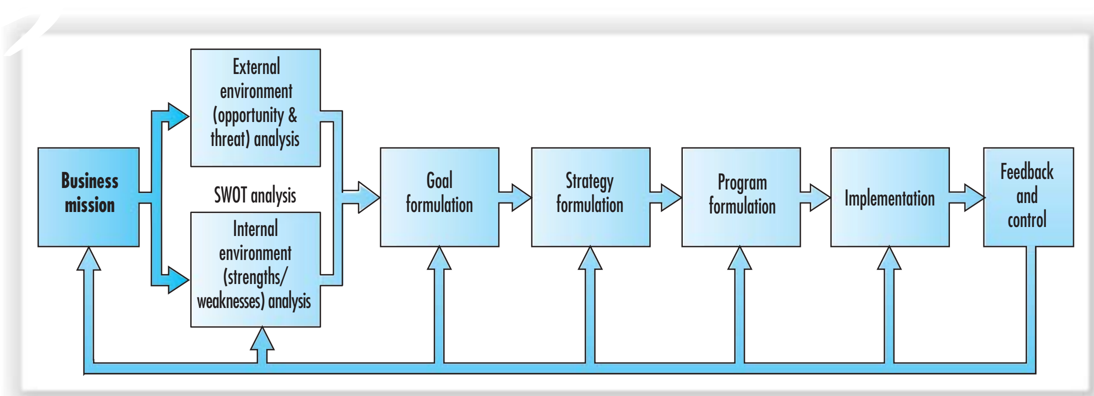
The overall evaluation of a business's strengths, weaknesses, opportunities, and threats is called *SWOT analysis*. SWOT analysis consists of an analysis of the external and internal environments.

External Environment Analysis

In general, a business unit has to monitor key *macroenvironment forces* (demographic-economic, technological, political-legal, and social-cultural) and *microenvironment actors* (customers, competitors, distributors, and suppliers) that affect its ability to earn profits (see Chapter 4 for more detail). Then, for each trend or development, management needs to identify the associated marketing opportunities and threats.

A **marketing opportunity** is an area of buyer need in which a company can perform profitably. Opportunities can be classified according to their *attractiveness* and their *success probability*. The company's success probability depends on whether its busi-

Figure 1-7 The Business Strategic-Planning Process



ness strengths not only match the key success requirements for operating in the target market, but also exceed those of its competitors. Mere competence does not constitute a competitive advantage. The best-performing company will be the one that can generate the greatest customer value and sustain it over time.

An **environmental threat** is a challenge posed by an unfavorable external trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit. Threats should be classified according to *seriousness* and *probability of occurrence*. Minor threats can be ignored; somewhat more serious threats must be carefully monitored; and major threats require the development of contingency plans that spell out changes the company can make if necessary.

Internal Environment Analysis

It is one thing to discern attractive opportunities and another to have the competencies to succeed in these opportunities. Thus, each business needs to periodically evaluate its internal strengths and weaknesses in marketing, financial, manufacturing, and organizational competencies. Clearly, the business does not have to correct all of its weaknesses, nor should it gloat about all of its strengths. The big question is whether the business should limit itself to those opportunities in which it possesses the required strengths or consider better opportunities to acquire or develop certain strengths.

Sometimes a business does poorly because its departments do not work together well as a team. It is therefore critically important to assess interdepartmental working relationships as part of the internal environmental audit. Honeywell, for example, asks each department to annually rate its own strengths and weaknesses and those of the other departments with which it interacts. The notion is that each department is a "supplier" to some departments and a "customer" of other departments. If one department has weaknesses that hurt its "internal customers," Honeywell wants to correct them.

Goal Formulation

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

To be effective, goals must (1) be arranged *hierarchically* to guide the businesses in moving from broad to specific objectives for departments and individuals; (2) be stated *quantitatively* whenever possible; (3) be *realistic;* and (4) be *consistent*. Other important trade-offs in setting goals include: balancing short-term profit versus long-term growth; balancing deep penetration of existing markets with development of new markets; balancing profit goals versus nonprofit goals; and balancing high growth versus low risk. Each choice in this set of goal trade-offs calls for a different marketing strategy.

Strategy Formulation

Goals indicate what a business unit wants to achieve; *strategy* describes the game plan for achieving those goals. Every business strategy consists of a marketing strategy plus a compatible technology strategy and sourcing strategy. Although many types of marketing strategies are available, Michael Porter has condensed them into three generic types that provide a good starting point for strategic thinking: overall cost leadership, differentiation, or focus.[12]

- *Overall cost leadership:* Here the business works to achieve the lowest production and distribution costs so that it can price lower than competitors and win more market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution; they need less skill in marketing. Texas Instruments uses this strategy. The problem is that rivals may emerge with still lower costs, hurting a firm that has rested its whole future on cost leadership.

- *Differentiation:* Here the business concentrates on achieving superior performance in an important customer benefit area, such as being the leader in service, quality, style, or technology—but not leading in all of these things. Intel, for instance, differentiates itself through leadership in technology, coming out with new microprocessors at breakneck speed.
- *Focus:* Here the business focuses on one or more narrow market segments, getting to know these segments intimately and pursuing either cost leadership or differentiation within the target segment. Airwalk shoes, for instance, came to fame by focusing on the very narrow extreme-sports segment.

Firms that do not pursue a clear strategy—"middle-of-the-roaders"—do the worst. International Harvester fell upon hard times because it did not stand out as lowest in cost, highest in perceived value, or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic dimensions, but because strategic dimensions require different and often inconsistent ways of organizing the firm, these firms end up being not particularly excellent at anything.

Strategy formulation in the age of the Internet is particularly challenging. The chemical company Solutia, a Monsanto spinoff, copes by creating four different, possible short-term scenarios for each strategy. This allows the firm to act quickly when it sees a scenario unfolding. Sun Microsystems holds a weekly meeting with the firm's top decision makers to brainstorm strategies for handling new threats. By revisiting strategic plans frequently, both companies are able to stay ahead of environmental changes.[13]

Program Formulation

Once the business unit has developed its principal strategies, it must work out detailed supporting programs. Thus, if the business has decided to attain technological leadership, it must plan programs to strengthen its R&D department, gather technological intelligence, develop leading-edge products, train the technical sales force, and develop ads to communicate its technological leadership.

After these marketing programs have been tentatively formulated, the marketing people must estimate their costs. Questions arise: Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost (ABC) accounting should be applied to each marketing program to determine whether it is likely to produce sufficient results to justify the cost.[14]

Implementation

A clear strategy and well-thought-out supporting programs may be useless if the firm fails to implement them carefully. Indeed, strategy is only one of seven elements, according to McKinsey & Company, that the best-managed companies exhibit.[15] In the McKinsey 7-S framework for business success, strategy, structure, and systems are considered the "hardware" of success, and style (how employees think and behave), skills (to carry out the strategy), staff (able people who are properly trained and assigned), and shared values (values that guide employees' actions) are the "software." When these software elements are present, companies are usually more successful at strategy implementation.[16] Implementation is vital to effective management of the marketing process, as discussed later in this chapter.

Feedback and Control

As it implements its strategy, the firm needs to track the results and monitor new developments in the internal and external environments. Some environments are fairly stable from year to year. Other environments evolve slowly in a fairly predictable way. Still other environments change rapidly in significant and unpredictable ways. Nonetheless, the company can count on one thing: The marketplace will change. And when it does, the company will need to review and revise its implementation, programs, strategies, or even objectives.

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

Once an organization fails to respond to a changed environment, it has difficulty recapturing its lost position. This happened to the once-unassailable Motorola when it was slow to respond to the new digital technology used by Nokia and others, and kept rolling out analog phones.[17] Similarly, Barnes & Noble did not immediately recognize the threat posed by Amazon.com's Internet-based book retailing model; then, as a latecomer to e-commerce, it had more of a struggle establishing itself. Clearly, the key to organizational health is the firm's willingness to examine the changing environment and to adopt appropriate new goals and behaviors. High-performance organizations continuously monitor the environment and use flexible strategic planning to maintain a viable fit with the evolving environment.

THE MARKETING PROCESS

Planning at the corporate, division, and business levels is an integral part of planning for the marketing process. To understand that process fully, we must first look at how a company defines its business.

The task of any business is to deliver value to the market at a profit. There are at least two views of the *value-delivery process*.[18] The traditional view is that the firm makes something and then sells it (Figure 1-8). In this view, marketing takes place in the second half of the value-delivery process. The traditional view assumes that the company knows what to make and that the market will buy enough units to produce profits for the company.

Companies that subscribe to this traditional view have the best chance of succeeding in economies marked by goods shortages in which consumers are not fussy about quality, features, or style. But the traditional view of the business process will not work in more competitive economies in which people face abundant choices. The "mass market" is actually splintering into numerous micromarkets, each with its own wants, perceptions, preferences, and buying criteria. The smart competitor therefore must design the offer for well-defined target markets.

The Value-Delivery Sequence

This belief is at the core of the new view of business processes, which places marketing at the beginning of the planning process. Instead of emphasizing making and selling, companies see themselves involved in a three-phase value creation and delivery sequence (Figure 1-8).

The first phase, choosing the value, represents the strategic "homework" that marketing must do before any product exists. The marketing staff must segment the market, select the appropriate market target, and develop the offer's value position-

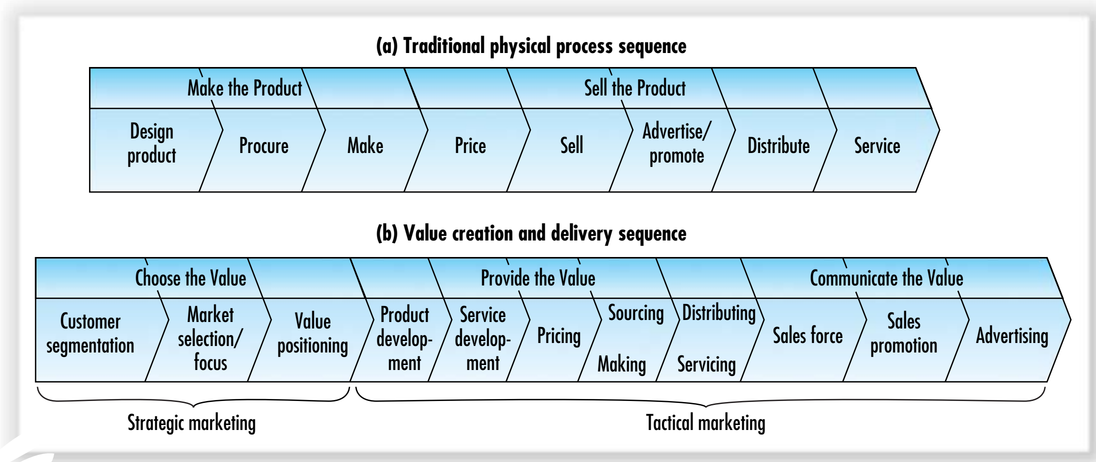


Figure 1-8 Two Views of the Value-Delivery Process

ing. In the second phase, providing the value, marketers detail the product's specifications and services, set a target price, then make and distribute the product. Developing specific product features, prices, and distribution occurs at this stage and is part of *tactical marketing*. The task in the third phase is communicating the value. Here, further tactical marketing occurs in utilizing the sales force, sales promotion, advertising, and other promotional tools to inform the market about the product. Thus, as Figure 1-8 shows, the marketing process actually begins before there is a product and continues while it is being developed and after it becomes available.

Steps in the Marketing Process

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

1. *Analyzing market opportunities.* The marketer's initial task is to identify potential long-run opportunities given the company's market experience and core competencies. To evaluate its various opportunities, assess buyer wants and needs, and gauge market size, the firm needs a marketing research and information system. Next, the firm studies consumer markets or business markets to find out about buying behavior, perceptions, wants, and needs. Smart firms also pay close attention to competitors and look for major segments within each market that they can profitably serve.
2. *Developing marketing strategies.* In this step, the marketer prepares a *positioning* strategy for each new and existing product's progress through the life cycle, makes decisions about product lines and branding, and designs and markets its services.
3. *Planning marketing programs.* To transform marketing strategy into marketing programs, marketing managers must make basic decisions on marketing expenditures, marketing mix, and marketing allocation. The first decision is about the level of marketing expenditures needed to achieve the firm's marketing objectives. The second

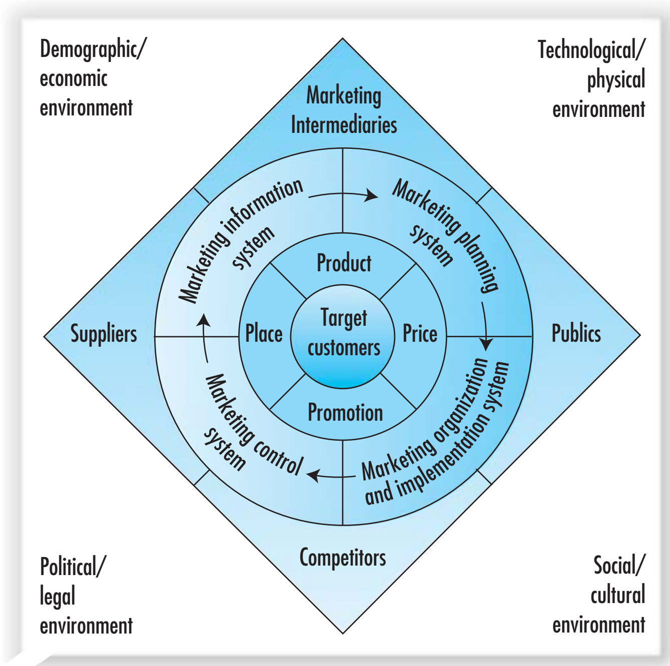


Figure 1-9 Factors Influencing Company Marketing Strategy

decision is how to divide the total marketing budget among the various tools in the marketing mix: *product, price, place,* and *promotion.*[19] And the third decision is how to allocate the marketing budget to the various products, channels, promotion media, and sales areas.

4. *Managing the marketing effort.* In this step (discussed later in this chapter), marketers organize the firm's marketing resources to implement and control the marketing plan. Because of surprises and disappointments as marketing plans are implemented, the company also needs feedback and control.

Figure 1-9 presents a grand summary of the marketing process and the factors that shape the company's marketing strategy.

The Nature and Contents of a Marketing Plan

The *marketing plan* created for each product line or brand is one of the most important outputs of planning for the marketing process. A typical marketing plan has eight sections:

- *Executive summary and table of contents:* This brief summary outlines the plan's main goals and recommendations; it is followed by a table of contents.
- *Current marketing situation:* This section presents relevant background data on sales, costs, profits, the market, competitors, distribution, and the macroenvironment, drawn from a fact book maintained by the product manager.
- *Opportunity and issue analysis:* This section identifies the major opportunities and threats, strengths and weaknesses, and issues facing the product line or brand.
- *Objectives:* This section spells out the financial and marketing objectives to be achieved.

- *Marketing strategy:* This section explains the broad marketing strategy that will be implemented to accomplish the plan's objectives.
- *Action programs:* This section outlines the broad marketing programs for achieving the business objectives. Each marketing strategy element must be elaborated to answer these questions: What will be done? When will it be done? Who will do it? How much will it cost?
- *Projected profit-and-loss statement:* Action plans allow the product manager to build a supporting budget with forecasted sales volume (units and average price), costs (production, physical distribution, and marketing), and projected profit. Once approved, the budget is the basis for developing plans and schedules for material procurement, production scheduling, employee recruitment, and marketing operations.
- *Controls:* This last section outlines the controls for monitoring the plan. Typically, the goals and budget are spelled out for each month or quarter so senior management can review the results each period. Sometimes contingency plans for handling specific adverse developments are included.

No two companies handle marketing planning and marketing plan content exactly the same way. Most marketing plans cover one year and vary in length; some firms take their plans very seriously, while others use them as only a rough guide to action. The most frequently cited shortcomings of marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus.

MANAGING THE MARKETING PROCESS

In addition to updating their marketing plans, companies often need to restructure business and marketing practices in response to major environmental changes such as globalization, deregulation, computer and telecommunications advances, and market fragmentation. Against this dynamic backdrop, the role of marketing in the organization must change as well. Now that the enterprise is fully networked, every functional area can interact directly with customers. This means that marketing no longer has sole ownership of customer interactions; rather, marketing needs to integrate all the customer-facing processes so that customers see a single face and hear a single voice when they interact with the firm. To accomplish this requires careful structuring of the marketing organization.

Organization of the Marketing Department

Modern marketing departments take numerous forms. The marketing department may be organized according to function, geographic area, products, or customer markets. Global organization is another consideration for firms that market goods or services in other countries.

Functional Organization

The most common form of marketing organization consists of functional specialists (such as the sales manager and marketing research manager) who report to a marketing vice president, who coordinates their activities. The main advantage of a functional marketing organization is its administrative simplicity. However, this form loses effectiveness as products and markets increase. First, a functional organization often leads to inadequate planning for specific products and markets because products that are not favored by anyone are neglected. Second, each functional group competes with the other functions for budget and status. Therefore, the marketing vice president constantly has to weigh the claims of competing functional specialists and faces a difficult coordination problem.

Geographic Organization

A company selling in a national market often organizes its sales force (and sometimes other functions, including marketing) along geographic lines. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, who in turn supervise eight district sales managers, who supervise 10 sales people. Several companies are now adding *area market specialists* (regional or local marketing managers) to support the sales efforts in high-volume, distinctive markets. For example, McDonald's now spends about 50 percent of its advertising budget regionally, and Anheuser-Bush has subdivided its regional markets into ethnic and demographic segments, with different ad campaigns for each.

Product- or Brand-Management Organization

Companies that produce a variety of products and brands often establish a product- (or brand-) management organization as another layer of management within the marketing function. A product manager supervises product category managers, who in turn supervise specific product and brand managers. A product-management organization makes sense if the firm's products are quite different, or if the sheer number of products is beyond the ability of a functional marketing organization to handle.

In both consumer and industrial markets, product and brand managers are responsible for product planning and strategy; preparing annual marketing plans and sales forecasts; working with advertising and merchandising agencies to create programs and campaigns; stimulating support among sales reps and distributors; ongoing research into product performance, customer and dealer attitudes, opportunities and threats; and initiating product improvements to meet changing market needs.

The product-management organization allows the product manager to concentrate on developing a cost-effective marketing mix for each product, to react more quickly to marketplace changes, and to watch over smaller brands. On the other hand, it can lead to conflict and frustration when product managers are not given enough authority to carry out their responsibilities effectively. In addition, product managers become experts in their product but rarely achieve functional expertise. And appointing product managers and associate product managers for even minor products can bloat payroll costs. Finally, brand managers normally move up in a few years to another brand or transfer to another company, leading to short-term thinking that plays havoc with long-term brand building.

To counter these disadvantages, some companies have switched from product managers to product teams. For example, Hallmark uses a triangular marketing team consisting of a market manager (the leader), a marketing manager, and a distribution manager; 3M uses a horizontal product team consisting of a team leader and representatives from sales, marketing, laboratory, engineering, accounting, and marketing research.

Another alternative is to introduce *category management,* in which a company focuses on product categories to manage its brands. Kraft has changed from a classic brand-management structure, in which each brand competed for resources and market share, to a category-based structure in which category business directors (or "product integrators") lead cross-functional teams of representatives from marketing, R&D, consumer promotion, and finance. These category teams work with process teams dedicated to each product category and with customer teams dedicated to each major customer.[20] Still, category management is essentially product-driven, which is why Colgate recently moved from brand management (Colgate toothpaste) to category management (toothpaste category) to a new stage called "customer-need management" (mouth care). This last step finally focuses the organization on a basic customer need.[21]

Market-Management Organization

Many companies sell their products to a diverse set of markets; Canon, for instance, sells fax machines to consumer, business, and government markets. When customers fall into different user groups with distinct buying preferences and practices, a market management organization is desirable. A *markets manager* supervises several *market managers* (also called *market-development managers, market specialists,* or *industry specialists*). The market managers draw upon functional services as needed or may even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties similar to those of product managers. This system has many of the same advantages and disadvantages of product management systems. Its strongest advantage is that the marketing activity is organized to meet the needs of distinct customer groups. This is why Xerox converted from geographic selling to selling by industry, as did IBM, which recently reorganized its employees into 14 customer-focused divisions. In fact, several studies have confirmed the value of market-centered organization: Slater and Narver found a substantial positive effect of market orientation on both commodity and noncommodity businesses.[22]

Product-Management/Market-Management Organization

Companies that produce many products that flow into many markets tend to adopt a *matrix organization.* Consider DuPont, a pioneer in developing the matrix structure. Its textile fibers department consists of separate product managers for rayon and other fibers plus separate market managers for menswear and other markets. The product managers plan the sales and profits for their respective fibers, each seeking to expand the use of his or her fiber; the market managers seek to meet their market's needs rather than push a particular fiber. Ultimately, the sales forecasts from the market managers and the product managers should add to the same grand total.

A matrix organization would seem desirable in a multiproduct, multimarket company. However, this system is costly and often creates conflicts as well as questions about authority and responsibility. By the early 1980s, a number of companies had abandoned matrix management. But matrix management has resurfaced and is again flourishing in the form of "business teams" staffed with full-time specialists reporting to one team boss. The major difference is that companies today provide the right context in which a matrix can thrive—an emphasis on flat, lean team organizations focused around business processes that cut horizontally across functions.[23]

Corporate-Divisional Organization

As multiproduct-multimarket companies grow, they often convert their larger product or market groups into separate divisions with their own departments and services. This raises the question of what marketing services and activities should be retained at corporate headquarters. Some corporations leave marketing to each division; some have a small corporate marketing staff; and some prefer to maintain a strong corporate marketing staff.

The potential contribution of a corporate marketing staff varies in different stages of the company's evolution. Most companies begin with weak marketing in their divisions and often establish a corporate staff to bring stronger marketing into the divisions through training and other services. Some members of corporate marketing might be transferred to head divisional marketing departments. As divisions become strong in their marketing, corporate marketing has less to offer them. Some companies then decide corporate marketing has done its job and proceed to eliminate the department.[24]

Global Organization

Companies that market internationally can organize in three ways. Those just going global may start by establishing an *export department* with a sales manager and a few assistants (and limited marketing services). As they go after global business more aggressively, they can create an *international division* with functional specialists (including marketing) and operating units structured geographically, according to product, or as international subsidiaries. Finally, companies that become truly *global organizations* have top corporate management and staff plan worldwide operations, marketing policies, financial flows, and logistical systems. In these organizations, the global operating units report directly to top management, not to the head of an international division.

Building a Companywide Marketing Orientation

Many companies are beginning to realize that their organizations are not really market- and customer-driven—they are product or sales driven. Companies such as Baxter, General Motors, and Shell are working hard to reorganize themselves into true market-driven companies. The task is not easy: it requires changes in job and department definitions, responsibilities, incentives, and relationships.

To create a market- and customer-focused company, the CEO must: convince senior managers of the need to be more customer-focused; appoint a senior marketing officer and marketing task force; get outside help and guidance; change reward measurement and system to encourage actions that build long-term customer satisfaction; hire strong marketing talent; develop strong in-house marketing training programs; install a modern marketing planning system; establish an annual marketing excellence recognition program; consider restructuring as a market-centered organization; and shift from a department focus to a process-outcome focus.

DuPont successfully made the transition from an inward-looking to an outward-looking orientation when it began building a "marketing community" by reorganizing divisions along market lines and holding marketing management training seminars for thousands of managers and employees. The company also established a marketing excellence recognition program and honored employees from around the world who had developed innovative marketing strategies and service improvements.[25] It takes a great deal of planning and patience to get managers to accept customers as the foundation and future of the business—but it can be done, as the DuPont example shows.

Marketing Implementation

Organization is one factor contributing to effective **marketing implementation,** the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives.[26] This part of the marketing process is critical, because a brilliant strategic marketing plan counts for little if it is not implemented properly. Whereas strategy addresses the *what* and *why* of marketing activities, implementation addresses the *who, where, when,* and *how.* Strategy and implementation are closely related in that one layer of strategy implies certain tactical implementation assignments at a lower level. For example, top management's strategic decision to "harvest" a product must be translated into specific actions and assignments.

Bonoma identified four sets of skills for implementing marketing programs: (1) diagnostic skills (the ability to determine what went wrong); (2) identification of company level (the ability to discern whether problems occurred in the marketing function, the marketing program, or the marketing policy); (3) implementation skills (the ability to budget resources, organize effectively, motivate others); and (4) evaluation skills (the ability to evaluate results).[27] These skills are as vital for nonprofits as they are for businesses, as the Alvin Ailey Dance Theater has discovered.

Like many nonprofit cultural organizations, the company founded by Alvin Ailey in 1958 always seemed to be operating in the red—despite its ability to attract full houses—because of the high costs of mounting a production. But Judith Jameson, the principal dancer who succeeded Ailey as director after his death, has been able to keep the company in the black, thanks largely to her skill at motivating others to carry out marketing efforts. The nonprofit implements its marketing plan through a high-powered board of directors and a group of businesses that want to associate with the Ailey company for their own marketing purposes. For example, Healthsouth Corporation provides free physical therapy to the dancers and benefits from the association when marketing its sports medicine clinics. With an audience that is almost half African American and 43 percent of which is between the ages of 19 and 39, Ailey provides access to an important market for its corporate partners, earning their enthusiastic support.[28]

Evaluating and Controlling the Marketing Process

To deal with the many surprises that occur during the implementation of marketing plans, the marketing department has to monitor and control marketing activities continuously. Table 1.1 lists four types of marketing control needed by companies: annual-plan control, profitability control, efficiency control, and strategic control.

Annual-Plan Control

The purpose of annual-plan control is to ensure that the company achieves the sales, profits, and other goals established in its annual plan. The heart of annual-plan control is the four-step *management by objectives* process in which management (1) sets monthly or quarterly goals; (2) monitors the company's marketplace performance; (3) determines the causes of serious performance deviations; and (4) takes corrective action to close the gaps between goals and performance.

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

- *Sales analysis. Sales analysis* consists of measuring and evaluating actual sales in relation to goals, using two specific tools. *Sales-variance analysis* measures the relative contribution of different factors to a gap in sales performance. *Microsales analysis* looks at specific products, territories, and other elements that failed to produce expected sales. The point of these analyses is to determine what factors (pricing, lower volume, specific territories, etc.) contributed to a failure to meet sales goals.
- *Market-share analysis.* Company sales do not reveal how well the company is performing relative to competitors. To do this, management needs to track its market share. Overall market share is the company's sales expressed as a percentage

Table 1.1 Types of Marketing Control

Type of Control	Prime Responsibility	Purpose of Control	Approaches
I. Annual-plan control	Top management Middle management	To examine whether the planned results are being achieved	▪ Sales analysis ▪ Market-share analysis ▪ Marketing expense-to-sales analysis ▪ Financial analysis ▪ Market-based scorecard analysis
II. Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: ▪ product ▪ territory ▪ customer ▪ segment ▪ trade channel ▪ order size
III. Efficiency control	Line and staff management Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: ▪ sales force ▪ advertising ▪ sales promotion ▪ distribution
IV. Strategic control	Top management Marketing auditor	To examine whether the company is pursuing its best opportunities in markets, products, and channels	▪ Marketiing-effectiveness review ▪ Marketing audit ▪ Marketing excellence review ▪ Company ethical and social responsibility review

of total market sales. Served market share is its sales expressed as a percentage of the total sales to its *served market*—all of the buyers who are able and willing to buy the product. Relative market share can be expressed as market share in relation to the largest competitor; a rise in relative market share means a company is gaining on its leading competitor. A useful way to analyze market-share movements is in terms of customer penetration, customer loyalty, customer selectivity, and price selectivity.

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

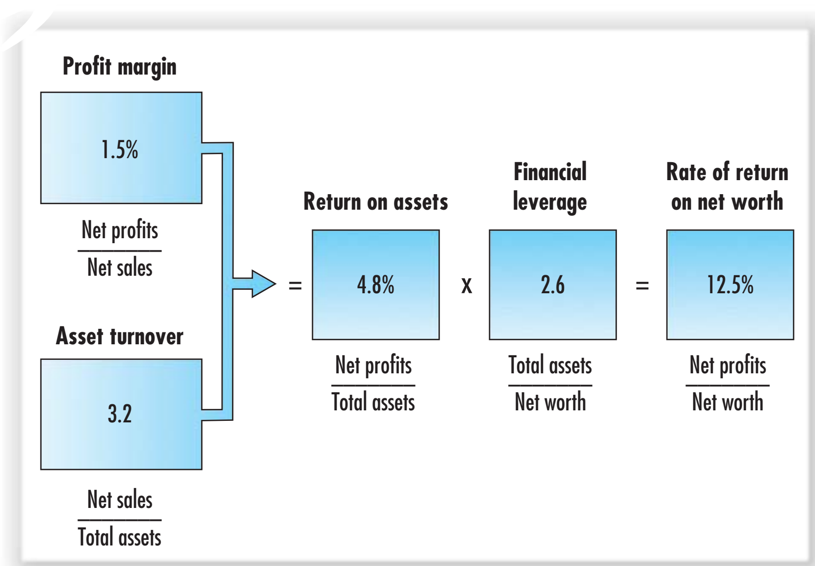
- *Financial analysis.* Management uses financial analysis to identify the factors that affect the company's *rate of return on net worth.*[29] The main factors are shown in Figure 1-10, along with illustrative numbers for a large chain-store retailer. To improve its return on net worth, the company must increase its ratio of net profits to its assets or increase the ratio of its assets to its net worth. The company should analyze the composition of its assets (i.e., cash, accounts receivable, inventory, and plant and equipment) and see if it can improve its asset management.[30]
- *Market-based scorecard analysis.* Companies should also prepare two market-based scorecards that reflect performance and provide possible early warning signals of problems. A *customer-performance scorecard* records how well the company is doing on such customer-based measures as new customers, dissatisfied customers, lost customers, target market awareness, target market preference, relative product quality, and relative service quality. A *stakeholder-performance scorecard* tracks the satisfaction of constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, banks, distributors, retailers, and stockholders.[31]

Profitability Control

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

In general, marketing-profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities. However, it does not prove that the best course of action is to drop the unprofitable marketing entities,

Figure 1-10 Financial Model of Return on Net Worth



nor does it capture the likely profit improvement if these marginal marketing entities are dropped. Therefore, the company must examine its alternatives closely before taking corrective action.

Efficiency Control

Suppose a profitability analysis reveals poor profits for certain products, territories, or markets. This is when management must ask whether there are more efficient ways to manage the sales force, advertising, sales promotion, and distribution in connection with these marketing entities. Some companies have established a *marketing controller* position to work on such issues and improve marketing efficiency.

Marketing controllers work out of the controller's office but specialize in the marketing side of the business. At companies such as General Foods, DuPont, and Johnson & Johnson, they perform a sophisticated financial analysis of marketing expenditures and results, analyzing adherence to profit plans, helping prepare brand managers' budgets, measuring the efficiency of promotions, analyzing media production costs, evaluating customer and geographic profitability, and educating marketing personnel on the financial implications of marketing decisions.[32]

Strategic Control

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

- *The marketing-effectiveness review.* Marketing effectiveness is reflected in the degree to which a company or division exhibits the five major attributes of a marketing orientation: *customer philosophy* (serving customers' needs and wants), *integrated marketing organization* (integrating marketing with other key departments), *adequate marketing information* (conducting timely, appropriate marketing research), *strategic orientation* (developing formal marketing plans and strategies), and *operational efficiency* (using marketing resources effectively and flexibly). Unfortunately, most companies and divisions score in the fair-to-good range on measures of marketing effectiveness.[33]
- *The marketing audit.* Companies that discover marketing weaknesses should undertake a **marketing audit,** a comprehensive, systematic, independent, and periodic examination of a company's (or SBU's) marketing environment, objectives, strategies, and activities to identify problem areas and opportunities and recommend a plan of action for improving the company's marketing performance.[34] The marketing audit examines six major marketing components: (1) the macroenvironment and task environment, (2) marketing strategy, (3) marketing organization, (4) marketing systems, (5) marketing productivity, and (6) marketing function (the 4 Ps).

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

- *The marketing excellence review.* This best-practices excellence review rates a firm's performance in relation to the best marketing and business practices of high-performing businesses. The resulting profile exposes weaknesses and strengths and highlights where the company might change to become a truly outstanding player in the marketplace.
- *The ethical and social responsibility review.* In addition, companies need to evaluate whether they are truly practicing ethical and socially responsible marketing. Business success and continually satisfying customers and other stakeholders are

intimately tied to adoption and implementation of high standards of business and marketing conduct. The most admired companies abide by a code of serving people's interests, not only their own. Thus, the ethical and social responsibility review allows management to determine how the firm is grappling with ethical issues and exhibiting a "social conscience" in its business dealings.

Effective control of the marketing process ultimately depends on accurate, timely, and complete information about markets, demand, and the marketing environment—the subject of the next chapter.

EXECUTIVE SUMMARY

Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit among the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products to yield the targeted profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product.

The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy entails defining the corporate mission; establishing strategic business units (SBUs), assigning resources to each SBU based on its market attractiveness and business strength, and planning new businesses and downsizing older businesses. Strategic planning for SBUs entails defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating programs, implementing the programs, and gathering feedback and exercising control.

The marketing process consists of four steps: analyzing market opportunities, developing marketing strategies, planning marketing programs, and managing marketing effort. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process. It should contain an executive summary and table of contents, an overview of the marketing situation, an analysis of opportunities and threats, a summary of financial and marketing objectives, an overview of marketing strategy, a description of action programs, a projected profit-and-loss statement, and a summary of the controls for monitoring the plan's progress.

In managing the marketing process, companies can organize the marketing department according to function, geographic area, products, or customer markets. Companies that market in other countries can create an export department, an international division, or a global organization. Marketing implementation is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives. To manage the marketing process, companies can apply four types of control: annual-plan control, profitability control, efficiency control, and strategic control.

NOTES

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2. See Peter Drucker, *Management: Tasks, Responsibilities and Practices* (New York: Harper & Row, 1973), ch. 7.
3. See "The Hollow Corporation," *Business Week,* March 3, 1986, pp. 57–59. Also see William H. Davidow and Michael S. Malone, *The Virtual Corporation* (New York: HarperBusiness, 1992).

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5. For more on Kodak's imaging strategy, see Irene M. Kunii, "Fuji: Beyond Film," *Business Week,* November 22, 1999, pp. 132–38.
6. Derek Abell, *Defining the Business: The Starting Point of Strategic Planning* (Upper Saddle River, NJ: Prentice-Hall, 1980), ch. 3.
7. Theodore Levitt, "Marketing Myopia," *Harvard Business Review,* July–August 1960, pp. 45–56.
8. See Roger A. Kerin, Vijay Mahajan, and P. Rajan Varadarajan, *Contemporary Perspectives on Strategic Planning* (Boston: Allyn & Bacon, 1990).
9. A hard decision must be made between harvesting and divesting a business. Harvesting a business will strip it of its long-run value, in which case it will be difficult to find a buyer. Divesting, on the other hand, is facilitated by maintaining a business in a fit condition in order to attract a buyer.
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12. See Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980), ch. 2.
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14. See Robin Cooper and Robert S. Kaplan, "Profit Priorities from Activity-Based Costing," *Harvard Business Review,* May–June 1991, pp. 130–35.
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