When You Finish This Chapter, You Should

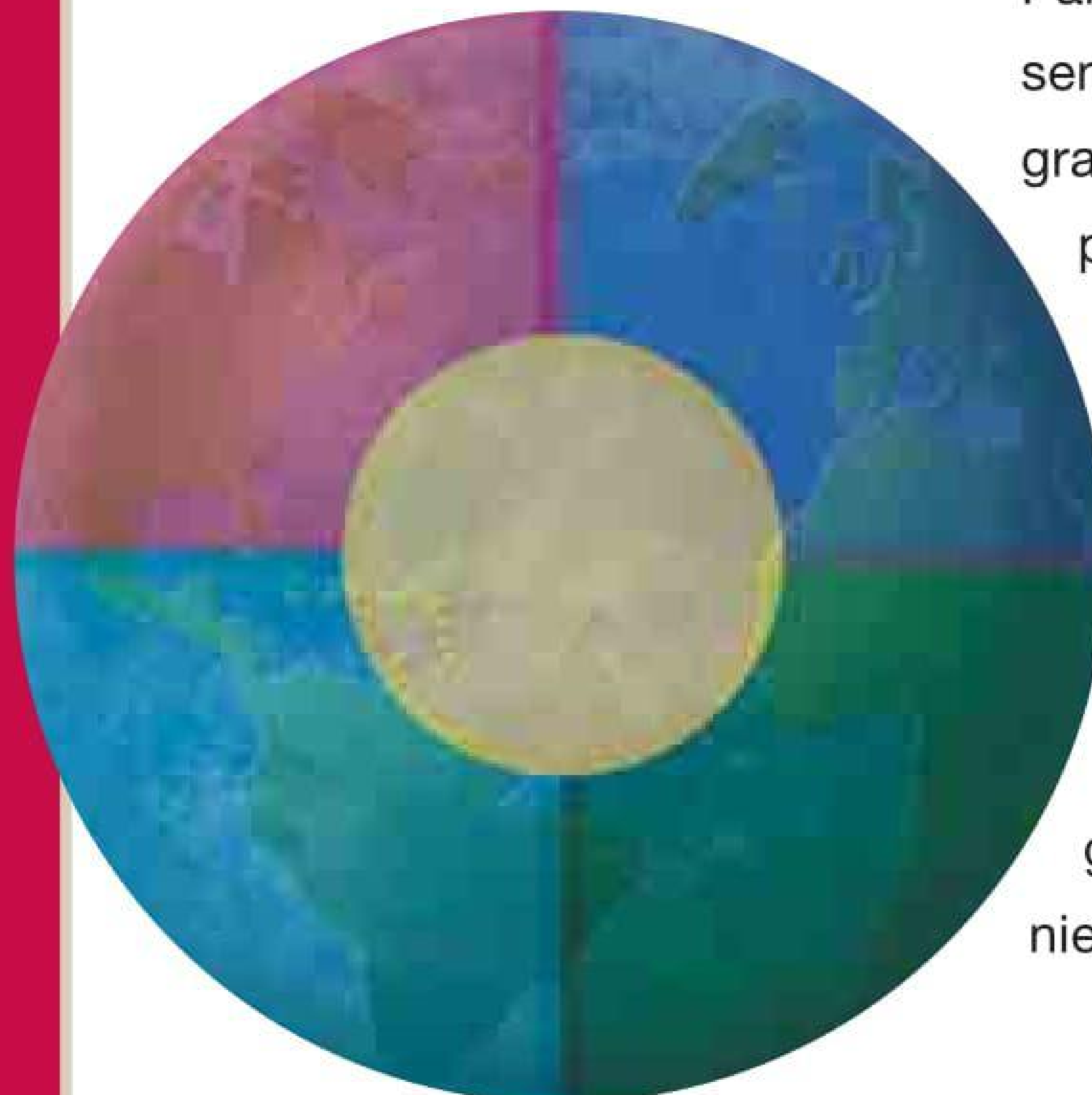
1. Understand why marketing strategy planning involves a process of narrowing down from broad opportunities to a specific target market and marketing mix.
2. Know about the different kinds of marketing opportunities.
3. Understand why opportunities in international markets should be considered.
4. Know about defining generic markets and product-markets.
5. Know what market segmentation is and how to segment product-markets into submarkets.
6. Know three approaches to market-oriented strategy planning.
7. Know dimensions that may be useful for segmenting markets.
8. Know what positioning is and why it is useful.
9. Understand the important new terms (shown in red).

Chapter Three

Focusing Marketing Strategy with Segmentation and Positioning

Polaroid desperately needed a profitable new opportunity. For several years the firm had been losing money. The objective of the new top executive was to make Polaroid profitable again—and soon. That was a needed first step for Polaroid to be able to compete longer term.

Polaroid got its start with a breakthrough invention. Its instant picture cameras and films were unique and met the needs of different groups of customers. Parents wanted to immediately send pictures of the new baby to grandparents. Realtors needed photos of just-listed homes for clients. Colleges had to make IDs quickly, and insurance adjusters had to document auto accidents. Over time, however, Polaroid faced competition for other types of goods and services. Convenient one-hour photo lab services



place price promotion produc

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popped up everywhere. Then digital cameras made the competition even rougher. A hundred firms now offer all types of digital cameras, and digital pictures can be shared by e-mail or a website—without costly film or printing. Increased competition wasn't the only problem. Economic turmoil in Asia eroded revenue from Polaroid's new target markets in China and India.

Polaroid's new-product development manager helped overcome these weaknesses when he spotted a new opportunity. He saw teens having fun at an instant photo booth in a Japanese airport and had an idea for an inexpensive new pocket-sized camera that would appeal to teens with its instant, stamp-size photos. Some Polaroid engineers objected that the quality of the photos would be poor and would hurt Polaroid's position as a technology leader. But marketers at Polaroid pressed on because the product would help attract a new generation of teen customers. Many teens viewed Polaroid cameras as clunky holdovers from the past. Besides, picture quality wasn't the benefit that determined their interest. They just wanted fun and convenience—more a toy for making quick pictures rather than a serious camera.

The benefits of Polaroid's pocket camera proved to be right on target with the teen segment. It very quickly became a best seller and new-product revenue was the highest it had been in a decade. Targeted promotion helped to attract buyers, half of whom were girls age 13 to 17. Ads for Polaroid's I-Zone Pocket camera and film were placed in magazines like *Seventeen,* at clickclick.com and other websites popular with teens, and on TV shows like *Buffy the Vampire Slayer*. While ad media were slanted toward teen girls, the ad messages were broader so that they would appeal to a combined male and female teen market. To increase the opportunities for I-Zone Pocket camera fun, Polaroid came out with a special

www.mhhe.com/fourps

t place price promotion product

"sticky" film. The sticker-pictures could be peeled off and attached to lockers, notebooks, clothing, and just about anything else. One funny ad featured a young man sticking instant pictures of his girlfriend to his bare chest. Reaching this younger target market also called for new distribution channels, including online toy and music stores and more emphasis on mass-merchandisers like Wal-Mart. Trade ads targeted at these retailers helped bring in the orders and make the film more widely available. Frequent film purchases really boosted profits.

Of course, Kodak didn't take this sitting down; soon it was targeting teens with its one-use Max cameras. Marketers at Polaroid know that its teen target market can be fickle and that the I-Zone could become yesterday's fad. So it is introducing other new products for teens to strengthen its fun positioning. One is a combination camera that takes both digital pictures and pocket pictures, and another is the Webster—a miniature scanner to turn I-Zone pictures into digital images. Teens can post pictures from either product at Polaroid's special new website (www.i-zone.com).

Polaroid's new strategies and teen target market have certainly boosted profits. But Polaroid's traditional customer segments—with a variety of other instant picture needs—still account for the bulk of its business. So if Polaroid is going to have a clear profit picture long term, it will need to find ways to offer these segments superior customer value as they shift toward digital images.[1]

What Are Attractive Opportunities?

Marketing strategy planning tries to match opportunities to the firm's resources (what it can do) and its objectives (what top management wants to do). Successful strategies get their start when a creative manager spots an attractive market opportunity. Yet, an opportunity that is attractive for one firm may not be attractive for another. As the Polaroid case suggests, attractive opportunities for a particular firm are those that the firm has some chance of doing something about—given its resources and objectives.

Breakthrough opportunities are best

Throughout this book, we will emphasize finding **breakthrough opportunities**—opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time. That's important because there are always imitators who want to "share" the innovator's profits—if they can. It's hard to continuously provide superior value to target customers if competitors can easily copy your marketing mix.

Competitive advantage is needed—at least

Even if a manager can't find a breakthrough opportunity, the firm should try to obtain a competitive advantage to increase its chances for profit or survival. **Competitive advantage** means that a firm has a marketing mix that the target market sees as better than a competitor's mix. A competitive advantage may result from

Attractive new opportunities are often fairly close to markets the firm already knows.

efforts in different areas of the firm—cost cutting in production, innovative R&D, more effective purchasing of needed components, or financing for a new distribution facility. Similarly, a strong sales force, a well-known brand name, or good dealers may give it a competitive advantage in pursuing an opportunity. Whatever the source, an advantage only succeeds if it allows the firm to provide superior value and satisfy customers better than some competitor.

Sometimes a firm can achieve breakthrough opportunities and competitive advantage by simply fine-tuning its current marketing mix(es) or developing closer relationships with its customers. Other times it may need new facilities, new people in new parts of the world, and totally new ways of solving problems. But every firm needs some competitive advantage—so the promotion people have something unique to sell and success doesn't just hinge on offering lower and lower prices.[2]

Avoid hit-or-miss marketing with a logical process

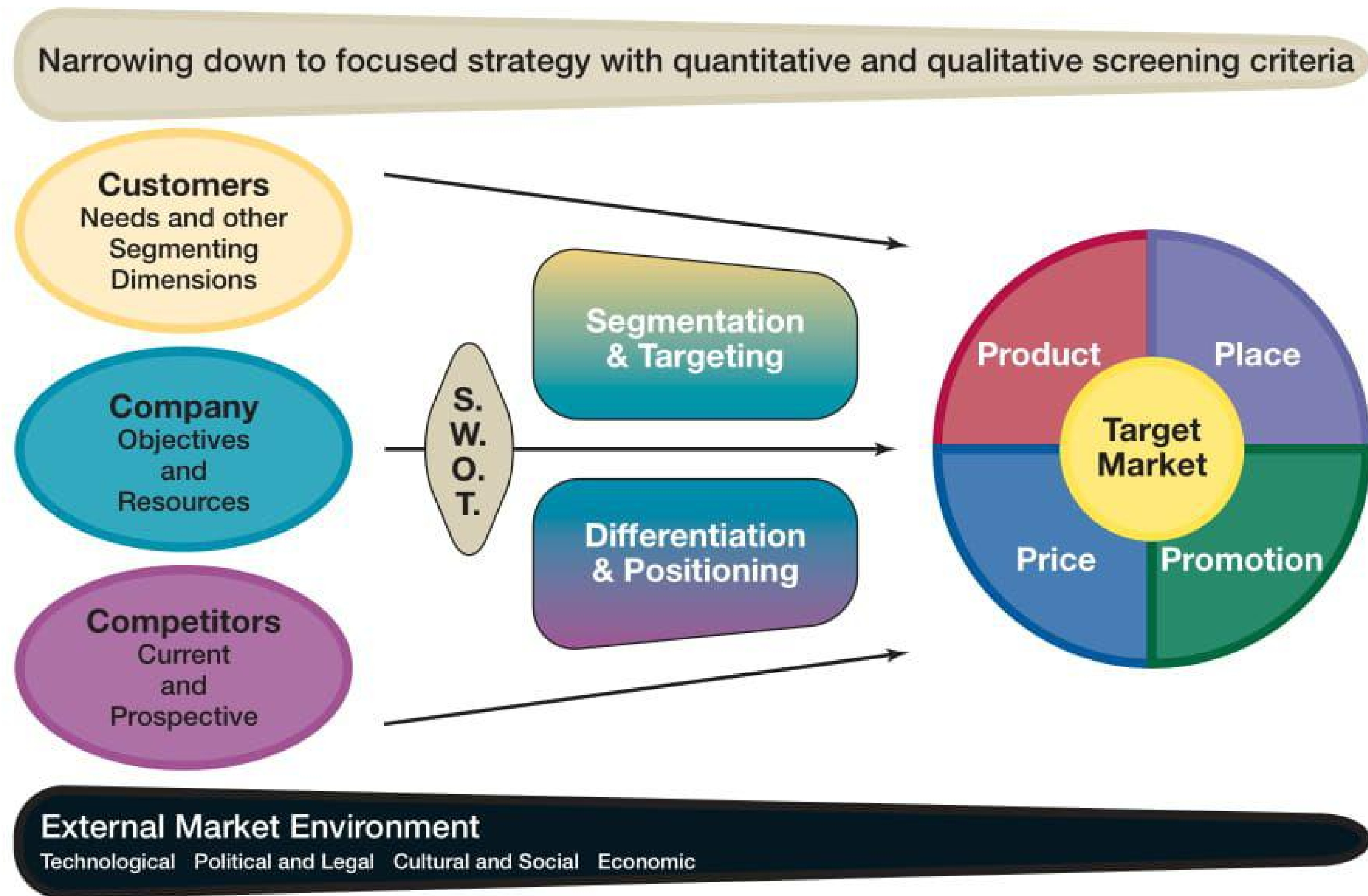
You can see why a manager *should* seek attractive opportunities. But that doesn't mean that everyone does—or that everyone can turn an opportunity into a successful strategy. As we discussed in Chapter 2 (Exhibit 2-13), too many firms settle for the sort of death-wish marketing that doesn't satisfy customers or make a profit—to say nothing about achieving a breakthrough or providing superior value. It's all too easy for a well-intentioned manager to react in a piecemeal way to what appears to be an opportunity. Then, by the time the problems are obvious, it's too late.

Developing a successful marketing strategy doesn't need to be a hit-or-miss proposition. And it won't be if you learn the marketing strategy planning process developed in this text. Exhibit 3-1 summarizes the decision areas for the marketing strategy planning process we'll be developing throughout the rest of the chapters.

Marketing Strategy Planning Process Highlights Opportunities

From Chapter 2, you know that a marketing strategy requires decisions about the specific customers the firm will target and the marketing mix the firm will develop to appeal to that target market. We can organize the many marketing mix decisions (review Exhibit 2-9) in terms of the four Ps—Product, Place, Promotion, and Price.

Exhibit 3-1
Overview of Marketing Strategy Planning Process



Thus, the "final" strategy decisions are represented by the target market surrounded by the four Ps. However, the idea isn't just to come up with *some* strategy. After all, there are hundreds or even thousands of combinations of marketing mix decisions and target markets (i.e., strategies) that a firm might try. Rather, the challenge is to zero in on the best strategy.

Process narrows down from broad opportunities to specific strategy

As Exhibit 3-1 suggests, it is useful to think of the marketing strategy planning process as a narrowing-down process. Later in this chapter and Chapter 4 we will go into more detail about strategy decisions relevant to each of the terms in this figure. Then, throughout the rest of the book, we will present a variety of concepts and "how to" frameworks that will help you improve the way you make these strategy decisions. As a preview of what's coming, let's briefly overview the general logic of the process depicted in Exhibit 3-1.

The process starts with a broad look at a market—paying special attention to customer needs, the firm's objectives and resources, and competitors. This helps to identify new and unique opportunities that might be overlooked if the focus is narrowed too quickly.

Segmentation helps pinpoint the target

A key objective of marketing is to satisfy the needs of some group of customers that the firm serves. Broadly speaking, then, in the early stages of a search for opportunities we're looking for customers with needs that are not being satisfied as well as they might be. Of course, potential customers are not all alike. They don't all have the same needs—nor do they always want to meet needs in the same way. Part of the reason is that there are different possible types of customers with many different characteristics. For example, individual consumers often have different needs than organizations, and people with certain attitudes or interests have different preferences for how they spend their time, what shows they watch, and the like. In spite of the many possible differences, there often are subgroups (segments) of consumers who are similar and could be satisfied with the same marketing mix. Thus, we try to identify and understand these different subgroups—with market segmentation. We will explain general approaches for segmenting markets later in this chapter. Then, in Chapters 5 to 7, we delve into the many interesting aspects of customer behavior. For now, however, you should know that really understanding

This Norwegian ad for the Audi Quattro simply says, "Sticks like quattro." Although it doesn't show the car at all, it helps to differentiate the Audi and its four-wheel drive system that holds the road especially well, even in the snow.

customers is at the heart of using market segmentation to narrow down to a specific target market. In other words, segmentation helps a manager decide to serve some segment(s)—subgroups of customers—and not others.

Narrow down to a superior marketing mix

A marketing mix must meet the needs of target customers, but a firm isn't likely to get a competitive advantage if it *just* meets needs in the same way as some other firm. So, in evaluating possible strategies the marketing manager should think about whether there is a way to differentiate the marketing mix. **Differentiation** means that the marketing mix is distinct from and better than what is available from a competitor. As suggested above, differentiation often requires that the firm fine-tune all of the elements of its marketing mix to the specific needs of a distinctive target market. Sometimes the difference is based mainly on one important element of the marketing mix—say, an improved product or faster delivery. Differentiation is more obvious to target customers, though, when there is a consistent theme integrated across the four Ps decision areas. That emphasizes the difference so target customers will think of the firm as being in a unique position to meet their needs. For example, in Norway, many auto buyers are particularly concerned about safety in the snow. So, Audi offers a permanent four-wheel drive system, called quattro, that helps the car to hold the road. Audi ads emphasize this differentiation. Rather than show the car, however, the ads feature things that are very sticky (like bubblegum!) and the only text is the headline "sticks like quattro" and the Audi brand name. Of course, handling is not Audi's only strength, but it is an important one in helping to position Audi as better than competing brands with this target market. In contrast, consider General Motors' decision to discontinue the 100-year-old Oldsmobile line. In spite of repeated efforts, marketers for Oldsmobile were no longer able to develop a differentiated position in the crowded U.S. auto market. And when target customers don't see an advantage with a firm's marketing mix, they just move on.[3]

In this chapter, we'll introduce concepts relevant to this sort of positioning. Then, in Chapters 9 to 18 we'll cover the many ways in which the four Ps of the marketing mix can be differentiated. For now, you can see that the thrust is to narrow down from all possible marketing mixes to one that is differentiated to meet target customers' needs particularly well. Of course, finding the best differentiation requires that we understand competitors as well as customers.

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Screening criteria make it clear why you select a strategy

There are usually more different opportunities—and strategy possibilities—than a firm can pursue. Each one has its own advantages and disadvantages. Trends in the external market environment may make a potential opportunity more or less attractive. These complications can make it difficult to zero in on the best target market and marketing mix. However, developing a set of specific qualitative and quantitative screening criteria can help a manager define what business and markets the firm wants to compete in. It can also help eliminate potential strategies that are not well suited for the firm. We will cover screening criteria in more detail in Chapter 4. For now, you should realize that the criteria you select in a specific situation grow out of an analysis of the company's objectives and resources.

S.W.O.T. analysis highlights advantages and disadvantages

A useful aid for identifying relevant screening criteria and for zeroing in on a feasible strategy is **S.W.O.T. analysis**—which identifies and lists the firm's strengths and weaknesses and its opportunities and threats. The name S.W.O.T. is simply an abbreviation for the first letters of the words *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. A good S.W.O.T. analysis helps the manager focus on a strategy that takes advantage of the firm's opportunities and strengths while avoiding its weaknesses and threats to its success. These can be compared with the pros and cons of different strategies that are considered.

The marketing strategy developed by Amilya Antonetti illustrates the basic ideas behind a S.W.O.T. analysis. Her son was allergic to the chemicals in standard detergents—and her research showed that many other children had the same problem. So she started SoapWorks and developed a line of hypoallergenic cleaning products to pursue this opportunity. Unlike the big firms, she didn't have relations with grocery chains or money for national TV ads. To get around these weaknesses, she used inexpensive radio ads in local markets and touted SoapWorks as a company created for moms by a mom who cared about kids. She had a credible claim that the big corporations couldn't make. Her ads also helped her get shelf space because they urged other mothers to ask for SoapWorks products and to tell friends about stores that carried them. This wasn't the fastest possible way to introduce a new product line, but her cash-strapped strategy played to her unique strengths with her specific target market.[4]

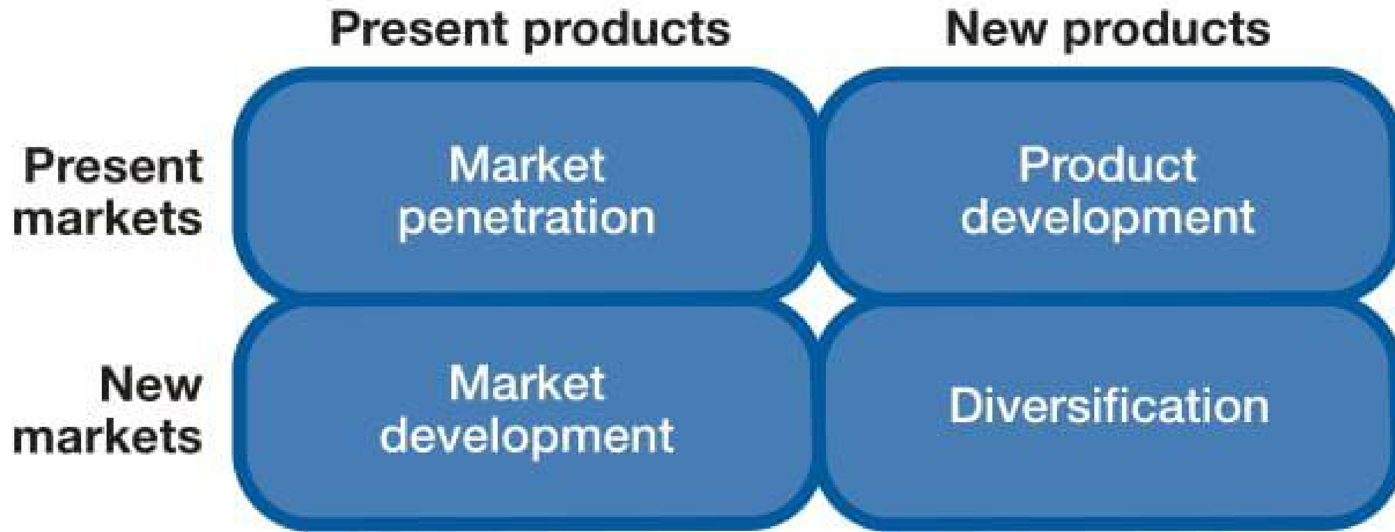
Exhibit 3-1 focuses on planning each strategy carefully. Of course, this same approach works well when several strategies are to be planned. Then, having an organized evaluation process is even more important. It forces everyone involved to think through how the various strategies fit together as part of an overall marketing program.

The discussion above makes it clear that finding attractive target markets is a crucial aspect of the marketing strategy planning process. But how do you identify a target market and decide if it offers good opportunities? In the rest of this chapter, we will begin to answer these questions. Opportunities that involve international markets present some special challenges, so we'll give them some special attention.[5]

Types of Opportunities to Pursue

Some alert marketers seem to be able to spot attractive opportunities everywhere they look. This seems reasonable when you recognize that most people have unsatisfied needs. Unfortunately, many opportunities seem "obvious" only after someone else identifies them. So, early in the marketing strategy planning process it's useful for marketers to have a framework for thinking about the broad kinds of opportunities they may find. Exhibit 3-2 shows four broad possibilities: market penetration, market development, product development, and diversification. We will look at

Exhibit 3-2
Four Basic Types of Opportunities



these separately, but some firms pursue more than one type of opportunity at the same time.

Market penetration

Market penetration means trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix. The firm may try to strengthen its relationship with customers to increase their rate of use or repeat purchases, or try to attract competitors' customers or current nonusers. Coleman got a 50 percent increase in sales of its outdoor equipment, like camping lanterns and stoves, by reaching its target market with special promotional displays at outdoor events like concerts, fishing tournaments, and Nascar races. For example, about 250,000 auto racing fans camp on-site at Nascar races each year—so a display at the campground is an effective way to reach customers when they have leisure time to browse through product displays and demos.[6]

New promotion appeals alone may not be effective. A firm may need to add a home page on the Internet to make it easier and faster for customers to place an order. Or, it may need to add more stores in present areas for greater convenience. Short-term price cuts or coupon offers may help.

Market development

Market development means trying to increase sales by selling present products in new markets. This may involve searching for new uses for a product. E-Z-Go, a producer of golf carts, has done this. Its carts are now a quiet way for workers to get around malls, airports, and big factories. The large units are popular as utility vehicles on farms, at outdoor sports events, and at resorts. E-Z-Go even fits carts with ice compartments and cash drawers so they can be used for mobile food services.

Firms may also try advertising in different media to reach new target customers. Or they may add channels of distribution or new stores in new areas, including overseas. For example, to reach new customers, McDonald's has opened outlets in airports, zoos, casinos, and military bases. And it's rapidly expanded into international markets with outlets in places like Russia, Brazil, and China.[7]

Product development

Product development means offering new or improved products for present markets. By knowing the present market's needs, a firm may see new ways to satisfy customers. For example, kids are the big consumers of ketchup. So Heinz figured out how ketchup could be more fun. Producing ketchup in gross green and funky purple colors—in an EZ Squirt dispenser molded to fit little hands—increased sales so much that the factory had to run 24/7. Ski resorts have developed trails for hiking and biking to bring their winter ski customers back in the summer. Nike moved beyond shoes and sportswear to offer its athletic target market a running watch, digital audio player, and even a portable heart-rate monitor. And of course Intel boosts sales by developing newer and faster chips.[8]

Diversification

Diversification means moving into totally different lines of business—perhaps entirely unfamiliar products, markets, or even levels in the production-marketing system. McDonald's, for example, is opening two four-star hotels in Switzerland. The plan is to serve families on the weekend, but the target market during the week is business travelers. This means that McDonald's will need to satisfy a very different group of customers from the ones it already knows. A luxury hotel is also very different from a fast-food restaurant. Products and customers that are very different from a firm's current base may look attractive to the optimists—but these opportunities are usually hard to evaluate. That's why diversification usually involves the biggest risk.[9]

Internet

Internet Exercise Go to the website for McDonald's hotel and review the information given (www.goldenarchhotel.com). Based on what you see, do you think that the hotels will appeal to the weekend target market of traveling families? Do you think they will appeal to business travelers during the week?

Which opportunities come first?

Usually firms find attractive opportunities fairly close to markets they already know. This may allow them to capitalize on changes in their present markets—or more basic changes in the external environment. Moreover, many firms are finding that the easiest way to increase profits is to do a better job of hanging onto the customers that they've already won—by meeting their needs so well that they wouldn't consider switching to another firm.

For these reasons, most firms think first of greater market penetration. They want to increase profits where they already have experience and strengths. On the other hand, many firms are proving that market development—and the move into new international markets—is another profitable way to take advantage of current strengths.

International Opportunities Should Be Considered

It's easy for a marketing manager to fall into the trap of ignoring international markets, especially when the firm's domestic market is prosperous. Yet, there are good reasons to go to the trouble of looking elsewhere for opportunities.

The world is getting smaller

International trade is increasing all around the world, and trade barriers are coming down. In addition, advances in e-commerce, transportation, and communications are making it easier and cheaper to reach international customers. With an Internet website and a fax machine, even the smallest firm can provide international customers with a great deal of information—and easy ways to order—at very little expense. E-mail communications and interactive electronic ordering are fast and efficient whether the customer is a mile away or in another country. Around the world, potential customers have needs and money to spend. The real question is whether a firm can effectively use its resources to meet these customers' needs at a profit.

Develop a competitive advantage at home and abroad

If customers in other countries are interested in the products a firm offers—or could offer—serving them may improve economies of scale. Lower costs (and prices) may give a firm a competitive advantage both in its home markets *and* abroad. Black and Decker, for example, uses electric motors in many of its tools and appliances. By selling overseas as well as in the U.S., it gets economies of scale and the cost per motor is very low.

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Lipton is pursuing new customers and growth in over 100 countries. For example, its multilingual website in Belgium explains how to make exotic cocktails from Ice Tea, and in Asia it encourages consumer trial with free samples.

Marketing managers who are only interested in the "convenient" customers in their own backyards may be rudely surprised to find that an aggressive, low-cost foreign producer is willing to pursue those customers—even if doing it is not convenient. Many companies that thought they could avoid the struggles of international competition have learned this lesson the hard way. The owner of Purafil, a small firm in Atlanta that makes air purification equipment, puts it this way: "If I'm not [selling to an oil refinery] in Saudi Arabia, somebody else is going to solve their problem, then come attack me on my home turf."[10]

Get an early start in a new market

Different countries are at different stages of economic and technological development, and their consumers have different needs at different times.

A company facing tough competition, thin profit margins, and slow sales growth at home may get a fresh start in another country where demand for its product is just beginning to grow. A marketing manager may be able to transfer marketing know-how—or some other competitive advantage—the firm has already developed. Consider JLG, a Pennsylvania-based producer of equipment used to lift workers and tools at construction sites. In the early 1990s competition was tough and JLG's sales were dropping so fast that profits all but evaporated. By cutting costs, the company improved its domestic sales. But it got an even bigger boost from expanding overseas. By 2000 its international sales were greater than its total sales five years before. Much of that was due to market growth in Europe, where sales increased by 47 percent in a single year. Now that JLG has stronger distribution, international sales should soon account for half of its business.[11]

Find better trends in variables

Unfavorable trends in the marketing environment at home—or favorable trends in other countries—may make international marketing particularly attractive. For example, population growth in the United States has slowed and income is leveling off. In other places in the world, population and income are increasing rapidly. Many U.S. firms can no longer rely on the constant market growth that once drove increased domestic sales. Growth—and perhaps even survival—will come only by aiming at more distant customers. It doesn't make sense to casually assume that all of the best opportunities exist "at home."[12]

Search for Opportunities Can Begin by Understanding Markets

Find breakthrough opportunities

A marketing manager who really understands a target market may see breakthrough opportunities. But a target market's real needs—and the breakthrough opportunities that can come from serving those needs—are not always obvious.

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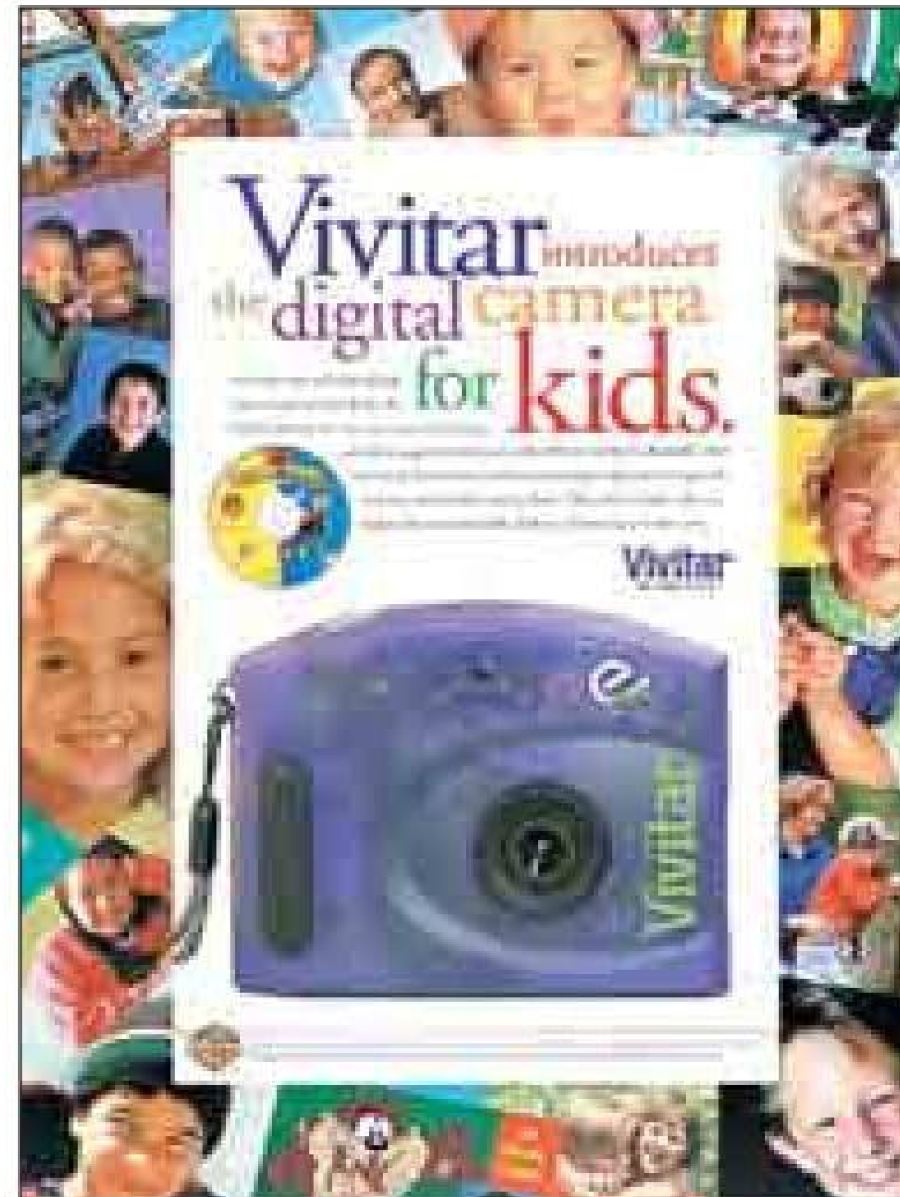


The Olympus pocket camera competes directly with other 35-mm cameras, but it may also compete in a broader product-market against Vivitar's digital camera for kids or even Sony's innovative Mavica, which stores digital pictures on a 3-inch CD-R.

What is a company's market?

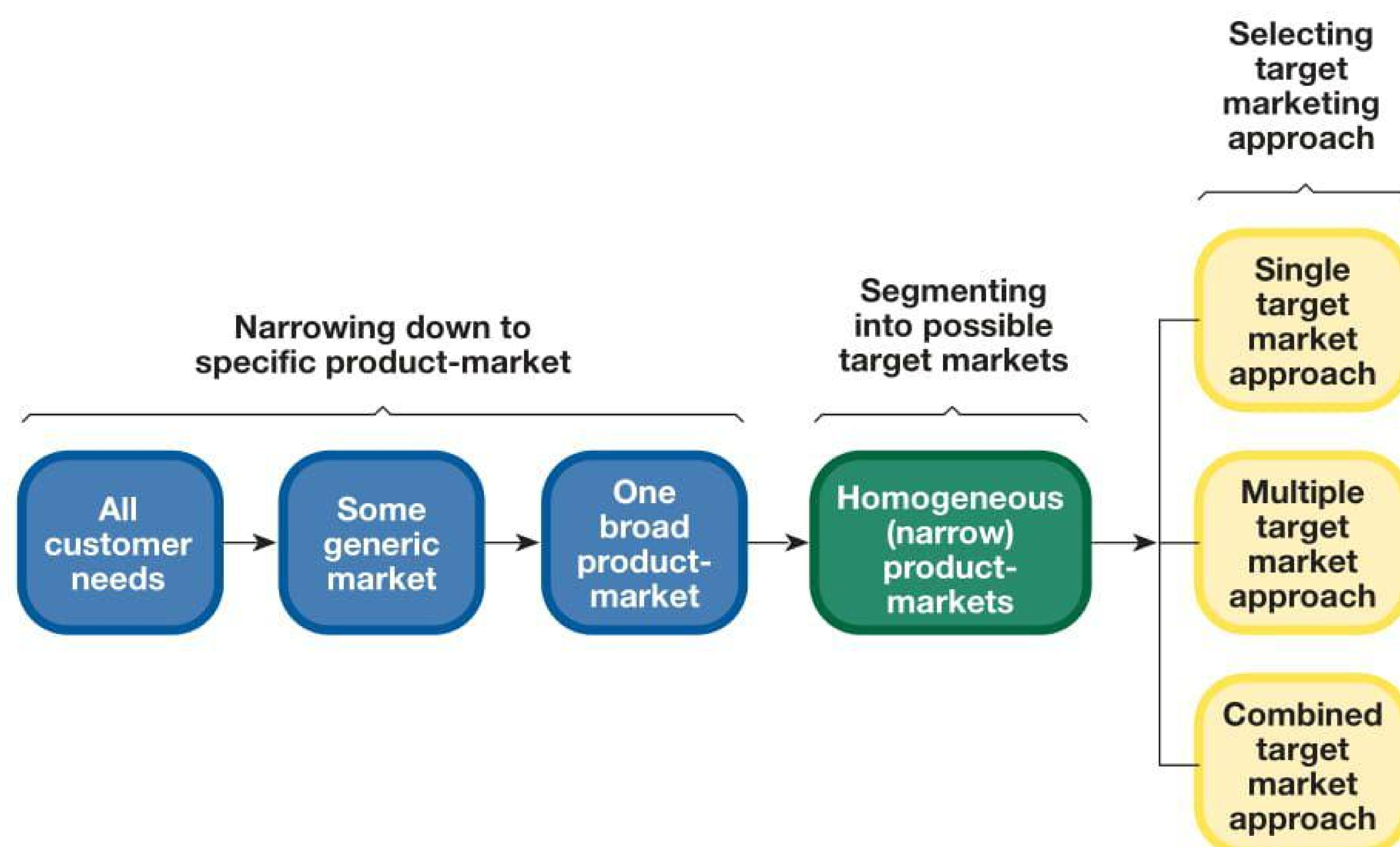
Identifying a company's market is an important but sticky issue. In general, a **market** is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

Marketing-oriented managers develop marketing mixes for *specific* target markets. Getting the firm to focus on specific target markets is vital. As shown in Exhibit 3-3, deciding on a specific target market involves a narrowing-down process—to get beyond production-oriented mass market thinking. But some managers don't understand this narrowing-down process.

Don't just focus on the product

Some production-oriented managers get into trouble because they ignore the tough part of defining markets. To make the narrowing-down process easier, they just describe their markets in terms of *products* they sell. For example, producers and retailers of

Exhibit 3-3
Narrowing Down to Target Markets



greeting cards might define their market as the "greeting-card" market. But this production-oriented approach ignores customers—and customers make a market! This also leads to missed opportunities. Hallmark isn't missing these opportunities. Instead, Hallmark aims at the "personal-expression" market. Hallmark stores offer all kinds of products that can be sent as "memory makers"—to express one person's feelings toward another. And as opportunities related to these needs change, Hallmark changes too. For example, at the Hallmark website (www.hallmark.com) it is easy to get shopping suggestions from an online "gift assistant," to order flowers, or to personalize an electronic greeting card to send over the Internet.[13]

From generic markets to product-markets

To understand the narrowing down process, it's useful to think of two basic types of markets. A **generic market** is a market with *broadly* similar needs—and sellers offering various—*often diverse*—ways of satisfying those needs. In contrast, a **product-market** is a market with *very* similar needs and sellers offering various *close substitute* ways of satisfying those needs.[14]

A generic market description looks at markets broadly and from a customer's viewpoint. Entertainment-seekers, for example, have several very different ways to satisfy their needs. An entertainment-seeker might buy a Sony satellite receiving system for a TV, sign up for a cruise on the Carnival Line, or reserve season tickets for the symphony. Any one of these *very different* products may satisfy this entertainment need. Sellers in this generic entertainment-seeker market have to focus on the need(s) the customers want satisfied—not on how one seller's product (satellite dish, vacation, or live music) is better than that of another producer.

It is sometimes hard to understand and define generic markets because *quite different product types may compete with each other*. For example, a person on a business trip to Italy might want a convenient way to record memories of the trip. Minolta's APS camera, Sony's digital camcorder, Kodak's PalmPix digital accessory for a Palm, and even postcards from local shops may all compete to serve our traveler's needs. If customers see all these products as substitutes—as competitors in the same generic market—then marketers must deal with this complication.

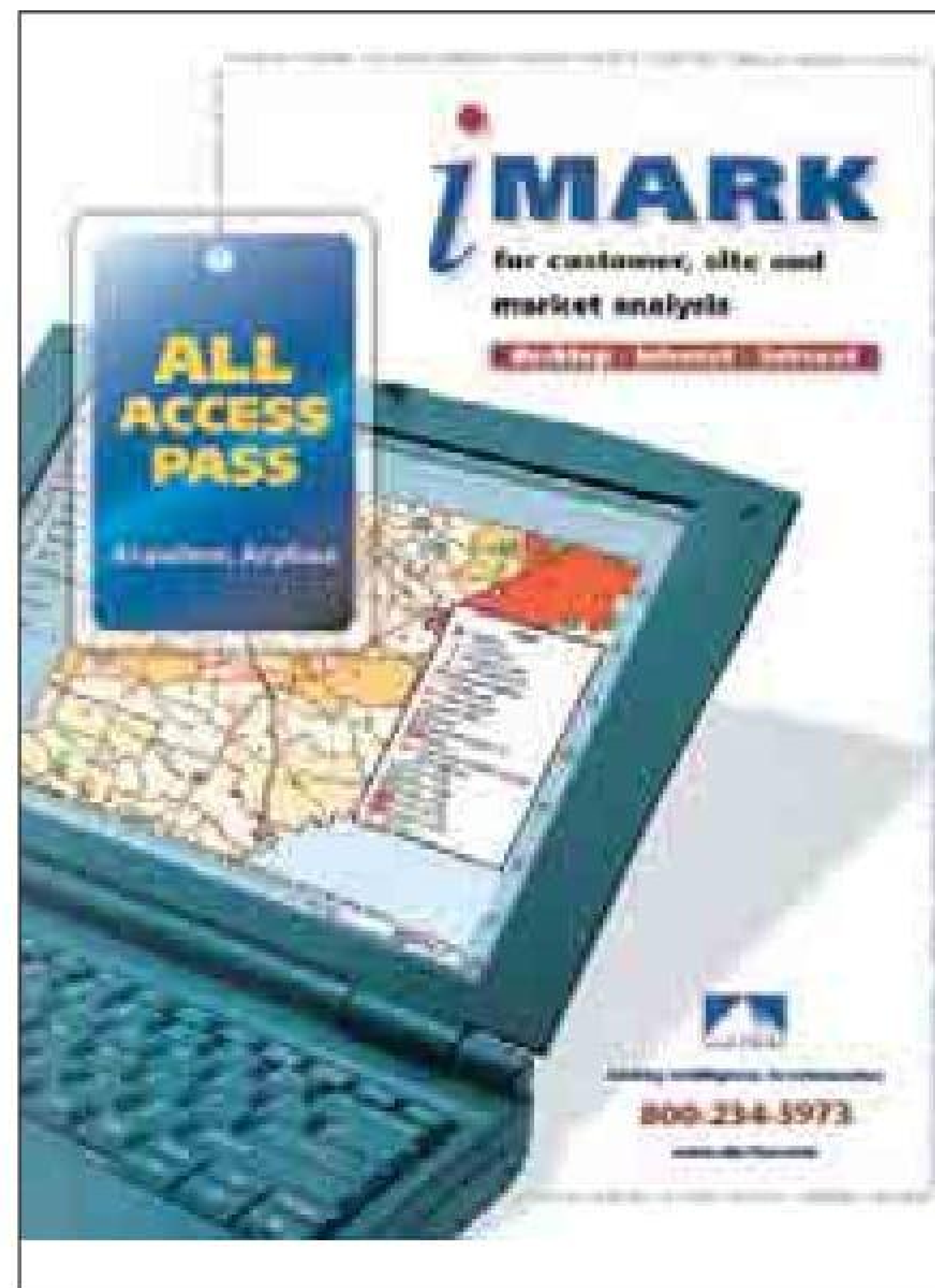
Suppose, however, that our traveler decides to satisfy this need with an APS camera. Then—in this product-market—Minolta, Kodak, Nikon, and many other brands may compete with each other for the customer's dollars. In this *product*-market concerned with APS format cameras *and* needs to conveniently record memories, consumers compare similar products to satisfy their image needs.

Broaden market definitions to find opportunities

Broader market definitions—including both generic market definitions and product-market definitions—can help firms find opportunities. But deciding *how* broad to go isn't easy. Too narrow a definition limits a firm's opportunities—but too broad a definition makes the company's efforts and resources seem insignificant. Consider, for example, the mighty Coca-Cola Company. It has great success and a huge market share in the U.S. cola-drinkers' market. On the other hand, its share of all beverage drinking worldwide is very small.

Here we try to match opportunities to a firm's resources and objectives. So the *relevant market for finding opportunities* should be bigger than the firm's present product-market—but not so big that the firm couldn't expand and be an important competitor. A small manufacturer of screwdrivers in Mexico, for example, shouldn't define its market as broadly as "the worldwide tool users market" or as narrowly as "our present screwdriver customers." But it may have the production and/or marketing potential to consider "the handyman's hand-tool market in North America." Carefully naming your product-market can help you see possible opportunities.

Understanding the geographic boundaries of a market can suggest new opportunities.



Naming Product-Markets and Generic Markets

Some managers think about markets just in terms of the product they already produce and sell. But this approach can lead to missed opportunities. For example, think about all of the minivans and SUVs that you see and how many cars they've replaced on the road. If Chrysler had been thinking only about the "car" market, the minivan opportunity might have been missed altogether. And as we've already highlighted with other examples in this chapter, instant film is being replaced with digital pictures, satellite TV is replacing cable, MP3 players are replacing portable CD players, and cell phones are replacing phone booths.

As this suggests, when evaluating opportunities, product-related terms do not—by themselves—adequately describe a market. A complete product-market definition includes a four-part description.

What:	**1. Product type (type of good and type of service)**
To meet what:	**2. Customer (user) needs**
For whom:	**3. Customer types**
Where:	**4. Geographic area**

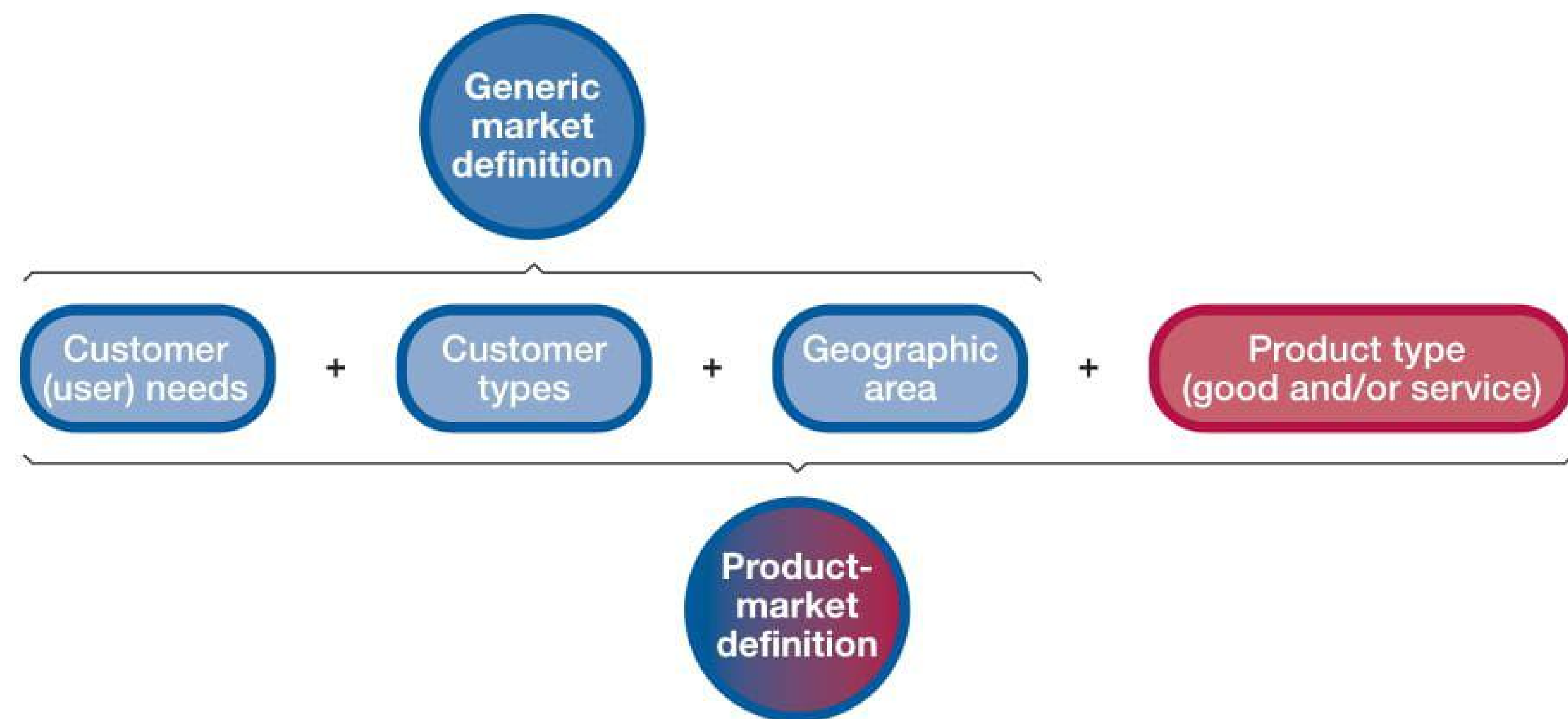
We refer to these four-part descriptions as product-market "names" because most managers label their markets when they think, write, or talk about them. Such a four-part definition can be clumsy, however, so we often use a nickname. And the nickname should refer to people—not products—because, as we emphasize, people make markets!

Product type should meet customer needs

Product type describes the goods and/or services that customers want. Sometimes the product type is strictly a physical good or strictly a service. But marketing managers who ignore the possibility that *both* are important can miss opportunities.

Customer (user) needs refer to the needs the product type satisfies for the customer. At a very basic level, product types usually provide functional benefits such as nourishing, protecting, warming, cooling, transporting, cleaning, holding,

Exhibit 3-4
Relationship between Generic and Product-Market Definitions



saving time, and so forth. Although we need to identify such "basic" needs first, in advanced economies, we usually go on to emotional needs—such as needs for fun, excitement, pleasing appearance, or status. Correctly defining the need(s) relevant to a market is crucial and requires a good understanding of customers. We discuss these topics more fully in Chapters 6 and 7. As a brief example, however, a buyer might want a small van to handle various cargo- and people-moving needs. The marketer would need to consider related needs such as economy in use, flexibility and convenience in changing the seat arrangement, and comfort for the driver and passengers.

Customer type refers to the final consumer or user of a product type. Here we want to choose a name that describes all present (possible) types of customers. To define customer type, marketers should identify the final consumer or user of the product type, rather than the buyer—if they are different. For instance, producers should avoid treating middlemen as a customer type—unless middlemen actually use the product in their own business.

The *geographic area* is where a firm competes—or plans to compete—for customers. Naming the geographic area may seem trivial, but understanding geographic boundaries of a market can suggest new opportunities. A firm aiming only at the domestic market, for example, may want to expand into world markets.

No product type in generic market names

A generic market description *doesn't include any product-type terms*. It consists of only three parts of the product-market definition—without the product type. This emphasizes that any product type that satisfies the customer's needs can compete in a generic market. Exhibit 3-4 shows the relationship between generic market and product-market definitions.

Later we'll study the many possible dimensions for segmenting markets. But for now you should see that defining markets only in terms of current products is not the best way to find new opportunities.

Market Segmentation Defines Possible Target Markets

Market segmentation is a two-step process

Market segmentation is a two-step process of: (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes.

This two-step process isn't well understood. First-time market segmentation efforts often fail because beginners start with the whole mass market and try to find

Opel's seven-seat compact van features the "Flex-7" seating system that allows one person to easily change the interior space to meet various cargo and people-moving needs.

one or two demographic characteristics to segment this market. Customer behavior is usually too complex to be explained in terms of just one or two demographic characteristics. For example, not all elderly men buy the same products or brands. Other dimensions usually must be considered—starting with customer needs.

Naming broad product-markets is disaggregating

The first step in effective market segmentation involves naming a broad product-market of interest to the firm. Marketers must break apart—disaggregate—all possible needs into some generic markets and broad product-markets in which the firm may be able to operate profitably. See Exhibit 3-3. No one firm can satisfy everyone's needs. So the naming—disaggregating—step involves brainstorming about very different solutions to various generic needs and selecting some broad areas—broad product-markets—where the firm has some resources and experience. This means that a car manufacturer would probably ignore all the possible opportunities in food and clothing markets and focus on the generic market, "transporting people in the world," and probably on the broad product-market, "cars, trucks, and utility vehicles for transporting people in the world."

Disaggregating, a practical rough-and-ready approach, tries to narrow down the marketing focus to product-market areas where the firm is more likely to have a competitive advantage or even to find breakthrough opportunities.

Market grid is a visual aid to market segmentation

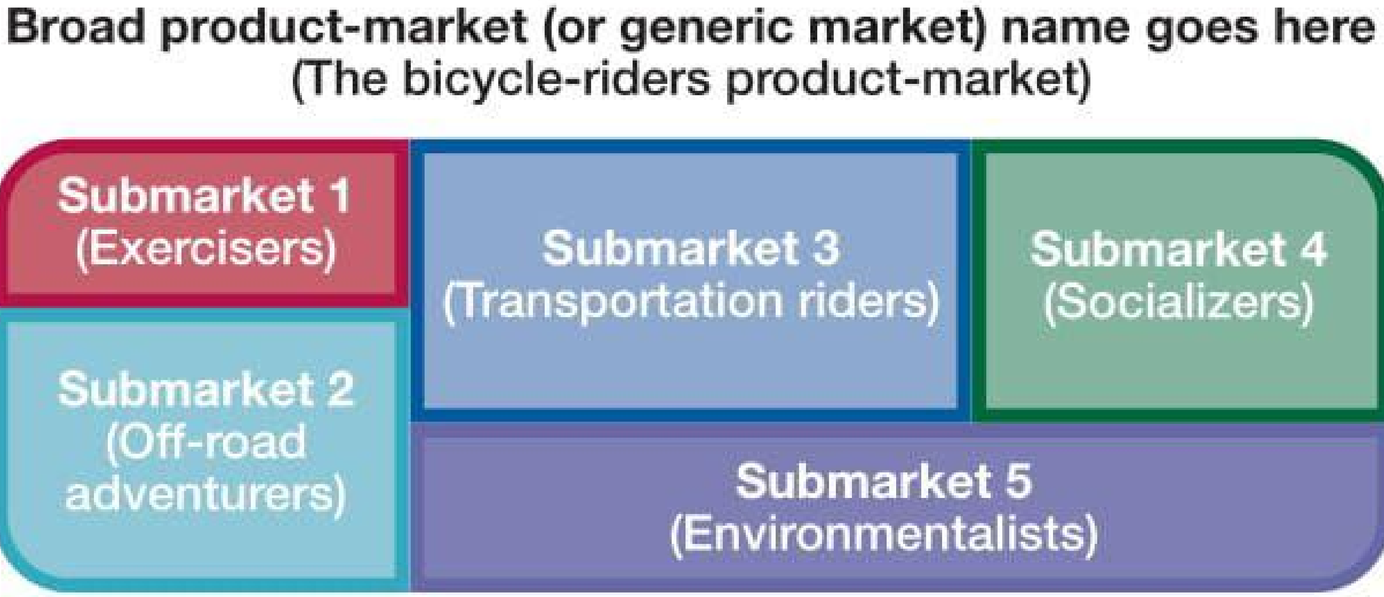
Assuming that any broad product-market (or generic market) may consist of submarkets, picture a market as a rectangle with boxes that represent the smaller, more homogeneous product-markets.

Exhibit 3-5, for example, represents the broad product-market of bicycle riders. The boxes show different submarkets. One submarket might focus on people who want basic transportation, another on people who want exercise, and so on. Alternatively, in the generic "transporting market" discussed above, we might see different product-markets of customers for bicycles, motorcycles, cars, airplanes, ships, buses, and "others."

Segmenting is an aggregating process

Marketing-oriented managers think of **segmenting** as an aggregating process—clustering people with similar needs into a "market segment." A **market segment** is a (relatively) homogeneous group of customers who will respond to a marketing mix in a similar way.

Exhibit 3-5
A Market Grid Diagram with Submarkets



This part of the market segmentation process (see Exhibit 3-3) takes a different approach from the naming part. Here we look for similarities rather than basic differences in needs. Segmenters start with the idea that each person is one of a kind but that it may be possible to aggregate some similar people into a product-market.

Segmenters see each of these one-of-a-kind people as having a unique set of dimensions. Consider a product-market in which customers' needs differ on two important segmenting dimensions: need for status and need for dependability. In Exhibit 3-6A, each dot shows a person's position on the two dimensions. While each person's position is unique, many of these people are similar in terms of how much status and dependability they want. So a segmenter may aggregate them into three (an arbitrary number) relatively homogeneous submarkets—A, B, and C. Group A might be called "status-oriented" and Group C "dependability-oriented." Members of Group B want both and might be called the "demanders."

How far should the aggregating go?

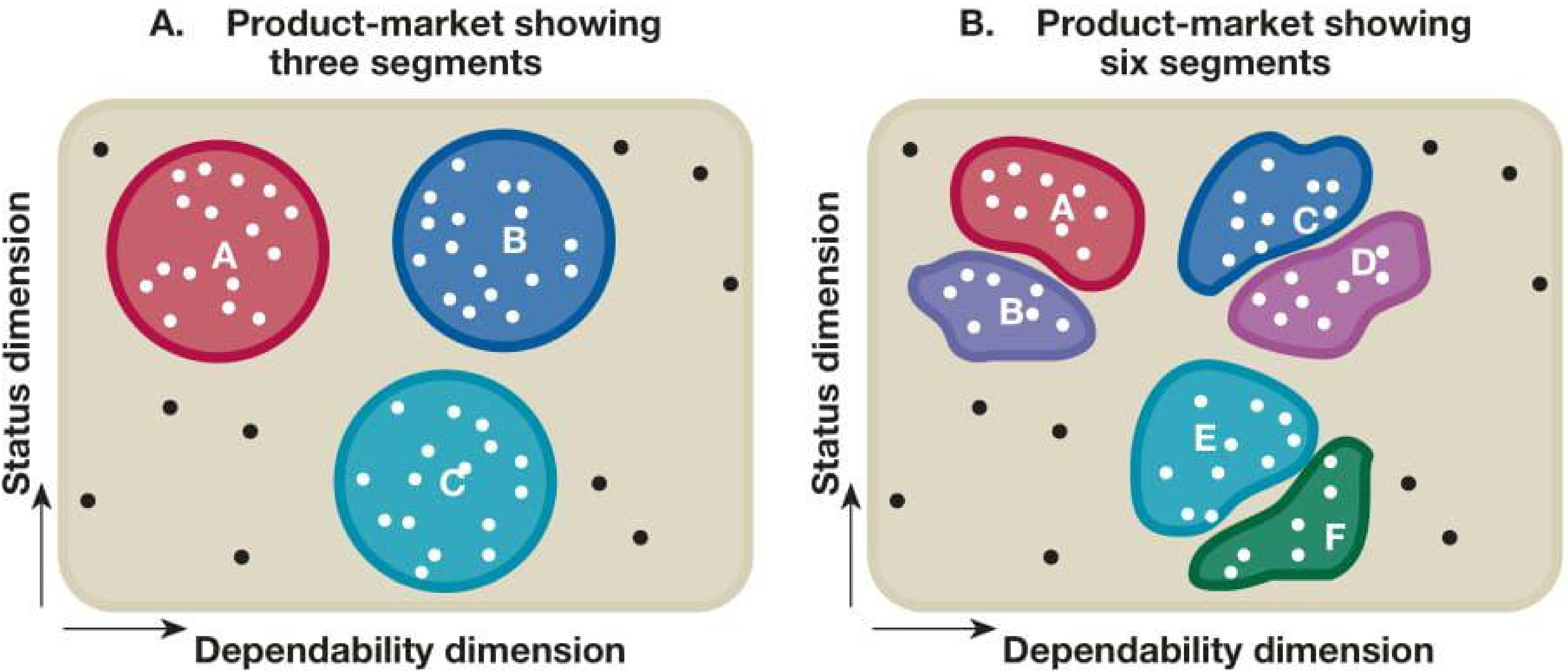
The segmenter wants to aggregate individual customers into some workable number of relatively homogeneous target markets and then treat each target market differently.

Look again at Exhibit 3-6A. Remember we talked about three segments. But this was an arbitrary number. As Exhibit 3-6B shows, there may really be six segments. What do you think—does this broad product-market consist of three segments or six?

Another difficulty with segmenting is that some potential customers just don't fit neatly into market segments. For example, not everyone in Exhibit 3-6B was put into one of the groups. Forcing them into one of the groups would have made these segments more heterogeneous and harder to please. Further, forming additional segments for them probably wouldn't be profitable. They are too few and not very similar in terms of the two dimensions. These people are simply too unique to be catered to and may have to be ignored—unless they are willing to pay a high price for special treatment.

The number of segments that should be formed depends more on judgment than on some scientific rule. But the following guidelines can help.

Exhibit 3-6
Every Individual Has His or Her Own Unique Position in a Market—Those with Similar Positions Can Be Aggregated into Potential Target Markets



Heinz Introduced "talking labels" on the bottles of its popular ketchup—and featured the change in print ads—as part of a global campaign to give the brand an edgy attitude and increase consumption among Heinz's teen target market.

Criteria for segmenting a broad product-market

Ideally, "good" market segments meet the following criteria:

1. *Homogeneous (similar) within*—the customers in a market segment should be as similar as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.
2. *Heterogeneous (different) between*—the customers in different segments should be as different as possible with respect to their likely responses to marketing mix variables *and* their segmenting dimensions.
3. *Substantial*—the segment should be big enough to be profitable.
4. *Operational*—the segmenting dimensions should be useful for identifying customers and deciding on marketing mix variables.

It is especially important that segments be *operational.* This leads marketers to include demographic dimensions such as age, sex, income, location, and family size. In fact, it is difficult to make some Place and Promotion decisions without such information.

Avoid segmenting dimensions that have no practical operational use. For example, you may find a personality trait such as moodiness among the traits of heavy buyers of a product, but how could you use this fact? Salespeople can't give a personality test to each buyer. Similarly, advertising couldn't make much use of this information. So although moodiness might be related in some way to previous purchases, it would not be a useful dimension for segmenting.

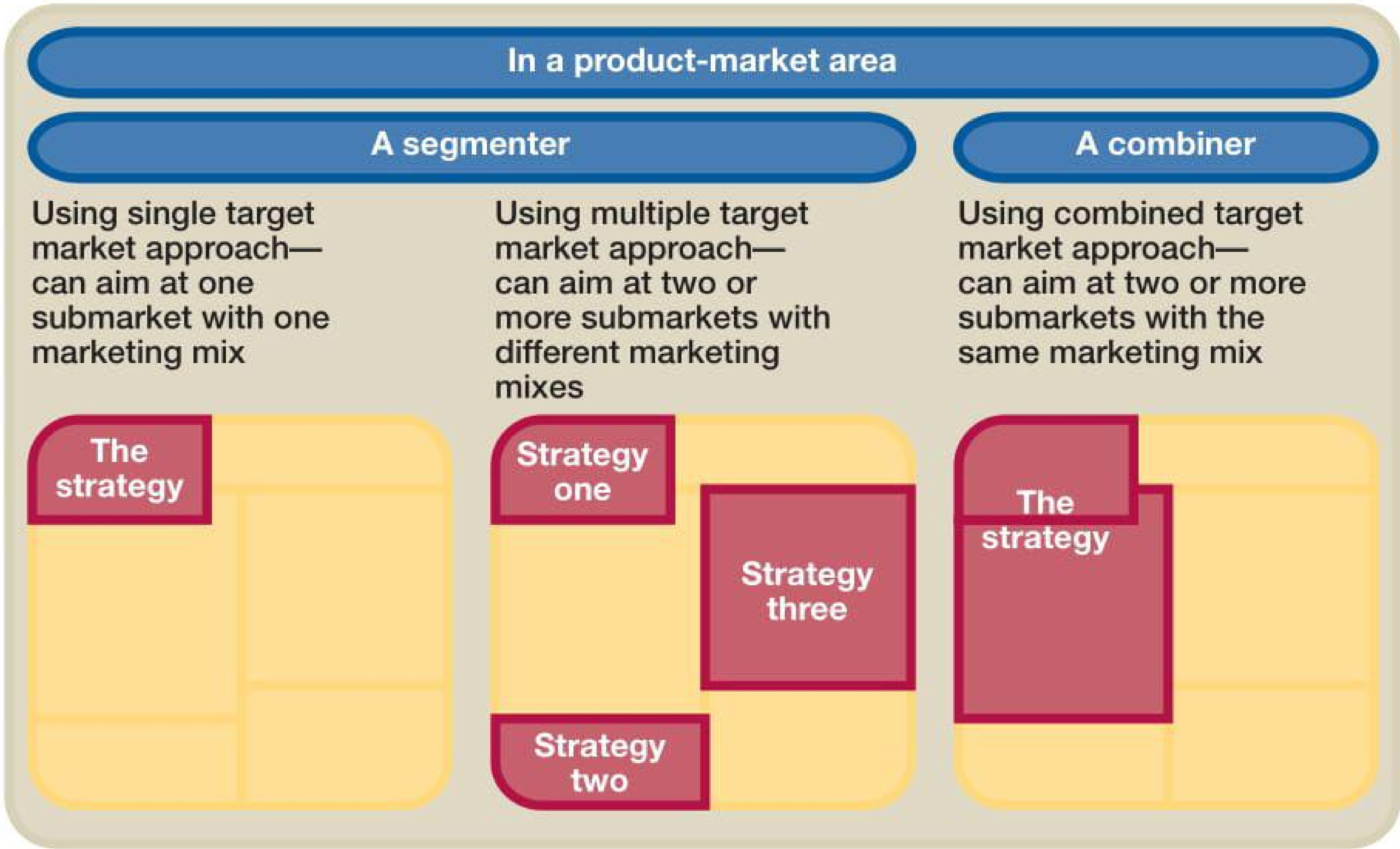
Target marketers aim at specific targets

Once you accept the idea that broad product-markets may have submarkets, you can see that target marketers usually have a choice among many possible target markets.

There are three basic ways to develop market-oriented strategies in a broad product-market.

1. The **single target market approach**—segmenting the market and picking one of the homogeneous segments as the firm's target market.
2. The **multiple target market approach**—segmenting the market and choosing two or more segments, then treating each as a separate target market needing a different marketing mix.
3. The **combined target market approach**—combining two or more submarkets into one larger target market as a basis for one strategy.

Exhibit 3-7
Target Marketers Have Specific Aims



Note that all three approaches involve target marketing. They all aim at specific, clearly defined target markets. See Exhibit 3-7. For convenience, we call people who follow the first two approaches the "segmenters" and people who use the third approach the "combiners."

Combiners try to satisfy "pretty well"

Combiners try to increase the size of their target markets by combining two or more segments. Combiners look at various submarkets for similarities rather than differences. Then they try to extend or modify their basic offering to appeal to these "combined" customers with just one marketing mix. See Exhibit 3-7. For example, combiners may try a new package, more service, a new brand, or new flavors. But even if they make product or other marketing mix changes, they don't try to satisfy unique smaller submarkets. Instead, combiners try to improve the general appeal of their marketing mix to appeal to a bigger "combined" target market.

A combined target market approach may help achieve some economies of scale. It may also require less investment than developing different marketing mixes for different segments—making it especially attractive for firms with limited resources.

Too much combining is risky

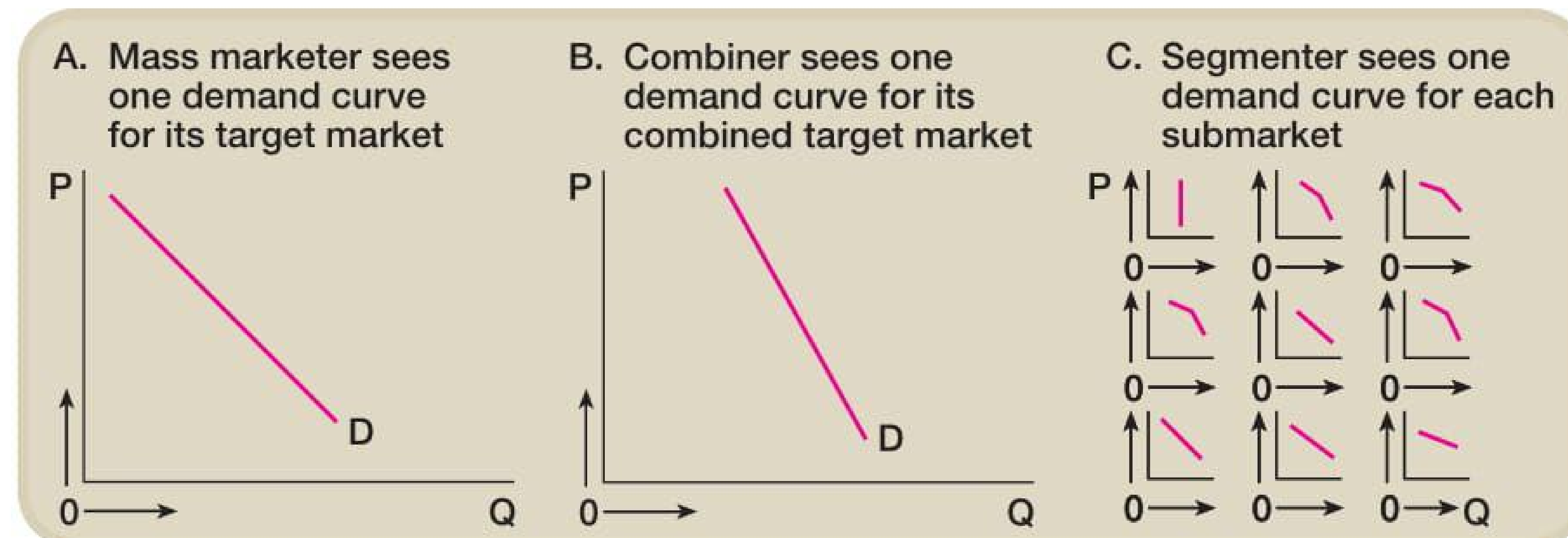
It is tempting to aim at larger combined markets instead of using different marketing mixes for smaller segmented markets. But combiners must be careful not to aggregate too far. As they enlarge the target market, individual differences within each submarket may begin to outweigh the similarities. This makes it harder to develop marketing mixes that can satisfy potential customers.

A combiner faces the continual risk of innovative segmenters chipping away at the various segments of the combined target market—by offering more attractive marketing mixes to more homogeneous submarkets. ATI Technologies, a firm that is a leader in making graphics chips for PCs, saw this happen. It produces high-quality products with features desired by a very wide variety of computer users. But ATI has lost business to more specialized competitors like Nvidia Corp. By focusing on the needs of video-game lovers who don't want to compromise when it comes to realistic special effects, Nvidia has developed chips that do fewer things. Still, Nvidia's chips do those fewer specialized things really well.

Segmenters try to satisfy "very well"

Segmenters aim at one or more homogeneous segments and try to develop a different marketing mix for each segment. Segmenters usually adjust their marketing

Exhibit 3-8
There May Be Different Demand Curves in Different Market Segments



mixes for each target market—perhaps making basic changes in the product itself—because they want to satisfy each segment very well.

Instead of assuming that the whole market consists of a fairly similar set of customers (like the mass marketer does) or merging various submarkets together (like the combiner), a segmenter sees submarkets with their own demand curves—as shown in Exhibit 3-8. Segmenters believe that aiming at one—or some—of these smaller markets makes it possible to provide superior value and satisfy them better. This then provides greater profit potential for the firm.

Segmenting may produce bigger sales

Note that segmenters are not settling for a smaller sales potential or lower profits. Instead, they hope to increase sales by getting a much larger share of the business in the market(s) they target. A segmenter who really satisfies the target market can often build such a close relationship with customers that it faces no real competition. A segmenter that offers a marketing mix precisely matched to the needs of the target market can often charge a higher price that produces higher profits.

Check Point Software Technologies, a company that makes firewall software to protect websites from hackers, is a good example. Microsoft, Cisco Systems, and most other firms that compete in Check Point's "computer security needs" market create sweeping sets of products to cover a host of corporate computing needs. But by focusing on a particular set of needs Check Point has become the leader in its market. The payoff is that its profit margins are even higher than those earned by Microsoft.[15]

Should you segment or combine?

Which approach should a firm use? This depends on the firm's resources, the nature of competition, and—most important—the similarity of customer needs, attitudes, and buying behavior.

In general, it's usually safer to be a segmenter—that is, to try to satisfy some customers *very* well instead of many just *fairly* well. That's why many firms use the single or multiple target market approach instead of the combined target market approach. Procter & Gamble, for example, offers many products that seem to compete directly with each other (e.g., Tide versus Cheer or Crest versus Gleem). However, P&G offers tailor-made marketing mixes to each submarket large—and profitable—enough to deserve a separate marketing mix. Though extremely effective, this approach may not be possible for a smaller firm with more limited resources. A smaller firm may have to use the single target market approach—focusing all its efforts at the one submarket niche where it sees the best opportunity.[16]

Kaepa, Inc., is a good example. Sales of its all-purpose sneakers plummeted as larger firms like Nike and Reebok stole customers with a multiple target market approach. They developed innovative products and aimed their promotion at specific needs—like jogging, aerobics, cross-training, and walking. Kaepa turned things around by catering to the needs of cheerleaders. Cheerleading squads can order

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Ivillage.com's website focuses on women to do a better job in meeting their specific needs.

Kaepa shoes with custom team logos and colors. The soles of the shoes feature finger grooves that make it easier for cheerleaders to build human pyramids. The Kaepa website (www.kaepa.com) attracts the cheerleader target market with links to a host of other cheering sites. Kaepa also carefully targets its market research and promotion. Kaepa salespeople attend the cheerleading camps that each summer draw 40,000 enthusiasts. Kaepa even arranges for the cheering teams it sponsors to do demos at retail stores. This generates publicity and pulls in buyers, so retailers put more emphasis on the Kaepa line.[17]

Profit is the balancing point

In practice, cost considerations probably encourage more aggregating—to obtain economies of scale—while demand considerations suggest less aggregating—to satisfy needs more exactly.

Profit is the balancing point. It determines how unique a marketing mix the firm can afford to offer to a particular group.

What Dimensions Are Used to Segment Markets?

Segmenting dimensions guide marketing mix planning

Market segmentation forces a marketing manager to decide which product-market dimensions might be useful for planning marketing strategies. The dimensions should help guide marketing mix planning. Exhibit 3-9 shows the basic kinds of dimensions we'll be talking about in Chapters 5 and 6—and their probable effect on the four Ps. Ideally, we want to describe any potential product-market in terms of all three types of customer-related dimensions—plus a product type description—because these dimensions help us develop better marketing mixes.

Many segmenting dimensions may be considered

Customers can be described by many specific dimensions. Exhibit 3-10 shows some dimensions useful for segmenting consumer markets. A few are behavioral dimensions, others are geographic and demographic. Exhibit 3-11 shows some additional dimensions for segmenting markets when the customers are businesses, government agencies, or other types of organizations. Regardless of whether

Exhibit 3-9 Relation of Potential Target Market Dimensions to Marketing Strategy Decision Areas

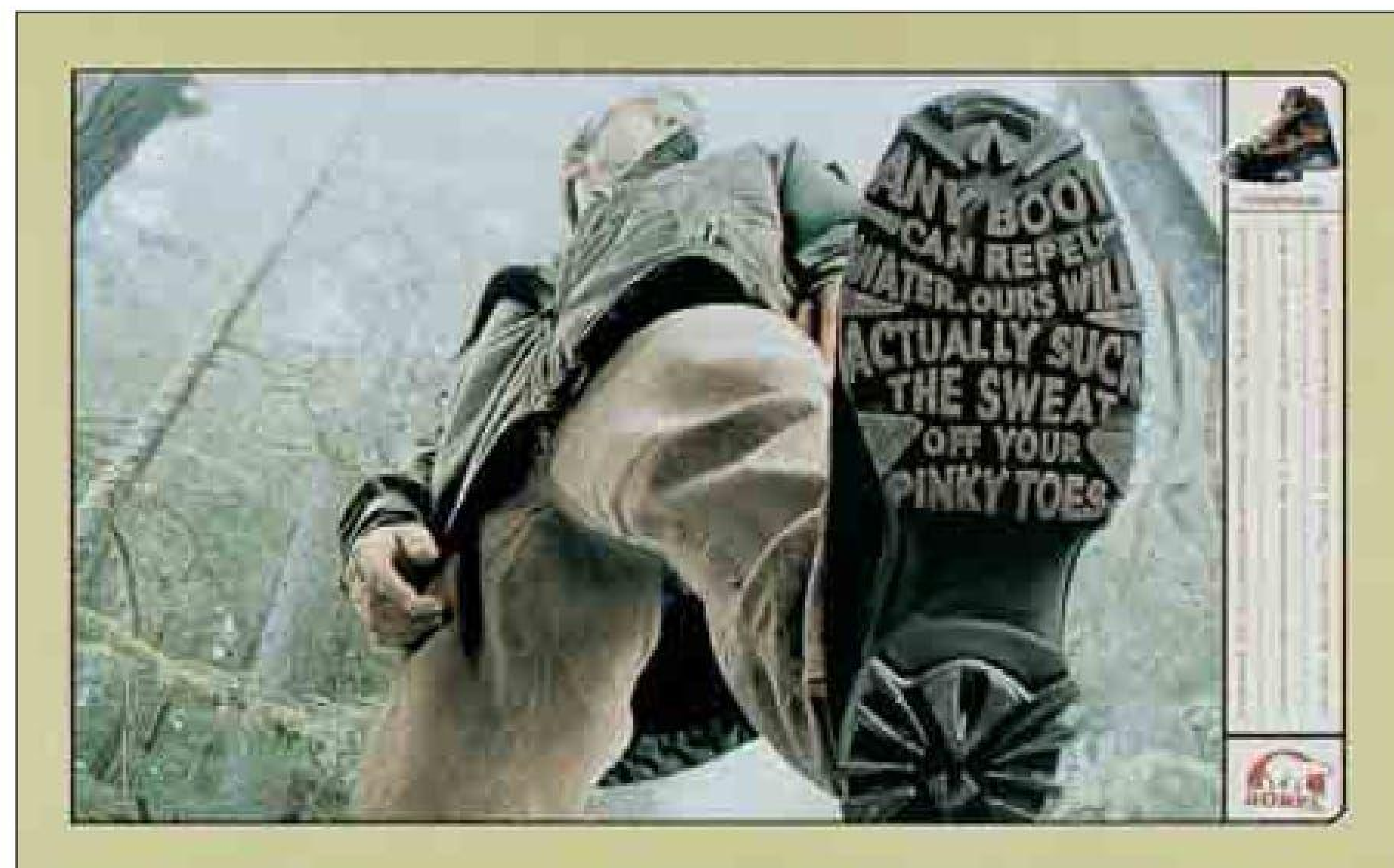
Potential Target Market Dimensions	Effects on Strategy Decision Areas
1. Behavioral needs, attitudes and how present and potential goods and services fit into customers' consumption patterns.	Affects *Product* (features, packaging, product line assortment, branding) and *Promotion* (what potential customers need and want to know about the firm's offering, and what appeals should be used).
2. Urgency to get need satisfied and desire and willingness to seek information, compare, and shop.	Affects *Place* (how directly products are distributed from producer to customer, how extensively they are made available, and the level of service needed) and *Price* (how much potential customers are willing to pay).
3. Geographic location and other demographic characteristics of potential customers.	Affects size of *Target Markets* (economic potential), *Place* (where products should be made available), and *Promotion* (where and to whom to target advertising and personal selling).

customers are final consumers or organizations, segmenting a broad product-market may require using several different dimensions at the same time.[18]

What are the qualifying and determining dimensions?

To select the important segmenting dimensions, think about two different types of dimensions. **Qualifying dimensions** are those relevant to including a customer type in a product-market. **Determining dimensions** are those that actually affect the customer's purchase of a specific product or brand in a product-market.

A prospective car buyer, for example, has to have enough money—or credit—to buy a car and insure it. Our buyer also needs a driver's license. This still doesn't guarantee a purchase. He or she must have a real need—like a job that requires "wheels" or kids who have to be carpooled. This need may motivate the purchase of *some* car. But these qualifying dimensions don't determine what specific brand or model car the person might buy. That depends on more specific interests—such as the kind of safety, performance, or appearance the customer wants. Determining dimensions related to these needs affect the specific car the customer purchases. If safety is a determining dimension for a customer, a Volvo wagon that offers side impact protection, airbags, and all-wheel drive might be the customer's first choice.



Any hiking boot should repel water, and a product that doesn't meet that "qualifying need" probably wouldn't appeal to many hikers. Sorel wants its target customers to know that its boots go further in keeping feet dry because that difference may determine which brand of boot they buy.

Exhibit 3-10 Possible Segmenting Dimensions and Typical Breakdowns for Consumer Markets

Behavioral	
Needs	Economic, functional, physiological, psychological, social, and more detailed needs.
Benefits sought	Situation specific, but to satisfy specific or general needs.
Thoughts	Favorable or unfavorable attitudes, interests, opinions, beliefs.
Rate of use	Heavy, medium, light, nonusers.
Purchase relationship	Positive and ongoing, intermittent, no relationship, bad relationship.
Brand familiarity	Insistence, preference, recognition, nonrecognition, rejection.
Kind of shopping	Convenience, comparison shopping, specialty, none (unsought product).
Type of problem-solving	Routinized response, limited, extensive.
Information required	Low, medium, high.
Geographic	
Region of world, country	North America (United States, Canada), Europe (France, Italy, Germany), and so on.
Region in country	(Examples in United States): Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England.
Size of city	No city; population under 5,000; 5,000–19,999; 20,000–49,999; 50,000–99,999; 100,000–249,999; 250,000–499,999; 500,000–999,999; 1,000,000–3,999,999; 4,000,000 or over.
Demographic	
Income	Under $5,000; $5,000–9,999; $10,000–14,999; $15,000–19,999; $20,000–29,999; $30,000–39,999; $40,000–59,999; $60,000 and over.
Sex	Male, female.
Age	Infant; under 6; 6–11; 12–17; 18–24; 25–34; 35–49; 50–64; 65 or over.
Family size	1, 2, 3–4, 5 or more.
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child over 6; older, married, with children; older, married, no children under 18; older, single; other variations for single parents, divorced, etc.
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople, foremen; operatives; farmers; retired; students; housewives; unemployed.
Education	Grade school or less; some high school; high school graduate; some college; college graduate.
Ethnicity	Asian, Black, Hispanic, Native American, White, Multiracial.
Social class	Lower-lower, upper-lower, lower-middle, upper-middle, lower-upper, upper-upper.

Note: Terms used in this table are explained in detail later in the text.

Determining dimensions may be very specific

How specific the determining dimensions are depends on whether you are concerned with a general product type or a specific brand. See Exhibit 3-12. The more specific you want to be, the more particular the determining dimensions may be. In a particular case, the determining dimensions may seem minor. But they are important because they *are* the determining dimensions.

Marketers at General Mills know this. Lots of people try to check e-mail or drive a car while eating breakfast or lunch. General Mills has figured out that for many of these target customers the real determining dimension in picking a snack is whether it can be eaten "one-handed."[19]

Determining dimensions may change

A marketing manager should seek new ways to serve existing customers and strengthen the relationship with them. Too often firms let their strategies get stagnant after they've established a base of customers and a set of marketing mix decisions. For example, special business services—like voice mail—related to the determining needs of upscale executives might initially help a motel win this business. However, the motel will lose its competitive edge if other motels start to offer the same benefits. Then, the determining dimensions change. To retain its

Exhibit 3-11 Possible Segmenting Dimensions for Business/Organizational Markets

Kind of relationship	Weak loyalty → strong loyalty to vendor Single source → multiple vendors "Arm's length" dealings → close partnership No reciprocity → complete reciprocity
Type of customer	Manufacturer, service producer, government agency, military, nonprofit, wholesaler or retailer (when end user), and so on.
Demographics	Geographic location (region of world, country, region within country, urban → rural) Size (number of employees, sales volume) Primary business or industry (North American Industry Classification System) Number of facilities
How customer will use product	Installations, components, accessories, raw materials, supplies, professional services
Type of buying situation	Decentralized → centralized Buyer → multiple buying influence Straight rebuy → modified rebuy → new-task buying
Purchasing methods	Vendor analysis, purchasing specifications, Internet bids, negotiated contracts, long-term contracts, e-commerce websites

Note: Terms used in this table are explained in detail later in the text.

customers, the motel needs to find new and better ways to meet needs. For example, the motel might make it easier for traveling executives by providing high-speed Internet access for their use during a stay.[20]

Qualifying dimensions are important too

The qualifying dimensions help identify the "core features" that must be offered to everyone in a product-market. Qualifying and determining dimensions work together in marketing strategy planning.

Different dimensions needed for different submarkets

Note that each different submarket within a broad product-market may be motivated by a different set of dimensions. In the snack food market, for example, health food enthusiasts are interested in nutrition, dieters worry about calories, and economical shoppers with lots of kids may want volume to "fill them up."

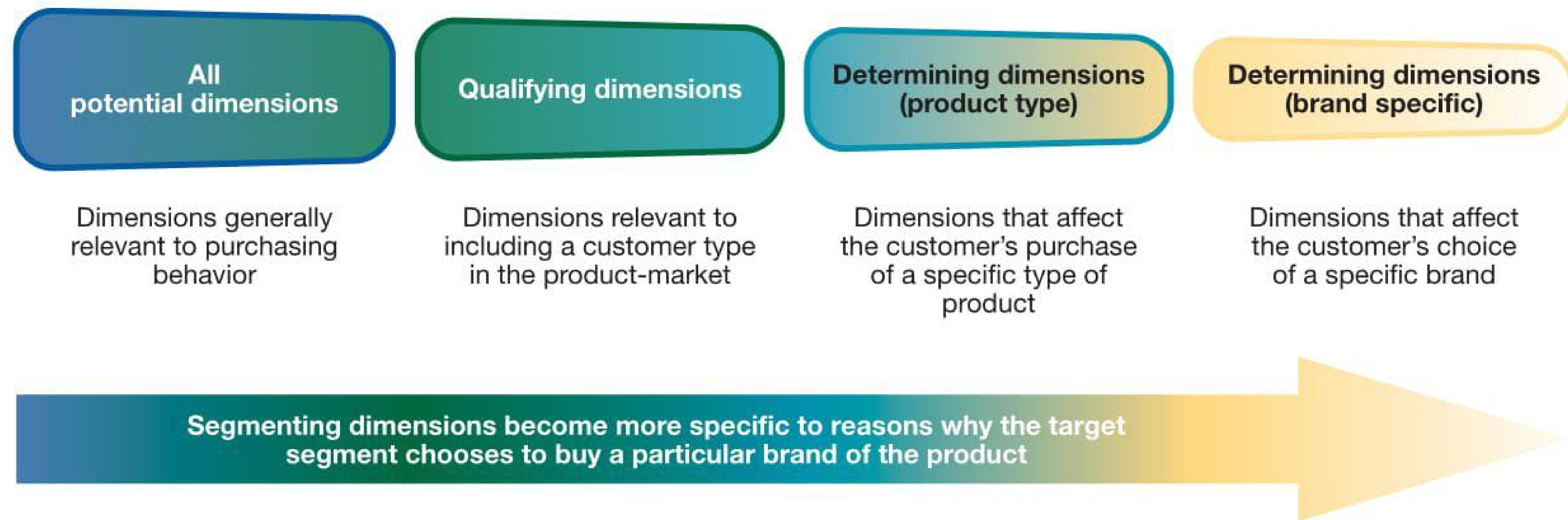
Ethical issues in selecting segmenting dimensions

Marketing managers sometimes face ethical decisions when selecting segmenting dimensions. Problems may arise if a firm targets customers who are somehow at a disadvantage in dealing with the firm or who are unlikely to see the negative effects of their own choices. For example, some people criticize shoe companies for targeting poor, inner-city kids who see expensive athletic shoes as an important status symbol. Many firms, including producers of infant formula, have been criticized for targeting consumers in less-developed nations. Encyclopedia publishers have been criticized for aggressive selling to less-educated parents who don't realize that the "pennies a day" credit terms are more than they can afford. Some nutritionists criticize firms that market soft drinks, candy, and snack foods to children.

Sometimes a marketing manager must decide whether a firm should serve customers it really doesn't want to serve. For example, banks sometimes offer marketing mixes that are attractive to wealthy customers but that basically drive off low-income consumers.

People often disagree about what segmenting dimensions are ethical in a given situation. A marketing manager needs to consider not only his or her own views

Exhibit 3-12 Finding the Relevant Segmenting Dimensions



but also the views of other groups in society. Even when there is no clear "right" answer, negative publicity may be very damaging. This is what Amazon.com encountered when it was revealed that it was charging some regular customers higher prices than new customers at its site.[21]

International marketing requires even more segmenting

Success in international marketing requires even more attention to segmenting. There are over 228 nations with their own unique cultures! And they differ greatly in language, customs (including business ethics), beliefs, religions, race, and income distribution patterns. (We'll discuss some of these differences in Chapters 5 and 6.) These additional differences can complicate the segmenting process. Even worse, critical data is often less available—and less dependable—as firms move into international markets. This is one reason why some firms insist that local operations and decisions be handled by natives. They, at least, have a feel for their markets.

There are more dimensions—but there is a way

Segmenting international markets may require more dimensions. But one practical method adds just one step to the approach discussed above. First, marketers segment by country or region—looking at demographic, cultural, and other characteristics, including stage of economic development. This may help them find regional or national submarkets that are fairly similar. Then—depending on whether the firm is aiming at final consumers or business markets—they apply the same basic approaches discussed earlier.

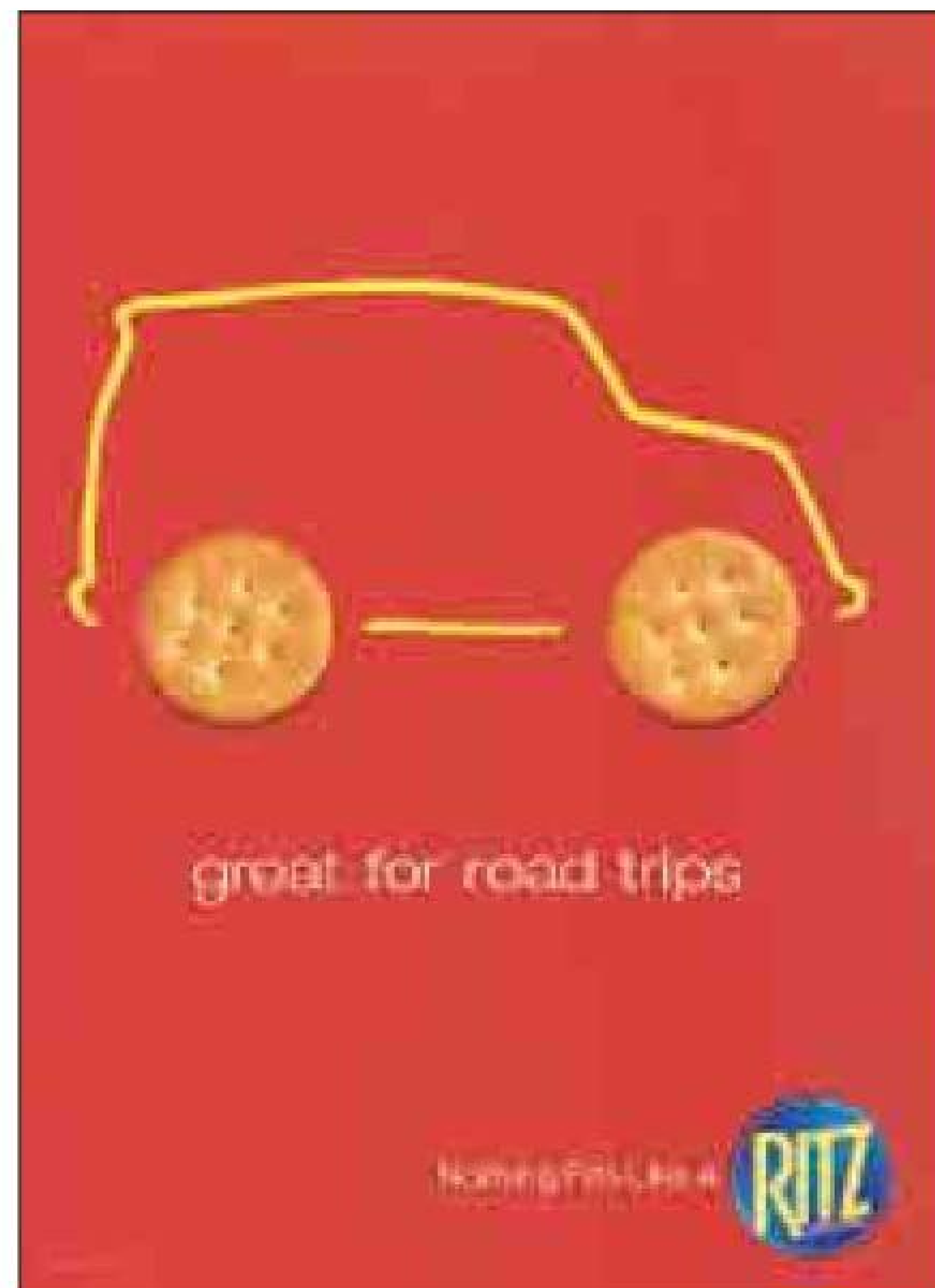
More Sophisticated Techniques May Help in Segmenting

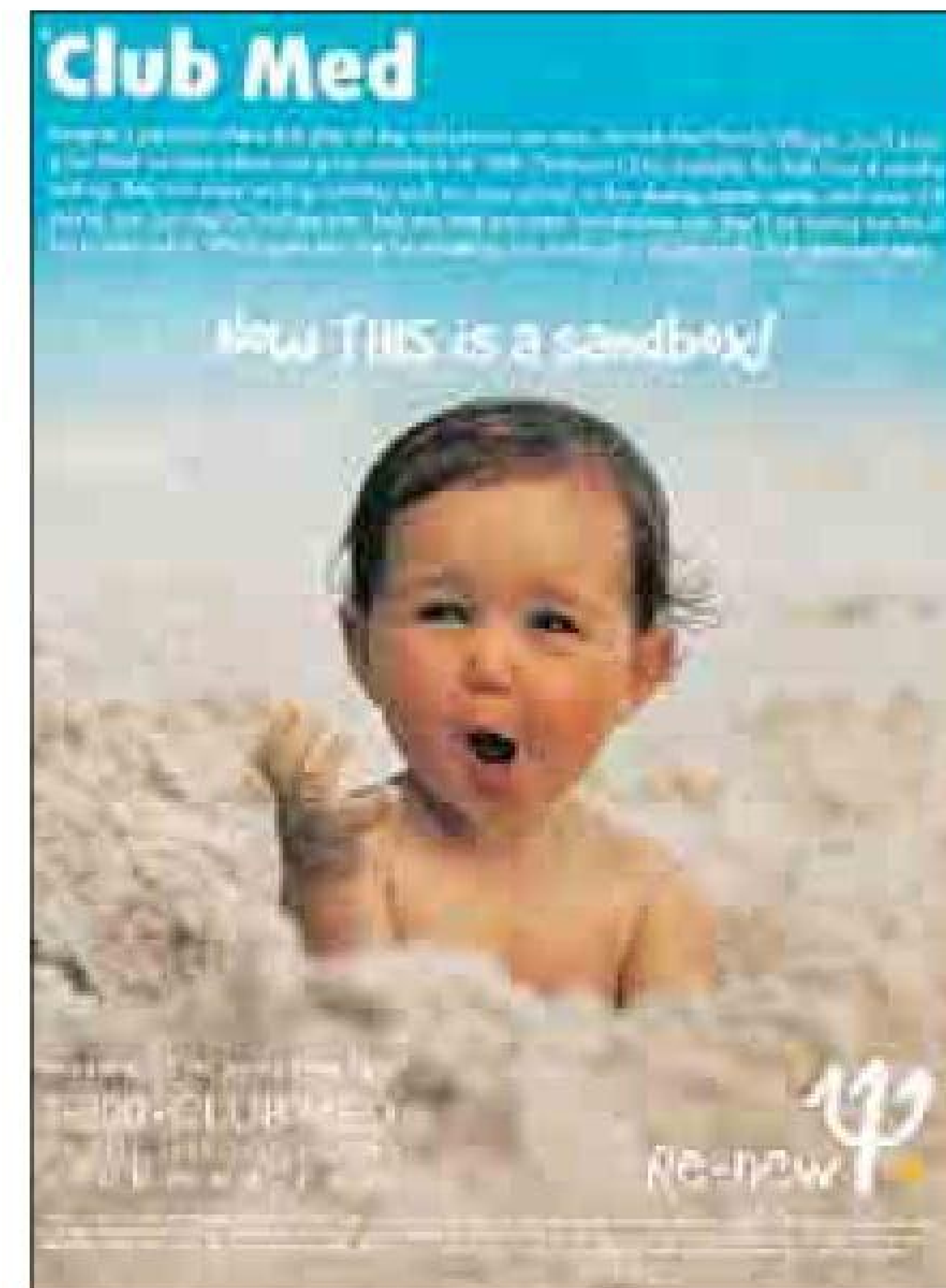
Marketing researchers and managers often turn to computer-aided methods for help with the segmenting job. A detailed review of the possibilities is beyond the scope of this book. But a brief discussion will give you a flavor of how computer-aided methods work.

Clustering usually requires a computer

Clustering techniques try to find similar patterns within sets of data. Clustering groups customers who are similar on their segmenting dimensions into homogeneous segments. Clustering approaches use computers to do what previously was done with much intuition and judgment.

It is usually better to focus on the needs satisfied by products rather than on the product characteristics themselves.





The data to be clustered might include such dimensions as demographic characteristics, the importance of different needs, attitudes toward the product, and past buying behavior. The computer searches all the data for homogeneous groups of people. When it finds them, marketers study the dimensions of the people in the groups to see why the computer clustered them together. The results sometimes suggest new, or at least better, marketing strategies.[22]

A cluster analysis of the toothpaste market, for example, might show that some people buy toothpaste because it tastes good (the sensory segment), while others are concerned with the effect of clean teeth and fresh breath on their social image (the sociables). Still others worry about decay or tartar (the worriers), and some are just interested in the best value for their money (the value seekers). Each of these market segments calls for a different marketing mix—although some of the four Ps may be similar.

Customer database can focus the effort

A variation of the clustering approach is based on customer relationship management methods. With **customer relationship management (CRM),** the seller fine-tunes the marketing effort with information from a detailed customer database. This usually includes data on a customer's past purchases as well as other segmenting information. For example, an auto-repair garage that keeps a database of customer oil changes can send a reminder postcard when it's time for the next oil change. Similarly, a florist that keeps a database of customers who have ordered flowers for Mother's Day or Valentine's Day can call them in advance with a special offer. Firms that operate over the Internet may have a special advantage with these database-focused approaches. They are able to communicate with customers via a website or e-mail, which means that the whole effort is not only targeted but also very inexpensive. Further, it's fast and easy for a customer to reply.[23]

Amazon.com takes this even further. When a customer orders a book, the Amazon CRM system at the website recommends other related books that have been purchased by other customers who bought that book.

Herman Miller Takes a Back Seat to No One

Herman Miller (HM) is a 75-year-old company that makes office furniture. Boring stuff? Marketing managers at HM know that some office furniture customers feel that way. So, they decided to do something about it. Consider the success of the company's Aeron desk chair. In an e-commerce world even top executives sit at computers and need a desk chair created for both work and looks. To satisfy this upscale segment, HM designed a new type of chair from scratch. There's no fabric or padding, but everything about it adjusts to your body. It's so comfortable that HM positioned it as "the chair you can wear." With a price tag close to $1,000, it became a status symbol for high-tech managers and was as profitable as it was popular. But with the cooling off of the economy, collapse of the dot-coms, and cutbacks by big firms, HM is looking for other new opportunities for growth. It's finding them with a new line, called Red, that targets new firms and small businesses. HM created a new division, SQA (which stands for Simple, Quick, Affordable), to serve this segment. The SQA factory does not offer the thousands of choices in fabrics and styles that were popular with HM's traditional, big corporate buyers. Nor do customers get extensive help from sales reps and dealers. However, the new product line, called Red, does offer bold colors and chic styles that give HM an advantage over suppliers like OfficeMax. Buyers place orders at a slick website (www.hermanmillerred.com) that displays a 3-D drawing of the buyer's office space and furniture choices. The orders are immediately linked into the factory production schedule, so delivery times are very fast. The efficiency of this system also reduces selling costs. That means that the line is still profitable even at Red's affordable price point. Competing firms are now chasing this same market segment, but with HM's head start a lot of them are just taking a back seat.[24]

www.mhhe.com/fourps

Differentiation and Positioning Take the Customer Point of View

Differentiate the marketing mix—to serve customers better

As we've emphasized throughout, the reason for focusing on a specific target market—by using marketing segmentation approaches or tools such as cluster analysis or CRM—is so that you can fine-tune the whole marketing mix to provide some group of potential customers with superior value. By *differentiating* the marketing mix to do a better job meeting customers' needs, the firm builds a competitive advantage. When this happens, target customers view the firm's position in the market as uniquely suited to their preferences and needs. Further, because everyone in the firm is clear about what position it wants to achieve with customers, the Product, Promotion, and other marketing mix decisions can be blended better to achieve the desired objectives.

Although the marketing manager may want customers to see the firm's offering as unique, that is not always possible. Me-too imitators may come along and copy the firm's strategy. Further, even if a firm's marketing mix is different, consumers may not know or care. They're busy and, simply put, the firm's product may not be that important in their lives. Even so, in looking for opportunities it's important for the marketing manager to know how customers *do* view the firm's offering. It's also important for the marketing manager to have a clear idea about how he or she would like for customers to view the firm's offering. This is where another important concept, *positioning,* comes in.

Positioning is based on customers' views

Positioning refers to how customers think about proposed and/or present brands in a market. A marketing manager needs a realistic view of how customers think about offerings in the market. Without that, it's hard to differentiate. At the same time, the manager should know how he or she *wants* target customers to think about the firm's marketing mix. Positioning issues are especially important when competitors in a market appear to be very similar. For example, many people think that there isn't much difference between one brand of TV and another. But Sony wants TV buyers to see its Wega flat-screen as offering the very best picture.

Firms often use promotion to help "position" how a marketing mix meets target customers' specific needs. For example, Bic ads along the roadside in Thailand highlight an ultra-close shave. In the U.S., Target wants consumers to remember not only its soft goods but also its houseware lines.

Once you know what customers think, then you can decide whether to leave the product (and marketing mix) alone or reposition it. This may mean *physical changes* in the product or simply *image changes based on promotion*. For example, most cola drinkers can't pick out their favorite brand in a blind test—so physical changes might not be necessary (and might not even work) to reposition a cola. Yet, ads that portray Pepsi drinkers in funny situations help position "the Joy of Pepsi." Conversely, 7-Up reminds us that it is the uncola with no caffeine, "never had it and never will."

Internet

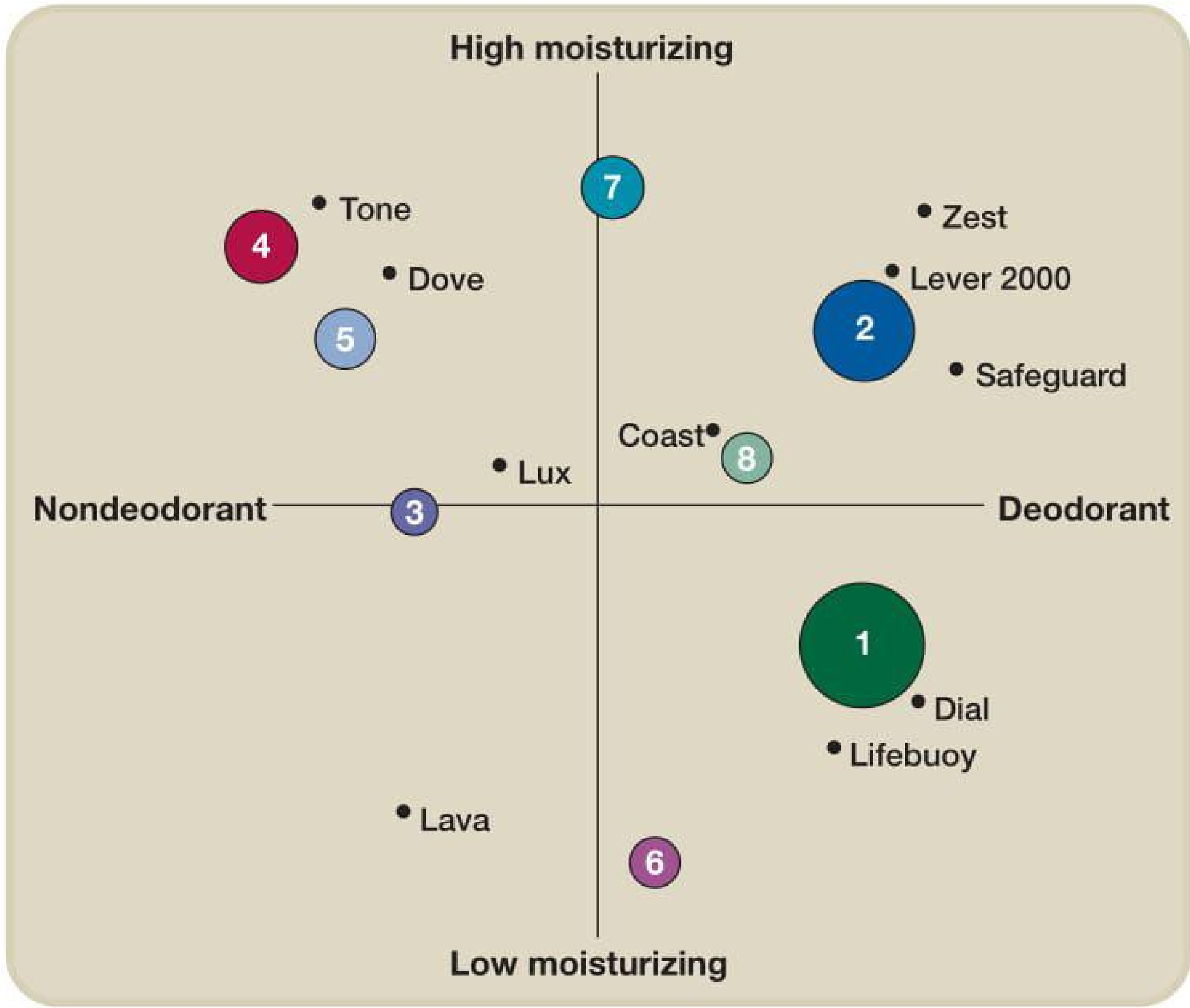
Internet Exercise For years, Volvo has had a reputation as a particularly safe car and much of its advertising has reinforced that positioning. Go to the website for Volvo cars (www.volvocars.com) and select the link for the U.S. website. Consider whether the U.S. website successfully reinforces a positioning of Volvo as a "safe" alternative. Why or why not?

Figuring out what customers really think about competing products isn't easy, but there are approaches that help. Most of them require some formal marketing research. The results are usually plotted on graphs to help show how consumers view the competing products. Usually, the products' positions are related to two or three product features that are important to the target customers.

Managers make the graphs for positioning decisions by asking consumers to make judgments about different brands—including their "ideal" brand—and then use computer programs to summarize the ratings and plot the results. The details of positioning techniques—sometimes called "perceptual mapping"—are beyond the scope of this text. But Exhibit 3-13 shows the possibilities.[25]

Exhibit 3-13 shows the "product space" for different brands of bar soap using two dimensions—the extent to which consumers think the soaps moisturize and deodorize their skin. For example, consumers see Dial as quite low on moisturizing but high on deodorizing. Lifebuoy and Dial are close together—implying that consumers think of them as similar on these characteristics. Dove is viewed as

Exhibit 3-13
"Product Space" Representing Consumers' Perceptions for Different Brands of Bar Soap



different and is further away on the graph. Remember that positioning maps are based on *customers' perceptions*—the actual characteristics of the products (as determined by a chemical test) might be different!

Each segment may have its own preferences

The circles in Exhibit 3-13 show different sets (submarkets) of consumers clustered near their ideal soap preferences. Groups of respondents with a similar ideal product are circled to show apparent customer concentrations. In this graph, the size of the circles suggests the size of the segments for the different ideals.

Ideal clusters 1 and 2 are the largest and are close to two popular brands—Dial and Lever 2000. It appears that customers in cluster 1 want more moisturizing than they see in Dial and Lifebuoy. However, exactly what these brands should do about this isn't clear. Perhaps both of these brands should leave their physical products alone—but emphasize moisturizing more in their promotion to make a stronger appeal to those who want moisturizers. A marketing manager talking about this approach might simply refer to it as "positioning the brand as a good moisturizer." Of course, whether the effort is successful depends on whether the whole marketing mix delivers on the promise of the positioning communication.

Note that ideal cluster 7 is not near any of the present brands. This may suggest an opportunity for introducing a new product—a strong moisturizer with some deodorizers. A firm that chooses to follow this approach would be making a segmenting effort.

Combining versus segmenting

Positioning analysis may lead a firm to combining—rather than segmenting—if managers think they can make several general appeals to different parts of a "combined" market. For example, by varying its promotion, Coast might try to appeal to segments 8, 1, and 2 with one product. These segments are all quite similar (close

together) in what they want in an ideal brand. On the other hand, there may be clearly defined submarkets—and some parts of the market may be "owned" by one product or brand. In this case, segmenting efforts may be practical—moving the firm's own product into another segment of the general market area where competition is weaker.

Positioning as part of broader analysis

A positioning analysis helps managers understand how customers see their market. It is a visual aid to understanding a product-market. The first time such an analysis is done, managers may be shocked to see how much customers' perceptions of a market differ from their own. For this reason alone, positioning analysis may be crucial. But, a positioning analysis usually focuses on specific product features and brands that are close competitors in the product-market. Thus, it is a product-oriented approach. Important *customer*-related dimensions—including needs and attitudes—may be overlooked.

Premature emphasis on product features is dangerous in other ways as well. As our bar soap example shows, starting with a product-oriented definition of a market and how bar soaps compete against other bar soaps can make a firm miss more basic shifts in markets. For example, bars might be losing popularity to liquid soaps. Or other products, like bath oils or body shampoos for use in the shower, may be part of the relevant competition. Managers wouldn't see these shifts if they looked only at alternative bar soap brands—the focus is just too narrow.

It's also important to realize that the way consumers look at a product isn't just a matter of chance. Let's return to our bar soap example. While many consumers do think about soap in terms of moisturizing and deodorizing, other needs shouldn't be overlooked. For example, some consumers are especially concerned about wiping out germs. Marketers for Dial soap recognized this need and developed ads that positioned Dial as "the choice" for these target customers.

As we emphasize throughout the text, you must understand potential needs and attitudes when planning marketing strategies. If customers treat different products as substitutes, then a firm has to position itself against those products too. Customers won't always be conscious of all of the detailed ways that a firm's marketing mix might be different, but careful positioning can help highlight a unifying theme or benefits that relate to the determining dimensions of the target market. Thus, it's useful to think of positioning as part of the broader strategy planning process—because the purpose is to ensure that the whole marketing mix is positioned for competitive advantage.

Conclusion

Firms need creative strategy planning to survive in our increasingly competitive markets. In this chapter, we discussed how to find attractive target market opportunities. We started by considering four basic types of opportunities—market penetration, market development, product development, and diversification—with special emphasis on opportunities in international markets. We also saw that carefully defining generic markets and product-markets can help find new opportunities. We stressed the shortcomings of a too narrow, product-oriented view of markets.

We also discussed market segmentation—the process of naming and then segmenting broad product-markets to find potentially attractive target markets. Some people try to segment markets by starting with the mass market and then dividing it into smaller submarkets based on a few dimensions. But this can lead to poor results. Instead, market segmentation should first focus on a broad product-market and then group similar customers into homogeneous submarkets. The more similar the potential customers are, the larger the submarkets can be. Four criteria for evaluating possible product-market segments were presented.

Once a broad product-market is segmented, marketing managers can use one of three approaches to market-oriented strategy planning: (1) the single target market approach, (2) the multiple target market approach, and (3) the combined target market approach. In general, we encouraged marketers to be segmenters rather than combiners.

We also discussed some computer-aided approaches—clustering techniques, CRM, and positioning.

In summary, good marketers should be experts on markets and likely segmenting dimensions. By creatively segmenting markets, they may spot opportunities—even breakthrough opportunities—and help their firms succeed against aggressive competitors offering similar products. Segmenting is basic to target marketing. And the more you practice segmenting, the more meaningful market segments you will see.

Questions and Problems

1. Distinguish between an attractive opportunity and a breakthrough opportunity. Give an example.
2. Explain how new opportunities may be seen by defining a firm's markets more precisely. Illustrate for a situation where you feel there is an opportunity—namely, an unsatisfied market segment—even if it is not very large.
3. In your own words, explain why the book suggests that you should think of marketing strategy planning as a narrowing down process.
4. Distinguish between a generic market and a product-market. Illustrate your answer.
5. Explain the major differences among the four basic types of opportunities discussed in the text and cite examples for two of these types of opportunities.
6. Explain why a firm may want to pursue a market penetration opportunity before pursuing one involving product development or diversification.
7. In your own words, explain several reasons why marketing managers should consider international markets when evaluating possible opportunities.
8. Give an example of a foreign-made product (other than an automobile) that you personally have purchased. Give some reasons why you purchased that product. Do you think that there was a good opportunity for a domestic firm to get your business? Explain why or why not.
9. Explain what market segmentation is.
10. List the types of potential segmenting dimensions and explain which you would try to apply first, second, and third in a particular situation. If the nature of the situation would affect your answer, explain how.
11. Explain why segmentation efforts based on attempts to divide the mass market using a few demographic dimensions may be very disappointing.
12. Illustrate the concept that segmenting is an aggregating process by referring to the admissions policies of your own college and a nearby college or university.
13. Review the types of segmenting dimensions listed in Exhibits 3-10 and 3-11, and select the ones you think should be combined to fully explain the market segment you personally would be in if you were planning to buy a new watch today. List several dimensions and try to develop a shorthand name, like "fashion-oriented," to describe your own personal market segment. Then try to estimate what proportion of the total watch market would be accounted for by your market segment. Next, explain if there are any offerings that come close to meeting the needs of your market. If not, what sort of a marketing mix is needed? Would it be economically attractive for anyone to try to satisfy your market segment? Why or why not?
14. Identify the determining dimension or dimensions that explain why you bought the specific brand you did in your most recent purchase of a *(a)* soft drink, *(b)* shampoo, *(c)* shirt or blouse, and *(d)* larger, more expensive item, such as a bicycle, camera, or boat. Try to express the determining dimension(s) in terms of your own personal characteristics rather than the product's characteristics. Estimate what share of the market would probably be motivated by the same determining dimension(s).
15. Consider the market for off-campus apartments in your city. Identify some submarkets that have different needs and determining dimensions. Then evaluate how well the needs in these market segments are being met in your geographic area. Is there an obvious breakthrough opportunity waiting for someone?
16. Explain how positioning analysis can help a marketing manager identify target market opportunities.

Suggested Cases

7. Lilybank Lodge
29. Metal Works, Inc.
30. Deluxe Foods, Ltd.

Computer-Aided Problem

3. **Segmenting Customers**

The marketing manager for Audiotronics Software Company is seeking new market opportunities. He is focusing on the voice recognition market and has narrowed down to three segments: the Fearful Typists, the Power Users, and the Professional Specialists. The Fearful Typists don't know much about computers—they just want a fast way to create e-mail messages, letters, and simple reports without errors. They don't need a lot of special features. They want simple instructions and a program that's easy to learn. The Power Users know a lot about computers, use them often, and want a voice recognition program with many special features. All computer programs seem easy to them—so they aren't worried about learning to use the various features. The Professional Specialists have jobs that require a lot of writing. They don't know much about computers but are willing to learn. They want special features needed for their work—but only if they aren't too hard to learn and use.

The marketing manager prepared a table summarizing the importance of each of three key needs in the three segments (see table below).

	Importance of Need (1 = Not Important; 10 = Very Important)		
Market Segment	Features	Easy to Use	Easy to Learn
Fearful Typists	3	8	9
Power Users	9	2	2
Professional Specialists	7	5	6

Audiotronics' sales staff conducted interviews with seven potential customers who were asked to rate how important each of these three needs were in their work. The manager prepared a spreadsheet to help him cluster (aggregate) each person into one of the segments—along with other similar people. Each person's ratings are entered in the spreadsheet, and the clustering procedure computes a similarity score that indicates how similar (a low score) or dissimilar (a high score) the person is to the typical person in each of the segments. The manager can then "aggregate" potential customers into the segment that is most similar (that is, the one with the *lowest* similarity score).

a. *The ratings for a potential customer appear on the first spreadsheet. Into which segment would you aggregate this person?*
b. *The responses for seven potential customers who were interviewed are listed in the table below. Enter the ratings for a customer in the spreadsheet and then write down the similarity score for each segment. Repeat the process for each customer. Based on your analysis, indicate the segment into which you would aggregate each customer. Indicate the size (number of customers) of each segment.*
c. *In the interview, each potential customer was also asked what type of computer he or she would be using. The responses are shown in the table along with the ratings. Group the responses based on the customer's segment. If you were targeting the Fearful Typists segment, what type of computer would you focus on when developing your software?*
d. *Based on your analysis, which customer would you say is least like any of the segments? Briefly explain the reason for your choice.*

For additional questions related to this problem, see Exercise 3-4 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

	Importance of Need (1 = Not Important; 10 = Very Important)			
Potential Customer	Features	Easy to Use	Easy to Learn	Type of Computer
A.	8	1	2	Dell laptop
B.	6	6	5	IBM desktop
C.	4	9	8	Apple
D.	2	6	7	Apple
E.	5	6	5	IBM desktop
F.	8	3	1	Dell laptop
G.	4	6	8	Apple

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When You Finish This Chapter, You Should

1. Know the variables that shape the environment of marketing strategy planning.

2. Understand why company objectives are important in guiding marketing strategy planning.

3. See how the resources of a firm affect the search for opportunities.

4. Know how the different kinds of competitive situations affect strategy planning.

5. Understand how the economic and technological environment can affect strategy planning.

6. Know why you might be sent to prison if you ignore the political and legal environment.

7. Understand how to screen and evaluate marketing strategy opportunities.

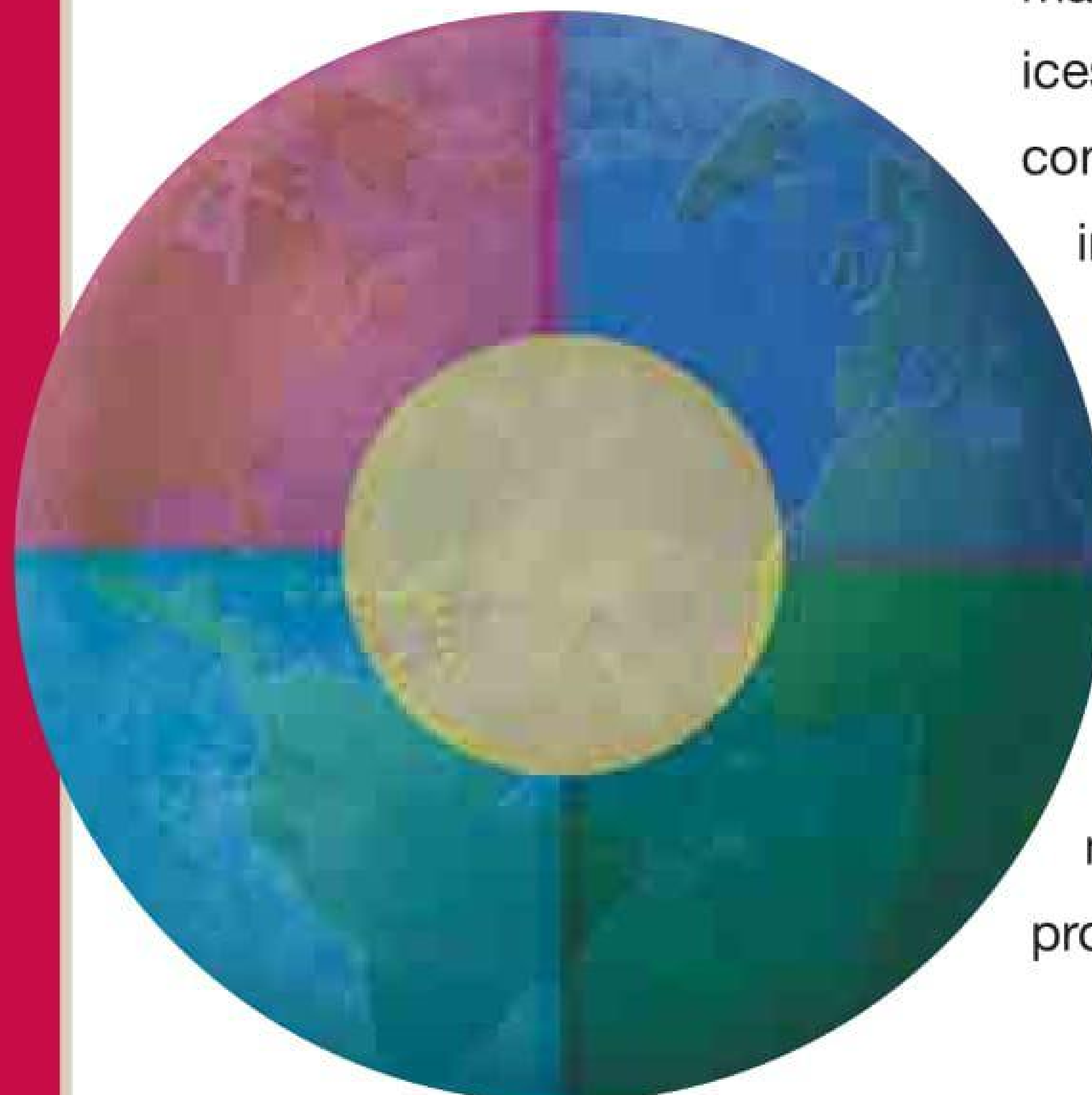
8. Understand the important new terms (shown in red).

Chapter Four

Evaluating Opportunities in the Changing Marketing Environment

UPS is on a roll. But if you think it's just those clean brown trucks that are moving, think again. Top management's objective isn't just to be the leader in delivering packages, but also to be the world leader in delivering services and information to corporate clients to help them pare shipping, inventory, and handling costs, manage relationships with suppliers, and even bill their customers. To achieve these objectives, marketing managers at UPS are developing completely new marketing strategies for new services and markets, like logistics consulting and handling of digital invoices and payments.

These initiatives mean that UPS is no longer competing with just package delivery rivals like FedEx and DHL, but with a host of other firms that market information technology solutions for business problems. But UPS has resources



place price promotion produc

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and strengths that help in this competition. It has already earned the trust of many business customers with whom it has close working relationships. Its experience and expertise are a competitive advantage also. A decade ago, UPS began to make huge investments in information systems, mainly to make its own operations more efficient. However, when the Internet came along UPS quickly took advantage of the technology to make its package tracking databases available to customers (www.ups.com). For final consumers, this was just a nice benefit of using UPS. But for many business customers, knowing precisely where stuff was meant saving millions of dollars in inventory costs. That opened customers' eyes to the possibilities. Then UPS set up a special sales force to help firms link their e-commerce websites directly to UPS shipping data. That gave it more opportunities to see ways that UPS could improve a customer's distribution system. Now, for example, if you order a pair of Air Jordans at Nike.com, the order is instantly filled by UPS from Nike inventory maintained at a UPS warehouse in Kentucky—and UPS delivers the sneakers directly to you the next day. In fact, if there is any problem and you call the toll-free number on Nike's website, it's a UPS employee at a call center in San Antonio who answers your call.

Sometimes UPS logistics solutions don't even rely on UPS trucks. For example, Ford Motor Company has given UPS a contract to manage the transportation and distribution of over four million cars and

trucks a year—from 21 different factories to 6,000 dealers across North America. Now a Ford dealer who wants to find a metallic blue Mustang convertible can instantly do it online. The UPS system also reduces transit time for a new Mustang from 16 days to 12. That frees up $1 billion worth of inventory and saves Ford $125 million a year in inventory carrying costs.

These successes are earning profits for UPS, but it still must cope with the challenges of a weakened economy. However, even when demand for package deliveries is low UPS has a profit advantage over competitors who are less efficient. A weak economy may even help the UPS strategic business unit that offers logistics consulting services because customer firms have an even greater need to pare costs. That is one reason the market for logistics consulting services is expected to grow threefold by 2005. Moreover, the trend toward free trade is helping UPS expand revenue from both international airfreight and the broker services it now offers to help firms cope with local customs laws.[1]

The Marketing Environment

You saw in the last chapter that using segmenting and positioning to narrow down to a specific marketing strategy takes a real understanding of what makes customers tick. You also saw that developing a competitive advantage and a strategy that offers customers superior value takes an understanding of the capabilities of your own company and of competitors. This chapter takes this thinking further. As the UPS case shows, a marketing manager must analyze customer needs and choose marketing strategy variables within the framework of the marketing environment and how it is changing.

A large number of forces shape the marketing environment. To help organize your thinking, it's useful to classify the various forces as falling into either (1) the direct market environment or (2) the external market environment. The direct environment of any generic market or product-market includes customers, the company, and competitors. The external market environment is broader. The variables of the external market environment fall into four major areas:

1. Economic environment.
2. Technological environment.
3. Political and legal environment.
4. Cultural and social environment.

In the short run, the marketing manager doesn't control the variables of the marketing environment. That's why it's sometimes useful to think of them as uncontrollable variables. On the other hand, the marketing manager can and should carefully consider the environmental variables when making decisions that can be controlled. For example, a manager may not be able to do anything to offset the strengths of a specific competitor, but the manager can select strategies that lead the firm into a new product-market where that firm does not compete, or where competition in general is not as strong. In this chapter, we'll look at these marketing environment variables in more detail. We'll see how they shape opportunities—limiting some possibilities and making others more attractive.

In creating its new website, Gap's objective was to complement and support its bricks and mortar stores rather than just cannibalize in-store sales. So, Gap Online features sizes and styles, like maternity clothes, that are not in stock in regular stores.

Objectives Should Set Firm's Course

A company must decide where it's going, or it may fall into the trap expressed so well by the quotation: "Having lost sight of our objective, we redoubled our efforts." Company objectives should shape the direction and operation of the whole business.

It is difficult to set objectives that really guide the present and future development of a company. The process forces top management to look at the whole business, relate its present objectives and resources to the external environment, and then decide what the firm wants to accomplish in the future.

The marketing manager should be heard when the company is setting objectives. But setting whole-company objectives—within resource limits—is ultimately the responsibility of top management. In this sense, whole-company objectives are usually outside the marketing manager's "control."

It would be convenient if a company could set one objective—such as making a profit—and let that serve as the guide. Actually, however, setting objectives is much more complicated, which helps explain why it's often done poorly—or not done at all.

Three basic objectives provide guidelines

The following three objectives provide a useful starting point for setting a firm's objectives. They should be sought *together* because in the long run a failure in even one of the three areas can lead to total failure of the business. A business should:

1. Engage in specific activities that will perform a socially and economically useful function.
2. Develop an organization to carry on the business and implement its strategies.
3. Earn enough profit to survive.[2]

Should be socially useful

The first objective isn't just a "do-gooder" objective. Businesses can't exist without the approval of consumers. If a firm's activities appear to be contrary to the consumer "good," the firm can be wiped out almost overnight by political or legal action—or consumers' own negative responses.

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A firm should set need-satisfying objectives rather than production-oriented objectives. Because customer needs change, too narrow a view may lead the company into a product-market in which the product itself will soon be obsolete.[3]

Should earn some profit

A firm must make a profit to survive. But just saying that a firm should try to make a profit isn't enough. Management must specify the time period involved since many plans that maximize profit in the long run lose money during the first few years. Thousands of new dot.com firms went belly-up after a year or two of losses because they could not even cover their expenses in the short run.

On the other hand, seeking only short-term profits may steer the firm from opportunities that would offer larger long-run profits. For example, Fruit of the Loom struggled to maximize profits with its men's underwear and other clothing lines, but in those intensely competitive markets the maximum possible profit margins were so thin that it ultimately had to reorganize under the bankruptcy law. In a situation like this, it might be better to set a *target* rate of profit that will lead the firm into areas with more promising possibilities.

A mission statement helps set the course

Our three general objectives provide guidelines, but a firm should develop its own objectives. This is important, but top executives often don't state their objectives clearly. Too often, they say what their objectives were after the fact. If objectives aren't clear from the start, different managers may hold unspoken and conflicting objectives—a common problem in large companies and in nonprofit organizations.

Many firms try to avoid this problem by developing a **mission statement,** which sets out the organization's basic purpose for being. For example, the mission of the Fort Smith Public Library (www.fspl.lib.ar.us) is "to serve the minds of the citizens in our community by providing easy access to resources that meet their informational and recreational needs." As illustrated by this example, a good mission statement should focus on a few key goals rather than embracing everything. It should also supply guidelines when managers face difficult decisions. For example, if an employee of the library is trying to decide whether or not to write a proposal for the funding of a Spanish language story time or new computers that provide Internet access, it should be clear that these services are within the scope of the library's stated mission. On the other hand, if another possible opportunity was to use extra space in the library for exercise equipment, it would appear to be beyond the stated mission. Of course, a mission statement may need to be revised as new market needs arise or as the marketing environment changes, but this would be a fundamental change and not one that is made casually.[4]

The whole firm must work toward the same objectives

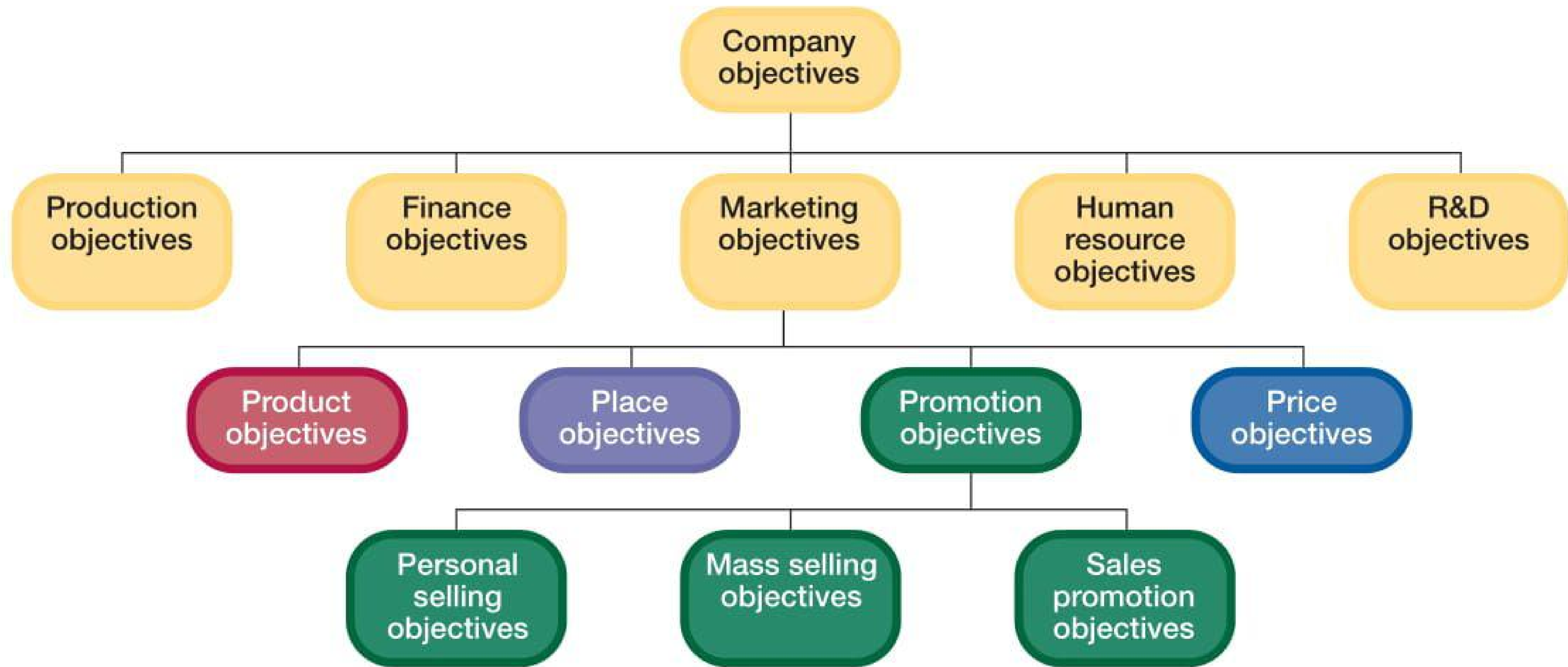
A mission statement is important, but it is not a substitute for more specific objectives that provide guidance in screening possible opportunities. For example, top management might set objectives such as "earn 25 percent annual return on investment," "become the market-share leader in each of our product-markets," and "introduce at least three innovative and successful products in the next two years."

Of course, when there are a number of specific objectives stated by top management, it is critical that they be compatible. If they're not, frustration and even failure may result. For example, a top-management objective of 25 percent annual return on investment may seem reasonable taken by itself. And the objective of introducing new products is reasonable. However, if the costs of developing and introducing the new products cannot be recouped within one year, the return on investment objective is impossible.[5]

Top-management myopia may straitjacket marketing

We are assuming that it is the marketing manager's job to work within the framework of objectives provided by top management. But some of these objectives may limit marketing strategies and perhaps damage the whole business. This is another reason why it is desirable for the marketing manager to help shape the company's objectives.

Exhibit 4-1 A Hierarchy of Objectives



Some top managements want a large market share because they feel this ensures greater profitability. But many large firms with big market shares, like Eastern Airlines, have gone bankrupt. These firms sought large market shares—but earned little profit. Increasingly, managers are shifting their objectives toward *profitable* sales growth rather than just larger market share—as they realize that the two don't necessarily go together.[6]

Company objectives should lead to marketing objectives

You can see why the marketing manager should be involved in setting company objectives. Company objectives guide managers as they search for and evaluate opportunities—and later plan marketing strategies. Particular *marketing* objectives should be set within the framework of larger company objectives. As shown in Exhibit 4-1, firms need a hierarchy of objectives—moving from company objectives to marketing department objectives. For each marketing strategy, firms also need objectives for each of the four Ps—as well as more detailed objectives. For example, in the Promotion area, we need objectives for advertising, sales promotion, *and* personal selling.

Toyota provides a good example. One of its company objectives is to achieve high customer satisfaction. So, the R&D people design vehicles to meet specific reliability objectives. Similarly, the production people work to cut manufacturing defects. The marketing department, in turn, sets specific customer satisfaction objectives for every product. That leads to specific promotion objectives to ensure that the sales and advertising people don't promise more than the company can deliver. Dealers' service people, in turn, work to fix any problem the first time it's reported.

Both company objectives and marketing objectives should be realistic and achievable. Overly ambitious objectives are useless if the firm lacks the resources to achieve them.

Company Resources May Limit Search for Opportunities

Every firm has some resources—hopefully some unique ones—that set it apart. Breakthrough opportunities—or at least some competitive advantage—come from making use of these strengths while avoiding direct competition with firms having similar strengths.

To find its strengths, a firm must evaluate its functional areas (production, research and engineering, marketing, general management, and finance) as well as its present products and markets. The expertise and knowledge of people at the firm can also be a unique resource. By analyzing successes or failures in relation to the firm's resources, management can discover why the firm was successful—or why it failed—in the past.

Harley-Davidson's motorcycle business was on the ropes, and it was losing customers to Japanese competitors. Studying the Japanese firms helped Harley identify ways to produce higher quality motorcycles at lower cost. With these resource-use problems resolved, Harley was again on the road to achieving its objectives. As its sales and reputation grew, its close relationship with Harley owners became a resource that helped Harley introduce a profitable line of accessories. The Harley case highlights both manufacturing quality and relationships with existing customers as resources. Other resources that should be considered as part of an evaluation of strengths and weaknesses are discussed in the following sections.[7]

Financial strength

Some opportunities require large amounts of capital just to get started. Money may be required for R&D, production facilities, marketing research, or advertising before a firm makes its first sale. And even a really good opportunity may not be profitable for years. So lack of financial strength is often a barrier to entry into an otherwise attractive market.

Producing capability and flexibility

In many businesses, the cost of producing and selling each unit decreases as the quantity increases. Therefore, smaller firms can be at a great cost disadvantage if they try to win business from larger competitors.

On the other hand, new—or smaller—firms sometimes have the advantage of flexibility. They are not handicapped with large, special-purpose facilities that are obsolete or poorly located. Large steel producers once enjoyed economies of scale. But today they have trouble competing with producers using smaller, more flexible plants.

Some firms are finding that they have the greatest flexibility by not having any "in house" manufacturing at all. Sara Lee, the company that markets brands like Hanes and L'Eggs, is a good example. Sara Lee sold its manufacturing facilities for many of these textile-related markets. Sara Lee says it doesn't have a competitive advantage in manufacturing. Further, as its needs change in various markets around the world it will buy products from whatever suppliers are best able to meet its specifications. Of course, this could be risky if some other firm can develop a competitive advantage—because it can provide retailers with faster or more reliable response when they place orders.

Marketing strengths

Our marketing strategy planning framework (Exhibit 3-1) helps in analyzing current marketing resources. In the product area, for example, a familiar brand can be a big strength. Starbucks is famous for its coffee beverages. Starbucks Coffee Ice Cream was also a leader within a year of its introduction. People tried it because they knew what Starbucks flavor meant.[8] A new idea or process may be protected by a *patent*. A patent owner has a 20-year monopoly to develop and use its new product, process, or material. If one firm has a strong patent, competitors may be limited to second-rate offerings—and their efforts may be doomed to failure.[9]

Good relations with established middlemen—or control of good locations—can be important resources in reaching some target markets. When marketing managers at Microsoft decided to introduce the Xbox game console, Microsoft software and

A familiar brand name—and other marketing strengths—can be an advantage in seeking new opportunities.

computer accessories had already proved profitable for retailers like Best Buy and Wal-Mart that could reach the target market. So these retailers were willing to give the new product shelf space even if they were already carrying competing products from Nintendo or Sony.[10]

Similarly, existing computer systems that effectively share information in the channel, speed delivery of orders, and control inventory can be a big advantage. When P&G adds a new type of detergent, the systems to manage distribution are already in place.

Promotion and price resources must be considered too. Fidelity Investments already has a skilled sales force. Marketing managers know these sales reps can handle new products and customers. And expertise to create an Internet website for online orders may enable a firm to expand its market and undercut competitors' prices.

Finally, thorough understanding of a target market can give a company an edge. Many companies fail in new product-markets because they don't really understand the needs of the new customers or the new competitive environment.

Analyzing Competitors and the Competitive Environment

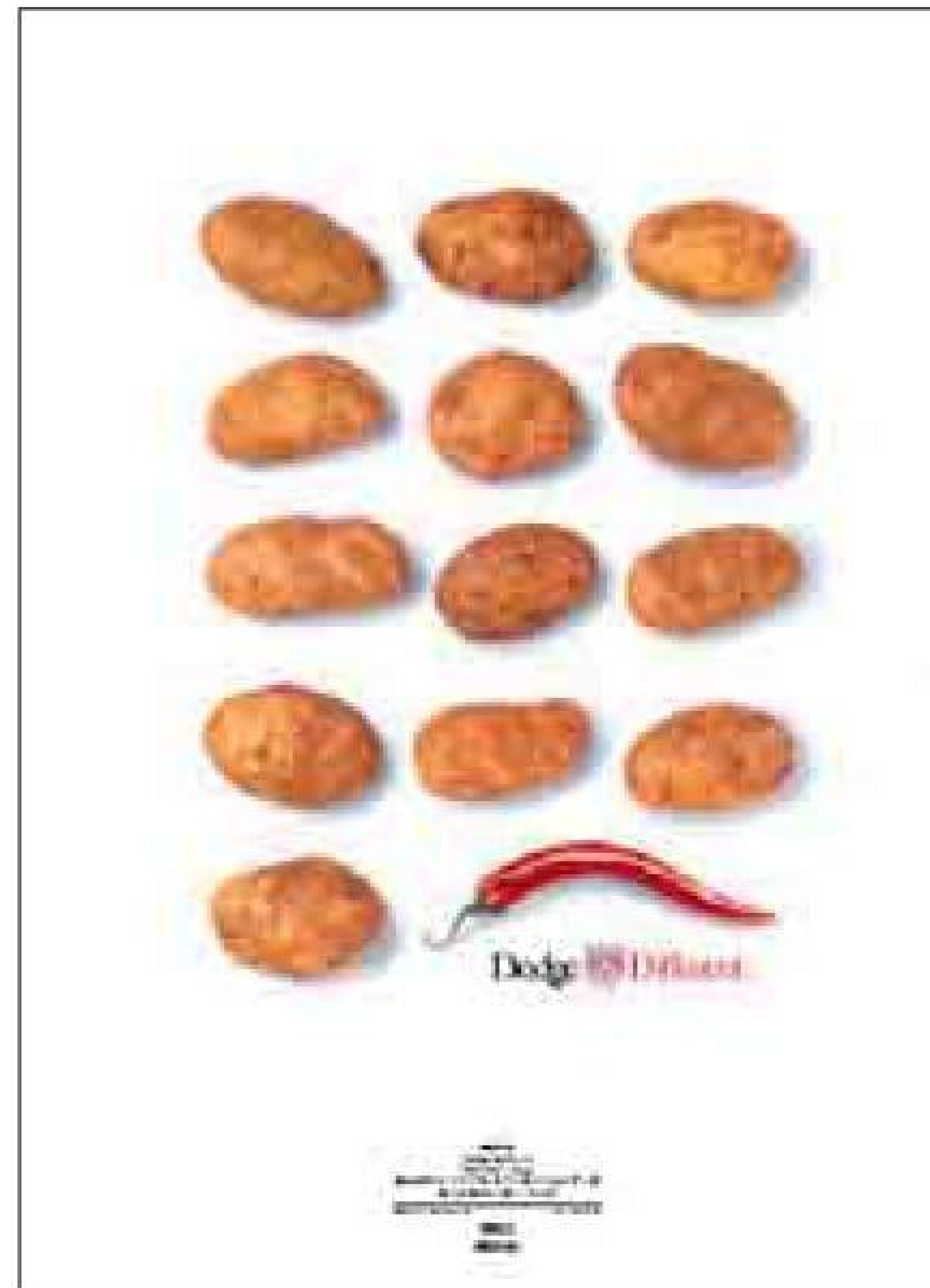
Choose opportunities that avoid head-on competition

The **competitive environment** affects the number and types of competitors the marketing manager must face and how they may behave. Although marketing managers usually can't control these factors, they can choose strategies that avoid head-on competition. And where competition is inevitable, they can plan for it.

Economists describe four basic kinds of market (competitive) situations: pure competition, oligopoly, monopolistic competition, and monopoly. Understanding the differences among these market situations is helpful in analyzing the competitive environment, and our discussion assumes some familiarity with these concepts. (For a review, see Exhibit A-11 and the related discussion in Appendix A, which follows Chapter 22.)

Most product-markets head toward pure competition—or oligopoly—over the long run. In these situations, competitors offer very similar products. Because customers see the different available products (marketing mixes) as close substitutes, managers just compete with lower and lower prices, and profit margins shrink. Sometimes managers do this much too quickly, without really thinking through the question of how they might add more value to the marketing mix. It's crucial to remember that the marketing mix that offers customers the best value is not necessarily the one with the lowest price.

Dodge would like to avoid head-on competition with other auto producers, but that is difficult if potential customers view competing autos as very similar.



Avoiding pure competition is sensible and certainly fits with our emphasis on target marketing and the need to find a competitive advantage on which to differentiate the firm's marketing mix. This is why effective target marketing is fundamentally different from effective decision making in other areas of business. Accounting, production, and financial managers for competing firms can learn about and use the same standardized approaches—and they will work well in each case. By contrast, marketing managers can't just adopt the same "good" marketing strategy being used by other firms. That just leads to head-on competition and a downward spiral in prices and profits. So target marketers try to offer a marketing mix better suited to customers' needs than competitors' offerings.

Competitor-free environments are rare

Most marketing managers would like to have such a strong marketing mix that customers see it as uniquely able to meet their needs. This competitor-free ideal guides the search for breakthrough opportunities. Yet monopoly situations, in which one firm completely controls a broad product-market, are rare in market-directed economies. Further, governments commonly regulate monopolies. For example, in many parts of the world prices set by utility companies must be approved by a government agency. Although most marketing managers can't expect to operate with complete control in an unregulated monopoly, they can move away from head-on competition.

Monopolistic competition is typical—and a challenge

In monopolistic competition, a number of different firms offer marketing mixes that at least some customers see as different. Each competitor tries to get control (a monopoly) in its "own" target market. But competition still exists because some customers see the various alternatives as substitutes. Most marketing managers in developed economies face monopolistic competition.

In monopolistic competition, marketing managers sometimes try to differentiate very similar products by relying on other elements of the marketing mix. For example, Clorox Bleach uses the same basic chemicals as other bleaches. But marketing managers for Clorox may help to set it apart from other bleaches by offering an improved pouring spout, by producing ads that demonstrate its stain-killing power, or by getting it better shelf positions in supermarkets. Yet such approaches may not work, especially if competitors can easily imitate each new idea. Efforts to promote real, but subtle,

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When AOL got started in the U.S., it faced relatively little competition in the new market for online services. However, in entering the European market, it has faced more competition from subscription-free Internet service providers; so promotion focused on AOL's superior support.

differences may not do any good either. If potential customers view the different offerings as essentially similar, the market will become more and more competitive—and firms will have to rely on lower costs to obtain a competitive advantage.

Analyze competitors to find a competitive advantage

The best way for a marketing manager to avoid head-on competition is to find new or better ways to satisfy customers' needs and provide value. The search for a breakthrough opportunity—or some sort of competitive advantage—requires an understanding not only of customers but also of competitors. That's why marketing managers turn to **competitor analysis**—an organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies. A complete discussion of the possible approaches for competitor analysis is beyond the scope of the first marketing course. But we will briefly cover an approach that works well in many different market situations.

The basic approach to competitor analysis is simple. You compare the strengths and weaknesses of your current (or planned) target market and marketing mix with what competitors are currently doing or are likely to do in response to your strategy.

The initial step in competitor analysis is to identify potential competitors. It's useful to start broadly and from the viewpoint of target customers. Companies may offer quite different products to meet the same needs, but they are competitors if customers see them as offering close substitutes. For example, disposable diapers, cloth diapers, and diaper rental services all compete in the same generic market concerned with baby care. Identifying a broad set of potential competitors helps marketing managers understand the different ways customers are currently meeting needs and sometimes points to new opportunities. For example, even parents who usually prefer the economy of cloth diapers may be interested in the convenience of disposables when they travel.

Usually, however, marketing managers quickly narrow the focus of their analysis to the set of **competitive rivals**—firms that will be the closest competitors. Rivals offering similar products are usually easy to identify. However, with a really new and different product concept, there may not be a current competitor with a similar product. In that case, the closest competitor may be a firm that is currently serving similar needs with a different type of product. Although such firms may not appear to be close competitors, they are likely to fight back—perhaps with a directly competitive product—if another firm starts to take away customers.

Anticipate competition that will come

Marketing managers must consider how long it might take for competitors to appear. It's easy to make the mistake of assuming that there won't be competitors—or of discounting how aggressive competition may become. But a successful strategy attracts copycats who jump in for a share of the profit. Sometimes a creative imitator

Exhibit 4-2 Competitor Analysis (summary): Disposable Diaper Competition in Japan

	P&G's Current and Planned Strategy	Kao's Strengths (+) and Weaknesses (−)	Uni-Charm's Strengths (+) and Weaknesses (−)
Target Market(s)	Upscale, modern parents who can afford disposable diapers	Same as for P&G	Same as for P&G, but also budget-conscious segment that includes cloth diaper users (+)
Product	Improved fit and absorbency (+); brand name imagery weak in Japan (−)	Brand familiarity (+), but no longer the best performance (−)	Two brands—for different market segments—and more convenient package with handles (+)
Place	Distribution through independent wholesalers to both food stores and drugstores (+), but handled by fewer retailers (−)	Close relations with and control over wholesalers who carry only Kao products (+); computerized inventory reorder system (+)	Distribution through 80% of food stores in best locations (+); shelf space for two brands (+)
Promotion	Heaviest spending on daytime TV, heavy sales promotion, including free samples (+); small sales force (−)	Large efficient sales force (+); lowest advertising spending (−) and out-of-date ad claims (−)	Advertising spending high (+); effective ads that appeal to Japanese mothers (+)
Price	High retail price (−), but lower unit price for larger quantities (+)	Highest retail price (−), but also best margins for wholesalers and retailers (+)	Lowest available retail price (+); price of premium brand comparable to P&G (−)
(Potential) Competitive Barriers	Patent protection (+), limits in access to retail shelf space (−)	Inferior product (−), excellent logistics support system (+)	Economies of scale and lower costs (+); loyal customers (+)
Likely Response(s)	Improve wholesaler and retailer margins; faster deliveries in channel; change package to require less shelf space	Press retailers to increase in-store promotion; change advertising and/or improve product	Increase short-term sales promotions; but if P&G takes customers, cut price on premium brand

figures out a way to provide customers with superior value. Then, sales may disappear before the pioneer even knows what's happened.

Finding a sustainable competitive advantage requires special attention to competitor strengths and weaknesses. For example, it is very difficult to dislodge a firm that is already a market leader simply by attacking with a similar strategy. The leader can usually defend its position by quickly copying the best parts of what a new competitor is trying to do. On the other hand, an established competitor may not be able to defend quickly if it is attacked where it is weak. For example, Right Guard deodorant built its strong position with an aerosol spray dispenser. But many consumers don't like the messy aerosol cloud; that weakness provided Old Spice with an opportunity for a deodorant in a pump dispenser. Right Guard did not quickly fight back with its own pump because that could have hurt sales of its established product.[11]

Watch for competitive barriers

In a competitor analysis, you also consider **competitive barriers**—the conditions that may make it difficult, or even impossible, for a firm to compete in a market. Such barriers may limit your own plans or, alternatively, block competitors' responses to an innovative strategy.

For example, Exhibit 4-2 summarizes a competitor analysis in the Japanese market for disposable diapers. P&G was about to replace its original Pampers, which were selling poorly, with a new version that offered improved fit and better absorbency. Kao and Uni-Charm, the two leading Japanese producers, both had better distribution networks. Kao also had a better computer system to handle reorders. This was crucial because most Japanese grocery stores and drugstores are very small—about 150 square feet. Shelf space is limited and frequent restocking by wholesalers is critical. So getting cooperation in the channel was a potential

competitive barrier for P&G. Uni-Charm further reduced P&G's access to customers when it took advantage of its relationship with retailers to introduce a second, lower-priced brand. To help overcome resistance in the channel, P&G improved the product, changed the packaging to take up less space, and offered wholesalers and retailers better markups.[12]

Seek information about competitors

A marketing manager should actively seek information about current or potential competitors. Although most firms try to keep the specifics of their plans secret, much public information may be available. For example, many firms routinely monitor competitors' local newspapers. In one such case, an article discussed a change in the competitor's sales organization. An alert marketing manager realized that the change was made to strengthen the competitor's ability to take business from one of her firm's key target markets. This early warning provided time to make adjustments.

Other sources of competitor information include trade publications, alert sales reps, middlemen, and other industry experts. In business markets, customers may be quick to explain what competing suppliers are offering.

The Internet is a powerful way to get information about competitors. A firm that puts all of its marketing information on a website for customers also makes it readily available to competitors. Similarly, computer programs make it easy to search through thousands of online publications and databases for any mention of a competitor. It's also increasingly common to specify what you want and instruct a software "robot" to send you a copy as soon as it's available. This is an incredibly powerful source of information that didn't even exist a few years ago. For more information about this type of Internet news service, check out www.infogate.com. Similarly, websites that provide investors with up-to-date information about companies can also be very useful for competitor analysis; for an example, see www.companysleuth.com.

Internet

Internet Exercise If you were a new marketing manager at Rubbermaid, you might be interested in finding out more about Tupperware, an important competitor in some markets. What type of relevant information could you get by going to the Tupperware website (www.tupperware.com)?

Ethical issues may arise

The search for information about competitors sometimes raises ethical issues. For example, it's not unusual for people to change jobs and move to a competing firm in the same industry. Such people may have a great deal of information about the competitor, but is it ethical for them to use it? Similarly, some firms have been criticized for going too far—like waiting at a landfill for competitors' trash to find copies of confidential company reports. And the high-tech version of that occurs when computer "hackers" use the Internet to break into a competitor's computer network. In minutes, hackers can steal information that has taken years to collect.

Beyond the moral issues, spying on competitors to obtain trade secrets is illegal. Damage awards can be huge. The courts ordered competing firms to pay Procter & Gamble about $125 million in damages for stealing secrets about its Duncan Hines soft cookies. For example, a Frito-Lay employee posed as a potential customer to attend a confidential sales presentation.[13]

Competition may vary from country to country

A firm that faces very stiff competition may find that the competitive environment—and the opportunities—are much better in another region or country. For instance, eight years of slow growth and deregulation made the Japanese market extremely competitive. So, the Iris Ohyama Company, a maker of plastic flower pots and storage containers, started exporting to North America. Within three years, its sales to U.S. retailers like Staples were $60 million—10 percent of total revenue.[14]

Direct competition cannot always be avoided

Despite the desire to avoid highly competitive situations, a firm may find that it can't. Some firms are already in an industry before it becomes intensely competitive. For example, Rubbermaid was one of the first firms to introduce sturdy, low-cost plastic housewares. Now it is a respected brand name but faces competition from hundreds of other firms. As competitors fail, new firms enter the market, possibly because they don't see more attractive alternatives. This is a common pattern with small retailers and wholesalers in less-developed economies. New entrants may not even know how competitive the market is—but they stick it out until they run out of money.

The Economic Environment

The **economic and technological environment** affects the way firms—and the whole economy—use resources. We will treat the economic and technological environments separately to emphasize that the technological environment provides a *base* for the economic environment. Technical skills and equipment affect the way companies convert an economy's resources into output. The economic environment, on the other hand, is affected by the way all of the parts of a macro-economic system interact. This then affects such things as national income, economic growth, and inflation. The economic environment may vary from one country to another, but economies around the world are linked.

Economic conditions change rapidly

The economic environment can, and does, change quite rapidly. The effects can be far-reaching and require changes in marketing strategy.

Even a well-planned marketing strategy may fail if a country or region goes through a rapid business decline. As consumers' incomes drop, they must shift their spending patterns. They may simply have to do without some products. In the late 1990s this happened across countries in Asia, and many businesses collapsed. Those that did not had big losses. You can see how quickly this happens by considering Thailand. In a few months, the buying power of Thai money (the bhat) was cut by half. Imagine how *your* life would change if you suddenly had half as much money. If this happened to you and most of the people you know, what would its effect be on businesses where you buy?

Of course, economic changes are not always this dramatic. Consider the cooling off of the U.S. economy in 2000. The growth of the economy leading up to that time created a strong job market, increased incomes, and focused attention on the rising value of investments. Many consumers felt like they were well off. Purchases of pricey items and luxuries trended up because of this "wealth effect." This behavior quickly disappeared when the economy turned, but for most products demand declined more gradually and overall consumer income and spending did not fall dramatically. Even so, a weak economy undermines consumer confidence, even among families whose income is not affected. When consumer confidence is low, people delay purchasing—especially big ticket items. Similarly, firms cut back on their own purchases. Many companies aren't strong enough to survive such downturns.

Interest rates and inflation affect buying

Changes in the economy are often accompanied by changes in the interest rate—the charge for borrowing money. Interest rates directly affect the total price borrowers must pay for products. So the interest rate affects when, and if, they will buy. This is an especially important factor in some business markets. But it also affects consumer purchases of homes, cars, furniture, computers, and other items usually bought on credit.

Interest rates usually increase during periods of inflation, and inflation is a fact of life in many economies. In some Latin American countries, inflation has

Managers who compete in global markets need to be aware of how changes in the global economy will impact their strategies and opportunities.

exceeded 400 percent a year in recent years. In contrast, recent U.S. levels—3 to 20 percent—seem low. Still, inflation must be considered in strategy planning. When costs are rising rapidly and there are no more cost-cutting measures to take, a marketing manager may have to increase prices. But the decisions of individual marketing managers to raise prices add to macro-level inflation. That can lead to government policies that reduce income, employment, *and* consumer spending.

The global economy is connected

In the past, marketing managers often focused their attention on the economy of their home country. It's no longer that simple. The economies of the world are connected—and changes in one economy quickly affect others. One reason for this is that the amount of international trade is increasing—and it is affected by changes in and between economies. For example, International Harvester (IH) was very successful selling its earth-moving equipment in Asia when construction was booming. However, when the "Asian flu" hit, many customers could no longer make payments. IH faced big losses—and the cost of retrieving equipment that was 13,000 miles away!

Changes in the *exchange rate*—how much one country's money is worth in another country's money—have an important effect on international trade. When the dollar is strong, it's worth more in foreign countries. This sounds good—but it makes U.S. products more expensive overseas and foreign products cheaper in the United States. Then, firms like Compaq lose foreign customers to producers from other countries.

A marketing manager isn't safe from the forces of changing exchange rates just because his or her firm is not involved in foreign trade. New competition arises in domestic markets as foreign products gain a competitive edge with lower prices. Many companies find themselves helpless during such economic change. In fact, a country's whole economic system can change as the balance of imports and exports shifts—affecting jobs, consumer income, and national productivity.

You can see that the marketing manager must watch the economic environment carefully. In contrast to the cultural and social environment, economic conditions change continuously. And they can move rapidly—up or down—requiring immediate strategy changes.[15]

The Technological Environment

Technology affects opportunities

Technology is the application of science to convert an economy's resources to output. Technology affects marketing in two basic ways: with new products and with new processes (ways of doing things). For example, we are moving from an industrial society to an information society. Advances in information technology make it possible for people in different parts of the world to communicate face-to-face with satellite video-conferencing and to transmit complex design drawings over the Internet. Websites enable sophisticated e-commerce exchanges between remote firms. These process changes are accompanied by an exciting explosion of high-tech products—from genome-based medicines to micro-lasers in factories to cars that contact the police if they are stolen.

Technology transfer is rapid

New technologies have created important industries that didn't even exist a few years ago. Fifteen years ago AOL didn't exist. Now it's one of the best known brands in the world. With such big opportunities at stake, you can also see why there is such rapid transfer of technology from one part of the world to another. But technology transfer is not automatic. Someone—perhaps you—has to see the opportunity.

Internet technologies are reshaping marketing

Many of the big advances in business have come from early recognition of new ways to do things. There is perhaps no better example of this than the World Wide Web and the Internet. The **Internet** is a system for linking computers around the world. The idea of linking computers in a network is not new. It's been around for years. Further, when we say that the Internet is a system it might be more accurate to just think of it as a collection of consistent hardware and software standards. Even so, the Internet expands the network concept to include any computer anywhere. Further, the World Wide Web makes the exchange of information on the Internet easy. As a result, this new technology is radically changing just about every aspect of marketing. We'll be discussing these changes in more detail throughout the text, so for now we'll just illustrate the impact.

Consider the arena of promotion. The invention of TV changed marketing because it suddenly made it possible for a sponsor to broadcast a vivid message to millions of people at the same time. Now, the Internet makes it possible for that sponsor to select any of millions of messages and to simultaneously narrowcast any of them to millions of different individuals. It is just as easy for customers to request the information in the first place, or to respond electronically once they have it. Thus, the Internet's capability radically changes our ideas about how firms communicate with customers, and vice versa. Similarly, the Internet is creating totally different approaches to pricing. Airlines are now running online auctions of seats that might otherwise go unsold. If you sell every seat to the highest bidder, you are really pricing precisely to match supply and demand. To check out an online auction, go to www.ebay.com.

In hindsight, new approaches such as these seem obvious—given that the technology is available. But they are not obvious up front—unless you're really looking for them. Marketers should help their firms see such opportunities by trying to understand the "why" of present markets—and what is keeping their firms from being more successful. Then, as new technological developments come along, the marketers will be alert to possible uses of those technologies and see how opportunities can be turned into profits.[16]

Technology also poses challenges

The rapid pace of technological change opens up new opportunities, but it also poses challenges for marketers. For some firms, success hinges on how quickly new ideas can be brought to market. But it's easy for a firm to slip into a production orientation

RealMedia promotes the multimedia capabilities of its website products to marketing managers because it knows that its technological innovations will result in new market opportunities for other firms only if marketing managers see the possibilities.

in the flush of excitement that comes from a new idea or R&D discovery. That makes it more important than ever for marketing thinking to guide the production process—starting at the beginning with decisions about what customers will really value and where development efforts should be focused.

Technology and ethical issues

Marketers must also help their firms decide what technological developments are ethically acceptable. For example, many firms use a system to identify incoming callers. Before the phone is even answered the computer shows who is calling and detailed information—ranging from what purchases the customer has made in the past to the income level of people who live in the caller's zip code area. This can be a powerful marketing tool, but many people feel that it's an invasion of privacy. Similarly, many firms track information about who "hits" the company web page and what website they came from. The firm can then sell this information to whoever wants to use it to send promotional e-mail. Yet uninvited e-mail is just another form of invasion of privacy.

With the growing concern about environmental pollution and the quality of life, some attractive technological developments may be rejected because of their long-run effects on the environment. Aseptic drink boxes, for example, are convenient but difficult to recycle. In a case like this, what's good for the firm and some customers may not be good for the cultural and social environment or acceptable in the political and legal environment. Being close to the market should give marketers a better feel for current trends and help firms avoid serious mistakes.[17]

The Political Environment

The attitudes and reactions of people, social critics, and governments all affect the political environment. Consumers in the same country usually share a common political environment, but the political environment can also have a dramatic effect on opportunities at a local or international level. Some business managers have become very successful by studying the political environment and

developing strategies that take advantage of opportunities related to changing political dimensions.

Nationalism can be limiting in international markets

Strong sentiments of **nationalism**—an emphasis on a country's interests before everything else—affect how macro-marketing systems work. They can affect how marketing managers work as well. Nationalistic feelings can reduce sales—or even block all marketing activity—in some international markets. For many years, Japan has made it difficult for outside firms to do business there—in spite of the fact that Japanese producers of cars, TVs, digital cameras, and other products have established profitable markets in the United States, Europe, and other parts of the world. Japan is under pressure to change, but the changes are coming slowly.

The "Buy American" policy in many government contracts and business purchases reflects this same attitude in the U.S. There is broad support for protecting U.S. producers—and jobs—from foreign competition.[18]

Nationalistic feelings can determine whether a firm can enter markets because businesses often must get permission to operate. In some political environments, this is only a routine formality. In others, a lot of red tape and personal influence are involved, and bribes are sometimes expected. This raises ethical issues for marketing managers—and legal issues too, since it's illegal for U.S. firms to offer such bribes. Clearly, that can make it difficult for a U.S. firm to compete with a company from a country that doesn't have similar laws.

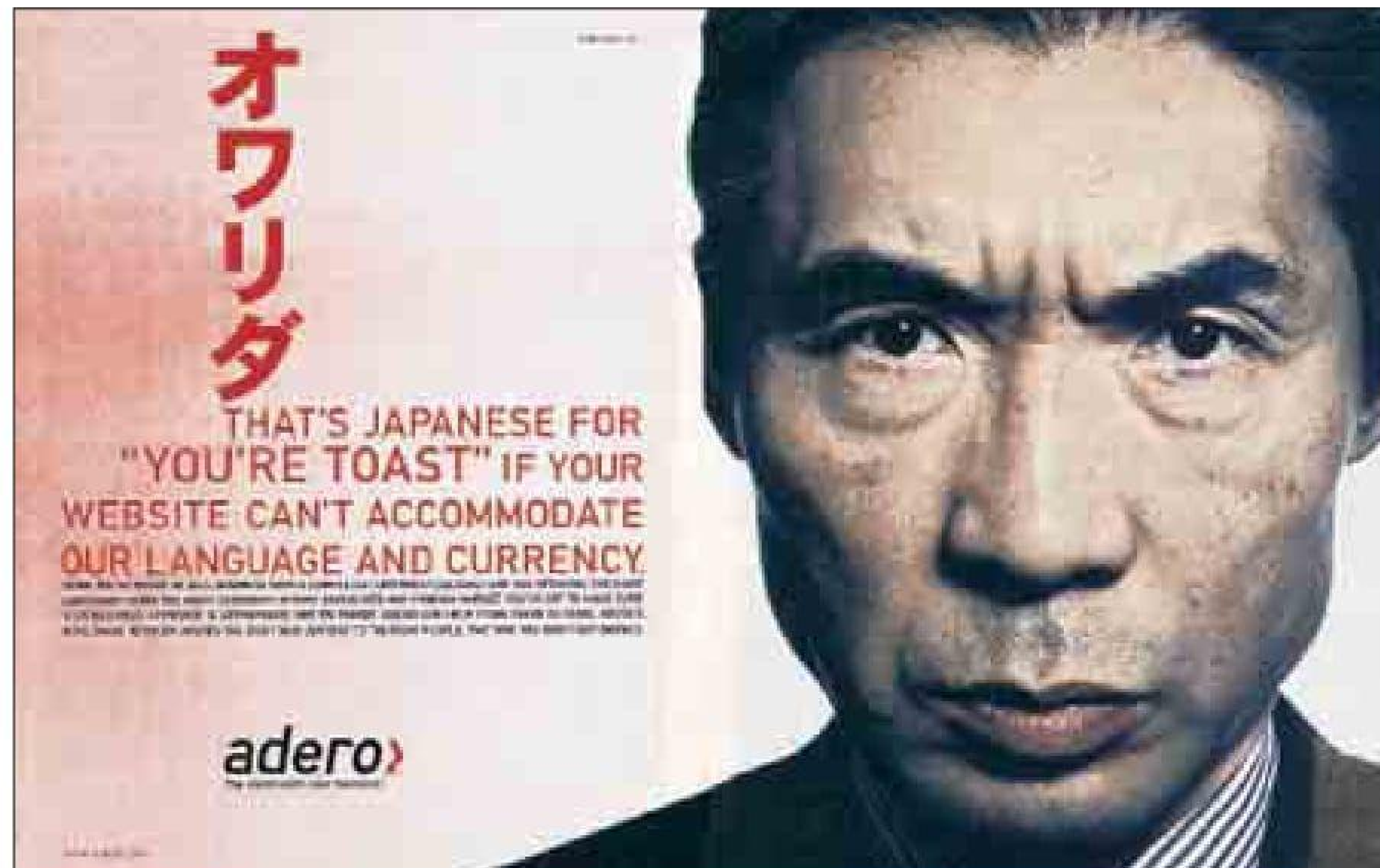
Regional groupings are becoming more important

Important dimensions of the political environment are likely to be similar among nations that have banded together to have common regional economic boundaries. The move toward economic unification of Europe and free trade among the nations of North America are outstanding examples of this sort of regional grouping.

The unification of European markets

In the past, each country in Europe had its own unique trade rules and regulations. These differences—and nationalistic squabbles—made it difficult and expensive to move products from one country to the others. Now, the member countries of the European Union (EU) are trying to reduce conflicting laws, taxes, and other obstacles to trade within Europe. Trucks loaded with products now spill across borders of the European continent and Britain. The increased efficiency is reducing costs and the prices European consumers pay and creating new jobs. Even bigger changes may come if Britain decides to join other key member countries that have moved to the euro, a new unified money system for the EU. With the currencies of countries in the euro-zone phased out, transactions no longer involve the extra uncertainty and cost of converting payments from one currency to another.

Step-by-step Europe is becoming the largest unified market in the world, but marketers should still expect to encounter some differences among European countries. What happened to Lands' End, the Wisconsin-based Internet and mail-order retailer, illustrates the issues. To better reach pan-European consumers, Lands' End set up shop in England and Germany. As in the U.S., its promotion and website touted the unconditional lifetime guarantee that is a key part of its strategy. However, German consumer protection rules prohibited promotion of the lifetime guarantee; the Germans argued that promoting the guarantee was a misleading gimmick (on the logic that the cost of the guarantee was "hidden" in higher prices that consumers would pay). German officials wanted this ban to apply even if the German consumer purchased the product from a Lands' End website in England or the U.S. This obviously made things difficult for Lands' End, but there is also an important broader concern. If quirky local rules like this are allowed to prevail in the future, small companies that want to use e-commerce to efficiently reach the whole European market will have to comply not only with the laws of the



Adero wants marketers to keep in mind that a website that can attract prospects from all over the world won't be successful in turning them into customers if it ignores nationalism and cultural differences.

country in which they operate but also with all of the different laws in every country. This would certainly hinder the advantages that should come from more European unification.[19]

NAFTA is building trade cooperation

The international competition fostered by the moves to unify Europe provided impetus for the U.S., Mexico, and Canada to develop more cooperative trade agreements. **The North American Free Trade Agreement (NAFTA)** lays out a plan to reshape the rules of trade among the U.S., Canada, and Mexico. NAFTA basically enlarges the free-trade pact that had already knocked down most barriers to U.S.–Canada trade, and over a 15-year period it will eliminate most such barriers with Mexico. It also establishes a forum for resolving future trade disputes.

NAFTA is a long-term proposition, and its overall economic impact is yet to be seen. However, tariffs that have already dropped are having a significant impact on specific businesses. For example, Raychem Corp., a small producer of telecommunications equipment, no longer faces a 25 percent tariff on exports to Mexico. That is leveling its competitive playing field and creating new opportunities. More generally, NAFTA is creating a free-trade region that encompasses over 400 million people and three economies that produce over $9 trillion worth of goods and services annually. Thus, the changes that result from NAFTA may ultimately be as significant as those in Europe. Talks are underway to explore the concept of expanding NAFTA to create a free-trade zone for 34 countries across North, South, and Central America.

Of course, removal of some economic and political barriers—whether across all of the Americas or Europe—will not eliminate the need to adjust strategies to reach submarkets of consumers. Centuries of political and cultural differences will not disappear overnight. Some may never disappear.[20]

Some dramatic changes in the political environment—like the fall of communism in Eastern Europe—happen fast and are hard to predict. Yet many important political changes—both within and across nations—evolve more gradually. The development of consumerism is a good example.

Consumerism is here—and basic

Consumerism is a social movement that seeks to increase the rights and powers of consumers. In the last 40 years, consumerism has emerged as a major political force. Although the consumer movement has spread to many different countries, it was born in America.

The basic goals of modern consumerism haven't changed much since 1962, when President Kennedy's "Consumer Bill of Rights" affirmed consumers' rights to safety, to be informed, to choose, and to be heard.

Thirty-five years ago, U.S. consumerism was much more visible. Consumers staged frequent boycotts and protest marches and attracted much media attention. Today, consumer groups provide information and work on special projects like product safety standards. Publications like *Consumer Reports* provide product comparisons and information on other consumer concerns.

Clearly, top management—and marketing managers—must continue to pay attention to consumer concerns. The old, production-oriented ways of doing things are no longer acceptable.[21]

The Legal Environment

Changes in the political environment often lead to changes in the legal environment and in the way existing laws are enforced. The legal environment sets the basic rules for how a business can operate in society. The legal environment may severely limit some choices, but changes in laws and how they are interpreted also create new opportunities. To illustrate the effects of the legal environment, we will discuss how it has evolved in the United States. However, keep in mind that laws often vary from one geographic market to another—especially when different countries are involved.

Trying to encourage competition

American economic and legislative thinking is based on the idea that competition among many small firms helps the economy. Therefore, attempts by business to limit competition are considered contrary to the public interest.

As industries grew larger after the Civil War, some became monopolies controlled by wealthy businessmen—the robber barons. Smaller producers had trouble surviving. A movement grew—especially among Midwestern farmers—to control monopolists.

Starting in 1890, Congress passed a series of antimonopoly laws. Exhibit 4-3 shows the names and dates of these laws. Although the specific focus of each law is different, in general they are all intended to encourage competition.

Antimonopoly law and marketing mix planning

In later chapters, we will specifically apply antimonopoly law to the four Ps. For now you should know what kind of proof the government must have to get a conviction under each of the major laws. You should also know which of the four Ps are most affected by each law. Exhibit 4-3 provides such a summary—with a phrase following each law to show what the government must prove to get a conviction.

Prosecution is serious—you can go to jail

Businesses and *individual managers* are subject to both criminal and civil laws. Penalties for breaking civil laws are limited to blocking or forcing certain actions—along with fines. Where criminal law applies, jail sentences can be imposed. For example, several managers at Beech-Nut Nutrition Company were fined $100,000 each and sentenced to a year in jail. In spite of ads claiming that Beech-Nut's apple juice was 100 percent natural, they tried to bolster profits by secretly using low-cost artificial ingredients.[22]

Consumer protection laws are not new

Although antimonopoly laws focus on protecting competition, the wording of the laws in Exhibit 4-3 has, over time, moved toward protecting consumers. Some

Exhibit 4-3 Focus (mostly prohibitions) of Federal Antimonopoly Laws on the Four Ps

Law	Product	Place	Promotion	Price
Sherman Act (1890) Monopoly or conspiracy in restraint of trade	Monopoly or conspiracy to control a product	Monopoly or conspiracy to control distribution channels		Monopoly or conspiracy to fix or control prices
Clayton Act (1914) Substantially lessens competition	Forcing sale of some products with others—tying contracts	Exclusive dealing contracts (limiting buyers' sources of supply)		Price discrimination by manufacturers
Federal Trade Commission Act (1914) Unfair methods of competition		Unfair policies	Deceptive ads or selling practices	Deceptive pricing
Robinson-Patman Act (1936) Tends to injure competition		Prohibits paying allowances to "direct" buyers in lieu of middlemen costs (brokerage charges)	Prohibits "fake" advertising allowances or discrimination in help offered	Prohibits price discrimination on goods of "like grade and quality" without cost justification, and limits quantity discounts
Wheeler-Lea Amendment (1938) Unfair or deceptive practices	Deceptive packaging or branding		Deceptive ads or selling claims	Deceptive pricing
Antimerger Act (1950) Lessens competition	Buying competitors	Buying producers or distributors		
Magnuson-Moss Act (1975) Unreasonable practices	Product warranties			

consumer protections are also built into the English and U.S. common law systems. A seller has to tell the truth (if asked a direct question), meet contracts, and stand behind the firm's product (to some reasonable extent). Beyond this, it is expected that vigorous competition in the marketplace will protect consumers—*so long as they are careful.*

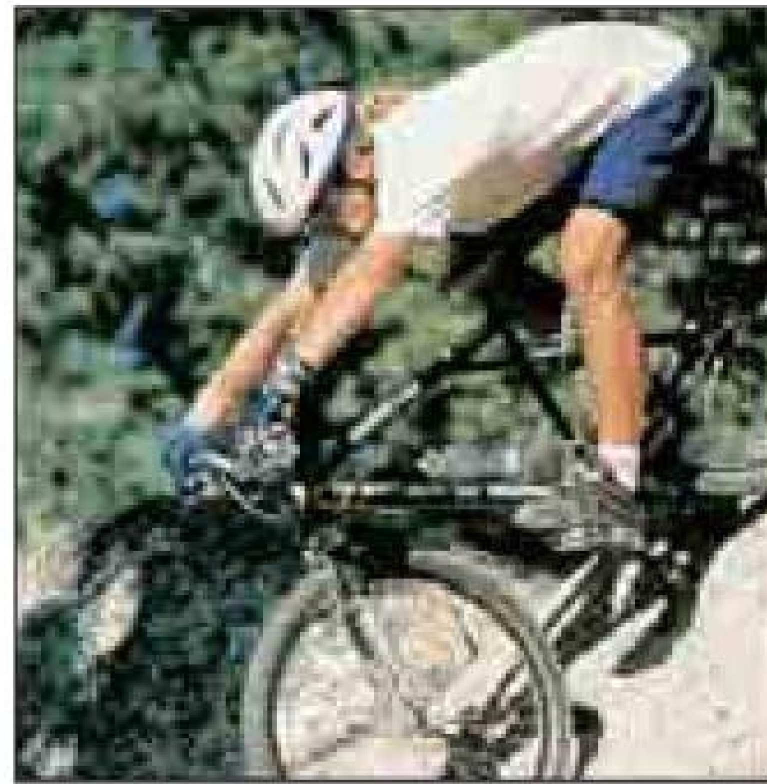
Yet focusing only on competition didn't protect consumers very well in some areas. So the government found it necessary to pass other laws. For example, various laws regulate packaging and labels, credit practices, and environmental issues. Usually, however, the laws focus on specific types of products.

Foods and drugs are controlled

Consumer protection laws in the United States go back to 1906 when Congress passed the Pure Food and Drug Act. Unsanitary meat-packing practices in the Chicago stockyards stirred consumer support for this act. This was a major victory for consumer protection. Before the law, it was assumed that common law and the old warning "let the buyer beware" would take care of consumers.

Later acts corrected some loopholes in the law. The law now bans the shipment of unsanitary and poisonous products and requires much testing of drugs. The Food and Drug Administration (FDA) attempts to control manufacturers of these products. It can seize products that violate its rules—including regulations on branding and labeling.

Product safety is controlled



The Consumer Product Safety Act (of 1972), another important consumer protection law, set up the Consumer Product Safety Commission. This group has broad power to set safety standards and can impose penalties for failure to meet these standards. There is some question as to how much safety consumers really want—the commission found the bicycle the most hazardous product under its control!

But given that the commission has the power to *force* a product off the market—or require expensive recalls to correct problems—it is obvious that safety must be considered in product design. And safety must be treated seriously by marketing managers. There is no more tragic example of this than the recent recalls of Firestone tires used as original equipment on Ford's Explorer SUV. Hundreds of consumers were killed or seriously injured in accidents. Consumer faith in the Firestone brand is so low that it may not survive—even if the company isn't bankrupted by the costs of the recalls and lawsuit damages.[23]

Internet

Internet Exercise The Consumer Product Safety Commission sometimes requires auto makers to issue recalls. However, not all consumers learn about the recalls. Go to the *Consumer Reports* website (www.consumerreports.org) and select the link for recalls. Then check to see if there has been a recall on a year and model of car or truck that is of interest to you (say, one owned by your family).

State and local laws vary

Besides federal legislation—which affects interstate commerce—marketers must be aware of state and local laws. There are state and city laws regulating minimum prices and the setting of prices, regulations for starting up a business (licenses, examinations, and even tax payments), and in some communities, regulations prohibiting certain activities—such as telephone selling or selling on Sundays or during evenings.

Know the laws—follow the courts and federal agencies

Often laws are vaguely phrased—to convey intent but not specific detail. Then it's up to the courts and government agencies to spell out the details. As a result, a law may be interpreted and enforced differently over time. For example, during the late 1970s and 1980s, many U.S. government agencies regulated businesses less zealously and instead focused more on encouraging competition. Attention to regulation was swinging the other way in the 1990s—in part to correct abuses such as those that occurred in the savings and loan industry.

It was in this sort of political environment that the U.S. Justice Department, and the attorney generals in a number of states, brought charges against Microsoft. Many government officials, competitors, and consumer interest groups felt that Microsoft violated the antimonopoly laws, and at one point a judge declared that Microsoft would be broken up into two or more competing companies. However, the court case dragged out for over five years, and by the time of the national elections in 2000 the political climate was swinging toward less aggressive enforcement of the laws. As this very visible and important case shows, how the laws are interpreted and enforced can be even more important than the wording of the law when it was originally written.[24]

Because legislation must be interpreted by federal agencies and the courts, marketing managers need to study both legislative developments and the thinking of the courts and agencies. See Exhibit 4-4 for a description of some important federal regulatory agencies that should be considered in marketing strategy planning.

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Exhibit 4-4 Some Important U.S. Federal Regulatory Agencies

Agencies	Responsibilities
Federal Trade Commission (FTC)	Enforces laws and develops guidelines regarding unfair business practices
Food and Drug Administration (FDA)	Enforces laws and develops regulations to prevent distribution and sale of adulterated or misbranded foods, drugs, cosmetics, and hazardous consumer products
Consumer Product Safety Commission (CPSC)	Enforces the Consumer Product Safety Act—which covers any consumer product not assigned to other regulatory agencies
Federal Communications Commission (FCC)	Regulates interstate wire, radio, television, and telephone
Environmental Protection Agency (EPA)	Develops and enforces environmental protection standards
Office of Consumer Affairs (OCA)	Handles consumers' complaints

Consumerists and the law say "Let the seller beware"

The old rule about buyer–seller relations—*let the buyer beware*—has changed to *let the seller beware*. The current shift to proconsumer laws and court decisions suggests that lawmakers are more interested in protecting consumers. This may upset production-oriented managers. But times have changed—and managers must adapt to this new political and legal environment. After all, it is the consumers—through their government representatives—who determine the kind of economic system they want.[25]

The Cultural and Social Environment

The **cultural and social environment** affects how and why people live and behave as they do—which affects customer buying behavior and eventually the economic, political, and legal environment. Many variables make up the cultural and social environment. Some examples are the languages people speak, the type of education they have, their religious beliefs, what type of food they eat, the style of clothing and housing they have, and how they view work, marriage, and family. Because the cultural and social environment has such broad effects, most people don't stop to think about it, or how it may be changing, or how it may differ for other people.

A marketing manager can't afford to take the cultural and social environment for granted. Although changes tend to come slowly, they can have far-reaching effects. A marketing manager who sees the changes early may be able to identify big opportunities. Further, within any broad society, different subgroups of people may be affected by the cultural and social environment in different ways. In most countries, the trend toward multiculturalism is making such differences even more important to marketers. They require special attention when segmenting markets. In fact, dealing with these differences is often one of the greatest challenges managers face when planning strategies, especially for international markets.

Since we will discuss details of how the cultural and social environment relates to buying behavior in Chapters 5 through 7, here we will just use an example to illustrate its impact on marketing strategy planning.

Changing women's roles

The shifting roles of women in society illustrate the importance of the cultural and social environment on marketing strategy planning. Forty years ago, most people in the United States felt that a woman's role was in the home—first and foremost as a wife and mother. Women had less opportunity for higher education and were completely shut out of many of the most interesting jobs. Obviously,

Kellogg realizes that more and more consumers are feeling a "poverty of time," so it uses humor to focus on the time-saving benefits of its Nutri-Grain bar as an on-the-go breakfast.

there have been big changes in that stereotyped thinking. With better job opportunities, more women are delaying marriage, and once married they are likely to stay in the workforce and have fewer children. For example, in 1950, only 24 percent of wives worked outside the home. Now that figure is over 60 percent. Among women in the 35–44 age group, the percentage is already over 70. Not everything has changed, though. The median income for women lags and is only 73 percent of men's.

Still, the flood of women into the job market boosted economic growth and changed U.S. society in many other ways. Many in-home jobs that used to be done primarily by women—ranging from family shopping to preparing meals to doing volunteer work—still need to be done by someone. Husbands and children now do some of these jobs, a situation that has changed the target market for many products. Or a working woman may face a crushing "poverty of time" and look for help elsewhere, creating opportunities for producers of frozen meals, child care centers, dry cleaners, financial services, and the like.

Although there is still a big wage gap between men and women, the income working women generate gives them new independence and purchasing power. For example, women now purchase about half of all cars. Not long ago, many car dealers insulted a woman shopper by ignoring her or suggesting that she come back with her husband. Now car companies have realized that women are important customers. It's interesting that Japanese car dealers, especially Mazda and Toyota, were the first to really pay attention to women customers. In Japan, fewer women have jobs or buy cars—the Japanese society is still very much male-oriented. Perhaps it was the extreme contrast with Japanese society that prompted these firms to pay more attention to women buyers in the United States.[26]

Women's changing role has created opportunities for marketing but also complications. A marketing mix targeted at women, for example, may require a real balancing act. Advertising showing a woman at the office may attract some customers but alienate housewives who feel that their job doesn't command as much status as it should. Conversely, an ad that shows a woman doing housework might be criticized for encouraging stereotypes.

Changes come slowly

Most changes in basic cultural values and social attitudes come slowly. An individual firm can't hope to encourage big changes in the short run. Instead, it should identify current attitudes and work within these constraints—as it seeks new and better opportunities.[27]

Using Screening Criteria to Narrow Down to Strategies

A progressive firm constantly looks for new opportunities. Once the opportunities are identified, the firm must screen and evaluate them. Usually, a firm can't pursue all available opportunities, so it must try to match its opportunities to its resources and

Enron Trades on Success

Managers at Enron take pride in their ability to spot market changes and then quickly develop profitable new strategies. Enron started in the natural gas pipeline business. When natural gas distribution was deregulated in the late 1980s, Enron increased the use of its pipeline by finding producers with excess supply and selling the excess to firms in other areas where demand was high. In the 1990s, it used its expertise in matching supply and demand to become a wholesaler for other commodities—ranging from electricity to steel—often for the same customers. Originally this buying and selling was handled by fax and phone, but now it's a natural fit for the Web (www.enrononline.com). For example, Enron posts prices for an array of energy contracts. Utilities caught short on supply can make a purchase with a click of the mouse. Producers with excess capacity can check the price Enron is willing to pay. Then Enron's staff does credit checks, handles billing, and schedules transmission capacity to actually deliver the electricity. Enron has become so good with this approach that it now uses it to "make markets" for hundreds of other products—ranging from capacity on telecommunications lines to pollution emissions credits. It handles thousands of transactions each day. As a result, Enron has quickly become the largest business-to-business e-commerce operator. However, dealing with so many buyers and sellers from different economies around the globe increases the risk that Enron will face more losses from credit defaults. So one of its criteria for screening new opportunities is that the expected profits be large relative to the credit risks.[28]

www.mhhe.com/fourps

objectives. First, management must quickly screen out obvious mismatches so other opportunities can be analyzed more carefully. Let's look at some approaches for screening and evaluating opportunities.

Developing and applying screening criteria

After you analyze the firm's resources (for strengths and weaknesses), the environmental trends the firm faces, and the objectives of top management, you merge them all into a set of product-market screening criteria. These criteria should include both quantitative and qualitative components. The quantitative components summarize the firm's objectives: sales, profit, and return on investment (ROI) targets. (Note: ROI analysis is discussed briefly in Appendix B, which comes after Chapter 22.) The qualitative components summarize what kinds of businesses the firm wants to be in, what businesses it wants to exclude, what weaknesses it should avoid, and what resources (strengths) and trends it should build on.[29]

Developing screening criteria is difficult but worth the effort. They summarize in one place what the firm wants to accomplish—in quantitative terms—as well as roughly how and where it wants to accomplish it. When a manager can explain the specific criteria that are relevant to selecting (or screening out) an opportunity, others can understand the manager's logic. Thus, marketing decisions are not just made or accepted based on intuition and gut feel. On the other hand, if the criteria are constantly changing when the focus moves from one opportunity to another, then the decision making is not consistent.

The criteria should be realistic—that is, they should be achievable. Opportunities that pass the screen should be able to be turned into strategies that the firm can implement with the resources it has.

Exhibit 4-5 illustrates some product-market screening criteria for a small retail and wholesale distributor. These criteria help the firm's managers eliminate unsuitable opportunities and find attractive ones to turn into strategies and plans.

Whole plans should be evaluated

You need to forecast the probable results of implementing a marketing strategy to apply the quantitative part of the screening criteria because only implemented plans generate sales, profits, and return on investment (ROI). For a rough screening, you only need to estimate the likely results of implementing each opportunity over a logical planning period. If a product's life is likely to be three years, for example, a good strategy may not produce profitable results for 6 to 12 months. But evaluated over the projected three-year life, the product may look like a winner. When evaluating the potential of possible opportunities (product-market strategies), it is important to evaluate similar things—that is, *whole* plans.

Exhibit 4-5 An Example of Product-Market Screening Criteria for a Small Retail and Wholesale Distributor ($10 million annual sales)

1. Quantitative criteria
- a. Increase sales by $1,500,000 per year for the next five years.
- b. Earn ROI of at least 25 percent before taxes on new ventures.
- c. Break even within one year on new ventures.
- d. Opportunity must be large enough to justify interest (to help meet objectives) but small enough so company can handle with the resources available.
- e. Several opportunities should be pursued to reach the objectives—to spread the risks.

2. Qualitative criteria
- a. Nature of business preferred.
  - (1) Should take advantage of our online Internet order system and website promotion.
  - (2) New goods and services for present customers to strengthen relationships and revenue.
  - (3) "Quality" products that do not cannibalize sales of current products.
  - (4) Competition should be weak and opportunity should be hard to copy for several years.
  - (5) There should be strongly felt (even unsatisfied) needs—to reduce promotion costs and permit "high" prices.
- b. Constraints.
  - (1) Nature of businesses to exclude.
    - (a) Manufacturing.
    - (b) Any requiring large fixed capital investments.
    - (c) Any requiring many support people who must be "good" all the time and would require much supervision.
  - (2) Geographic.
    - (a) United States, Mexico, and Canada only.
  - (3) General.
    - (a) Make use of current strengths.
    - (b) Attractiveness of market should be reinforced by more than one of the following basic trends: technological, demographic, social, economic, political.
    - (c) Market should not be bucking any basic trends.

Opportunities that pass the screening criteria should be evaluated in more detail before being accepted as *the* product-market strategic plans for implementation. Usually, a firm has more opportunities than resources and has to choose among them—to match its opportunities to its resources and objectives. The following approaches help firms select among possible plans.

Total profit approach can help evaluate possible plans

In the total profit approach, management forecasts potential sales and costs during the life of the plan to estimate likely profitability.

Managers may evaluate the prospects for each plan over a five-year planning period, using monthly and/or annual sales and cost estimates. This is shown graphically in Exhibit 4-6.

Note that managers can evaluate different marketing plans at the same time. Exhibit 4-6 compares a much improved product and product concept (Product A) with a "me-too" product (Product B) for the same target market. In the short run, the me-too product will make a profit sooner and might look like the better choice—if managers consider only one year's results. The improved product, on the other hand, will take a good deal of pioneering—but over its five-year life will be much more profitable.

Return-on-investment (ROI) approach can help evaluate possible plans too

Besides evaluating the profit potential of possible plans, firms may also calculate the return on investment (ROI) of resources needed to implement plans. One plan may require a heavy investment in advertising and channel development, for example, while another relies primarily on lower price.

ROI analyses can be useful for selecting among possible plans because equally profitable plans may require vastly different resources and offer different rates of return on investment. Some firms are very concerned with ROI, especially those that borrow money for working capital. There is little point in borrowing to implement strategies that won't return enough to meet the cost of borrowing.

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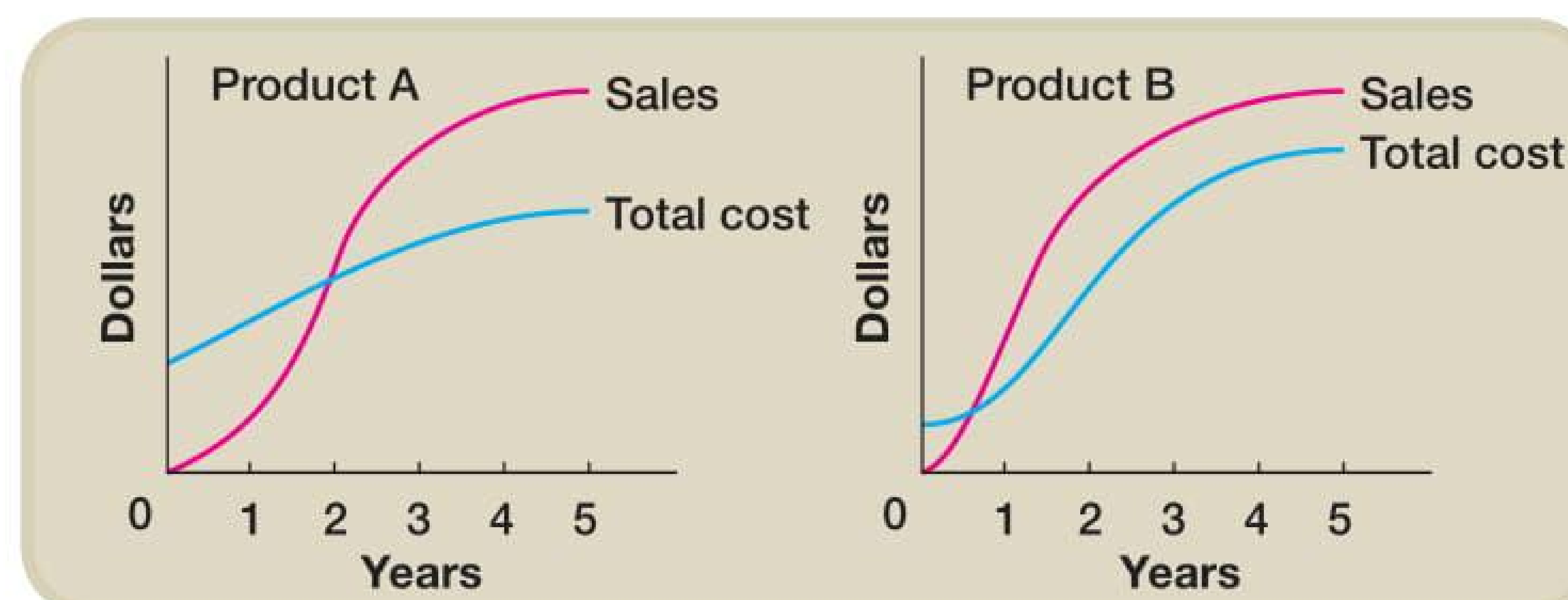

Exhibit 4-6
Expected Sales and Cost Curves of Two Strategies over Five-Year Planning Periods

Planning Grids Help Evaluate a Portfolio of Opportunities

When a firm has many possibilities to evaluate, it usually has to compare quite different ones. This problem is easier to handle with graphical approaches—such as the nine-box strategic planning grid developed by General Electric and used by many other companies. Such grids can help evaluate a firm's whole portfolio of strategic plans or businesses.

General Electric looks for green positions

General Electric's strategic planning grid—see Exhibit 4-7—forces company managers to make three-part judgments (high, medium, and low) about the business strengths and industry attractiveness of all proposed or existing product-market plans. As you can see from Exhibit 4-7, this approach helps a manager organize information about the company's marketing environments (discussed earlier in this chapter) along with information about its strategy and translate it into relevant screening criteria.

The industry attractiveness dimension helps managers answer the question: Does this product-market plan look like a good idea? To answer that question, managers have to judge such factors (screening criteria) as the size of the market and its growth rate, the nature of competition, the plan's potential environmental or social impact, and how laws might affect it. Note that an opportunity may be attractive for *some* company—but not well suited to the strengths (and weaknesses) of a particular firm. That is why the GE grid also considers the business strengths dimension.

The business strengths dimension focuses on the ability of the company to pursue a product-market plan effectively. To make judgments along this dimension, a manager evaluates whether the firm has people with the right talents and skills to implement the plan, whether the plan is consistent with the firm's image and profit objectives, and whether the firm could establish a profitable market share given its technical capability, costs, and size. Here again, these factors suggest screening criteria specific to this firm and market situation.

GE feels opportunities that fall into the green boxes in the upper left-hand corner of the grid are its best growth opportunities. Managers give these opportunities high marks on both industry attractiveness and business strengths. The red boxes in the lower right-hand corner of the grid, on the other hand, suggest a no-growth policy. Existing red businesses may continue to generate earnings, but they no longer deserve much investment. Yellow businesses are borderline cases—they can go either way. GE may continue to support an existing yellow business but will probably reject a proposal for a new one. It simply wouldn't look good enough on the relevant screening criteria.

GE's "stoplight" evaluation method is a subjective, multiple-factor approach. It avoids the traps and possible errors of trying to use oversimplified, single-number criteria—like ROI or market share. Instead, top managers review detailed written

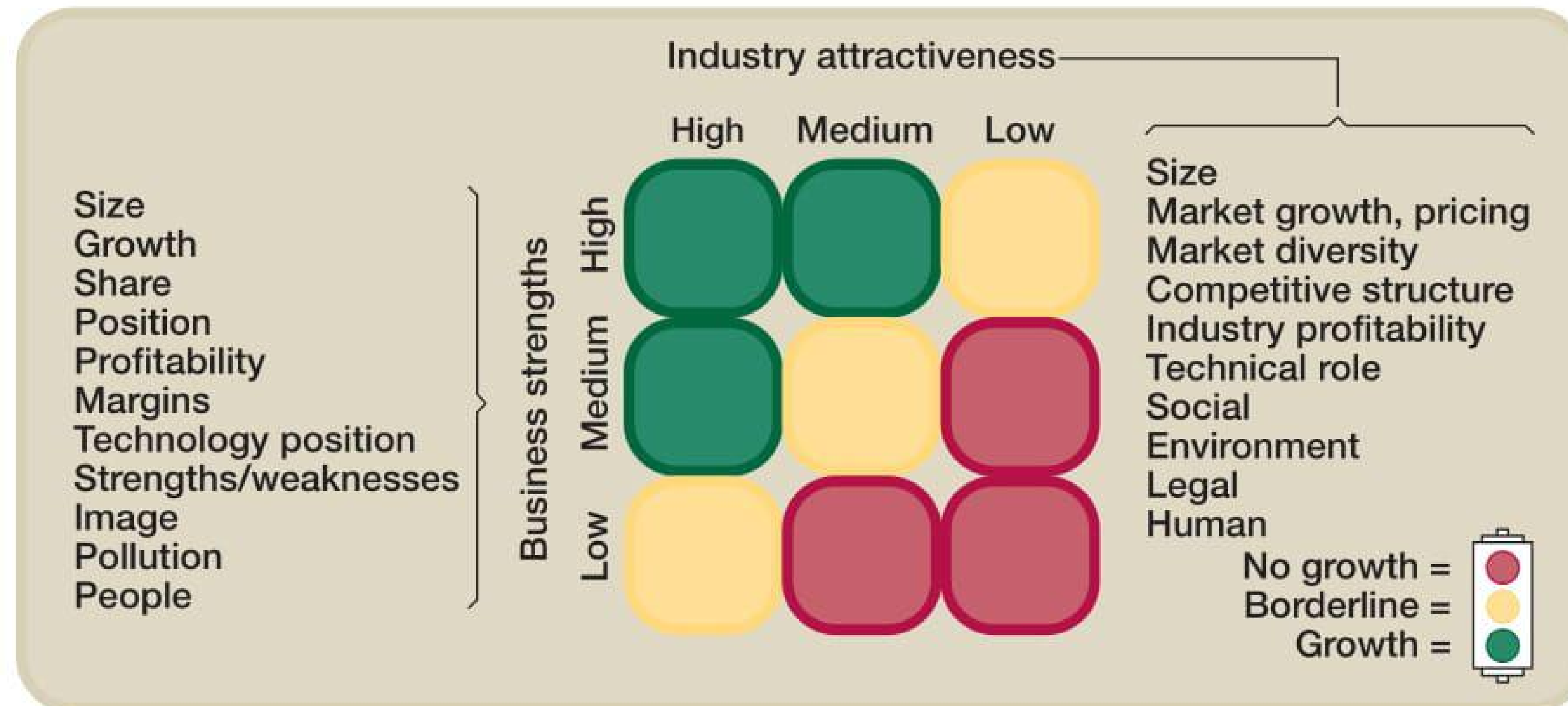

Exhibit 4-7
General Electric's Strategic Planning Grid

summaries of many different screening criteria that help them make summary judgments. Then they can make a collective judgment. This approach generally leads to agreement. It also helps everyone understand why the company supports some new opportunities and not others.[30]

General Electric considers factors that reflect its objectives. Another firm might modify the evaluation to emphasize other factors—depending on its objectives and the type of product-market plans it is considering. While different firms focus on different screening criteria, using many factors helps ensure that managers consider all the company's concerns when evaluating alternative opportunities.

Multiproduct Firms Have a Difficult Strategy Planning Job

Multiproduct firms, like General Electric, obviously have a more difficult strategic planning job than firms with only a few products or product lines aimed at the same or similar target markets. Multiproduct firms have to develop strategic plans for very different businesses. And they have to balance plans and resources so the whole company reaches its objectives. This means they must analyze alternatives using approaches similar to the General Electric strategic planning grid and only approve plans that make sense for the whole company—even if it means getting needed resources by milking some businesses and eliminating others.

Details on how to manage a complicated multiproduct firm are beyond our scope. But you should be aware (1) that there are such firms and (2) that the principles in this text are applicable—they just have to be extended. For example, some firms use strategic business units (SBUs), and some use portfolio management.

Strategic business units may help

Some multiproduct firms try to improve their operations by forming strategic business units. A **strategic business unit (SBU)** is an organizational unit (within a larger company) that focuses on some product-markets and is treated as a separate profit center. By forming SBUs, a company formally acknowledges its very different activities. One SBU of Sara Lee, for example, produces baked goods for consumers and restaurants—another produces and markets Hanes brand T-shirts and underwear.

Some SBUs grow rapidly and require a great deal of attention and resources. Others produce only average profits and should be *milked*—that is, allowed to generate cash for the businesses with more potential. Product lines with poor market position, low profits, and poor growth prospects should be dropped or sold.

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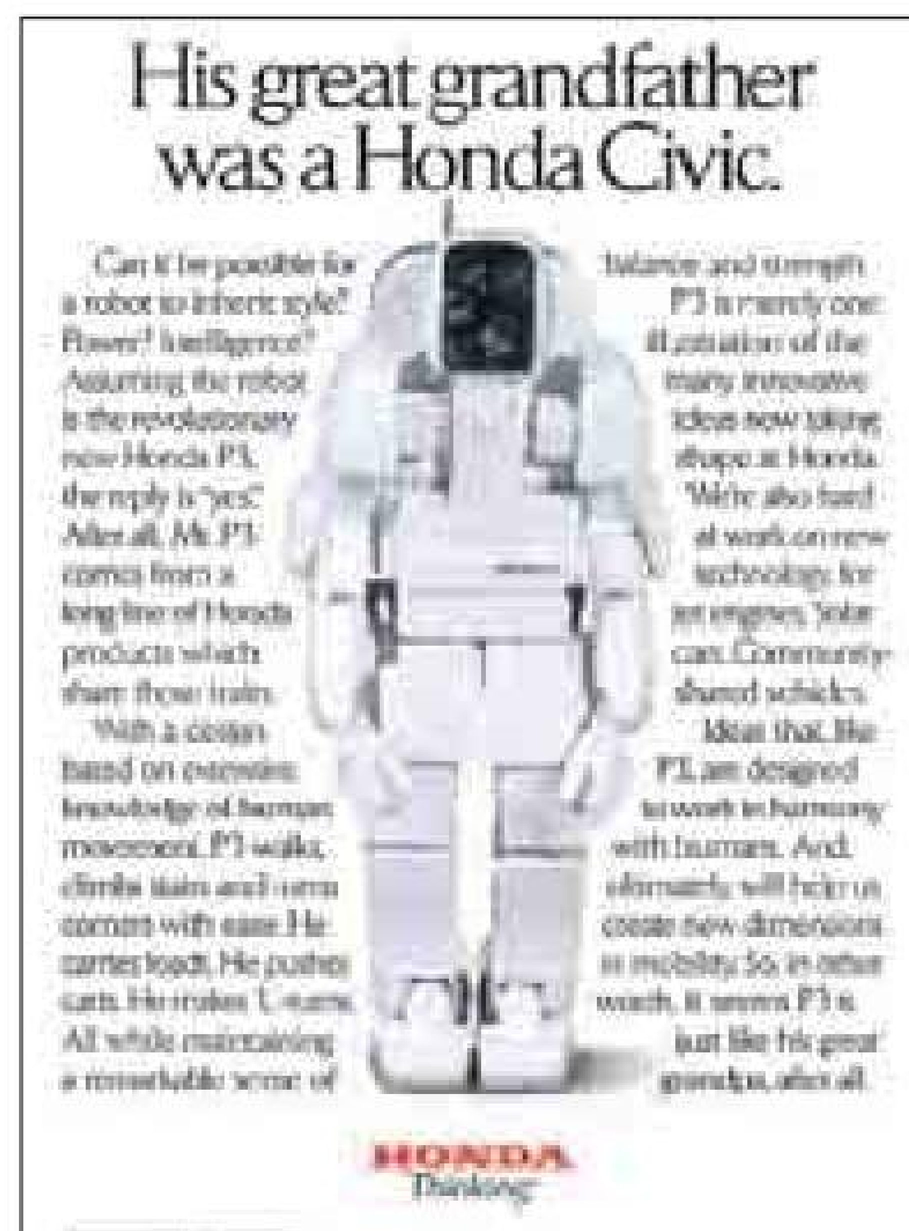
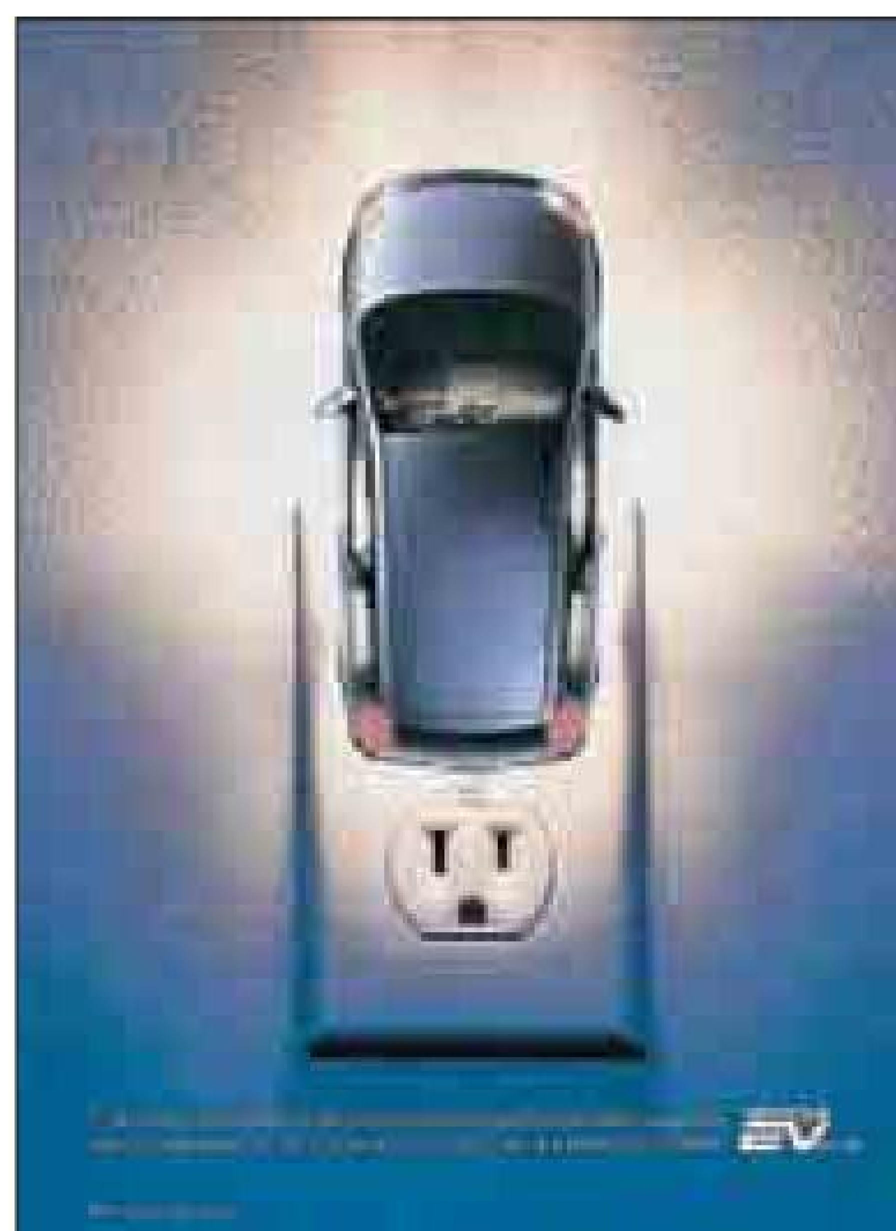




Large multiproduct firms, like Honda, evaluate and pursue a varied portfolio of strategic opportunities all around the world.

Some firms use portfolio management

Some top managements handle strategic planning for a multiproduct firm with an approach called **portfolio management**—which treats alternative products, divisions, or strategic business units (SBUs) as though they were stock investments, to be bought and sold using financial criteria. Such managers make trade-offs among very different opportunities. They treat the various alternatives as investments that should be supported, milked, or sold off—depending on profitability and return on investment (ROI). In effect, they evaluate each alternative just like a stock market trader evaluates a stock.[31]

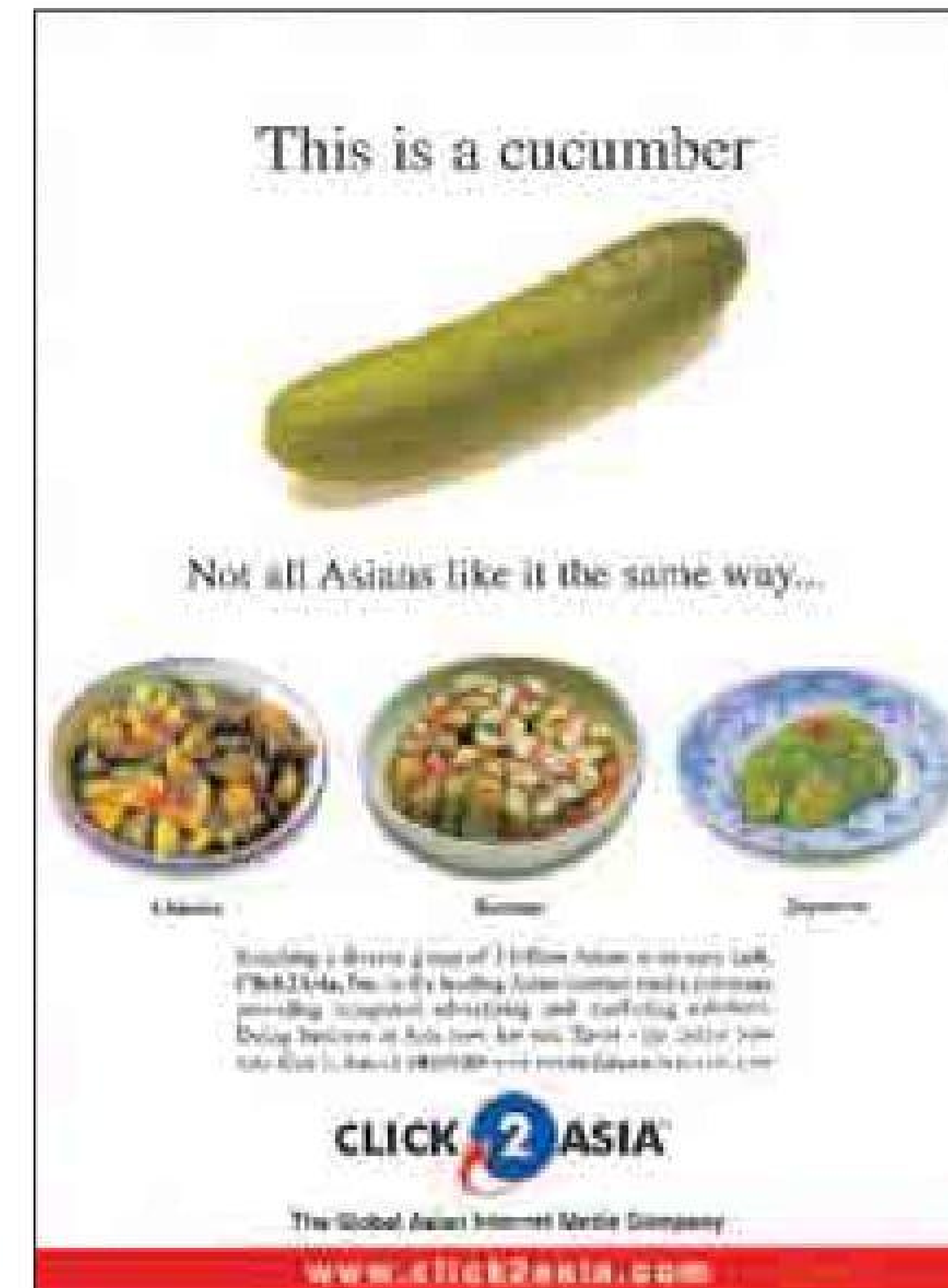
This approach makes some sense if alternatives are really quite different. Top managers feel they can't become very familiar with the prospects for all of their alternatives. So they fall back on the easy-to-compare quantitative criteria. And because the short run is much clearer than the long run, they place heavy emphasis on *current* profitability and return on investment. This puts great pressure on the operating managers to deliver *in the short run*—perhaps even neglecting the long run.

Neglecting the long run is risky—and this is the main weakness of the portfolio approach. This weakness can be overcome by enhancing the portfolio management approach with market-oriented strategic plans. They make it possible for managers to more accurately evaluate the alternatives' short-run and long-run prospects.

Evaluating Opportunities in International Markets

Evaluate the risks

The approaches we've discussed so far apply to international markets just as they do to domestic ones. But in international markets it is often harder to fully understand the marketing environment variables. This may make it harder to see the risks involved in particular opportunities. Some countries are politically unstable; their governments and constitutions come and go. An investment safe under one government might become a takeover target under another. Further, the possibility of foreign exchange controls—and tax rate changes—can reduce the chance of getting profits and capital back to the home country.



Some products, like industrial motors made by Baldor, are used the same way all over the world. Other products are much more sensitive to cultural differences.

To reduce the risk of missing some basic variable that may help screen out a risky opportunity, marketing managers sometimes need a detailed analysis of the market environment they are considering entering. Such an analysis can reveal facts about an unfamiliar market that a manager in a distant country might otherwise overlook. Further, a local citizen who knows the marketing environment may be able to identify an "obvious" problem ignored even in a careful analysis. Thus, it is very useful for the analysis to include inputs from locals—perhaps cooperative middlemen.[32]

Risks vary with environmental sensitivity

The farther you go from familiar territory, the greater the risk of making big mistakes. But not all products, or marketing mixes, involve the same risk. Think of the risks as running along a "continuum of environmental sensitivity." See Exhibit 4-8.

Some products are relatively insensitive to the economic and cultural environment they're placed in. These products may be accepted as is—or they may require just a little adaptation to make them suitable for local use. Most industrial products are near the insensitive end of this continuum.

At the other end of the continuum, we find highly sensitive products that may be difficult or impossible to adapt to all international situations. Consumer products closely linked to other social or cultural variables are at this end. For example, some of the scanty women's clothing popular in Western countries would be totally inappropriate in Arab countries where women are expected to cover even their faces. Similarly, some cultures view dieting as unhealthy; that explains why products like Diet Pepsi that are popular in the United States have done poorly there. "Faddy" type consumer products are also at this end of the continuum. It's sometimes difficult to understand why such products are well accepted in a home market. This, in turn, makes it even more difficult to predict how they might be received in a different environment.

This continuum helps explain why many of the early successes in international marketing were basic commodities such as gasoline, soap, transportation vehicles, mining equipment, and agricultural machinery. It also helps explain why some consumer products firms have been successful with basically the same promotion and products in different parts of the globe.

Yet some managers don't understand the reason for these successes. They think they can develop a global marketing mix for just about *any* product. They fail to

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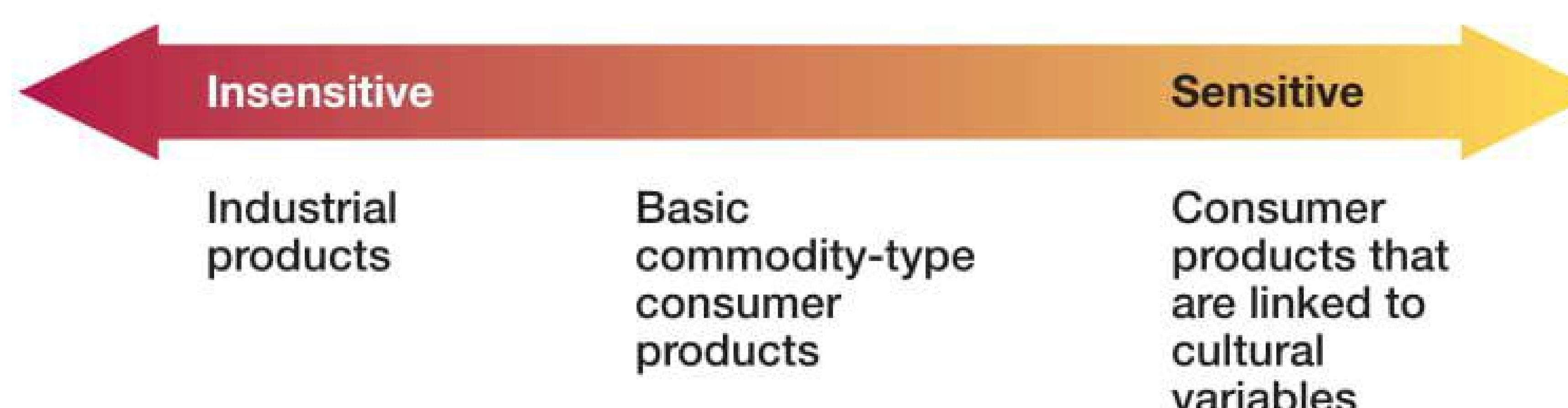
Exhibit 4-8
Continuum of Environmental Sensitivity



see that firms producing and/or selling products near the sensitive end of the continuum should carefully analyze how their products will be seen and used in new environments—and plan their strategies accordingly.[33]

What if risks are still hard to judge?

If the risks of an international opportunity are hard to judge, it may be wise to look first for opportunities that involve exporting. This gives managers a chance to build experience, know-how, and confidence over time. Then the firm will be in a better position to judge the prospects and risks of taking further steps.

Conclusion

Businesses need innovative strategy planning to survive in our increasingly competitive markets. In this chapter, we discussed the variables that shape the environment of marketing strategy planning and how they may affect opportunities. First we looked at how the firm's own resources and objectives may help guide or limit the search for opportunities. Then, we went on to look at the need to understand competition and how to do a competitive analysis. Then, we shifted our focus to the external market environments. They are important because changes in these environments present new opportunities, as well as problems, that a marketing manager must deal with in marketing strategy planning.

The economic environment—including chances of recessions or inflation—also affects the choice of strategies. And the marketer must try to anticipate, understand, and deal with these changes—as well as changes in the technology underlying the economic environment.

The marketing manager must also be aware of legal restrictions and be sensitive to changing political climates. The acceptance of consumerism has already forced many changes.

The cultural and social environment affects how people behave and what marketing strategies will be successful.

Developing good marketing strategies within all these environments isn't easy. You can see that marketing management is a challenging job that requires integration of information from many disciplines.

Eventually, managers need procedures for screening and evaluating opportunities. We explained an approach for developing qualitative and quantitative screening criteria—from an analysis of the strengths and weaknesses of the company's resources, the environmental trends it faces, and top management's objectives. We also discussed ways for evaluating and managing quite different opportunities—using the GE strategic planning grid, SBUs, and portfolio management.

Now we can go on in the rest of the book to discuss how to turn opportunities into profitable marketing plans and programs.

Questions and Problems

1. Do you think it makes sense for a firm to base its mission statement on the type of product it produces? For example, would it be good for a division that produces electric motors to have as its mission: "We want to make the best (from our customers' point of view) electric motors available anywhere in the world"?
2. Explain how a firm's objectives may affect its search for opportunities.
3. Specifically, how would various company objectives affect the development of a marketing mix for a new type of Internet browser software? If this company were just being formed by a former programmer with limited financial resources, list the objectives the programmer might have. Then discuss how they would affect the development of the programmer's marketing strategy.

4. Explain how a firm's resources may limit its search for opportunities. Cite a specific example for a specific resource.
5. Discuss how a company's financial strength may have a bearing on the kinds of products it produces. Will it have an impact on the other three Ps as well? If so, how? Use an example in your answer.
6. In your own words, explain how a marketing manager might use a competitor analysis to avoid situations that involve head-on competition.
7. The owner of a small hardware store—the only one in a medium-sized town in the mountains—has just learned that a large home improvement chain plans to open a new store nearby. How difficult will it be for the owner to plan for this new competitive threat? Explain your answer.
8. Discuss the probable impact on your hometown if a major breakthrough in air transportation allowed foreign producers to ship into any U.S. market for about the same transportation cost that domestic producers incur.
9. Will the elimination of trade barriers between countries in Europe eliminate the need to consider submarkets of European consumers? Why or why not?
10. Which way does the U.S. political and legal environment seem to be moving (with respect to business-related affairs)?
11. Why is it necessary to have so many laws regulating business? Why hasn't Congress just passed one set of laws to take care of business problems?
12. What and who is the U.S. government attempting to protect in its effort to preserve and regulate competition?
13. For each of the *major* laws discussed in the text, indicate whether in the long run the law will promote or restrict competition (see Exhibit 4-3). As a consumer without any financial interest in business, what is your reaction to each of these laws?
14. Are consumer protection laws really new? Discuss the evolution of consumer protection. Is more such legislation likely?
15. Explain the components of product-market screening criteria that can be used to evaluate opportunities.
16. Explain the differences between the total profit approach and the return-on-investment approach to evaluating alternative plans.
17. Explain General Electric's strategic planning grid approach to evaluating opportunities.
18. Distinguish between the operation of a strategic business unit and a firm that only pays lip service to adopting the marketing concept.

Suggested Cases

2. Healthy Foods, Inc.
6. Three Rivers Steel Company

Computer-Aided Problem

4. **Competitor Analysis**

Mediquip, Inc., produces medical equipment and uses its own sales force to sell the equipment to hospitals. Recently, several hospitals have asked Mediquip to develop a laser-beam "scalpel" for eye surgery. Mediquip has the needed resources, and 200 hospitals will probably buy the equipment. But Mediquip managers have heard that Laser Technologies—another quality producer—is thinking of competing for the same business. Mediquip has other good opportunities it could pursue—so it wants to see if it would have a competitive advantage over Laser Tech.

Mediquip and Laser Tech are similar in many ways, but there are important differences. Laser Technologies already produces key parts that are needed for the new laser product—so its production costs would be lower. It would cost Mediquip more to design the product—and getting parts from outside suppliers would result in higher production costs.

On the other hand, Mediquip has marketing strengths. It already has a good reputation with hospitals—and its sales force calls on only hospitals. Mediquip thinks that each of its current sales reps could spend some time selling the new product and that it

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could adjust sales territories so only four more sales reps would be needed for good coverage in the market. In contrast, Laser Tech's sales reps call on only industrial customers, so it would have to add 14 reps to cover the hospitals.

Hospitals have budget pressures—so the supplier with the lowest price is likely to get a larger share of the business. But Mediquip knows that either supplier's price will be set high enough to cover the added costs of designing, producing, and selling the new product—and leave something for profit.

Mediquip gathers information about its own likely costs and can estimate Laser Tech's costs from industry studies and Laser Tech's annual report. Mediquip has set up a spreadsheet to evaluate the proposed new product.

a. *The initial spreadsheet results are based on the assumption that Mediquip and Laser Tech will split the business 50/50. If Mediquip can win at least 50 percent of the market, does Mediquip have a competitive advantage over Laser Tech? Explain.*

b. *Because of economies of scale, both suppliers' average cost per machine will vary depending on the quantity sold. If Mediquip had only 45 percent of the market and Laser Tech 55 percent, how would their costs (average total cost per machine) compare? What if Mediquip had 55 percent of the market and Laser Tech only 45 percent? What conclusion do you draw from these analyses?*

c. *It is possible that Laser Tech may not enter the market. If Mediquip has 100 percent of the market, and quantity purchases from its suppliers will reduce the cost of producing one unit to $6,500, what price would cover all its costs and contribute $1,125 to profit for every machine sold? What does this suggest about the desirability of finding your own unsatisfied target markets? Explain.*

For additional questions related to this problem, see Exercise 4-4 in the *Learning Aid for Use with Basic Marketing*, 14th edition.