Chapter 1

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MARKETING, STRATEGIC MARKETING AND MARKET ORIENTATION

Motivation: Try building wealth for your shareholders, or try keeping your employee morale high, without customers! Possible? Clearly, no stakeholder of any company can be satisfied if the company does not have any customers. If there is adequate customer demand for a product, the organization can identify and attract all of the other necessary stakeholders for the company to be successful. Said differently, if money can be made from customers without one or more stakeholders, e.g., employees, then those stakeholders are not necessary. The customer, hence, is the most important stakeholder for any organization. Therefore, satisfying the customer should be the primary goal of an organization. But satisfying the customer cannot be accomplished at the expense of optimal profitability – the goal with which a commercial organization is established. The challenge, therefore, is for the organization to make money while satisfying the customer. This is what the function of marketing does for a firm. Read this chapter: 1) to learn how a firm can continually outperform its competition on customer satisfaction while earning optimal profits; 2) to understand that this entails aligning organizational activities, processes, culture and individual departmental goals to satisfy the expressed and latent needs of customers, both now and in the future; 3) to understand how decisions should be made regarding which customers and which customer needs should be targeted; 4) to learn how the firm should attempt to grow in a hyper-competitive environment; and, finally, 5) to learn how to evaluate whether marketing is doing its job well.

Ask any person to explain the meaning of the word "marketing" and the chances are very good that all the explanations would amount to references to advertising in newspapers, magazines, radio or TV; banners and balloons at the point of sale; coupons; announcements of sales events; or sales people selling aggressively. In fact, definitions in dictionaries also point to the same notion of marketing. For example, marketing has been defined as, "activities required by a producer to sell the products, including advertising, storing, taking orders and distributing to vendors or individuals"[i]; "the commercial functions involved in transferring goods from producer to consumer"[ii]; or "the activities of a company associated with buying and selling a product or service ... including advertising, selling and delivering products to people … by trying to get the attention of target audiences by using slogans, packaging design, celebrity endorsements and general media exposure."[iii] Inherent in all these definitions and common explanations of marketing is the notion that marketing is an organizational function that takes over after the product is produced. (The term *product* as generally used in this book includes both tangible goods, e.g., toothpaste or main-frame computers and intangible services, e.g., medical check-ups or professional accounting.)

In fact, one might say that these views describe what marketing was historically. These definitions describe the first stage in marketing thought and practice. From this first stage, marketing evolved over time to a second stage wherein it started playing a key role in helping the organization to decide what products should be produced in the first place. Finally, during the last decade or so marketing has evolved to become a philosophy of how businesses should be run. This conceptualization of the third stage of marketing implies that marketing influences all organizational decisions - including but not limited to the firm's evaluation and reward systems, the R&D agenda, and the quality of manufacturing. Though the conceptualization of marketing has evolved to this third stage, many firms are still stuck in the first stage in how they practice marketing. As we shall see, it is only the practice of the third stage of marketing that will allow the firm to continually reap maximum profits in hypercompetitive environments.

The first three sections of this chapter provide an overview of what the function of marketing looks like in organizations at each of the three stages. As each stage of marketing comes with its own range of empowerment for decision-making and, hence, accountability, the efficacy of the marketing function in any organization needs to be judged based on the stage at which it is being practiced by the organization. The final and fourth section of this chapter provides recommendations on metrics that should be used to measure the return on investment in marketing expenditures.

1. THE FIRST STAGE OF MARKETING: PROMOTIONS

As discussed above, marketing in the first stage comprises activities related to advertising and selling of products. Though some form or another of advertising has been in existence since pre-historic days, the formal business of advertising can be said to have begun with the opening of the first advertising agency in 1841[iv]. Proctor and Gamble claims to be the first company to nationally advertise directly to consumers in the 1880s and since then has poured billions of dollars into advertising every year. Other consumer package products manufacturers followed suit almost immediately.[v] Besides advertising in different media, these manufacturers engaged in other sales promotion activities such as distributing coupons and offering products on "sale". Manufacturers of consumer durables, such as automobiles and kitchen appliances, began to engage in marketing, i.e., advertising and promotion, only with the availability of consumer credit in early 1900s[vi]. Consumer credit allowed consumers to "immediately gratify their needs" and, hence, advertising and promotions became effective in stimulating demand. Over most of the last century, B2C companies primarily used advertising and sales promotions to market their products to consumers, while B2B companies mostly employed sales people to personally sell their products to their business customers. (B2C, business-to-consumer, firms produce products, e.g., toothpaste and soup, that are sold to consumers; B2B, business-to-business, firms produce products, e.g., aircraft and main-frame computers, that are sold to businesses.)

The above kinds of marketing activities are now collectively called *Promotions*, and are typically engaged in only after the product has been developed and produced. Porter has described a firm as "a collection of activities that are performed to design, manufacture, market, deliver and support its product."[vii] Figure 1.1 pictorially shows the activities routinely engaged in by a typical organization.

Insert Figure 1.1 About Here

As suggested by Porter, from among all the activities of an organization, five are primary in that they directly convert tangible and intangible inputs into outputs delivered to the firm's customers. These five primary activities, that are said to be part of the organization's value-chain, are: 1) Inbound Logistics; 2) Operations; 3) Outbound Logistics; 4) Marketing and Sales; and 5) Post-sales Service. The other activities that a firm engages in are intended to support these primary activities, and include the work of the human resources, finance, accounting, legal, IT and other such corporation-wide departments. As Porter's value-chain shows, historically marketing has been relegated as an end-of-value-chain activity even by supposed management experts. In short, the commonly held notion was that marketing takes over once the product has been made.

In adopting this end-of-value-chain view of marketing, many companies started realizing that their advertising, promoting and selling efforts were not adequately paying off. For example, a large proportion of new products launched were failing[viii]. Marketing savvy firms, such as P&G, started realizing that spending all of their marketing effort and money after the product was developed was not the smartest approach. Perhaps marketing should begin at the beginning of the value chain by identifying, through research, the products and the customers who will need and demand these products. Marketing of these products to the relevant set of customers would be so much easier and less expensive. The momentum for marketing the right product to the right customers gathered steam when American automobile and consumer electronics manufacturers started losing market share to their Japanese competitors. And soon many corporations started paying heed to what some marketers had come to understand – the need to adopt a more strategic perspective of marketing. The strategic marketing perspective not only guarantees that the products will be marketed right, but also that the right products will be marketed for maximum long-run profitability for the company.

2. THE SECOND STAGE OF MARKETING: STRATEGIC MARKETING

Marketing as an academic discipline has always insisted that the function of marketing should be more than just an end-of-value-chain activity. Clearly, convincing prospective buyers of the benefits of a product would be so much easier if after the customers' needs were assessed, the corresponding benefits were designed and built into the product. The Strategic Marketing view is exactly that - a view that each and every product of a company must, to begin with, be designed to profitably meet the *needs* of a segment of customers by leveraging the company's strengths while being consistent with the company's mission and vision.

The notion of satisfying needs is central to marketing - if a product, physical good or a service, does not satisfy a need, it will not be successful. The example of the immensely successful pet-rock product is often cited to counter this claim. However, one can convincingly argue that pet-rocks did satisfy some individuals' social needs. As per Maslow, there are 5 categories of human needs – Physiological (food, shelter, clothing), Safety, Social, Self-esteem and Self-actualization.[ix] Consumption of a product may satisfy needs in more than one category. Thus, dining in a fine restaurant may satisfy the physiological need for food, the social need to eat with desirable company as well as a person's need for self-esteem. For marketing purposes, each of these five categories of needs must be further understood for the notion of satisfying customer needs to be practically meaningful. For example, the need for food can be further refined to reflect different occasions – e.g., breakfast, lunch and dinner; eating at home or eating out; eating a fast meal on the go or a luxurious meal in a fine restaurant – or to encompass other benefits such as healthy eating or nutritious eating.

Assessing customer needs is one of the most crucial activities marketing can engage in. Marketing's role can be described as facilitating the satisfaction of both the expressed and latent needs of customers, both currently and in the future. The task is challenging as many times customers cannot directly and easily express their needs. They cannot visualize the future and the corresponding needs it will generate. Hence, sophisticated techniques are required to unearth and understand unmet needs. Chapters 2 (Consumer Behavior), 6 (Marketing Research), and 8 (New Product Development) discuss various needs assessment techniques.

Identifying needs is simply the first step. Marketers must also establish whether there will be a *demand* for the product that is being conceptualized to satisfy the said needs. Demand is defined as the number of units of the product that will be bought by customers at a specified price. Demand should be differentiated from *wants*. Customers may *want* a product but may be unwilling or unable to pay for it. Estimating demand is crucial as it determines whether the firm will earn any profits. As total cost-of-goods sold is dependent on the volume that will be produced, accurate estimation of profits is contingent upon accurate estimation of demand. Just like assessing needs, estimating demand is not easy. For really new products (i.e., not simply line extensions or modifications to existing product offerings), it is difficult for prospective customers to visualize the attractiveness of the new product without any ability to use and experience it in an actual consumption context. Chapter 8 addresses the issue of estimating demand for really new products in more detail using tools such as Information Acceleration.

> Point to Ponder: Demand is considered to be inversely related to price, i.e., when the price drops the number of units sold increases. When might this not be the case, i.e., the demand is higher at a higher price? Hint: Think of demand for exclusive brands.

2.1 The 4Ps of Marketing – Product, Price, Promotion, and Place

Needs are obviously met by the product itself. Needs, however, can also be met by the other components of what is called the marketing mix. These other components are Price, Promotion, and Place. The Price component of the marketing mix is defined as the *original price* that a producer sets for its product. This original price may be different from the final price paid by buyers because of promotional offers or because of individual retailers' pricing strategies. The Promotion component, as discussed above, includes all activities that inform and attract buyers to purchase the product. The last component of the marketing mix is Place. This element encompasses the distribution of the product and determines how the product and the customers are brought together. These four elements of the marketing mix, Product, Promotion, Price, and Place, form the ubiquitous “4Ps” of marketing. With an eye on how the 4Ps may collectively and individually satisfy customer needs, the characteristics of each of the Ps are briefly summarized next. A more detailed discussion is presented in Chapter 4.

The Product P can be best described using three concentric circles.[x] At the heart of the three circles is the core product. The Core Product satisfies the fundamental need for which the product is made. The Augmented Product consists of the core product and other features that make the product more functional. The Über Product comprises all the other additional intangible aspects of the product such as the brand promise (see Chapter 9). To illustrate the concentric notion of Product, consider the example of a general purpose household cleanser. The cleanser is the core product, the addition of a tilted nozzle that allows spraying in hard to reach areas comprises the augmented product. The augmented product and a trusted brand-name that promises killing 99.9% of the bacteria make up the Über product. Another illustration of the concentric model of product in the consumer services area could be - body massage (core product), soothing high-class ambience in addition (augmented product), and a mystical name reminding customers of the saunas in Egypt (Über product). Similar examples are abundantly available in the B2B arena. The core product is the computer, the augmented product includes the product warranty and post-sales service and support, and the Über product could additionally include the possibility of customizing the product for world-wide usability. Generally speaking, the outer layer consists of intangible image attributes that are hard to duplicate. Thus, Crest toothpaste’s image of preventing tooth decay or Ralph Lauren’s image of classiness are intangible attributes in the outer layer that, once established, are hard for competitors to dislodge or copy. Though much more intricate details of intangible product attributes and brand image and promise will be discussed in Chapter 9, it should be clear to the reader that these intangible attributes do indeed satisfy many needs of the consumers.

Insert Figure 1.2 About Here

Point to Ponder: What consumer needs does a prestigious brand name satisfy? Is the core product of a Polo shirt, i.e., the shirt itself, of higher quality than other less prestigious brand shirts? Is Crest toothpaste better at preventing cavities than other brands of toothpaste?

The notion of Pricing is as rich as the conceptualization of Product. While Chapter 4 discusses several different pricing strategies, such as Cost-plus, Skimming, Penetration, Value, Competitive, and Experience-curve, for the purposes of discussing "need-satisfaction" potential of Price, we consider a simple pricing strategy - low or high. A high, premium price would mean that the product is priced at the higher end of prices that prevail in the product category. Premium pricing conveys a better image of the product to consumers, even if the objective quality of the product is not any better than the average product in the category.

Point to Ponder: What needs does a premium-priced product satisfy? Could it be self-esteem? Could it be social for visible goods? What needs does a low-priced product satisfy? Could it be the feeling of being a rational consumer?

The Promotion P also plays an important role in satisfying the needs of customers. Bargain-hunting for items on sale makes shoppers feel smart. Swanky advertisements build positive brand image which in turn makes consumers feel good.

Point to Ponder: Do you think high price and classy promotions play an important role in B2B products? Or are organizational buying decisions more rational and less emotional than consumer buying processes?

The final P, Place, determines how the product and the customer are brought together. For consumer products several options are available - starting with a choice of retail outlets to shopping on the internet and having products delivered directly to the home. Similarly, as discussed in Chapter 14, several options are available for B2B products. Optimizing the physical distribution of goods through channel members is a complex task. Though this behind the scenes physical distribution is not visible to the customer, it significantly impacts customer need satisfaction through lower prices and easy, continuous availability. Distribution channels are hard to set-up, and once established are difficult to change. They can be a source of competitive advantage as the success of Wal-Mart and Dell proves. The services sector has also recently seen creativity in the channels of distribution area. Instead of the traditional route for distribution of services by customers going to the service provider, e.g., to receive a hair-cut, service providers are going to where the customers are. Hair-cuts are being provided on business premises where customers are, car washes are in office-building garages, veterinarians are making house calls to examine and treat injured or sick pets, and lawn-mowers are being serviced at homes. From all this, it should be clear that by making the product and service available to the customer at the right time and right place, the fourth P, Place, does significantly influence need satisfaction.

Besides the 4Ps of the marketing mix individually playing an important role in satisfying customers' needs, they collectively have a greater and synergistic effect on need satisfaction by meshing well together. For example, a high priced perfume targeted to appeal to rich socialites should be distributed through up-scale stores such as Neiman Marcus and advertised in magazines such as V, Vogue or Vanity Fair. Similarly, a professional services law firm that is based in downtown Manhattan and is targeting prestigious clients should hire ivy-league graduates like its clients do. One would not advertise the expensive perfume in the Penny-saver or distribute it through Dollar-tree. Similarly, the prestigious law firm would not seek small clients in rural towns.

The 4Ps together determine how potential customers perceive the *positioning* of the product. Or vice versa, the desired positioning of the product in the market place helps to determine the finer characteristics of the 4Ps. Positioning of a product encompasses the segment to which the product is intended to appeal as well as the distinctive features of the product as compared to competitive offerings. The analysis, however, of what constitutes an optimal marketing mix begins with studying the changing technological, legal, economic, political and social environments that impact the needs of, or the benefits desired by, some potential customers - and studying the extant needs satisfied by, or benefits provided by, existing competitive products. Such an analysis helps to reveal existing market opportunities. Whether these market opportunities are relevant and appropriate for the firm depends upon the Mission of and Vision for the firm and its strengths and weaknesses compared to its rivals. Figure 3 summarizes the relevant components for analysis in developing the marketing strategy (4Ps) for a product. We discuss each of these components next.

Insert Figure 1.3 about here

2.2 Target Segments and Differentiation

If need satisfaction is the purpose of the product, then it must also be the purpose of each and every product feature. Each product attribute should provide some benefit. Customers' needs are for benefits, and not for specific product features or attributes. Thus, for example, customers want the benefit of safety, and not necessarily an attribute of 2mm thick metal plating for the body of a car. If safety can be provided without a 2mm thick metal plate, that will be fine by customers.

Customers, however, vary in their desire for the different benefits afforded by a product. Thus, customers may differ in the values they place on the benefits of safety, luxury, comfort, thrill, reliability, and durability of a car - depending on their individual needs. The idea behind segmentation and differentiation is for the firm to provide the right benefits to the right segments, and do it better than competing products. In order to do so, analyses of the benefits desired by each segment and the benefits provided by each product in the competitive set need to be conducted. The following discussion shows how such an analysis is performed.

Figure 1.4 Panel A captures the differential need for benefits by different segments. The level of each benefit desired by each segment (i.e., each cell of the matrix) is rated on an importance scale of 1 (not important) to 5 (very important). Figure 1.4 Panel B is a matrix which cross-classifies competing products and the level of each benefit they provide. The extent of benefit provided by each product is measured on a 1 to 5 scale with 1 implying that the competitive product provides none to only a negligible amount of the benefit, and 5 denoting that that competitive product provides the maximum amount of that benefit. Note that the list of benefits in both the matrices is the same.

Insert Figure 1.4

The two matrices are viewed together to determine if there are any segments that have needs for certain benefits that are not being fulfilled by existing competitors. Perhaps either an existing product can be repositioned, or a new product can be launched to provide those benefits. After initially configuring the benefits of the new product, the other 3Ps are next determined based on the additional benefits of the product and the segments that are being targeted.

To illustrate the use of these matrices for the purpose of positioning a product, consider a hypothetical invention in the food processor category. Let us assume that a firm has developed a feature for a food processor that would allow it to evenly and cleanly cut different types of vegetables unlike any other existing appliance. This feature has become possible because of advances in robotics technology that allow vegetables to be clutched like human fingers and due to advances in the cutting-blade technology. The benefit of this feature to the end-user is that vegetables can now be cut in different styles without squashing them. Thus, for example, tomatoes can now be diced or sliced without crushing them; carrots can be cut in sticks, shredded or chopped; onions could be sliced, diced or cut in crescent shapes and so forth.

Assume that the innovating firm, after conducting market research, concludes that there are five benefits that are of importance for the food processor category - Durability, Ease of Use, # of Features, Style/Brand Image/Premium Price, and Availability of a Line of Products. Durability refers to the degree to which the appliance lasts or the amount of usage it can endure. The benefit of Ease of Use includes not only the ease while using the food processor but also the ease in disassembling, cleaning and re-assembling the product. The benefit, Number of Features, refers to the number and types of tasks the appliance can perform, such as grind, chop, mix, frappe, and so forth. The benefit of Style/Brand Image/Premium Price relates to the notion of the appliance being perceived as a top-class product. And, finally, the benefit of Availability of a Line of Products would stem from the users being able to display in their kitchen many appliances of the same style and brand.

Let us further assume that market research has revealed that consumers can be grouped into 5 segments, which the firm names - Regular Homemakers, Affluent Homemakers, DINCs (Double-Income No-Children Households), Heavy-users, and Gourmet Cooks (and Gourmet Wannabes). Figure 1.4 Panel C shows the rating of the benefits desired by each segment. Regular Homemakers rate Durability, Ease of Use and # of Features as of average importance by giving them a score of 3; and Style/Brand Image/Premium Price and Product Line as of limited importance. Affluent Homemakers rate the Style/Brand Image/Premium Price and Product Line benefits as very important by giving them both a score of 5. They rate the other 3 benefits as 2. Using the same rating scale, the DINCs rate Ease of Use as the most important benefit, the Heavy Users highly rate Durability and the Gourmet Cooks want many, many features.

Again, for the sake of simplicity, let us assume that there are 3 competitive products – C1, C2 and C3. Their ratings on the various benefits are shown in Panel D. Competitive product 1 provides all the benefits to a reasonable degree. C2 product has an upscale image and has a comprehensive line of products whereas C3 is a rugged brand with high ratings on Durability. As we can see from this benefits x competition matrix, there seems to be an opportunity for a product that provides a larger number of desired customer features (a 5 in the # of Features benefit) than existing products.

A juxtaposition of the two matrices reveals that the needs of the gourmet segment which are not being met by existing products can be well met with this new feature. Hence, a new product with these additional benefits of even and clean cuts can be targeted to the Gourmet segment. That a Gourmet segment exists and that its size is substantial is a fact that needs to be established before the firm launches this food processor. The attractiveness of the segment, i.e., its size and profit potential, is determined by the analysis of the environment – in this particular case, the social environment. We now turn to discussing the importance of environmental analysis and provide some ideas on how it is conducted to discover both the opportunities and the threats facing organizations.

2.3 Environmental Analysis

The environment in which a company operates can be classified into 5 categories – Legal, Technological, Political, Social, and Economic. Each of these environments provides opportunities and/or threats for a company that might influence the firm to change its portfolio of products. A change in the environment can provide both an opportunity as well as a threat. Thus, when healthy-eating came into vogue, a change in the social environment, it revealed both an opportunity as well as a threat for potato chip manufacturers. The change presented an opportunity because it allowed for the launch of new healthier potato chips – chips that are low in salt and that are cooked in healthier oils or baked. It also presented a threat as sales of regular potato chips could suffer significantly. Some environmental changes can be very significant for firms, and can even threaten their very existence. These changes can place firms with a dilemma. If they respond with new products, they risk cannibalizing their existing products. If they do not respond or delay their response, they could die a natural death. Texas Instruments has recently demonstrated how to adeptly respond to changes in the environment. It jettisoned many of its old businesses, e.g., laptop computers and many types of integrated circuit (IC) chips, to develop digital light processing (DLP) technology and chips. In comparison, Westinghouse had to quietly and slowly close shop when many of their business units could not successfully re-deploy their resources in response to significant environmental changes. The bottom-line on handling environmental changes is that it may be necessary for the firm to cannibalize its own products – for if it does not, then some other firm will.

Recent examples of changes in the environment and the resulting implications for marketing are quite dramatic. The regulatory changes in the environment to protect commercial air travel have resulted in many different products - explosives detecting machines, scanners that can see through clothing, luggage screening machines, airport radiation detectors, shoe scanners, metal-free clothing and accessories, and biometric identity passes to name a few[xi]. Advances in the technological arena have of late changed human lives as they have never before. The advent of the internet has given rise to a vast number of new companies, let alone new products, spurring the economy by trillions of dollars. Almost all types and sizes of firms have changed because of this technological development. A very small company can now market to its target segment by having a web presence and by targeting advertising online to the relevant audience.

Large companies have changed the very basic nature of their operations - from supply chain management, distribution, and invoicing, to advertising, marketing research, and new product development.

As far as the political environment is concerned, it has achieved more significance with globalization. With more and more companies spreading their operations across the globe, a thorough analysis of the political environment has become necessary. Recent advances made by India and China in particular, and emerging markets in general, show the importance of political stability and business-friendliness as a necessary political environment (see Figure 1.5). A multitude of corporations from knowledge-based hi-tech companies, e.g., IBM, Motorola, Microsoft, and Dell to manufacturing-based traditional companies, such as GM and Nike, have taken advantage of changes in the political environment in emerging markets. Finally, changes in the social and economic environment can also spell opportunities or threats for firms. Social changes directly impact consumer products. Whether it is the fashion industry in the US that keeps its eyes focused on what teenagers are thinking and doing, or it is the spread of western culture in emerging markets, social changes and their implications for firms are significant and have to be reckoned with. The social environment impacts B2B firms too, albeit more indirectly. The demand for many B2B products can be said to be “derived” demand - the demand for aircraft from Boeing depends on the amount of travel by individuals. Hence, if global travel by consumers increases significantly, it could result in an increase in the number of aircraft demanded by airlines. While social changes tend to affect consumer products directly and B2B products indirectly, economic changes effect both directly. Even though one might think that a rising economic tide would lift all boats, basic products with no-frills will tend to do less well in an economic boom as customers move to fancier products.

Insert Figure 1.5

Having established the importance of studying the environment, we now turn to how this may be done. Environmental Analysis can be said to be composed of two distinct pieces – 1) environmental scanning and 2) environmental prediction and impact analysis. Scanning implies that organizational eyes and ears are open to absorb the happenings in the environment. Prediction and impact analysis attempts to forecast the future environment and its impact on the organization and the industry.

2.3.1 Environmental Scanning Scanning is not a monolithic activity. Environmental scanning includes both *looking at* information (viewing) and *looking for* information (searching).[xii] In information viewing, individuals expose themselves to information with no specific informational need in mind. The goal is to scan broadly in order to detect signals of change as early as possible. Many and varied sources of information are used, and large amounts of information are screened. The granularity of the information is relatively coarse. In information searching, individuals set about specifically looking for well-defined pieces of information. Both viewing and searching are essential for organizations. While the importance of searching is obvious, viewing is also critical as it helps organizations to scan broadly and develop peripheral vision so that it can see and think "outside the box." It gives organizations early warning about emerging issues.

2.3.2 Environmental Prediction and Impact Analysis Here again, there are essentially two basic methods of trying to predict the environment and assessing its impact.[xiii] The first approach is based on expertise and judgment, while the second method uses statistical techniques. With the first approach, experts in the industry are questioned on their predictions for changes in the environment and their ramifications. Information on probability of events, timing, and their importance for the organization is gathered. Delphi techniques are often used wherein several experts are involved and many iterations are undertaken until some consensus emerges. Within this broad classification of environmental assessment, finer models prevail such as Scenario Building and Cross-impact Analysis. These models simply expand the ramifications of the predictions on the corporation and industry.

The statistical models for prediction are basically econometric models where the "dependent variable" is the environmental variable being predicted and the independent variables are other related variables. Once the relationships between variables are determined, they are used to predict the future outcomes based on the expected values of the independent variables. More discussion of econometric models is found in Chapter 7. Other forms of statistical models are time-series models. These models predict the trend represented by the data. In both econometric models and time-series models, once the future is predicted, its impact on the organization is assessed by using some of the same techniques based on expertise and judgment. Statistical models suffer from a major disadvantage - the assumption that the past is a good predictor of the future. Many have likened this to driving a car using the rear-view mirror.

Whether a change in the environment is an opportunity or a threat for an organization depends upon the business the organization is in. Continuing with our previous example, the emergence of the gourmet segment may spell opportunities for kitchen appliances manufacturers, gourmet restaurants, grocery stores, and food shows on TV. It may mean nothing to the telecommunication or computer industries and may even mean a threat to regular middle-of-the-road restaurants. After an analysis of the general external environment, including customers and competitors, an organization decides on whether to take advantage of an opportunity based on the organization's purpose and its strengths and weaknesses relevant to this opportunity. We now turn to such an internal analysis of a company.

2.4 Company Analysis

Company Analysis consists of two distinct components – the company's Strengths and Weaknesses as well as its Mission and Vision. The term "Strengths and Weaknesses" has been around for many years[xiv]. But new theories of how strengths can be better understood so that they can be developed to provide sustainable advantage over competition are constantly being put forth. For our purposes we weave the old and new into one cohesive exposition under the term Strengths and Weaknesses.

2.4.1 Strengths and Weakness Strengths of a company can be broadly defined as characteristics of the company that are better than those of its competitors. Weaknesses, of course, would be those characteristics that are inferior to those of its competitors. While the competitive analysis discussed above was at the Über *Product* level (the benefits of the product as compared to the benefits of competing products), strengths and weaknesses are analyzed at the firm level. The characteristics that result in the company's strengths or weaknesses could emerge from any source, e.g., R&D or Production or Marketing, in the organization but, clearly, they must ultimately be useful in satisfying the needs of the customers the firm has targeted. Characteristics that do not translate into benefits for customers are not strengths worthy of noting. Figure 1.6 lists some characteristics of a firm that could be its strengths (or weaknesses).

Insert Figure 1.6

As can be seen from the list, strengths can arise from both possessions that an organization "has" as well as from processes that determine how things are "done" in the organization. The *having* and *doing* are termed the *assets* and *skills* of an organization respectively. Assets can be tangible or intangible and skills can be made explicit or remain tacit. Figure 1.7 gives examples of the 4 types of strengths of a firm. Tangible assets are exemplified by physical properties such as plant and machinery and human capital whereas intangible assets include strengths such as brand name and organizational culture. Whether skills and processes are made explicit or remain tacit depends upon the organization[xv]. In many of today's organizations, New Product Development, Order Fulfillment and Supply Chain processes, for example, are being made explicit by documenting all of the process details[xvi]. Some processes however will always mostly remain informal and tacit. One example of such a tacit process is the idea fruition process which occurs prior to the formal development of a new product[xvii]. Such a process deals with how organizations keep their eyes and ears open to capture and nurture ideas. Other examples of tacit processes include how organizations learn and make decisions. Tacit skills and intangible assets are hard to imitate and, hence, can result in sustainable competitive advantage. Thus, how Nike keeps the equity of its brand high is a tacit skill that Nike has. Rival companies may outspend Nike and buy the same physical assets but may still not be able to achieve the level of brand equity that Nike has. Tacit skills are also called the competencies and capabilities of an organization.[xviii] Such skills, competencies and capabilities should not only never be allowed to erode, but should also be constantly nurtured and improved.

Insert Figure 1.7 here

To illustrate the relevance of company-wide Strengths and Weaknesses in the context of developing a strategy for a new product, let us return to the above food processor example. Would it make a difference if the innovation came from Cuisinart, Sunbeam or Panasonic? Cuisinart describes itself as a full kitchen resource with a wide array of products, that include more than 17 product lines: Bakeware, Blenders, Can Openers, Coffee Bar Collection, Cookware, Countertop Cooking Appliances, Electric Knives, Food Processors, Hand Blenders, Hand Mixers, Ice Cream / Yogurt Makers, Kitchen Accessories, Specialty Appliances, Tea Kettles, Toaster Oven Broilers, Toasters, and Waffle Makers. The Cuisinart brand is endorsed by culinary connoisseurs such as Jacques Pépin. The company claims that culinary education is at the heart of their business and, hence, it supports several culinary programs on TV. Cuisinart distributes its products in upscale department and specialty stores all over North America. Finally, within the food-processor category it has more than 15 products. More information on the Cuisinart brand is available at:

fromhttp://www.cuisinart.com/about_us/press_releases.php?pr=11

Sunbeam, on the other hand, has a more diversified product line that includes items such as Air Therapy, Blankets, Blenders, Breadmakers, Can Openers, Clippers, Curling Irons, Hairdryers, Hand Mixers, Heating Pads, Hot & Cold Therapy, Irons, Mattress Pads, Stand Mixers, Tea Makers, Throws, Toaster Ovens, Toasters and Water Heaters - but no category called food-processor. Sunbeam talks about offering Everyday Solutions. Their website says, “For over 100 years the Sunbeam brand has offered families practical solutions for their everyday living. Through generations, the brand has introduced innovative products that simplify busy lifestyles. The Sunbeam brand prides itself on understanding your needs and offers products throughout the home that are easy to use and affordable.” Please view their website at: http://sunbeam.com/index.aspx

Panasonic, the consumer electronics megabrand, on the other hand, sells a limited number of kitchen appliances: Breadmakers, Electric thermo pots, meat grinders, dough makers, pressure cookers, rice cookers and toaster ovens as per their website: http://www2.panasonic.com. They market other appliances such as irons, vacuum cleaners and microwave ovens, and personal appliances such as electric shavers.

> Point to Ponder: Which of the above three would be the most successful in commercializing the innovation for the said segment? What if the innovation was from a prestigious knife manufacturer such as Sheffield Knives in UK -- http://www.sheffieldknives.co.uk/index.html? What if the innovation was from Sony, a company known for its innovation in the consumer electronic space, because of its recent advances in robotics?

Clearly, if a firm does not have the strengths to take advantage of a market opportunity, it should not embark on launching the product. But what if the firm has the strengths? Should it get involved in the new product? The answer to this question is determined by the Mission and Vision for the organization. If the new opportunity does not fit the organization’s Mission and Vision, the organization should not pursue it.

The two terms, Mission and Vision, have been quite muddied over time. Not only have they been used interchangeably, many other terms, e.g., goals, strategy, assumptions, core purpose, intent, etc., have been used to capture the constituent elements of these two terms. In addition to the definitions of these terms not being universally accepted, many firms consider these notions trivial and meant only for public relations purposes. Having a crystal clear understanding of what an organization's Mission and Vision are is instrumental in energizing the firm's employees, in preventing the organization from wandering aimlessly and squandering resources, and in not causing confusion as to what the correct metrics are for evaluating the company's performance. Hence, it is extremely important for an organization to have a very clearly articulated Mission and Vision that is well-understood by appropriate stakeholders – of course without giving away competitive secrets.

2.4.2 Mission Though there is no one best definition of Mission, most scholars agree that a Mission statement defines the essential purpose for the existence of the firm. Peter Drucker in *The Drucker Foundation Self-Assessment Tool: Process Guide* states that a Mission statement is, "Why you do what you do; the organization's reason for being, its purpose. Says what, in the end, you want to be remembered for." Or in other words, "who your company is, what you do, what you stand for and why you do it," is the content of a Mission statement[xix]. Some key characteristics of a Mission statement are that it should be 1) concise, 2) clearly understandable, 3) broad in business potential, and 4) focused in that it articulates the business the firm is in.

Figure 1.8 shows some good Mission Statements of some firms. They all meet the criteria outlined above. The figure also provides comments on the specific nuances that make the statements great. The best way to judge the quality of these Mission statements is to compare these good Mission statements to some poorer ones (these are real ones of real companies) - 1) to forge a cohesive team dedicated to being the standard for exceptional customer service; 2) to create shareholder value by being the first-choice provider to our stakeholders of the products, services and expertise that we offer; 3) to achieve enhanced, long-term shareholder value by building a strong operating company serving diversified markets to earn a superior return on assets and to generate growth in cash flows; 4) to serve our customers, build significant value for our shareholders and provide growth opportunities for our associates. None of these 4 statements articulate the business the firm is in. This criterion is perhaps the most important of the four listed above. It allows firms to focus. Thus, for example, Microsoft defines itself to be in the “software” business. It builds and engages in activities that pertain to software and when it finds it is moving too far from that it pulls back. It helped create Expedia, but when Expedia realized its potential as a travel portal, Microsoft withdrew its interest.

Insert Figure 1.8 about here

Generally speaking, having a well-articulated Mission is more important for not-for-profit organizations than for commercial organizations. Not-for-profits are expressly created to fulfill a mission - be it to increase awareness and decrease the incidence of breast cancer or to promote safe practices to prevent HIV. Their measures of success are directly related to achieving those goals. The following Mission statements for some not-for-profit organizations show how succinct and clear they can be: 1) Susan G. Komen Breast Cancer Foundation – to eradicate breast cancer through research, education, screening, and treatment; 2) Prostate Cancer Foundation - funds high-impact research to find better treatments and a cure for prostate cancer; 3) A community health center – to promote adolescent health and development through school and community support and prevention.

While a Mission statement is often sufficient for not-for-profits, for-profit organizations need a Vision statement too. For-profit organizations are created to make profits and build shareholder wealth. For-profit firms often must tweak their businesses as they strive to meet their financial goals. Such tweaking may be required because of developments in the competitive, technological, legal or other environments. Mission statements, which are enduring, therefore are left intentionally broad to allow for such tweaking. Vision statements make the journey of an organization more concrete.

2.4.3 Vision articulates the company's foresight of what the industry is going to look like in the next 5, 10, 15 years and the role the company is going to play in the industry. Hence, the vision consists of two components - the vision *of* the industry or industries and their respective marketplace(s), and the vision *for* the company in terms of how it will compete. Vision is an expansive, future-oriented and vivid description of the organization and the industry. Vision to some degree articulates how the mission will be achieved. A term related to vision is Strategic Intent. Strategic Intent has been defined as "obsession with winning in all levels of the organization … over 10- to 20- years."[xx] Strategic Intent, like a vision statement, is vivid. Thus, Kamatsu's intent to "Encircle Caterpillar" or Canon's to "Beat Xerox" provided the whole organization with direction on what to do and what would be the test for judging the validity of decisions.

It is quite likely that two firms may have the same mission, but very different visions. Thus, both Grundig and Sansui might be players in the consumer electronics business, but their visions for their organizations might be very different. Similarly, both Toyota and Kia are in the car business, but their visions are quite different. Visions might not be made entirely public for obvious competitive reasons and, hence, often must be inferred. Figure 1.9 shows some bullets of "Vision" for some pairs of companies. As can be seen in the figure, for each of the pairs, Hertz and Enterprise, Nike and Adidas, and Walmart and Target, though the mission would possibly be the same, the vision for each company in the pair is quite different.

Insert Figure 1.9 About Here

As mentioned earlier, the terms used in this domain are quite varied. The points raised in Figure 1.9 might also be called strategies by some experts. What they are called and how much of that is made public and to who can vary, but for a CEO to have a vision for the company is of paramount importance as he or she guides all the activities of the firm. The vision dictates what opportunities a firm engages in and what apparent opportunities in the environment should be rejected. Opportunities that are not in line with a company's vision are a distraction. Products developed as a result of being opportunistic might result in short-term gains. But with no strategic fit with the rest of the company's activities, future versions of such products are hard to develop - resulting in their final abandonment.

In sum, analyzing the company's strengths and weaknesses and its Mission and Vision is critical in deciding whether certain growth opportunities should be pursued. But, as alluded to earlier, strengths and weaknesses are always relative – relative to competition. Hence, it becomes critical for a firm to identify its position relative to current and future competitors.

2.5 Competitive Analysis

Aaker introduced the notion of Strategic Groups to categorize competing organizations into homogenous groups.[xxi] A strategic group is group of competitors that serve the same set of customers with similar products, and have similar resources and strategies for the purposes of serving these customers. Thus, for example, in the pizza industry one can think of at least 4 strategic groups – the first group consisting of large pizza chains (e.g., Dominos, Pizza Hut, Papa John), the second group consisting of frozen pizza manufacturers who distribute through grocery stores (e.g., DiGiorno, Tombstone, Toni's), the third strategic group consisting of high-end pizza chains as well as freezer brands (e.g., California Pizza Kitchen, Wolfgang Pucks), and finally the fourth that consists of local pizzerias. In analyzing a company's strengths and weaknesses, competition from each strategic group should be considered. In the particular case of competition in the pizza industry, competition in one local geographic area might be quite different from competition in another locality.

> Point to Ponder: For diversified companies like GE , a firm that is in the business of TV broadcasting, finance, and manufacturing and marketing of aircraft engines and of small household appliances, to name a few, how would you structure the strategic groups? Would structuring of the strategic groups depend upon which unit of GE is being analyzed?

Competition can also be analyzed by diagramming it as a hierarchical tree as shown in Figure 1.10. At the top-most level, all kinds of pizza providers compete with one another. (Of course, one could argue that at the top-most level all food products compete. In that case, the tree shown in the figure will be a sub-tree of the tree for all food products.) The hypothetical structure depicted in Figure 1.10 shows that the first split is based on whether the pizza is to be consumed at home or outside the home. If it is to be consumed at home, consumers have the option of getting it delivered, heating a frozen pie or cooking a pizza using individual ingredients, i.e., dough, sauce, and toppings. If it is to be consumed by eating-out, one can eat in a restaurant that is mostly a pizza place, or a regular restaurant that also serves pizzas. Each of these nodes further splits, e.g., the specialty pizza restaurants split into national chains (e.g., Pizza Hut and Dominos) and local pizzerias, the frozen pizza category is split up into the healthy single serving pizzas (e.g., Healthy Choice, Lean Cuisine, Smart Ones) and regular frozen pizzas, and, finally, the regular frozen pizza segment is further split into economy (e.g., Red Barron and Tombstone), premium (e.g., DiGiorno and Freschetta) and super premium (California Pizza Kitchen and Wolfgang Pucks). In this hierarchical depiction of competition, products that are within a branch compete more heavily with one another than products that are across different branches of the tree.

Insert Figure 1.10 About Here

> Point to Ponder: What are the pros and cons of Dominos and Pizza Hut embarking on selling frozen Pizza through grocery stores?

Besides existing competitors, generally speaking, a firm should also take into consideration potential substitute competition. Thus if a firm is in the frozen pizza business, it could face competition from another frozen-foods manufacturer who is not in the frozen pizza business. This can happen even if such a competitor does not launch a frozen pizza but offers similar, substitutable products like Bagel Bites (Heinz) or Hot Pockets (Nestle).

Besides competition coming from clearly apparent sources as discussed above, in a B2B setting competition can come from suppliers as well as customers. The recent foray of Apple Computers into retailing spells *competition from a supplier* for retailers of consumer electronics. Intel's entry into PCs means competition for PC manufacturers from a key supplier[xxii]. Similarly, the selling of store brands by retailers means *competition from "customers"* for manufacturers of consumer products (e.g., Wal-Mart's Durabrand, Equate, Sam's Choice and Great Value; Target's Greatland and Xhilaration; Safeway's Safeway Select; and UK supermarket Tesco's Tesco Finest.)

> Point to Ponder: Are UPS and US Postal Service competitors? What do they compete for? Does the deal for UPS to transport mail and packages for USPS make sense?

In summary, the development of a marketing strategy for *a product* entails 1) analysis of the environment to check for changes and their implications for the firm given its mission and vision; 2) analysis of customers in order to decide on the segment to target; 3) analysis of competitive offerings to decide how to differentiate the product; and 4) analysis of the company's strengths and weaknesses vis a vis competitive firms. For a new product, the chances are that the organization may need to go through several iterations or cycles between target market selection and product differentiation in coming up with the final plan for all of the 4Ps. For significant new ventures, however, the iterations might also include internal company analysis as some important strengths might need to be developed or acquired.

All of these analyses need to be summarized and concisely articulated to potential customers, investors, and other stakeholders of the company. Such precise articulation of a product's viability is called the product's *value proposition*. Chapter 3's discussion on value propositions not only describes how value propositions are arrived at, but also elucidates the importance of value props in the successful functioning of a firm. Such analyses should be conducted for each and every potential new product to develop its value proposition.

> Point to Ponder: Would it be accurate to state that there are two essential questions one needs to ask to judge a product's viability: 1. Why will the targeted customer buy the product? 2. Why is the company the right company to launch the product?

3. THE THIRD STAGE OF MARKETING: MARKET ORIENTATION

The above discussion reveals that the marketing of products is much more than an end-of-value-chain activity. Marketing of products involves making strategic decisions as to what products should be made in the first place. Marketing answers critical questions regarding who the products should be marketed to, and how the products should be distributed, communicated and priced. Clearly, it is not just marketers who should be making these decisions. These decisions must also be successfully executed. For them to be properly executed, all other functional areas should be party to these decisions. This making and executing of inter-functionally coordinated decisions, with the customer as the focus, is the key notion of market-orientation.[xxiii] Market-orientation, the third stage of marketing's evolution, is actually a philosophy of how to do business. It places the customer as the focus of the business and implies that all the functional departments of the firm have taken on the task of satisfying, better than competition, some chosen set of current and future, expressed and latent needs of customers[xxiv].

All of the above descriptions of a good mission statement are examples of the needs that companies have chosen to satisfy. Within this broad set of needs, succinctly described under the umbrella of a mission statement, a market-oriented organization must discover what newer needs can be satisfied, or existing needs can be better satisfied with newer products, by constantly monitoring the environment, customers and competition. Several terms have been proposed in lieu of market-orientation – customer/market driving, leading, led, and driven. As our definition includes current and future, expressed and unexpressed needs, we do not make any distinction between any combinations of these words.

The goal of a commercial firm is to make money. The question is how. Money can be made by adopting many different philosophies, e.g., by focusing on defeating competition, by being opportunistic and making money any which way possible, and by concentrating on product innovation, operational excellence or customer intimacy.[xxv] Market-orientation decrees that the financial goals of the company should be achieved by means of satisfying the needs of chosen segments of customers - be it by innovation and launching of new products on a continual basis, or by being cost-conscious through operational excellence, or by being image-conscious through brand-building and so forth. How a company chooses to satisfy customers is determined by its vision and the needs of the customers it has selected to satisfy.

Point to Ponder: Blockbuster, the video rental store, under pressure from online video rental companies such as Netflix, adopted the policy of "no late fees" on videos that are returned after the due date. They heavily advertised this policy. They then turned around and started charging a restocking-fee. (The late video is sold to the customer at a price which is credited on the return of the video less a restocking-fee.) What do you think of such policies? Do they please customers? Are they customer-oriented? How could they cope with movies through the net? What kinds of additional pressures can Blockbuster face in the future? What strategies can you think of to prepare them for the future?

Satisfying customer needs implies that the firm designs all its processes and activities based on the needs of the customer, and that resources are allocated to the areas of operation that have the maximal opportunity to improve customer satisfaction. Each functional division, e.g., R&D or manufacturing, has to pay heed to customer needs. Thus the R&D department, armed with relevant and accurate information, knows the right products with the right features to develop given the changes in customer needs or the opportunities afforded by the developments in technology. Google, for example, locates R&D cells with each "project" team, to keep R&D in synch with the needs and wishes of customers. The only R&D work it does centrally is that which affects the entire operations of the company, e.g., voice recognition and machine language translation. Similarly, the manufacturing department knows the relative degrees to which quality and cost of production should be emphasized. Finally, other departments, such as Human Resources and Finance, play the appropriate supporting roles for all the market-oriented departments in the value-chain. For example, the Human Resource department can discourage policies that encourage competition among employees - resulting in delayed product launches. Figure 1.11 shows an evolved version of Porter's original contribution of the value-chain concept to reflect the market-orientation philosophy.

Insert Figure 1.11 about here

The two main themes of market-orientation, each functional area making decisions based on customer needs, and all functional areas making and executing coordinated decisions, are possible only if the firm is market-oriented both behaviorally and culturally. [xxvi] Behaviorally, the firm should have the capabilities of gathering and disseminating information about the customer, competition and environment.[xxvii] Google, for example, disseminates customer site-usage behavioral data to the R&D department for them to analyze and develop product ideas. It also allows (in fact, encourages) any and all departments to review such data. Culturally, the firm should be able to make and execute inter-functionally coordinated decisions. Both the formal culture that is expressed in organizational policies that are in place and are publicized as such as well as the informal culture - unspoken but practiced methods of what and how activities are encouraged and executed - are instrumental in getting firms to become market-oriented.[xxviii] Aspects of formal and informal culture include employee evaluation systems and collegiality respectively. If the evaluation system rewards individual commitments and goals, then cooperation with others, which is so necessary for the firm to function as a well-oiled machinery, will suffer. Similarly, a lack of collegial atmosphere will not be conducive to cross-functional decision-making.

From the above discussion, it should be clear that becoming customer or market-oriented is the whole organization's job and not just the marketing department's. If a market-orientation is perceived as giving the marketing department more power, there will be resistance from other functional departments to becoming customer oriented. It is for this reason that Google, for example, allows all departments to analyze the data for themselves rather than doing so centrally and then mandating research agendas.

Because of the lack of clear understanding of what market-orientation is and necessitates, many firms reject the notion of adopting a customer-orientation - pointing to one of the following two reasons. The first reason is that customers do not know what is possible and, hence, will not ask for products that newer technology has made possible. The second reason is that being customer-oriented would mean giving the store away. Both of these objections are easily rebutted. It is true that customers do not understand technology and, hence, will not be asking for products such as the cell-phone or the internet; but customers do know what problems they face and what their wish-lists are. Customer-orientation does not mean that the manufacturers wait for customers to tell them what product should be built. Customer-orientation means understanding the needs and wishes of the customer, and then *commercializing* appropriate technologies and products to satisfy those needs and wishes. The second objection to the proposition that firms should be customer-oriented is as easily dismissed by recalling the story of the two men who are being chased by a bear. The objective of each man should be to outrun the other man and not to outrun the bear. Similarly, as far as customer satisfaction is concerned the degree to which customers ought to be satisfied is determined by competition. A firm has to beat competition and not give the product away.

While some firms reject being customer oriented for the above reasons, others err by identifying every stakeholder as a customer. As hinted in the motivation section of this chapter, it is very important to keep calling the customer the customer, and not the employees, shareholders or others who really should be partners. Many firms call their distributors or retailers their customers. Distributors and retailers should really be the firm's partners and the two together should work to satisfy the customer. Figure 1.12 shows four common models of operations of firms. The first model is a simple two-party buyer-seller system; and in this system it is quite clear who the customer is (P&G is IBM's customer for computers). The second model is the channel system in which the manufacturer distributes its products through distributors and retailers. In this system, the final end customer is the manufacturer's customer. For example, P&G considers you and I as customers and directly promotes to us to build its brands. Even though retailers, like Wal-Mart, are getting very powerful, P&G is not ignoring its true customers. The system in the third model is called the OEM (Original Equipment Manufacturer) system. OEMs have traditionally considered the manufacturers as their customers. The market-orientation philosophy, however, advocates that the final end-customer should be the ones whose needs the OEM should be striving to satisfy. For example, Intel (an OEM) by using its Intel Inside campaign was able to establish a brand name in the eyes of end-customers, and thereby was able to charge a premium for its microprocessors. The fourth model called the media system advocates that the advertiser is again a partner and not a customer. The customer is the actual user of the medium. The medium owner should strive to win the users over. By doing so it will be able to attract advertisers. With no media users, i.e., customers, there will be no advertisers. Hence, advertisers, however powerful, should be considered as partners and not customers.

In sum, a clear-cut determination of who a firm's customers are is paramount. As we will see in Chapter 2, the decision-makers might be different from the actual users and power may lie in different points of the channel system, but a clear focus on the customer is always advantageous in the long-run.

Insert Figure 1. 12 about here

3.1 Market-orientation: An Alternative to the Two Dominant Strategy Paradigms

We can conclude from above that a market-orientation is, therefore, an organization-wide mindset of how to win in business. This market-oriented approach to a firm's profitability, therefore, needs to be compared to the two popular approaches portrayed in the strategy discipline – the competitive forces/industry structure approach and the resource-based approach. The first perspective was widely practiced in the US until about the late 1980s/early 1990s. The resource-based view became popular in early 1990s. We discuss each of these two in order and then consider the value-add of the market-orientation philosophy.

3.1.1 Competitive forces/industry structure approach to firm's profitability. In this approach to creating a successful business, the firm is asked to carefully analyze the attractiveness or profitability of an industry or product-market. The firm then decides to operate in the industry if it can defend itself against competition. In this model of how firms can continue to create shareholder wealth, firms can enter as many industries as they can profit from. Profit potential of an industry or product-market has been concisely portrayed by Porter in his model popularly called 5-forces.[xxix] This model is shown in Figure 1.13. As the figure shows, the profitability of a product-market (e.g., dialysis machines for home use) depends on the existing competition (NxStage, Aksys, and Renal Solutions), on the bargaining power of customers (HMOs, insurance companies or governmental agencies that pay for the product), on the bargaining power of suppliers (e.g., if the microprocessor in the machine can be supplied by only one manufacturer), on other substitute products (other therapies and their efficacies for such kidney problems) and on future entrants (other companies that do not yet manufacture home-dialysis machines, e.g., Braun). One could say that in the industry-oriented view of the firm, the vision of the firm is to take advantage of profitable opportunities that are available. With this strategy the firm operates as a collection of multiple units (called Strategic Business Units) in diverse product-markets. Each unit within the firm, therefore, has its own mission and vision.

Insert Figure 1. 13 about here

3.1.2 Resource-based approach to profitability. The above approach to managing the growth of a firm did lead to rampant growth of firms in general. As brutal competition set in, however, in the 1990s, firms that were in diverse industries, each of which required its own set of strengths, found themselves unable to compete with other firms with better and more pertinent strengths. With firms increasingly perceiving their inability to compete, the resources-based view of the firm emerged that asked firms to "stick to their knitting." Thus, for example, Sears sold its financial services arm of Dean Witter to stick to their core business of retailing. And more recently, in 2005, AstraZeneca gave up the marketing of Prilosec (20 mg) and handed it over to P&G when the drug became an "over the counter" offering. AstraZeneca felt that an OTC drug had a better strategic fit with P&G than with itself.

The resource-based approach, that includes all types of strengths (assets, skills, capabilities, competencies as discussed above) under the word resources, asks firms to determine what their strengths (relative to competition and of ultimate value to customers) are. It then advocates that firms engage only in those businesses where these strengths can be leveraged. In this approach, a firm grows by entering new product-markets and industries in which it can use its core strengths.[xxx] One can state that products, which are based on resources that are hard to imitate and that are unique to the organization, have a significant degree of sustainable competitive advantage. Prahalad and Hamel, using the term core competencies for strength/resources, provide the following examples of companies that have been able to leverage their core strengths: Canon - precision mechanics, fine optics and micros-electronics and Honda - engines and power-train. Both these companies have been able to leverage their core competencies into a wide variety of products - Canon into many kinds of cameras, printers, faxes, scanners and copiers and Honda into cars, lawn-mowers, motorcycles, and generators.

The resource-based view of the firm advocates the gathering and amassing of resources as a means to success. The recent acquisition binge by Mittal steel can be said to be resource-based strategy[xxxi]. Hence, in the resource-oriented view of the firm part of the organizational Vision is focused on what newer resources to develop and on how and when to leverage existing resources into different products. In other words, in the resource-based view, the firm develops a portfolio of products based on the resources it possesses and not just on the attractiveness of the product-market/industry alone. Needless to say, a resource-oriented firm never allows its core strengths to erode.

> Point to Ponder: What would you say are Google's Core Competencies? Does it look like they include 1) Search and 2) Collaboration on the web? Are most of their products based on these two core competencies? Why is the Web Accelerator a relevant product for them to have in their portfolio?

3.1.3 Market-orientation approach to profitability. A firm with a resource-oriented view chooses a market to enter based on its internal capabilities, whereas a firm with an industry-orientation chooses a market to enter based on the competition in and, hence, the potential-profitability of the industry. Figure 1.14 diagrams the two approaches of a firm with respect to its customers. In the industry structure approach it is likely to see a fragmented firm (Panel A) as compared to the resource-based approach (Panel B).

Insert Figure 1.14 here

Point to Ponder: What would you say are the core competencies of GE?

In both these approaches, the focus on the customer is secondary. The resource-oriented view indirectly incorporates the customer by prescribing that whether a firm's attribute is a strength or not is determined by its value to the customer. The industry-oriented perspective indirectly incorporates the customer through its emphasis on profitability, i.e., bargaining power of the customer or the customer's willingness to pay the price. Market-Orientation focuses on the customer directly. Figure 1.15 describes the subtle differences between the three orientations. In the resource-oriented view, the firm lets its internal focus on resources determine which customers' needs are satisfied and, hence, the competitors it chooses to compete with. The industry-oriented view lets the competitiveness of the industry determine the customers and company resources. And, finally, the customer-oriented view allows the customer needs, current and future, expressed and latent, to determine the resources of the company and the competition it will face.

Insert Figure 1.15 about here

While resource-orientation may not recommend launching a product that is not leveraging the firm's core competency customer orientation may recommend so. The launch of Kindle by Amazon is an example of launching a product that is not predicated on resources but on customer-orientation[xxxii]. Similarly, the example of Google's Web Accelerator fits this bill. The Web Accelerator is not based on Google's search, collaboration or targeted advertising technologies but it is synergistic to its main products in that it makes the web experience faster for its users. Market-orientation differs from industry orientation in a similar vein. While industry orientation may suggest launching of a product, market-orientation may say no because of the firm's long term inability to strategically focus on this set of customer needs.

Point to Ponder: Would you say start-ups focus on the environment and the environment lets them configure and determine the other 3Cs? See Figure 1.16

Irrespective of which of the three approaches to running a business dictates a company's portfolio of products and businesses, it will need to assess its portfolio every now and then. Many portfolio evaluation models have been suggested including the GE and BCG models.[xxxiii] Essentially these models are meant for evaluating products or product lines or even SBUs in terms of their potential for the organization. Such an evaluation will indicate to the firm whether a product/SBU should be invested in or abandoned. A model derived from a synthesis of such models is shown in Figure1.17. The figure classifies products on two dimensions – market attractiveness and internal capabilities. A product that falls in the lower left-hand cell (cell 3), i.e., a product which does not have much market potential and does not really fit the company's strengths, should really be a candidate to be abandoned, unless there are credible reasons to keep it in the portfolio - such as it makes other profitable products more attractive to customers. Products that fall in the upper right-hand cell (cell 2), i.e., ones that have great market potential as well as have strong fit with the company's resources, are "stars" and should be nurtured for growth and eventual profitability. The diagonal cells (1 and 4) house products that are high on one dimension but not the other. For such products investigations should be made whether worthwhile improvements can be made to either stimulate the market or develop internal capabilities.

Insert Figure 1.17 about here

To illustrate the possibilities in situations depicted by these two cells, the example of Kodak and Kraft's Oreo Cookies in China can be considered. Kodak was remarkable with regards to it being able to build the strengths during the onset of digital cameras. By networking among necessary organizations, Kodak could successfully launch digital cameras and, hence, could off-set the decline in the sales of camera films to the consumers[xxxiv]. The strategy adopted by Kraft in stimulating the China market for Oreo Cookies illustrates the strategy for cell 1[xxxv].

4. MARKETING ROI

Having discussed the three views of marketing – the old (though still quite prevalent), the strategic and the philosophic – we can now turn to discussing how the function of marketing can be evaluated in organizations. Of late, considerable attention has been focused on Marketing metrics and Return on Marketing Investments (ROMI). This emphasis on ROI has stemmed in part from the fact that the old view of marketing was synonymous to spending money. Not much effort was put into evaluating whether the right marketing (essentially promotional) tools were being used. Organizations started questioning the efficiency with which marketing goals were being met. Were all the advertising dollars being optimally spent? The old adage, "I know half of my advertising is wasted; I just don't know which half," raised its ugly head again. [xxxvi] To curb such spending that was not necessarily effective, organizations started asking for metrics and measures to judge the efficacy of marketing.[xxxvii] Many metrics that are sometimes used are inappropriate because marketing is being held accountable for decisions it does not totally control. Thus, making marketing responsible for the market share of a product might not be correct if marketing did not influence the design of the product. The ROI measures being proposed here are, hence, related to the three views of marketing that may be adopted in the organization.

While it is impossible to do justice to a complex topic such as ROMI, in a couple of pages, the approach taken here is to give the intelligent reader just a hint of how to address the issue. Figure1.18 shows several metrics in three "concentric" boxes. The inner-most box represents the old end-of-value-chain view of marketing. If this is the role marketing plays in the organization, then only metrics that measure the impact of promotional campaigns should be used to evaluate the marketing function and the ROI of marketing. Since the marketing department allocates resources between various marketing tools, the evaluation of allocation decisions is necessary. Such evaluation is necessarily qualitative with the key criterion being whether the best tools were used given the objective of promoting. Once promotional activities are executed, marketing research techniques should be used evaluate the effectiveness of the campaign. Chapter 6 details many of the research techniques that can be used and chapters 11, 12, and 13 describe the details of each of the promotional tools (sales promotion, advertising and sales force respectively) to point to their effectiveness evaluation criteria.

Insert Figure 1.18 about here

The middle box of Figure 1.18 lists another set of metrics that should be measured if marketing plays a strategic role in the company. Now that the marketing department has a say in the new products that are developed, its managers and their decisions can be evaluated by metrics such as market share, growth, repeat purchase, satisfaction with the product, etc. Farris et al provide several variations of the market share measure and many of these can be used if justified[xxxviii]. The point to remember is that even if marketing plays a strategic role it cannot be held accountable for profits as it does not have control over costs. It is only when the firm adopts a market-oriented approach that marketing can be evaluated using such financial criteria. Some marketing expenditures, such as those spent on building brands, should be considered long-term investments with long term pay-backs. Such pay-backs may be fuzzy and might not be directly attributable to a precise expenditure at any one point of time. Care should correspondingly be exercised is using ROI in such cases.

4.0 FUTURE DIRECTIONS

The Preface of this book talked about the art and science of marketing. While creativity in marketing has reached a reasonable level, the science part has been under-developed and, perhaps even more, under-utilized. This is primarily due to lack of readily available valid data. The efficacy of marketing is hard to judge when there are no reliable and valid ways to measure. Like it is said, "if you can't measure it you can't control it." Tremendous progress has been made in the last few years in terms of data gathering. Scanner Panel data that record consumer purchases (e.g., brand bought, quantity, price, promotion used, etc.), the environment in which they were made (e.g., competitors' prices and promotional activities) and household information (e.g., number and demographics of members, income, etc.) have been able to provide manufacturers and retailers a wealth of information on marketing effectiveness. Now with the spread of set-top boxes for TVs lot more information on advertising viewing should be available. These TV viewership data in conjunction with scanner-panel data can give accurate information on advertising effectiveness. With more and more promotion shifting to the internet, a larger proportion of promotion expenditure can now be tracked. More information on such data and their analysis is available in Chapters 6, 7, 11, and 12. In sum, one of the directions in which marketing is moving is that there will be more scope for analytics and, hence, data-based decision making.

The second major trend is customization. The last chapter, 15, on relationship marketing discusses at length the notion of Customer Lifetime Value. The idea behind this is with information technology being available to capture individual level data, many of the 4Ps can be customized to optimize both customer satisfaction and company profits. Purchases made of the internet of course are more amenable to tracking and, hence, customization.

For organizations to become market-oriented, each executive has to play a role. Developments will take place to enhance our knowledge in this area.

As more and more organizations start adopting the strategic perspective of marketing and/or market-orientation, there will an emphasis on educating non-marketers to believe in marketing. Also, simultaneously the credibility of marketers needs to be enhanced. For that to happen, more and more individuals who are appointed in marketing positions would need to have a formal education in marketing. Such an education should be careful to optimize the combination of the right-brain creative aspects and left-brain analytic aspects. Or in other words, means and methods to educating non-marketers on the importance and complexity of marketing need to be developed as well as different means and methods to educating marketers to master marketing need to be developed with the ultimate goal of enhancing the credibility of marketing.

5.0 KEY TAKEAWAYS

- Marketing as practiced in some organizations consists mostly of selling, advertising and sales promotions. This is erroneous.
- Marketing is more strategic wherein the products and their features and the target segments are determined by careful analysis of potential customers, competitors and the environment.
- As organizations mature they should adopt the Market-orientation philosophy of doing business.

- Marketing Strategy entails not only the design of the product but also its pricing, distribution and promotion.
- There are a variety of options available for pricing, distribution and promotion and each option can be carefully chosen to develop the right positioning of the product for the right target segment.
- Intangible attributes at the product level and intangible strengths at the organizational level are the best way to achieve sustainable competitive advantage at the product and organizational level respectively.
- Not every product that has the potential for success should be launched. Its long-term compatibility with the mission of and the vision for the organization as well as its strengths should be taken into account.
- Sometimes products could be launched that by themselves are not profitable or do not fit in perfectly with the companies core competencies. They are launched because they make other products of the companies more attractive to the customer. This is in synch with customer/market orientation.
- Market-Orientation (and all the related terms – customer-orientation, market/customer-driven/driving) means satisfying chosen customers' expressed and latent, current and future needs. It is the whole organization's job to satisfy the customers' need by making and executing inter-functionally coordinated decisions.
- Metrics for evaluating marketing should be used. But care should be exercised to use the correct set of metrics which depends upon the role marketing is allowed to play in the organization.
- Some marketing expenditure should be considered investment in the brand.

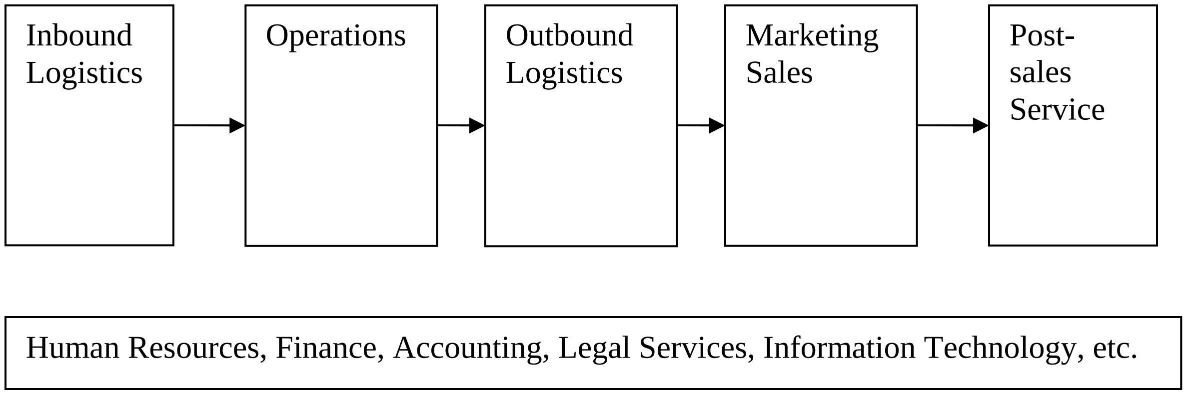

Figure 1.1
Organizational Value-Chain

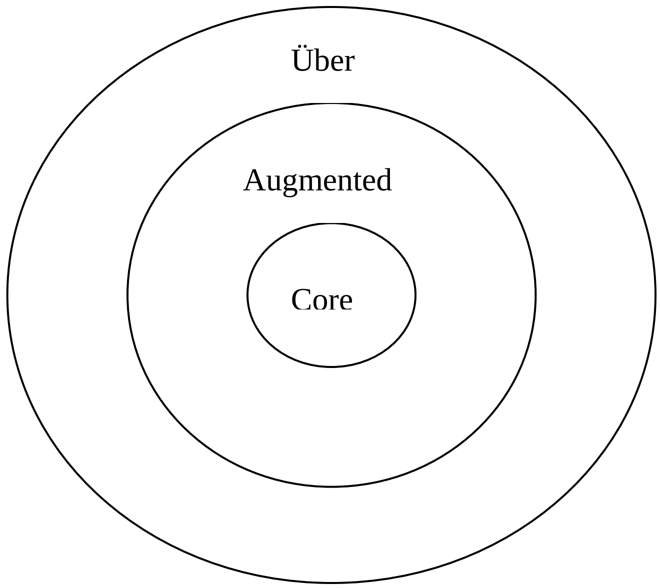

Figure 1.2

Concentric Circle View of Product

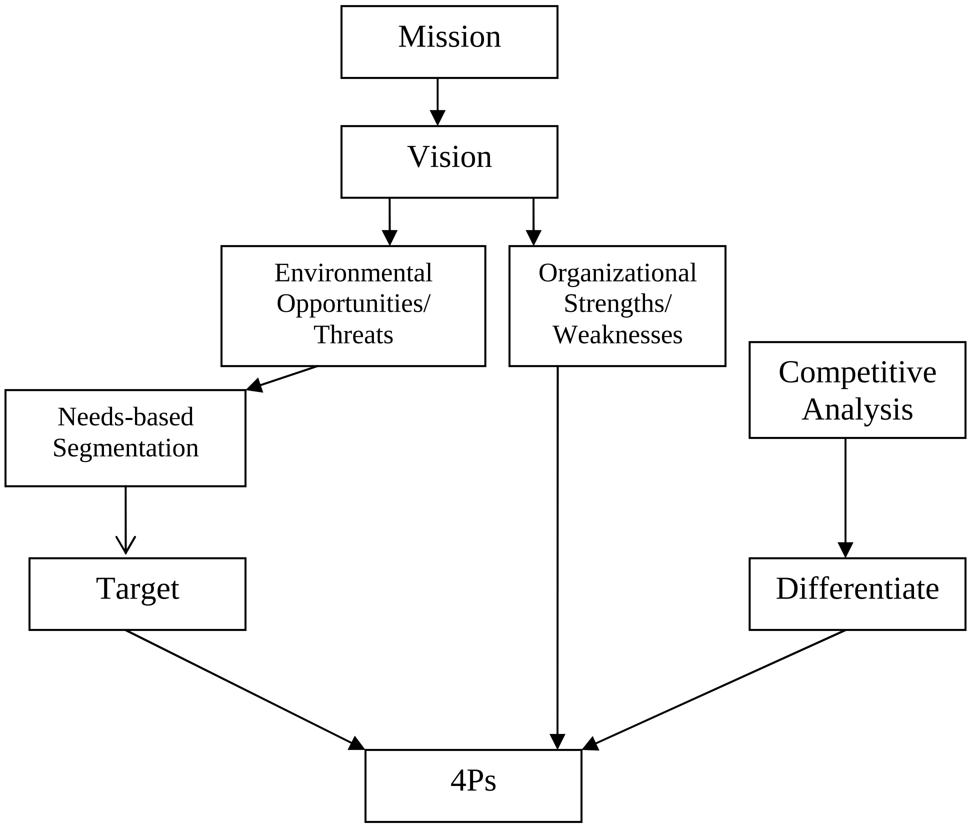

Figure 1.3*
Product Marketing Strategy Framework

Adapted from a Wharton Teaching Note: Author Unknown and
Harvard Business School Teaching Note © 1982, John A. Quelch

	S1	S2	S3	S4
B1				
B2				
B3				
B4				

Segments x Benefits Matrix
Panel A

	C1	C2	C3	C4
B1				
B2				
B3				
B4				

Competition x Benefits Matrix
Panel B

Figure 1.4*
Segmentation and Competitive Matrices

Adapted from Wharton Teaching Note;
Author unknown

	Regular Homemakers	Affluent Homemakers	DINCS	Heavy Users	Gourmets
Durability	3[$]	2	3	**5**	3
Ease of Use	3	2	**5**	4	3
# of Features	3	2	4	3	**5**
Style/Brand Image/Hi Price	2	**5**	3	2	4
Product Line	2	**5**	2	2	2

Segments x Benefits Matrix for Food Processor Example
Figure 1.4 Panel C

[$] Entry indicates the importance of the benefit to the segment

	C1	C2	C3	C4
Durability	3[@]	2	5	
Ease of Use	3	2	4	
# of Features	3	2	2	*
Style/Brand Image/Hi Price	3	**5**	2	
Product Line	3	**5**	3	

Competition x Benefits Matrix for Food Processor Example
Figure 1.4 Panel D

[@] Entry indicates the amount of the benefit available in the competitive product

Figure 1.5

Americana in China

In-bound Logistics	Marketing
Relationship with Suppliers	Brand Equity
Quality of Suppliers	Customer Loyalty
Access to Resources	Quality of Sales-force
Cost-effectiveness of Logistics	Listening to the Voice of the Customer
Research and Development	**Employees**
Quality of R&D Personnel	Worker Attitudes and Morale
Marketing/R&D Interface	Quality of Top-Management
R&D Budget	CEO
Operations	**Culture**
Manufacturing or Service Delivery Quality	Human Resource Policies
Processes	Innovativeness
Plant & Equipment	Quality Conscientiousness
Cost-Efficiencies	Market-Orientation
Outbound Logistics	**Corporate**
Relationship with Distributors and Retailers	Financial Strength
Quality of Distributors and Retailers	Ties with Governmental and Relevant Powerful Individuals & Institutions
Cost-effectiveness of Logistics	Legal
	Patents/Know-how

Figure 1.6

Characteristics of Firms that can Potentially be Strengths (or Weaknesses)

Tangible/ Explicit	Intangible/ Tacit

Assets (Having)	• Plant & Machinery • Human Capital • Finances	• Brand Name • Organizational Culture • Knowledge
Skills (Doing)	Documented Processes • Order Fullfilment • New Product Development • Supply Chain	Undocumented Processes • Decision Making Processes • Organizational Learning • Idea Fruition Processes

Figure 1.7
Classification of Organizational Strengths

Company	Mission	Comments
Nike	To bring inspiration and innovation to every athelete* in the world * If you have a body you are an athelete	Great statement – Broad in scope as every person is targeted, yet very focused in the image it wants its customers to convey.
Ben & Jerry's	To make, distribute & sell the finest quality all natural ice cream & euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.	This mission statement allows Ben and Jerry's to differentiate itself in an extremely crowded space. Though seemingly narrow in scope (they are not in Frozen Dessert business) but ice-cream itself is a huge market.
Google	To organize the world's information and make it universally accessible and useful.	Focuses on the end goal and not on the means such as the type of software architecture or the role of hardware.
McDonald's	To be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile.	Last phrase is not insignificant.
Boeing	To push the leading edge of aviation, taking huge challenges doing what others cannot do.	In one fell swoop, it differentiates itself from other aviation manufacturers.

Figure 1.8
Some Examples of Good Mission Statements

Company	Elements of Vision
Enterprise	Mass markets; Low Prices; Located in many neighborhoods.
Hertz	Business Traveller; Premium Prices; Located in hotels, airports; Fast & Convenient Customer-facing Processes
Nike	Building its own brand in all products – clothing, accessories, equipment.
Adidas	Developing a portflio of brands; matching brand values to distinct consumers.
Target	Great design at affordable prices; focus on trending right fashion and growing by design capabilities.
Walmart	Cost-reduction by integrated relationship with manufacturers; leveraging technology for inventory control and supply-chain management; store traits and historical selling data to establish store specific layout and assortment of products.

Figure 1.9

Inferred Elements of Vision of Some Firms

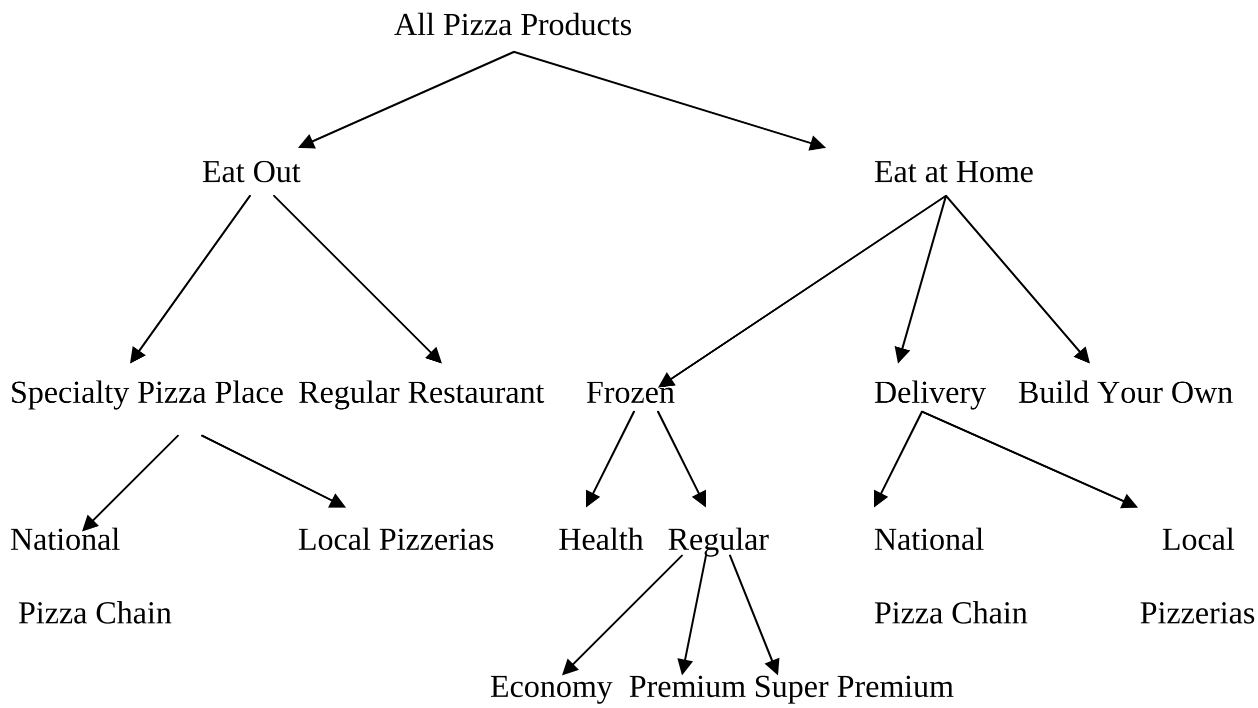

Figure 1.10

Market Structure for the Pizza Industry

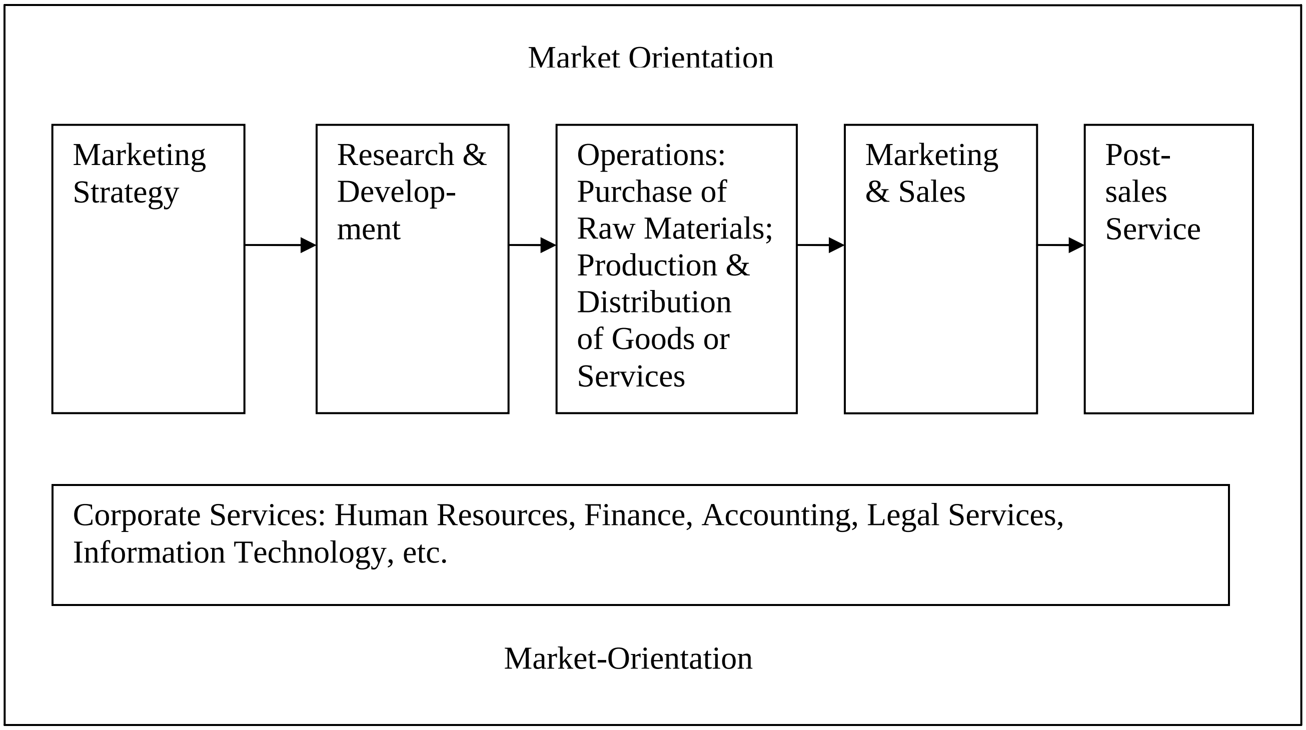

Figure 1.11
Organizational Value-Chain

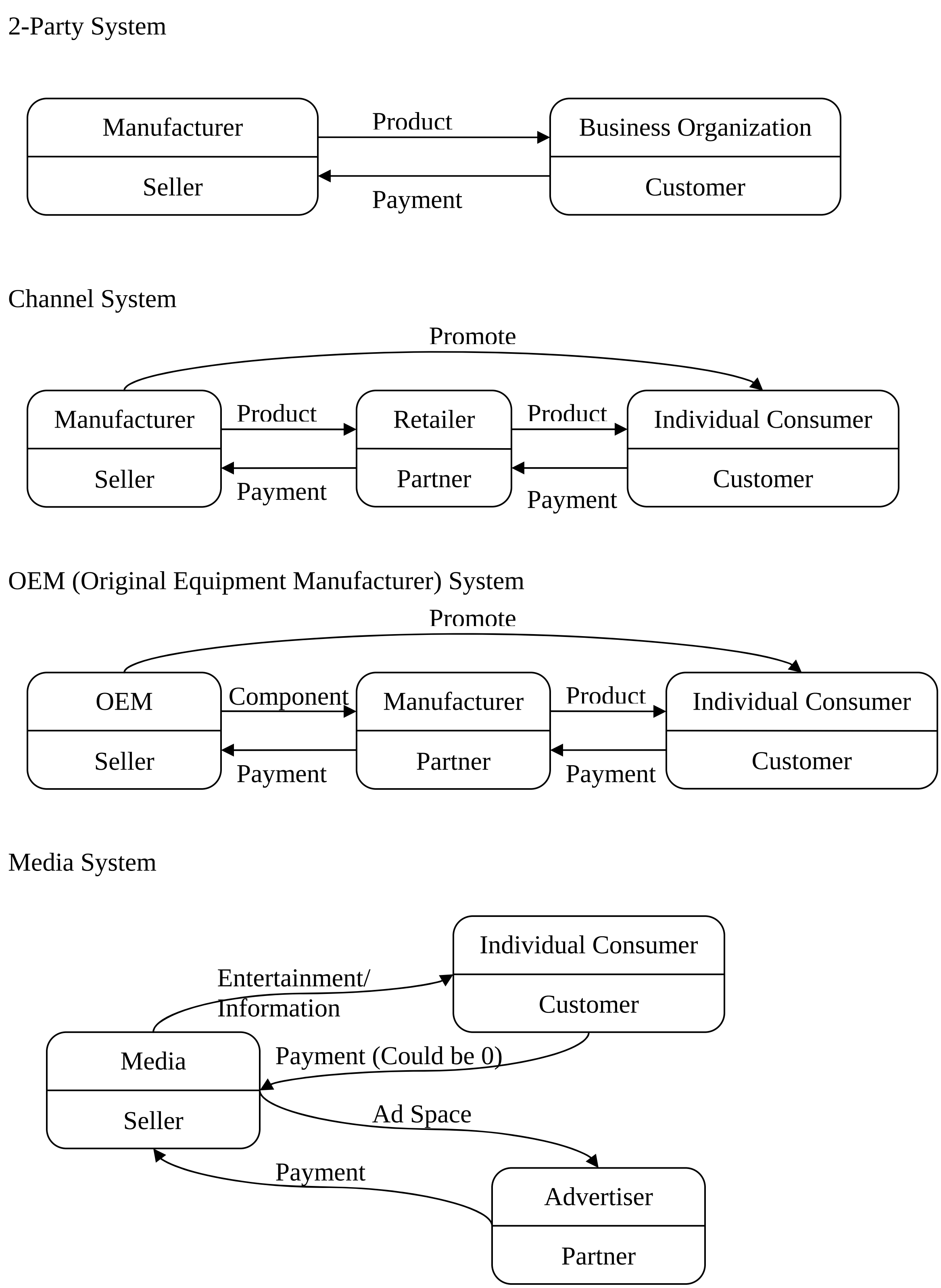

Figure 1.12
Who is the Customer?

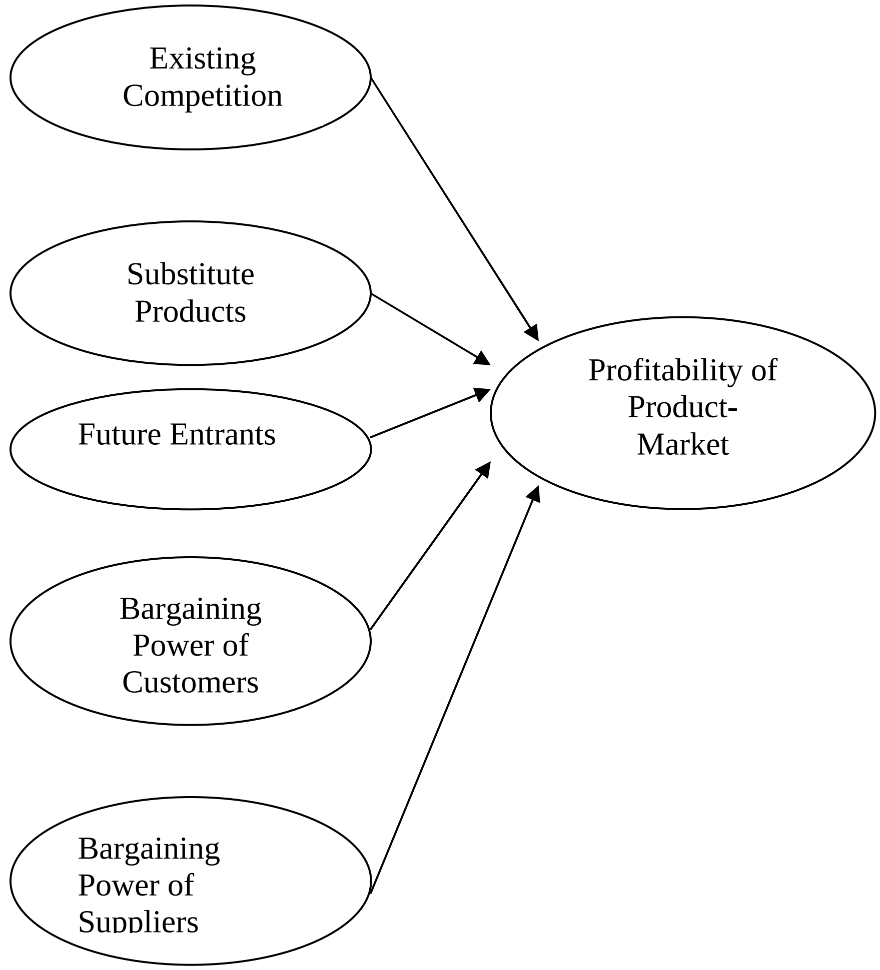

Figure 1.13
Profitability of a Product-Market

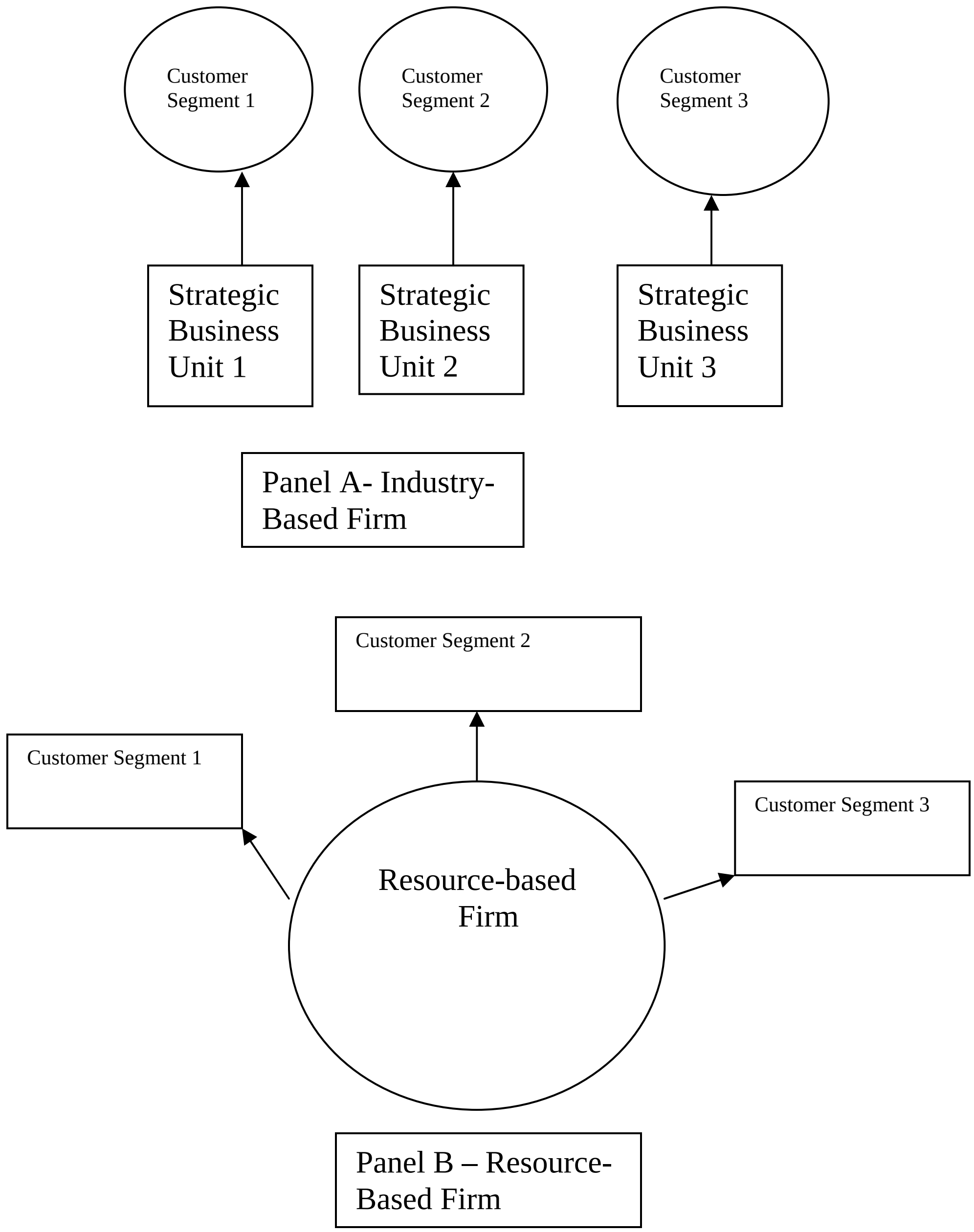

Figure 1.14
Firm and Its Relationship with Customers

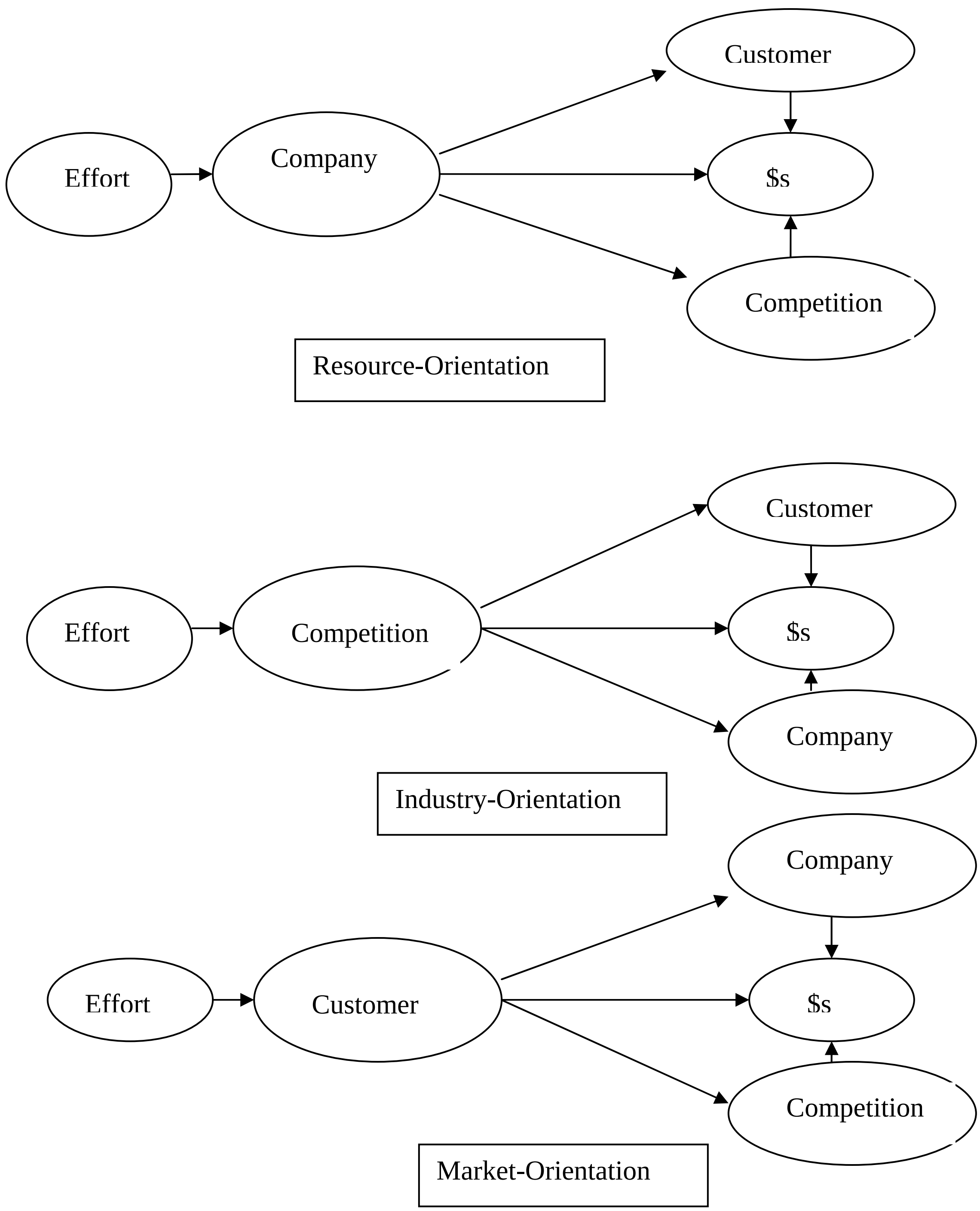

Figure 1.15
Three Possible Orientations of a Firm

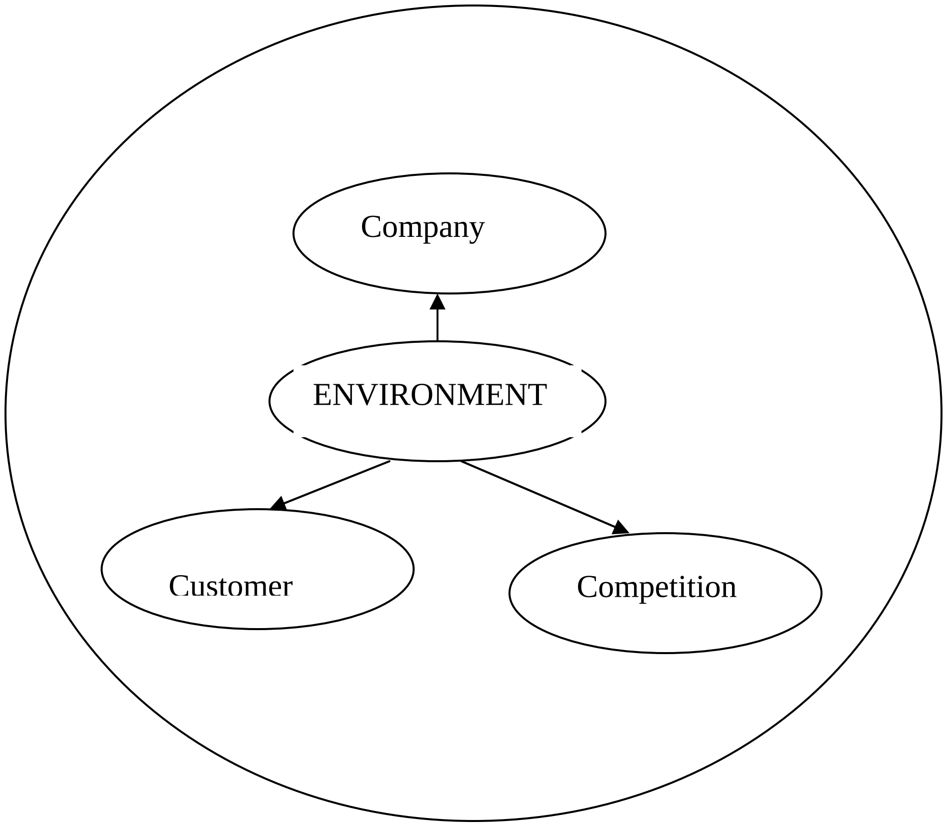

Figure 1.16
Entrepreneurs Tuned to Environment?

Internal Capabilities

Hi	Invest in Stimulating the Market? (1)	Stars (2)
Lo	Reasons to not Kill? (3)	Invest in Building Strengths? (4)

Hi Lo

Market Attractiveness

Figure 1.17
Product/Business Evaluation Portfolio Matrix

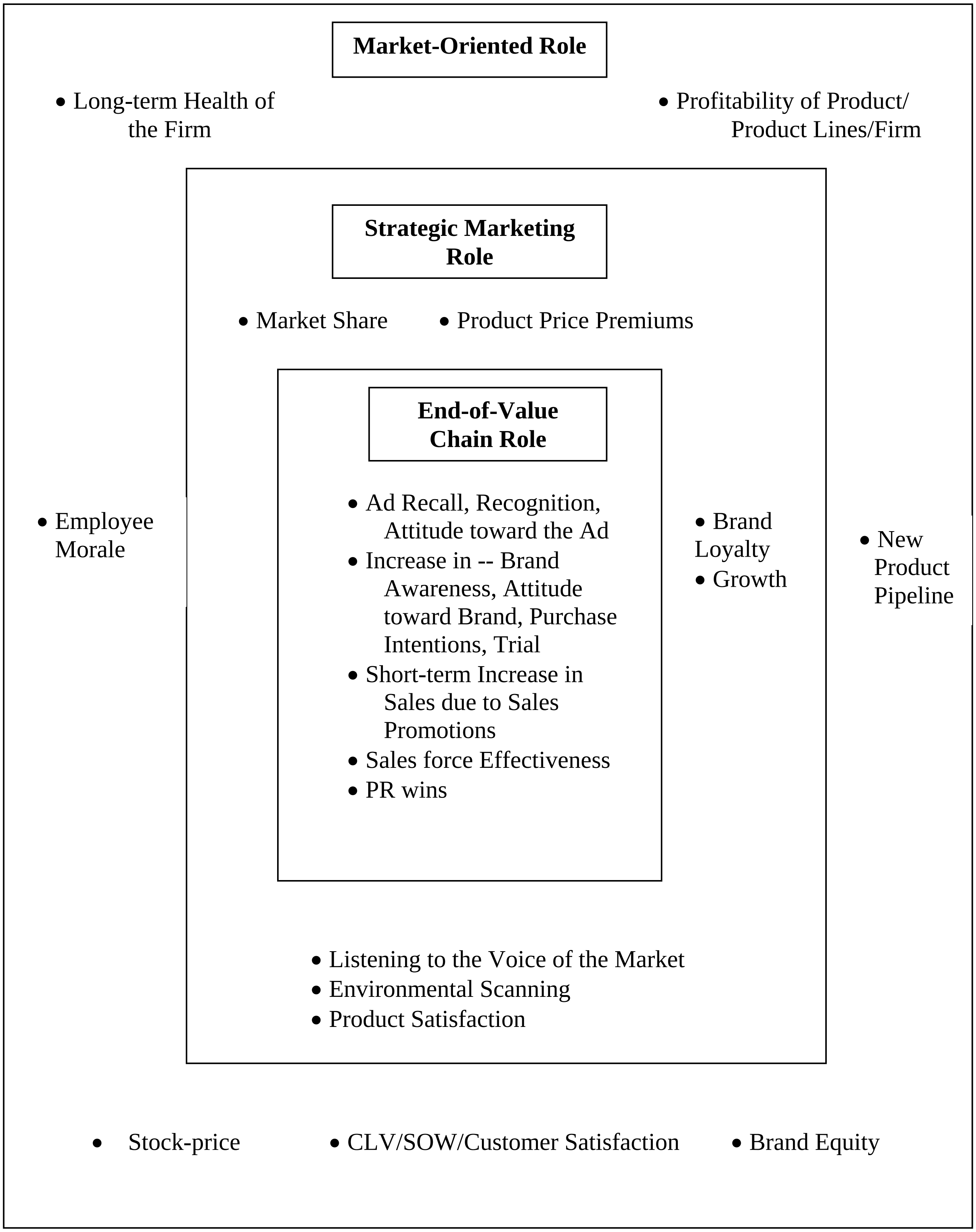

Figure 1.18
Marketing ROI

[i] (http://www.webster-dictionary.org/definition/marketing)

[ii] http://education.yahoo.com/reference/dictionary/entry/marketing

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http://news.com.com/Photos+Intels+own+mini+PC/2009-1042_3-5596587.html

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[xxxvi] John Wanamaker an entrepreneur in the mid-1800s is credited for this saying.

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Concept Questions

1. What is the difference between Marketing, Strategic Marketing and Market Orientation?
2. Why should there be complementarities between the 4 Ps? Can the positioning, i.e., different target segment or different competitor, of a product be made quite different by changing only one of the Ps? Please give an example?
3. What's the difference between Mission and Vision?
4. Why is the notion of Market Structure important? Take a particular product-market and suggest two ways in which the market may be structured and, hence, the implications of introducing a new product in this product-market on cannibalization?

5. What are the elements that go into building a strategy for a product?
6. What should be the relationship between a product's strategy and a strategy for portfolio of products? How can this thinking be elevated to a bundle of product portfolios and finally to corporate strategy?
7. What's the difference between Strengths of an Organization and Core Competencies? Give a hypothetical but realistic example of a firm and its strengths and which of these need not be core competencies?
8. Why is it important to distinguish between Attributes and Benefits of a product? Please provide an example of a situation where focusing on an attribute of a product might be sub-optimal as compared to focusing on the benefit? Hint: the benefit arising from the attribute can be provided by other attributes.
9. Why would you focus on intangible assets to build sustainable competitive advantage over tangible assets and skills? Can you focus on Tacit Skills? What happens if one focuses on Tacit Skills? Do they become Explicit?
10. Why is it important to identify the right stakeholder as the customer? Can employees ever be customers? When and why might there be confusion about who should be the "customer"? In a University setting are students customers or products? If latter, who are the customers?
11. Why do you think it may be important to inspect a "dashboard" of metrics instead of just any one when a firm is at the Strategic Marketing and Market-Orientation stages?

Application Questions

1. Where in the organization should Strategic Marketing Planning be housed? Who should be on the team? What should be the longevity of this team? How should it interact with other products' strategic marketing teams? Will this differ from industry to industry? If yes, please provide an example.
2. Who is responsible for making an organization Market-Oriented? Take the top executives – CEO, Heads of Finance, Marketing, Manufacturing, R&D, and HR and describe their contributions in making the firm Market-Oriented.
3. Go to the websites of 3 real estate companies Boyle.com, CBRE.com, and Trump.com. Prepare a Mission and Vision statement for each of these.
4. The basic premise on which Dell was formed was, "reduced overall costs to end customers as a result of customization and direct delivery of each PC." Customization would prevent holding inventory of PCs with components not desired by customers. Given that the cost of hardware components has significantly decreased since the Dell business model, do you think this model is still effective? What would you recommend Dell to do?

Marketing Controversy

It is often said by disbelievers that if an organization focuses on Customer Satisfaction, it will have to give the store away. How can an organization satisfy its customers and go laughing all the way to the bank? When might Customer Satisfaction lead to profit depletion and what would you recommend the organization do?

RECOMMENDED HARVARD CASES

Case 1.1: TiVo (9-501-038) (Other TiVo cases from HBS and other published materials on TiVo can be used to supplement this case.)

The problem is to develop a marketing strategy for TiVo; i.e., how should the target segment(s) be defined, and what should the Pricing, Promotion (e.g., advertising themes), and Distribution strategies be. Could any sustainable competitive advantage be built for this product/company?

1. What are the salient attributes of TiVo?
2. What are the strengths and weakness of the company?
3. What needs does this product satisfy for different segments; ala Segments x Benefits matrix?
4. Is there a clear positioning for this product?
5. Where could competition come from?
5. How will advertisers and networks react to this product?
6. What are the distribution options for TiVo?
7. How should TiVo be priced? With or without value-added service charges?

Case 1.2: Interep National Radio Sales, Inc. (9-999-011)

For Interep to become Market-Oriented, how should the sales force be organized to address the key stakeholders – advertisers, agencies, buying services and radio stations?

1. What is the sales process for Interep?
2. How is the sales force organized currently? What do account executives do?
3. Who is the customer? Whose needs are we satisfying? Who is the client? What's the difference between the client and customer as referred to in the case?
4. Should there be two roles – sales and account executive? Hunters and Gatherers?
5. Who should be the relationship manager if at all and what relationship should be managed?
6. What is the competition like?
7. How can technology be used? How can Interep differentiate itself form BuyMedia? How can value added services be sold? Is there any value addition to be done or will BuyMedia eat Interep's lunch?
8. Is it a good idea to stick to radio only? Initially?

Case 1.3: Ice-Fili (9-705-441)

The problem is to develop all aspects of marketing strategy.

1. Can Ice-Fili maintain its market lead over Nestlé?
2. Should Ice-Fili invest in its own chain of cafés in order to find new retail avenues for its ice cream products?
3. How should Ice-Fili compete with regional producers without engaging in a price war?
4. What should the quality of the ice-cream be relative to competition and how should it manage its perceptions?
5. What could it do additionally to be market-oriented?