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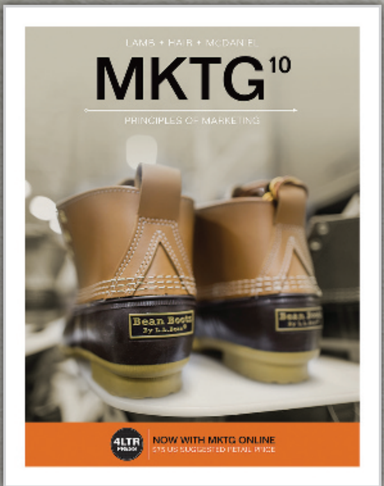

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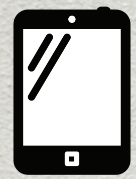

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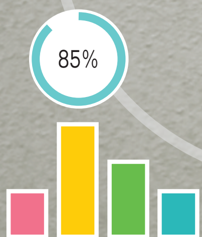

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1 An Overview of Marketing


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LEARNING OUTCOMES

After studying this chapter, you will be able to…

- **1-1** Define the term *marketing*
- **1-2** Describe four marketing management philosophies
- **1-3** Discuss the differences between sales and market orientations
- **1-4** Describe several reasons for studying marketing

After you finish this chapter go to **PAGE 13** for **STUDY TOOLS.**

1-1 WHAT IS MARKETING?

What does the term *marketing* mean to you? Many people think *marketing* means personal selling. Others think it means advertising. Still others believe marketing has to do with making products available in stores, arranging displays, and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more.

Marketing has two facets. First, it is a philosophy, an attitude, a perspective, or a management orientation that stresses customer satisfaction. Second, marketing is an organization function and a set of processes used to implement this philosophy.

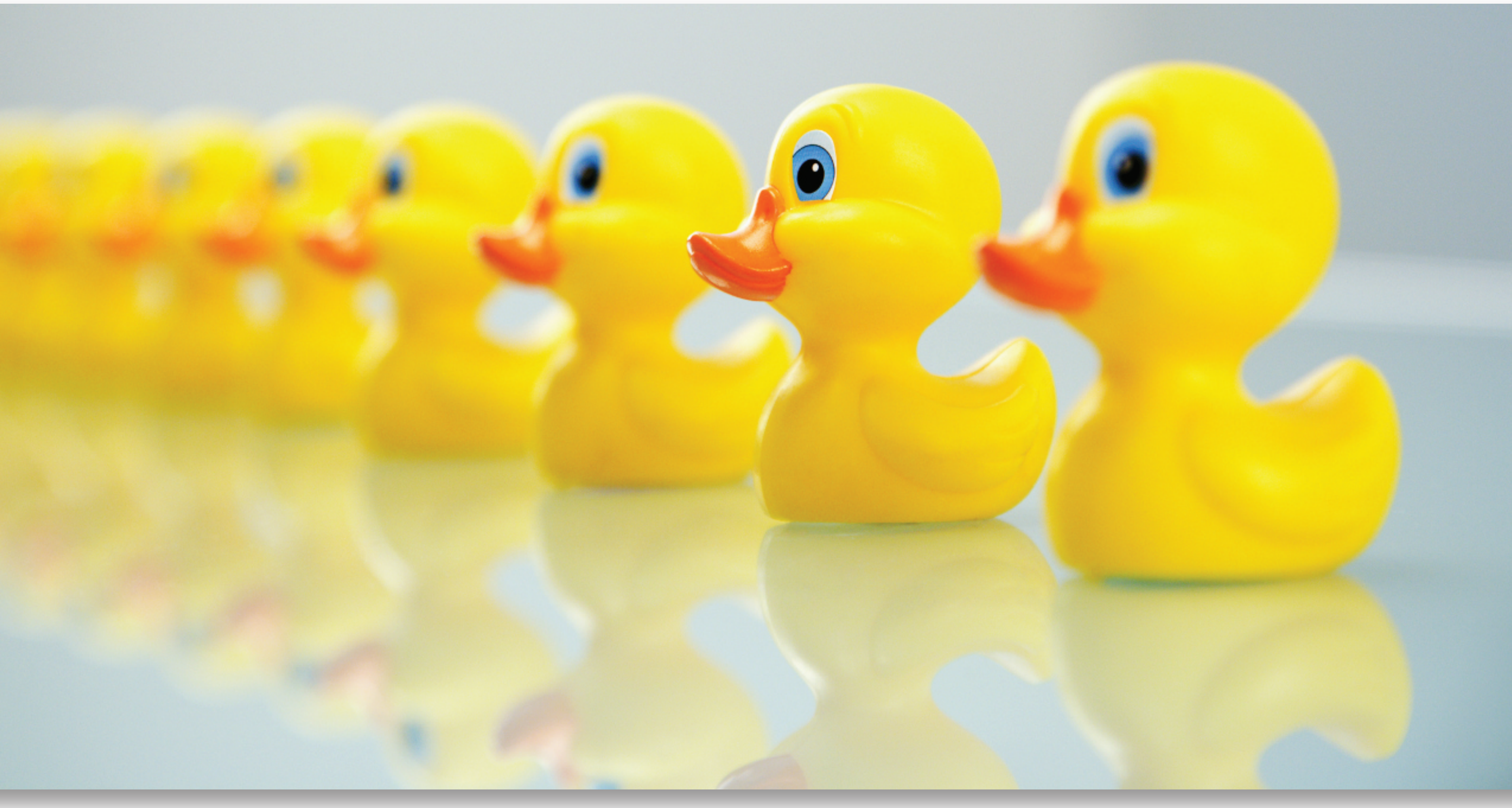
The American Marketing Association's definition of marketing focuses on the second facet. According to the AMA, **marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.[1]

"Marketing is too important to be left only to the marketing department."

—DAVID PACKARD, COFOUNDER OF HEWLETT-PACKARD

marketing the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

Marketing involves more than just activities performed by a group of people in a defined area or department. In the often-quoted words of David Packard, co-founder of Hewlett-Packard, "Marketing is too important to be left only to the marketing department." Marketing entails processes that focus on delivering value and benefits to customers, not just selling goods, services, and/or ideas. It uses communication, distribution, and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values, and benefits they desire when and where they want them. It involves



building long-term, mutually rewarding relationships when these benefit all parties concerned. Marketing also entails an understanding that organizations have many connected stakeholder "partners," including employees, suppliers, stockholders, distributors, and others.

Research shows that companies that consistently reward employees with incentives and recognition are those that perform best, while disgruntled, disengaged workers cost the United States economy upward of $350 billion a year in lost productivity.[2] In 2014, Google captured the number one position in *Fortune*'s "100 Best Companies to Work For" for the third year in a row. The company pays 100 percent of employees' health care premiums, offers paid sabbaticals, and provides bocce courts, a bowling alley, and twenty-five cafés—all for free. Google has also never had a layoff. One so-called Googler reported that "employees are never more than 150 feet away from a well-stocked pantry."[3]

Zuma Press, Inc./Alamy

Google offers many amenities to its employees, part of the reason *Fortune* ranked it as the best company to work for in 2012, 2013, and 2014.

One desired outcome of marketing is an **exchange**—people giving up something in order to receive something else they would rather have. Normally, we think of money as the medium of exchange. We "give up" money to "get" the goods and services we want. Exchange does

exchange people giving up something in order to receive something else they would rather have not require money, however. Two (or more) people may barter or trade such items as baseball cards or oil paintings.

An exchange can take place only if the following five conditions exist:

1. There must be at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.[4]

Exchange will not necessarily take place even if all these conditions exist, but they must exist for exchange to be possible. For example, suppose you place an advertisement in your local newspaper stating that your used automobile is for sale at a certain price. Several people may call you to ask about the car, some may test-drive it, and one or more may even make you an offer. All five conditions that are necessary for an exchange to occur exist in this scenario. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place.

Notice that marketing can occur even if an exchange does not occur. In the example just discussed, you would have engaged in marketing by advertising in the local newspaper even if no one bought your used automobile.

1-2 MARKETING MANAGEMENT PHILOSOPHIES

Four competing philosophies strongly influence an organization's marketing processes. These philosophies are commonly referred to as production, sales, market, and societal marketing orientations.

production orientation a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace

sales orientation the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits

1-2a Production Orientation

A **production orientation** is a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace. A production orientation means that management assesses its resources and asks these questions: "What can we do best?" "What can our engineers design?" "What is easy to produce, given our equipment?" In the case of a service organization, managers ask, "What services are most convenient for the firm to offer?" and "Where do our talents lie?" The furniture industry is infamous for its disregard of customers and for its slow cycle times. For example, most traditional furniture stores (think Ashley or Haverty's) carry the same styles and varieties of furniture that they have carried for many years. They always produce and stock sofas, coffee tables, arm chairs, and end tables for the living room. Master bedroom suites always include at least a queen- or king-sized bed, two dressers, and two side tables. Regardless of what customers may actually be looking for, this is what they will find at these stores—and they have been so long-lived because what they produce has matched up with customer expectations. This has always been a production-oriented industry.

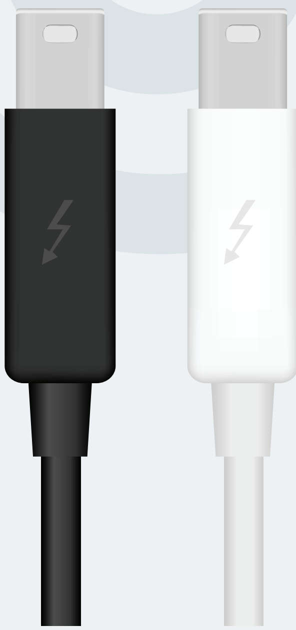
There is nothing wrong with assessing a firm's capabilities; in fact, such assessments are major considerations in strategic marketing planning (see Chapter 2). A production orientation falls short because it does not consider whether the goods and services that the firm produces most efficiently also meet the needs of the marketplace. Sometimes what a firm can best produce is exactly what the market wants. Apple has a history of production orientation, creating computers, operating systems, and other gadgetry because it can and hoping to sell the result. Some items have found a waiting market (early computers, iPod, iPhone). Other products, like the Newton, one of the first versions of a PDA, were simply flops.

In some situations, as when competition is weak or demand exceeds supply, a production-oriented firm can survive and even prosper. More often, however, firms that succeed in competitive markets have a clear understanding that they must first determine what customers want and then produce it, rather than focus on what company management thinks should be produced and hope that the product is something customers want.

1-2b Sales Orientation

A **sales orientation** is based on the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits. Not only are sales to the final buyer emphasized, but intermediaries are also encouraged to push manufacturers' products more aggressively. To sales-oriented firms, marketing means selling things and collecting money.

LIGHTNING DOES NOT STRIKE TWICE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One of the dangers of a sales orientation is failing to understand what is important to the firm's customers. When that occurs, sales-oriented firms sometimes use aggressive incentives to drive sales. For example, after Apple received complaints about the $49 selling price of its Thunderbolt cable, the company reduced the cable's price to $39 and introduced a shorter $29 version. The company hoped to spark sales of the optical data transfer cable, compatible only with Apple's newest line of computers and laptops.[5]

"Josh Lowensohn, "Apple's Thunderbolt Cable Gets a Price Drop, Shorter Version," CNET, January 9, 2013, http://news.CNET.com/8301-13579_3-57563157-37/apples-thunderbolt-cable-gets-a-price-drop-shorter-version (Accessed January 10, 2015)."

The fundamental problem with a sales orientation, as with a production orientation, is a lack of understanding of the needs and wants of the marketplace. Sales-oriented companies often find that, despite the quality of their sales force, they cannot convince people to buy goods or services that are neither wanted nor needed.


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1-2c Market Orientation

The **marketing concept** is a simple and intuitively appealing philosophy that articulates a market orientation. It states that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives. What a business thinks it produces is not of primary importance to its success. Instead, what customers think they are buying—the perceived value—defines a business. The marketing concept includes the following:

- Focusing on customer wants and needs so that the organization can distinguish its product(s) from competitors' offerings
- Integrating all the organization's activities, including production, to satisfy customer wants
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

The recipe for success is to develop a thorough understanding of your customers and your competition, your distinctive capabilities that enable your company to execute plans on the basis of this customer understanding, and how to deliver the desired experience using and integrating all of the resources of the firm. For example, Kellogg's recently introduced Open for Breakfast, a forum the company uses to connect with consumers about what they are eating for breakfast. The program is also used to share stories about the foods the company makes and its pledge to care for the environment.[6]

Firms that adopt and implement the marketing concept are said to be **market oriented**, meaning they assume that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product. Achieving a market orientation involves obtaining information about customers, competitors, and markets; examining the information from a total business perspective; determining how to deliver superior customer value; and implementing actions to provide value to customers.

Some firms are known for delivering superior customer value and satisfaction. For example, in 2014, J.D. Power and Associates ranked Cadillac highest in customer satisfaction among luxury automotive brands, while Buick ranked

marketing concept the idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives

market orientation a philosophy that assumes that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product; it is synonymous with the marketing concept highest among mass-market brands.[7] Rankings such as these, as well as word-of-mouth from satisfied customers, drive additional sales for these automotive companies.

Understanding your competitive arena and competitors' strengths and weaknesses is a critical component of a market orientation. This includes assessing what existing or potential competitors intend to do tomorrow and what they are doing today. For example, BlackBerry (formerly Research in Motion) failed to realize it was competing against computer companies as well as telecom companies, and its wireless handsets were quickly eclipsed by offerings from Google, Samsung, and Apple. Had BlackBerry been a market-oriented company, its management might have better understood the changes taking place in the market, seen the competitive threat, and developed strategies to counter the threat. Instead, it reentered the market after a five-year slump with the wholly redesigned BlackBerry 10 operating system and sleek new flagship phones. These new products were fairly well received, but they failed to push BlackBerry back into the smartphone spotlight. By contrast, American Express's success has rested largely on the company's ability to focus on customers and adapt to their changing needs over the past 160 years.[8]

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1-2d Societal Marketing Orientation

The **societal marketing orientation** extends the marketing concept by acknowledging that some products that customers want may not really be in their best interests or the best interests of society as a whole. This philosophy states that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests. Marketing products and containers that are less toxic than normal, are more durable, contain reusable materials, or are made of recyclable materials is consistent with a societal marketing orientation. The American Marketing Association's definition of marketing recognizes the importance of a societal marketing orientation by including "society at large" as one of the constituencies for which marketing seeks to provide value.

societal marketing orientation the idea that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests

Although the societal marketing concept has been discussed for more than thirty years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depleting of the ozone layer, fuel shortages, pollution, and health issues have caused consumers and legislators to become more aware of the need for companies and consumers to adopt measures that conserve resources and cause less damage to the environment.

Studies reporting consumers' attitudes toward, and intentions to buy, environmentally friendly products show widely varying results. A Nielsen study found that while eighty-three percent of consumers worldwide believe companies should have environmental programs, only twenty-two percent would pay more for an eco-friendly product. The key to consumer purchasing lies beyond labels proclaiming sustainability, natural ingredients, or "being green." Customers want sustainable products that perform better than their unsustainable counterparts.[9] Unilever, whose brands include Dove, Lipton, Hellmann's, and Ben & Jerry's, is one company that puts sustainability at the core of its business. It has promised both to cut its environmental footprint in half and to source all its agricultural products in ways that do not degrade the earth by 2020. The company also promotes the well-being of one billion people by producing foods with less salt and fat and has developed campaigns advocating hand washing and teeth brushing.[10]

1-2e Who Is in Charge?

The Internet and the widespread use of social media have accelerated the shift in power from manufacturers and retailers to consumers and business users. This shift began when customers began using books, electronics, and the Internet to access information, goods, and services. Customers use their widespread knowledge to shop smarter, leading executives such as former Procter & Gamble CEO A. G. Lafley to conclude that "the customer is boss."[11] Founder of Walmart and Sam's Club Sam Walton echoed this sentiment when he reportedly once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."[12] The following quotation, attributed to everyone from L.L.Bean founder Leon Leonwood Bean to Mahatma Gandhi, has been a guiding business principle for more than seventy years: "A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so."[13] And as Internet use and mobile devices become increasingly pervasive, that control will continue to grow. This means that companies must create strategy from the outside in by offering distinct and compelling customer value.[14] This can be accomplished only by carefully studying customers and using deep market insights to inform and guide companies' outside-in view.[15]

1-3 DIFFERENCES BETWEEN SALES AND MARKET ORIENTATIONS

The differences between sales and market orientations are substantial. The two orientations can be compared in terms of five characteristics: the organization's focus, the firm's business, those to whom the product is directed, the firm's primary goal, and the tools used to achieve the organization's goals.

1-3a The Organization's Focus

Personnel in sales-oriented firms tend to be inward looking, focusing on selling what the organization makes rather than making what the market wants. Many of the historic sources of competitive advantage—technology, innovation, economies of scale—allowed companies to focus their efforts internally and prosper. Today, many successful firms derive their competitive advantage from an external, market-oriented focus. A market orientation has helped companies such as Zappos.com and Bob's Red Mill Natural Foods outperform their competitors. These companies put customers at the center of their business in ways most companies do poorly or not at all.

CUSTOMER VALUE The relationship between benefits and the sacrifice necessary to obtain those benefits is known as **customer value**. Customer value is not simply a matter of high quality. A high-quality product that is available only at a high price will not be perceived as a good value, nor will bare-bones service or low-quality goods selling for a low price. Price is a component of value (a $4,000 handbag is perceived as being more luxurious and of higher quality than one selling for $100), but low price is not the same as good value. Instead, customers value goods and services that are of the quality they expect and that are sold at prices they are willing to pay.

Value can be used to sell a Mercedes-Benz as well as a Tyson frozen chicken dinner. In other words, value is something that shoppers of all markets and at all income levels look for. Lower-income consumers are price sensitive, but they will pay for products if they deliver a benefit that is worth the money.[16] Conversely, wealthy customers with money to spend may value the social message of their purchases above all else. These shoppers are being courted by a new breed of social shopping sites. The basic premise is that a well-known fashion name (be it a fashion editor, elite socialite, or celebrity) moderates sites by handpicking pieces from favorite retailers, such as Barneys New York or Saks Fifth Avenue. Shoppers then purchase the curated items, and the site receives commission for each purchase. There are many of these sites; Moda Operandi has highlighted (and sold out of) woven skirts for $4,000 each, Motilo focuses on French fashion (including couture pieces), and *Fino File* is an online, shopable magazine, with pieces ranging from $80 tops to $1,000 boots. With reports of growing subscribers and sold-out merchandise, it is clear that these sites are attracting customers who value curated style.[17]

CUSTOMER SATISFACTION The customers' evaluation of a good or service in terms of whether that good or service has met their needs and expectations is called **customer satisfaction**. Failure to meet needs and expectations results in dissatisfaction with the good or service. Some companies, in their passion to drive down costs, have damaged their relationships with customers. Bank of America, Comcast, Dish Network, and AT&T are examples of companies where executives lost track of the delicate balance between efficiency and service.[18] Firms that have a reputation for delivering high levels of customer satisfaction do things differently from their competitors. Top management is obsessed with customer satisfaction, and employees throughout the organization understand the link between their job and satisfied customers. The

customer value the relationship between benefits and the sacrifice necessary to obtain those benefits

customer satisfaction customers' evaluation of a good or service in terms of whether it has met their needs and expectations

MARKETERS INTERESTED IN CUSTOMER VALUE . . .

- **Offer products that perform:** This is the bare minimum requirement. After grappling with the problems associated with its Vista operating system, Microsoft listened to its customers and made drastic changes for Windows 7, which received greatly improved reviews. Microsoft's subsequent release, Windows 8, performed even better than Windows 7, but consumers were much slower to embrace the operating system's incremental improvements.

- **Earn trust:** A stable base of loyal customers can help a firm grow and prosper. To attract customers, online eyewear company Coastal.com offers a First Pair Free program, whereby new customers receive their first pair of prescription eyeglass for free. Moreover, Coastal.com offers 366-day returns and encourages its staff members to do whatever it takes to ensure that customers are delighted by a smooth and stress-free experience. Coastal.com's dedication to earning customers' trust is evident—in 2013, the company received the STELLA Service elite seal for excellence in outstanding customer service.[19]

- **Avoid unrealistic pricing:** E-marketers are leveraging Internet technology to redefine how prices are set and negotiated. With lower costs, e-marketers can often offer lower prices than their brick-and-mortar counterparts. The enormous popularity of auction sites such as eBay and the customer-bid model used by Priceline and uBid.com illustrates that online customers are interested in bargain prices. In fact, as smartphone usage grows, brick-and-mortar stores are up against customers who compare prices using their smartphones and purchase items for less online while standing in the store.

- **Give the buyer facts:** Today's sophisticated consumer wants informative advertising and knowledgeable salespeople. It is becoming very difficult for business marketers to differentiate themselves from competitors. Rather than trying to sell products, salespeople need to find out what the customer needs, which is usually a combination of friendliness, understanding, fairness, control, options, and information.[20] In other words, salespeople need to start with the needs of the customer and work toward the solution.

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- **Offer organization-wide commitment in service and after-sales support:** Upscale fashion retailer Nordstrom is widely known for its company-wide support system. If a customer finds that a competitor has reduced the price of an item also sold at Nordstrom, Nordstrom will match the other retailer's price and credit the customer's account—even long after the sale is made. Customer service agents at each of Nordstrom's 117 locations are knowledgeable and eager to assist customers before, during, or after a sale, and strive to make the return process as painless as possible. This attention to customer service is carried through to Nordstrom's online store as well: every order receives free shipping, as well as free return shipping. However and wherever they place their orders, customers know that Nordstrom will support them throughout—and long after—the checkout process.[21]

- **Co-create:** Some companies and products allow customers to help create their own experience. For example, Case-Mate, a firm that makes form-fitting cases for cell phones, laptops, and other personal devices, allows customers to design their own cases by uploading their own photos. Customers who do not have designs of their own can manipulate art from designers using the "design with" feature at case-mate.com. Either way, customers produce completely unique covers for their devices.

culture of the organization is to focus on delighting customers rather than on selling products.

Coming back from customer dissatisfaction can be tough, but there are some key ways that companies begin to improve customer satisfaction. Forrester Research discovered that when companies experience gains in the firm's Customer Experience Index (CxPi), they have implemented one of two major changes. Aetna, a major health insurance provider, executed the first type of change—changing its decentralized, part-time customer service group into a full-time, centralized customer service team. Aetna's CxPi score rose six points in one year. Office Depot executed the second type of change—addressing customer "pain points" and making sure that what customers need is always available to them. By streamlining its supply chain and adding more stylish office products, Office Depot satisfied business customers and female shoppers, increasing its CxPi by nine points.[22]

BUILDING RELATIONSHIPS Attracting new customers to a business is only the beginning. The best companies view new-customer attraction as the launching point for developing and enhancing a long-term relationship. Companies can expand market share in three ways: attracting new customers, increasing business with existing customers, and retaining current customers. Building relationships with existing customers directly addresses two of the three possibilities and indirectly addresses the other.

Relationship marketing is a strategy that focuses on keeping and improving relationships with current customers. It assumes that many consumers and business customers prefer to have an ongoing relationship with one organization rather than switch continually among providers in their search for value. Chicago-based software company 37signals decided to focus its marketing budget on helping current customers get more out of the software they already have rather than targeting new customers. The company would rather expand current customers' awareness of what is possible with its products than focus on short term sales.[23] This long-term focus on customer needs is a hallmark of relationship marketing.

Most successful relationship marketing strategies depend on customer-oriented personnel, effective training programs, employees with the authority to make decisions and solve problems, and teamwork.

AP Images/PRNewsFoto/Fairfield Inn & Suites by Marriott

Marriott's customer-oriented focus is evident in initiatives like the Fairfield Inn & Suites "Some Like It Hot" food truck, which serves hot, made-to-order breakfasts to customers for free.

Customer-Oriented Personnel

For an organization to be focused on building relationships with customers, employees' attitudes and actions must be customer oriented. An employee may be the only contact a particular customer has with the firm. In that customer's eyes, the employee *is* the firm. Any person, department, or division that is not customer oriented weakens the positive image of the entire organization. For example, a potential customer who is greeted discourteously may well assume that the employee's attitude represents the whole firm.

Customer-oriented personnel come from an organizational culture that supports its people. Marriott, a multibillion dollar worldwide hotel chain, believes that treating employees well contributes to good customer service. The company has been among Fortune's "100 Best Companies to Work For" every year since the magazine introduced the list in 1998. For example, during the recent recession, Marriott ensured that all of its employees kept their benefits despite shorter shifts. For its focus on customer satisfaction, Marriott received the number three ranking on MSN.com's 2014 Customer Service Hall of Fame.[24]

Some companies, such as Coca-Cola, Delta Air Lines, Hershey, Kellogg, Nautilus, and Sears, have appointed chief customer officers (CCOs). These customer advocates provide an executive voice for customers and report directly to the CEO. Their responsibilities include ensuring that the company maintains a customer-centric culture and that all company employees remain focused on delivering customer value.

The Role of Training

Leading marketers recognize the role of employee training in customer service and relationship building. Sales staff at the Container Store receive more than 240 hours of training and generous benefits compared to an industry average of 8 hours of training and modest benefits.

Empowerment

In addition to training, many market-oriented firms are giving employees more authority to solve customer problems on the spot. The term used to describe this delegation of authority is **empowerment**. Employees develop ownership attitudes when they are treated like part-owners of the business and are expected to act the part. These employees manage themselves, are more likely to work hard, account for their own performance and that of the company, and take prudent risks to build a stronger business and sustain the company's success.

relationship marketing a strategy that focuses on keeping and improving relationships with current customers

empowerment delegation of authority to solve customers' problems quickly—usually by the first person the customer notifies regarding a problem

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An emphasis on cooperation over competition can help a company's performance improve. That is why many companies have moved to using teams to get jobs done.

In order to empower its workers, the Ritz-Carlton chain of luxury hotels developed a set of twelve "Service Values" guidelines. These brief, easy-to-understand guidelines include statements such as "I am empowered to create unique, memorable and personal experiences for our guests" and "I own and immediately resolve guest problems." The twelve Service Values are printed on cards distributed to employees, and each day a particular value is discussed at length in Ritz-Carlton team meetings. Employees talk about what the value means to them and offer examples of how the value can be put into practice that day.[25]

Teamwork Many organizations that are frequently noted for delivering superior customer value and providing high levels of customer satisfaction, such as Southwest Airlines and Walt Disney World, assign employees to teams and teach them team-building skills. **Teamwork** entails collaborative efforts of people to accomplish common objectives. Job performance, company performance, product value, and customer satisfaction all improve when people in the same department or work group begin supporting and assisting each other and emphasize cooperation instead of competition. Performance is also enhanced when cross-functional teams align their jobs with customer needs. For example, if a team of telecommunications service representatives is working to improve interaction with customers, back-office people such as computer technicians or training personnel can become part of the team, with the ultimate goal of delivering superior customer value and satisfaction.

teamwork collaborative efforts of people to accomplish common objectives

1-3b The Firm's Business

A sales-oriented firm defines its business (or mission) in terms of goods and services. A market-oriented firm defines its business in terms of the benefits its customers seek. People who spend their money, time, and energy expect to receive benefits, not just goods and services. This distinction has enormous implications. As Michael Mosley, director of office operations at health care provider Amedisys Home Health, notes, "We're in the business of making people better."[26] Answering the question "What is this firm's business?" in terms of the benefits customers seek, instead of goods and services, offers at least three important advantages:

- It ensures that the firm keeps focusing on customers and avoids becoming preoccupied with goods, services, or the organization's internal needs.
- It encourages innovation and creativity by reminding people that there are many ways to satisfy customer wants.
- It stimulates an awareness of changes in customer desires and preferences so that product offerings are more likely to remain relevant.

Because of the limited way it defines its business, a sales-oriented firm often misses opportunities to serve customers whose wants can be met through a wide range of product offerings instead of through specific products. For example, in 1989, 220-year-old Britannica had estimated revenues of $650 million and a worldwide sales force of 7,500. Just five years later, after three consecutive years of losses, the sales force had collapsed to as few as 280 representatives. How did this respected company sink so low? Britannica managers saw that competitors were beginning to use CD-ROMs to store huge masses of information but chose to ignore the new computer technology as well as an offer to team up with Microsoft. In 2012, the company announced that it would stop printing its namesake books and instead focus on selling its reference works to subscribers through its Web site and apps for tablets and smartphones.[27]

Having a market orientation and a focus on customer wants does not mean offering customers everything they want. It is not possible, for example, to profitably manufacture and market automobile tires that will last for 100,000 miles for twenty-five dollars. Furthermore, customers' preferences must be mediated by sound professional judgment as to how to deliver the benefits they seek. As Henry Ford once said, "If I had asked people what they wanted, they would have said faster horses."[28] Consumers have a limited set of experiences. They are unlikely to request anything beyond those experiences because they are not aware of benefits they may gain from other potential offerings. For example, before the Internet, many people thought that shopping for some products was boring and time-consuming but could not express their need for electronic shopping.

1-3c Those to Whom the Product Is Directed

A sales-oriented organization targets its products at "everybody" or "the average customer." A market-oriented organization aims at specific groups of people. The fallacy of developing products directed at the average user is that relatively few average users actually exist. Typically, populations are characterized by diversity. An average is simply a midpoint in some set of characteristics. Because most potential customers are not "average," they are not likely to be attracted to an average product marketed to the average customer. Consider the market for shampoo as one simple example. There are shampoos for oily hair, dry hair, and dandruff. Some shampoos remove the gray or color hair. Special shampoos are marketed for infants and elderly people. There are even shampoos for people with average or normal hair (whatever that is), but this is a fairly small portion of the total market for shampoo.

A market-oriented organization recognizes that different customer groups want different features or benefits. It may therefore need to develop different goods, services, and promotional appeals. A market-oriented organization carefully analyzes the market and divides it into groups of people who are fairly similar in terms of selected characteristics. Then the organization develops marketing programs that will bring about mutually satisfying exchanges with one or more of those groups. For example, Toyota developed a series of tongue-in-cheek videos and interactive Web pages featuring comedian Michael Showalter to advertise the 2013 Yaris subcompact sedan. Toyota used absurdist humor and an ironic slogan ("It's a car!") to appeal to Internet-savvy teens and young adults—a prime market for inexpensive subcompact cars.[29]

CUSTOMER RELATIONSHIP MANAGEMENT Beyond knowing to whom they are directing their products or services, companies must also develop a deeper understanding of their customers. One way of doing this is through *customer relationship management*. **Customer relationship management (CRM)** is a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups. This is accomplished by organizing the company around customer segments, establishing and tracking customer interactions with the company, fostering customer-satisfying behaviors, and linking all processes of the company from its customers through its suppliers. The difference between CRM and traditional mass marketing can be compared to shooting a rifle versus a shotgun. Instead of scattering messages far and wide across the spectrum of mass media (the shotgun approach), CRM marketers now are homing in on ways to effectively communicate with each customer (the rifle approach).

Companies that adopt CRM systems are almost always market oriented, customizing product and service offerings based on data generated through interactions between the customer and the company. This strategy transcends all functional areas of the business, producing an internal system where all of the company's decisions and actions are a direct result of customer information. We will examine specific applications of CRM in several chapters throughout this book.

The emergence of **on-demand marketing** is taking CRM to a new level. As technology evolves and becomes more sophisticated, consumer expectations of their decision- and buying-related experiences have risen. Consumers (1) want to interact anywhere, anytime; (2) want to do new things with varied kinds of information in ways that create value; (3) expect data stored about them to be targeted specifically to their needs or to personalize their experiences; and (4) expect all interactions with a company to be easy. In response to these expectations, companies are developing new ways to integrate and personalize each stage of a customer's decision journey, which in turn should increase relationship-related behaviors. On-demand marketing delivers relevant experiences throughout the consumer's decision and buying process that are integrated across both physical and virtual environments. Trends such as the growth of mobile connectivity, better-designed Web sites, inexpensive communication through technology, and advances in handling big data have allowed companies to start designing

customer relationship management (CRM) a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups

on-demand marketing delivering relevant experiences, integrated across both physical and virtual environments, throughout the consumer's decision and buying process on-demand marketing programs that appeal to consumers. For on-demand marketing to be successful, companies must deliver high-quality experiences across all touch points with the customer, including sales, service, product use, and marketing.

An example of on-demand marketing is Commonwealth Bank of Australia's new smartphone app that integrates and personalizes the house hunting experience. A prospective homebuyer starts by taking a picture of a house he or she likes. Using special software and location-based technology, the app finds the house and provides the list price and other information, connects with the buyer's financial data, and determines whether the buyer can be preapproved for a mortgage. This fast series of interactions decreases the hassle of searching real-estate agents' sites for a house and then connecting with agents, banks, and/or mortgage brokers—a process that traditionally takes up to a week.[30]

Arena Creative/Shutterstock.com

Using the correct tools for the job will help an organization achieve its goals. Marketing tools for success are covered throughout this book.

1-3d The Firm's Primary Goal

A sales-oriented organization seeks to achieve profitability through sales volume and tries to convince potential customers to buy, even if the seller knows that the customer and product are mismatched. Sales-oriented organizations place a higher premium on making a sale than on developing a long-term relationship with a customer. In contrast, the ultimate goal of most market-oriented organizations is to make a profit by creating customer value, providing customer satisfaction, and building long-term relationships with customers. The exception is so-called nonprofit organizations that exist to achieve goals other than profits. Nonprofit organizations can and should adopt a market orientation. Nonprofit organization marketing is explored further in Chapter 12.

1-3e Tools the Organization Uses to Achieve Its Goals

Sales-oriented organizations seek to generate sales volume through intensive promotional activities, mainly personal selling and advertising. In contrast, market-oriented organizations recognize that promotion decisions are only one of four basic marketing mix decisions that must be made: product decisions, place (or distribution) decisions, promotion decisions, and pricing decisions. A market-oriented organization recognizes that each of these four components is important. Furthermore, market-oriented organizations recognize that marketing is not just a responsibility of the marketing department. Interfunctional coordination means that skills and resources throughout the organization are needed to create, communicate, and deliver superior customer service and value.

1-3f A Word of Caution

This comparison of sales and market orientations is not meant to belittle the role of promotion, especially personal selling, in the marketing mix. Promotion is the means by which organizations communicate with present and prospective customers about the merits and characteristics of their organization and products. Effective promotion is an essential part of effective marketing. Salespeople who work for market-oriented organizations are generally perceived by their customers to be problem solvers and important links to supply sources and new products. Chapter 18 examines the nature of personal selling in more detail.

1-4 WHY STUDY MARKETING?

Now that you understand the meaning of the term *marketing*, why it is important to adopt a marketing orientation, and how organizations implement this philosophy, you may be asking, "What's in it for me?" or "Why should I study marketing?" These are important questions whether you are majoring in a business field other than marketing (such as accounting, finance, or management information systems) or a nonbusiness field (such as journalism, education, or agriculture). There are several important reasons to study marketing: Marketing plays an important role in society, marketing is important to businesses, marketing offers outstanding career opportunities, and marketing affects your life every day.

1-4a Marketing Plays an Important Role in Society

The total population of the United States exceeds 320 million people.[31] Think about how many transactions are needed each day to feed, clothe, and shelter a population of this size. The number is huge. And yet it all works quite well, partly because the well-developed U.S. economic system efficiently distributes the output of farms and factories. A typical U.S. family, for example, consumes two and a half tons of food a year.[32] Marketing makes food available when we want it, in desired quantities, at accessible locations, and in sanitary and convenient packages and forms (such as instant and frozen foods).

1-4b Marketing Is Important to Businesses

The fundamental objectives of most businesses are survival, profits, and growth. Marketing contributes directly to achieving these objectives. Marketing includes the following activities, which are vital to business organizations: assessing the wants and satisfactions of present and potential customers, designing and managing product offerings, determining prices and pricing policies, developing distribution strategies, and communicating with present and potential customers.

All businesspeople, regardless of specialization or area of responsibility, need to be familiar with the terminology and fundamentals of accounting, finance, management, and marketing. People in all business areas need to be able to communicate with specialists in other areas. Furthermore, marketing is not just a job done by people in a marketing department. Marketing is a part of the job of everyone in the organization. Therefore, a basic understanding of marketing is important to all businesspeople.

1-4c Marketing Offers Outstanding Career Opportunities

Between one-fourth and one-third of the entire civilian workforce in the United States performs marketing activities. Marketing offers great career opportunities in such areas as professional selling, marketing research, advertising, retail buying, distribution management, product management, product development, and wholesaling. Marketing career opportunities also exist in a variety of nonbusiness organizations, including hospitals, museums, universities, the armed forces, and various government and social service agencies.

1-4d Marketing in Everyday Life

Marketing plays a major role in your everyday life. You participate in the marketing process as a consumer of goods and services. About half of every dollar you spend pays for marketing costs, such as marketing research, product development, packaging, transportation, storage, advertising, and sales expenses. By developing a better understanding of marketing, you will become a better-informed consumer. You will better understand the buying process and be able to negotiate more effectively with sellers. Moreover, you will be better prepared to demand satisfaction when the goods and services you buy do not meet the standards promised by the manufacturer or the marketer.

STUDY TOOLS 1

LOCATED AT BACK OF THE TEXTBOOK

- ☐ Rip out Chapter Review Card

LOCATED AT WWW.CENGAGEBRAIN.COM

- ☐ Review Key Terms Flashcards and create your own
- ☐ Track your knowledge & understanding of key concepts in marketing
- ☐ Complete practice and graded quizzes to prepare for tests
- ☐ Complete interactive content within the MKTG Online experience
- ☐ View the chapter highlight boxes within the MKTG Online experience

2 Strategic Planning for Competitive Advantage

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LEARNING OUTCOMES

After studying this chapter, you will be able to…

- 2-1 Understand the importance of strategic planning
- 2-2 Define strategic business units (SBUs)
- 2-3 Identify strategic alternatives and know a basic outline for a marketing plan
- 2-4 Develop an appropriate business mission statement
- 2-5 Describe the components of a situation analysis
- 2-6 Identify sources of competitive advantage
- 2-7 Explain the criteria for stating good marketing objectives
- 2-8 Discuss target market strategies
- 2-9 Describe the elements of the marketing mix
- 2-10 Explain why implementation, evaluation, and control of the marketing plan are necessary
- 2-11 Identify several techniques that help make strategic planning effective

After you finish this chapter go to **PAGE 29** for **STUDY TOOLS.**

2-1 THE NATURE OF STRATEGIC PLANNING

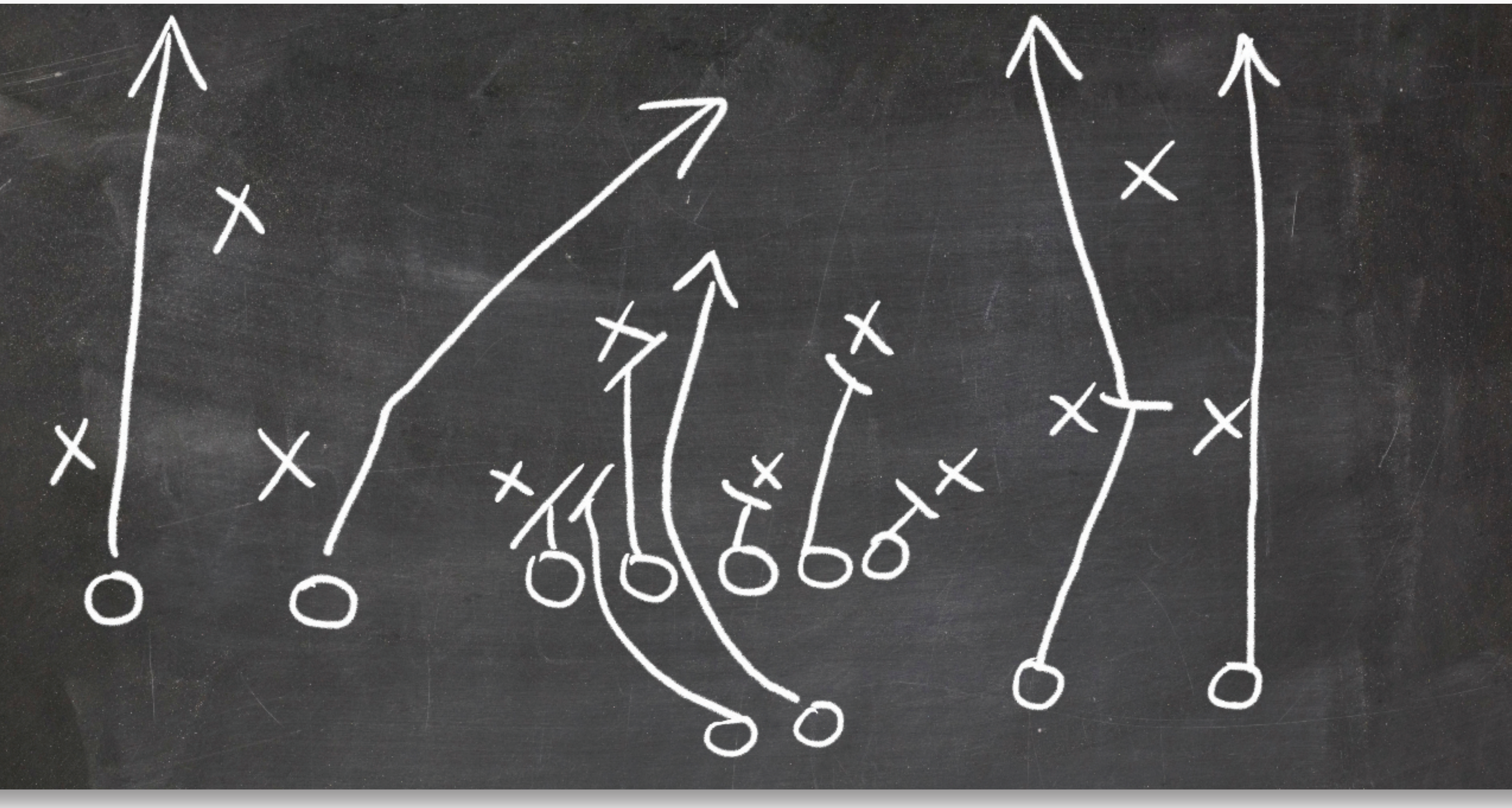
Strategic planning is the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities. The goal of strategic planning is long-run profitability and growth. Thus, strategic decisions require long-term commitments of resources.

A strategic error can threaten a firm's survival. On the other hand, a good strategic plan can help protect and grow the firm's resources. For instance, if the March of Dimes had decided to focus only on fighting polio, the organization would no longer exist because polio is widely viewed as a conquered disease. The March of Dimes survived by making the strategic decision to switch to fighting birth defects.

strategic planning the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities

Strategic marketing management addresses two questions: (1) What is the organization's main activity at a particular time? (2) How will it reach its goals? Here are some examples of strategic decisions:

- In an effort to halt decreasing sales and compete with other fast food and fast causal chains, McDonald's has unveiled plans to allow customers to customize their orders for the first time. The new offering, called Create a Taste, lets customers use their tablet computers to choose toppings for their sandwiches.[1]
- Coach, the iconic leather goods company that became successful with wallets and handbags, is making an effort to reinvent itself as a lifestyle brand. The company has introduced a variety of products, including



footwear, women's apparel, jewelry, sunglasses, and watches. It even designed a luxury baseball glove for men.[2]

- Following founder Howard Schultz's vision of maintaining an entrepreneurial approach to strategy, Starbucks recently opened the Starbucks Reserve Roastery and Tasting Room in Seattle to appeal to upscale coffee lovers. The company also has plans to expand its food and beverage menu.[3]

All these decisions have affected or will affect each organization's long-run course, its allocation of resources, and ultimately its financial success. In contrast, an operating decision, such as changing the package design for Post Grape-Nuts cereal or altering the sweetness of a Kraft salad dressing, probably will not have a big impact on the long-run profitability of the company.

> **"There are a lot of great ideas that have come and gone in [the digital advertising] industry. Implementation many times is more important than the actual idea."**
>
> —DAVID MOORE, CEO OF 24/7 REAL MEDIA

2-2 STRATEGIC BUSINESS UNITS

Large companies may manage a number of very different businesses, called strategic business units (SBUs). Each SBU has its own rate of return on investment, growth potential, and associated risks, and requires its own strategies and funding. When properly created, an SBU has the following characteristics:

- A distinct mission and a specific target market
- Control over its resources
- Its own competitors
- A single business or a collection of related businesses
- Plans independent of the other SBUs in the total organization.

In theory, an SBU should have its own resources for handling basic business functions: accounting, engineering, manufacturing, and marketing. In practice, however, because of company tradition, management philosophy, and production and distribution economies, SBUs sometimes share manufacturing facilities, distribution channels, and even top managers.

strategic business unit (SBU) a subgroup of a single business or collection of related businesses within the larger organization

2-3 STRATEGIC ALTERNATIVES

There are several tools available that a company, or SBU, can use to manage the strategic direction of its portfolio of businesses. Three of the most commonly used tools are Ansoff's strategic opportunity matrix, the Boston Consulting Group model, and the General Electric model. Selecting which strategic alternative to pursue depends on which of two philosophies a company maintains about when to expect profits—right away or after increasing market share. In the long run, market share and profitability are compatible goals. For example, Amazon lost hundreds of millions of dollars its first few years, and the company posted quarterly net losses as recently as 2013. Amazon's primary goal is market share—not profit. It sacrifices short-term profit for long-term market share, and thus larger long-term profits.[4]

EXHIBIT 2.1 ANSOFF'S OPPORTUNITY MATRIX

	Present Product	New Product
Present Market	*Market Penetration* Starbucks sells more coffee to customers who register their reloadable Starbucks cards.	*Product Development* Starbucks develops powdered instant coffee called Via.
New Market	*Market Development* Starbucks opens stores in Brazil and Chile.	*Diversification* Starbucks launches Hear Music and buys Ethos Water.

2-3a Ansoff's Strategic Opportunity Matrix

One method for developing alternatives is Ansoff's strategic opportunity matrix (see Exhibit 2.1), which matches products with markets. Firms can explore these four options:

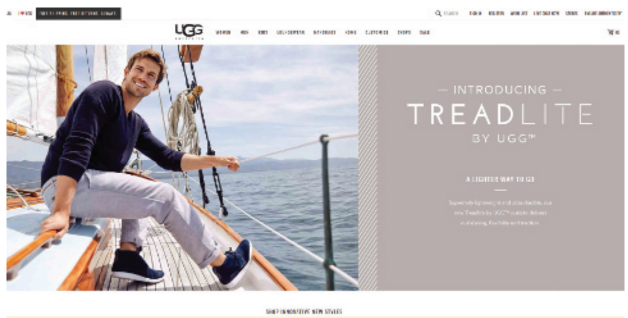
- **Market penetration:** A firm using the **market penetration** alternative would try to increase market share among existing customers. FTR Energy Services, a division of Frontier Communications, introduced a Green-e certified energy service into New York, Ohio, and Indiana markets served by Frontier's telephone and broadband services. Though these markets were already served by separate, well-established energy companies, FTR Energy hoped to penetrate the energy market by allowing customers to lock in competitive rates and offering five percent cash back on energy usage.[5] Customer databases, discussed in Chapter 9, would help managers implement this strategy.
- **Market development:** **Market development** means attracting new customers to existing products. Ideally, new uses for old products stimulate additional sales among existing customers while also bringing in new buyers. McDonald's, for example, has opened restaurants in Russia, China, and Italy and is eagerly expanding into Eastern European countries. In the nonprofit arena, the growing emphasis on continuing education and executive development by colleges and universities is a market development strategy.
- **Product development:** A **product development** strategy entails the creation of new products for present markets. In January 2014, Beats Electronics launched Beats Music, a subscription-based streaming music service that offers advanced personalization systems and forward-thinking family sharing plans. Beats hopes this service's novel features, sleek design, and celebrity endorsements will catapult it to the front of the music streaming pack, which is currently fronted by competitors such as Spotify and Rdio.[6]
- **Diversification:** **Diversification** is a strategy of increasing sales by introducing new products into new markets. For example, UGG, a popular footwear

market penetration a marketing strategy that tries to increase market share among existing customers

market development a marketing strategy that entails attracting new customers to existing products

product development a marketing strategy that entails the creation of new products for present markets

diversification a strategy of increasing sales by introducing new products into new markets



Source: Deckers Consumer Direct Corporation

UGG, a popular footwear brand, introduced an upscale men's footwear collection that was inspired by Jimi Hendrix and Jim Morrison.

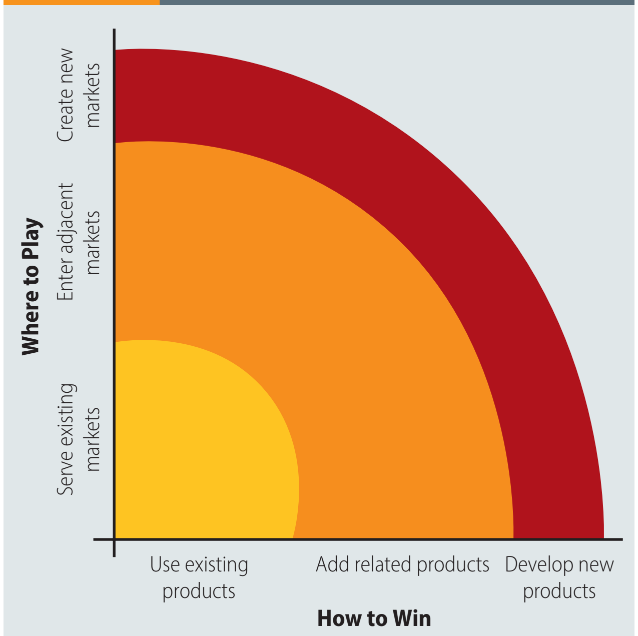
brand known for its casual boots, has introduced an upscale men's footwear collection. The shoes are inspired by rock'n'roll legends such as Jimi Hendrix and Jim Morrison, and are meant to appeal to new customers. "There are some UGG customers that will be interested in the Collection product, but it will also bring in new customers for us," says Leah Larson, UGG's vice president and creative director.[7] A diversification strategy can be risky when a firm is entering unfamiliar markets. However, it can be very profitable when a firm is entering markets with little or no competition.

2-3b The Innovation Matrix

Critics of Ansoff's matrix mention that the matrix does not reflect the reality of how businesses grow—that modern businesses plan growth in a more fluid manner based on current capabilities rather than the clear-cut sectors outlined by the opportunity matrix. To reflect this, Bansi Nagji and Geoff Tuff, global innovation managers at Monitor Group, have recently developed a system that enables a company to see exactly what types of assets need to be developed and what types of markets are possible to grow into (or create) based on the company's core capabilities, as shown in Exhibit 2.2.

The layout of the innovation matrix demonstrates that as a company moves away from its core capabilities

EXHIBIT 2.2 INNOVATION MATRIX



Based on Bansi Nagji and Geoff Tuff, "A Simple Tool You Need to Manage Innovation," *Harvard Business Review*, May 2012 http://hbr.org/2012/05/managing-your-innovation-portfolio/ar/1 (Accessed June 1, 2012).

(the lower left) it traverses a range of change and innovation rather than choosing one of the four sectors in Ansoff's matrix. These ranges are broken down into three levels:

1. **Core Innovation:** Represented by the yellow circle in Exhibit 2.2, these decisions implement changes that use existing assets to provide added convenience to existing customers and potentially entice customers from other brands. Packaging changes, such as Tide's laundry detergent pods, fall into this category.
2. **Adjacent Innovation:** Represented by the orange arc in Exhibit 2.2, these decisions are designed to take company strengths into new markets. This space uses existing abilities in new ways. For example, Botox, the popular cosmetic drug, was originally developed to treat intestinal problems and to treat crossed eyes. Leveraging the drug into cosmetic medicine has dramatically increased the market for Botox.
3. **Transformational Innovation:** Represented by the red arc in Exhibit 2.2, these decisions result in brand-new markets, products, and often new businesses. The company must rely on new, unfamiliar assets to develop the type of breakthrough decisions that fall in this category. The wearable, remote-controlled GoPro documentary video camera is a prime example of developing an immature market with a brand-new experience.[8]

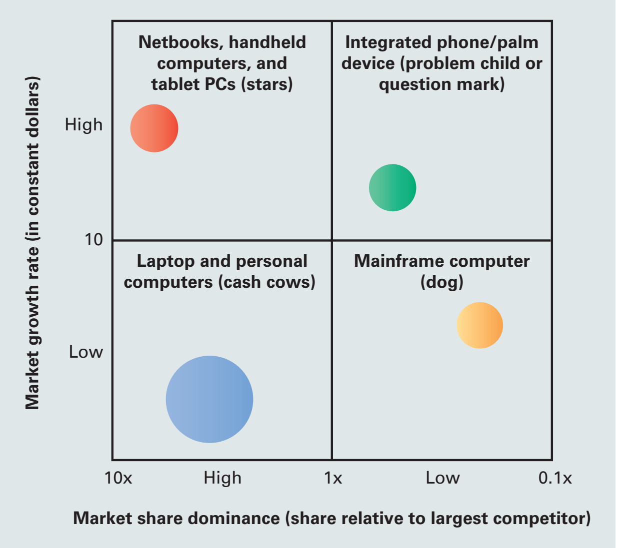
2-3c The Boston Consulting Group Model

Management must find a balance among the SBUs that yields the overall organization's desired growth and profits with an acceptable level of risk. Some SBUs generate large amounts of cash, and others need cash to foster growth. The challenge is to balance the organization's portfolio of SBUs for the best long-term performance.

To determine the future cash contributions and cash requirements expected for each SBU, managers can use the Boston Consulting Group's portfolio matrix. The **portfolio matrix** classifies each SBU by its present or forecast growth and market share. The underlying assumption is that market share and profitability are strongly linked. The measure of market share used in the portfolio approach is *relative market share*, the ratio between the company's share and

portfolio matrix a tool for allocating resources among products or strategic business units on the basis of relative market share and market growth rate

EXHIBIT 2.3 PORTFOLIO MATRIX FOR A LARGE COMPUTER MANUFACTURER



the share of the largest competitor. For example, if a firm has a 50 percent share and the competitor has five percent, the ratio is 10 to 1. If a firm has a 10 percent market share and the largest competitor has 20 percent, the ratio is 0.5 to 1.

Exhibit 2.3 is a hypothetical portfolio matrix for a computer manufacturer. The size of the circle in each cell of the matrix represents dollar sales of the SBU relative to dollar sales of the company's other SBUs. The portfolio matrix breaks SBUs into four categories:

- **Stars:** A **star** is a fast-growing market leader. For example, the iPad is one of Apple's stars. Star SBUs usually have large profits but need lots of cash to finance rapid growth. The best marketing tactic is to protect existing market share by reinvesting earnings in product improvement, better distribution, more promotion, and production efficiency. Management must capture new users as they enter the market.
- **Cash cows:** A **cash cow** is an SBU that generates more cash than it needs to maintain its market share. It is in a low-growth market, but the product has a dominant market share. Personal computers and laptops are categorized as cash cows in Exhibit 2.3. The basic strategy for a cash cow is to maintain market dominance by being the price leader and making technological improvements in the product. Managers should resist pressure to extend the basic line unless they can dramatically increase demand. Instead, they should allocate excess cash to the product categories where growth prospects are the greatest. For example, Heinz has two cash cows: ketchup and Weight Watchers frozen dinners.
- **Problem children:** A **problem child**, also called a **question mark**, shows rapid growth but poor profit margins. It has a low market share in a high-growth industry. Problem children need a great deal of cash. Without cash support, they eventually become dogs. The strategy options are to invest heavily to gain better market share, acquire competitors to get the necessary market share, or drop the SBU. Sometimes a firm can reposition the products of the SBU to move them into the star category. Elixir guitar strings, made by W. L. Gore & Associates, maker of Gore-Tex and Glide floss, were originally tested and marketed to Walt Disney theme parks to control puppets. After trial and failure, Gore repositioned and marketed heavily to musicians, who have loved the strings ever since.
- **Dogs:** A **dog** has low growth potential and a small market share. Most dogs eventually leave the marketplace. In the computer manufacturer example, the mainframe computer has become a dog. Another example is BlackBerry's smartphone line, which started out as a star for its manufacturer in the United States. Over time, the BlackBerry moved into the cash cow category, and then more recently, to a question mark, as the iPhone and Android-based phones captured market share. Even if it never regains its star status in the United States, BlackBerry has moved into other geographic markets to sell its devices. In parts of Africa, Blackberry is seen as a revolutionary company that is connecting people in a way that they have never been before. The company currently owns 48 percent of the mobile market and 70 percent of the smartphone market in South Africa.[9]

While typical strategies for dogs are to harvest or divest, sometimes companies—like BlackBerry—are successful with this class of product in other markets. Other companies may revive products that were abandoned as dogs. In early 2014, Church's Chicken brought its Purple Pepper dipping sauce back to the market using a "Back by Popular Demand" promotional campaign.[10]

After classifying the company's SBUs in the matrix, the next step is to allocate future resources for each. The four basic strategies are to:

star in the portfolio matrix, a business unit that is a fast-growing market leader

cash cow in the portfolio matrix, a business unit that generates more cash than it needs to maintain its market share

problem child (question mark) in the portfolio matrix, a business unit that shows rapid growth but poor profit margins

dog in the portfolio matrix, a business unit that has low growth potential and a small market share

EXHIBIT 2.4 GENERAL ELECTRIC MODEL

Market Attractiveness	Business Position: Low	Business Position: Medium	Business Position: High
High	CAUTIOUSLY INVEST	INVEST/GROW	INVEST/GROW
Medium	HARVEST/DIVEST	CAUTIOUSLY INVEST	INVEST/GROW
Low	HARVEST/DIVEST	HARVEST/DIVEST	CAUTIOUSLY INVEST

- **Build:** If an organization has an SBU that it believes has the potential to be a star (probably a problem child at present), building would be an appropriate goal. The organization may decide to give up short-term profits and use its financial resources to achieve this goal. Apple postponed further work on the iPad to pursue the iPhone. The wait paid off when Apple was able to repurpose much of the iOS software and the iPhone's App Store for the iPad, making development less expensive and getting the product into the marketplace more quickly.[11]
- **Hold:** If an SBU is a very successful cash cow, a key goal would surely be to hold or preserve market share so that the organization can take advantage of the very positive cash flow. Fashion-based reality series *Project Runway* is a cash cow for the Lifetime cable television channel and parent companies Hearst and Disney. New seasons and spin-off editions such as *Project Runway: Under the Gunn* are expected for years to come.[12]
- **Harvest:** This strategy is appropriate for all SBUs except those classified as stars. The basic goal is to increase the short-term cash return without too much concern for the long-run impact. It is especially worthwhile when more cash is needed from a cash cow with long-run prospects that are unfavorable because of a low market growth rate. For instance, Lever Brothers has been harvesting Lifebuoy soap for a number of years with little promotional backing.
- **Divest:** Getting rid of SBUs with low shares of low-growth markets is often appropriate. Problem children and dogs are most suitable for this strategy. Nestle, for example, is in the process of selling its PowerBar SBU. Once the pioneering brand in the nutritional bar market, PowerBar has become an underperforming brand.[13]

2-3d The General Electric Model

The third model for selecting strategic alternatives was originally developed by General Electric. The dimensions used in this model—market attractiveness and company strength—are richer and more complex than those used in the Boston Consulting Group model, but are harder to quantify.

Exhibit 2.4 presents the GE model. The horizontal axis, Business Position, refers to how well positioned the organization is to take advantage of market opportunities. Business position answers questions such as: Does the firm have the technology it needs to effectively penetrate the market? Are its financial resources adequate? Can manufacturing costs be held down below those of the competition? Can the firm cope with change? The vertical axis measures the attractiveness of a market, which is expressed both quantitatively and qualitatively. Some attributes of an attractive market are high profitability, rapid growth, a lack of government regulation, consumer insensitivity to a price increase, a lack of competition, and availability of technology. The grid is divided into three overall attractiveness zones for each dimension: high, medium, and low.

Those SBUs (or markets) that have low overall attractiveness (indicated by the red cells in Exhibit 2.4) should be avoided if the organization is not already serving them. If the firm is in these markets, it should either harvest or divest those SBUs. The organization should selectively maintain markets with medium attractiveness (indicated by the yellow cells in Exhibit 2.4). If attractiveness begins to slip, then the organization should withdraw from the market.

Conditions that are highly attractive—a thriving market plus a strong business position (the green cells in Exhibit 2.4)—are the best candidates for investment. For example, when Beats Electronics launched a new line of over-the-ear headphones in 2008, the consumer headphone market

AP Images/Bernadette Tuazon