## Chapter 1

**Strategic Planning and the Marketing Management Process**

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Detailed Chapter Outline

**I. The Marketing Concept**

* + The marketing concept means that an organization should seek to make a profit by serving the needs of customer groups.
	+ The purpose of the marketing concept is to rivet the attention of marketing managers on serving broad classes of customer needs (customer orientation), rather than on the firm’s current products (production orientation) or on devising methods to attract customers to current products (selling orientation).
	+ The principal task of the marketing function operating under the marketing concept is not to manipulate customers to do what suits the interest of the firm, but rather to find effective and efficient means of making the business do what suits the interest of the customer.
	+ Effective marketing requires that consumer needs come first in organizational decision making.
	+ One qualification to this statement deals with the question of a conflict between consumer wants and societal needs and wants.

**II. What is Marketing?**

* + Everyone knows something about marketing because it has been a part of their lives since they spent their first dollar.
	+ Since everyone is involved in marketing, it seems strange that one of the persistent problems in the field has been its definition.
	+ The American Marketing Association defines marketing as, “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.”
	+ This definition takes into account all parties involved in the marketing effort: members of the producing organization, resellers of goods and services, and customers or clients.
	+ Major types of marketing includes: product, service, person, place, cause, and organization (see Figure 1.1 for descriptions and examples).

**III. What is Strategic Planning?**

* + Before a production manager, marketing manager, and personnel manager can develop plans for their individual departments, some larger plan or blueprint for the organization should exist.
	+ Senior managers must look toward the future and evaluate the ability to shape their organization’s destiny in the years and decades to come.
* The output of this process is objectives and strategies designed to give the organization a chance to compete effectively in the future.
	+ The objectives and strategies established at the top level provide the context for planning in each of the divisions and departments by divisional and departmental managers.

**A. Strategic Planning and Marketing Management**

* + Some of themost successful business organizations are here today because many years ago they offered the right product at the right time to a rapidly growing market.
	+ Over three-quarters of the 100 largest U.S. corporations of 70 years ago have fallen from the list.
* Their managements failed to recognize that business strategies need to reflect changing environments and emphasis must be placed on developing business systems that allow for continuous improvement.
	+ Present-day business managers realize that the true mission of the organization is to provide value for three key constituencies: customers, employees, and investors.
	+ Strategic planning includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objective for the entire organization.
	+ Strategic planning, if performed successfully, plays a key role in achieving equilibrium between the short and the long term by balancing acceptable financial performance with preparation for inevitable changes in markets, technology, and competition as well as in economic and political arenas.
	+ The strategic planning process is depicted in Figure 1.2.
	+ In the strategic planning process the organization gathers information about the changing elements of its environment.
	+ This information is useful in aiding the organization to adapt better to these changes through the process of strategic planning.

**B. The Strategic Planning Process**

* + The output of strategic planning is the development of a strategic plan.
	+ Figure 1.2 indicates four components of a strategic plan: mission, objectives, strategies, and portfolio plan.

**Organizational Mission**

* The organization’s environment provides the resources that sustain the organization, whether it is a business, a college or university, or a government agency.
* Every organization exists to accomplish something in the larger environment and that purpose, vision, or mission usually is clear at the organization’s inception.
* As time passes, the organization expands, and the environment and managerial personnel change. As a result, one or more things are likely to occur:
* The organization’s original purpose may become irrelevant as the organization expands into new products, new markets, and even new industries.
* The original mission may remain relevant, but managers begin to lose interest in it.
* Changes in the environment may make the original mission inappropriate.
* The result of any or all three of these conditions is a “drifting” organization, without a clear mission, vision, or purpose to guide critical decisions.
* When this occurs, management must search for a purpose or emphatically restate and reinforce the original purpose.
* The mission statement, or purpose, of an organization is the description of its reason for existence.
* In essence, the mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal.
* The basic questions that must be answered when an organization decides to examine and restate its mission are:
* What is the business?
* Who is are the customers?
* What do customers value?
* What will the business be?
* In developing a statement of mission, management must take into account three key elements: the organization’s history, its distinctive competencies, and its environment.
* *The* organization’s *history*—in formulating a mission, the critical characteristics and events of the past must be considered.
* *The organization’s distinctive competencies*—these are things that an organization does well.
* *The organization’s environment*—it dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed.
* When completed, an effective mission statement will be *focused on markets rather than products, achievable, motivating, and specific*.
* Focused on Markets Rather than Products
* In recent years, a key feature of mission statements has been an *external* rather than *internal* focus.
* In other words, the mission statement should focus on the broad class of needs that the organization is seeking to satisfy (external focus), not on the physical product or service that the organization is offering at present (internal focus).
* Achievable
* The mission statement should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies.
* It should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies.
* Motivational
* One of the side (but very important) benefits of a well-defined mission is the guidance it provides employees and managers working in geographically dispersed units and on independent tasks.
* It provides a shared sense of purpose outside the various activities taking place within the organization.
* Specific
* The mission statement must be specific to provide direction and guidelines to management when they are choosing between alternative courses of action.
* However, it does not provide direction for management.

**Organizational Objectives**

* *Organizational objectives* are the end point of an organization’s mission and are what it seeks through the on-going, long-run operations of the organization.
* *The* organizational mission is distilled into a finer set of specific and achievable organizational objectives that must be *specific, measurable, action commitments* by which the mission of the organization is to be achieved.
* If formulated properly, they can accomplish the following:
* They can be converted into specific action.
* They will provide direction.
* They can establish long-run priorities for the organization.
* They can facilitate management control.
* Organizational objectives are necessary in all areas that may influence the performance and long-run survival of the organization.
* Obviously, during the strategic planning process conflicts are likely to occur between various functional departments in the organization.
* The important point is that management must translate the organizational mission into specific objectives that support the realization of the mission.

**Organizational Strategies**

* Strategy involves the choice of major directions the organization will take in pursuing its objectives.
* As many as 70 percent of strategic plans fail because the strategies are not well defined and, thus, could not to be implemented effectively.
* Organizational Strategies Based on Products and Markets
* One means to developing organizational strategies is to focus on the directions the organization can take in order to grow.
* The four paths an organization can take in order to grow are market penetration, market development, product development, and diversification (Figure 1.4).
* Market Penetration Strategies
* These strategies focus primarily on increasing sales of present products to present customers.
* Tactics used to implement a market penetration strategy might include price reductions, advertising that stresses the many benefits of the product, packaging the product in different-sized packages, or making it available at more locations.
* Market Development Strategies
* An organization would seek to find new customers for its present products through market development.
* Market development strategies involve much, much more than simply getting the product to a new market.
* Product Development Strategies
* The new products developed would be directed primarily to present customers.
* Diversification
* This strategy can lead the organization into entirely new and even unrelated businesses.
* It involves seeking new products (often through acquisitions) for customers not currently being served.
* Organizational Strategies Based on Competitive Advantage
* Michael Porter developed this model for formulating organizational strategy that is applicable across a wide variety of industries.
* Porter suggests that firms should first analyze their industry and then develop either a cost leadership or a strategy based on differentiation.
* Using a cost leadership strategy, a firm would focus on being the low-cost company in its industry.
* Using a strategy based on differentiation, a firm seeks to be unique in its industry or market segment along particular dimensions that the customers value.
* Organizational Strategies Based on Value
* As competition increases, the concept of “customer value” has become critical for marketers.
* It focuses not only on customer needs, but also on the question, How can an organization create value for their customers and still achieve their objectives?
* It is unlikely that a firm will succeed by trying to be all things to all people.
* Many firms have succeeded by choosing to deliver superior customer value using one of three value strategies-best price, best product, or best service.

**Choosing an Appropriate Strategy**

* Management should select those strategies consistent with its mission and capitalizes on the organization's distinctive competencies that will lead to a sustainable competitive advantage.
* A sustainable competitive advantage can be based on either the assets or skills of the organization.

**Organizational Portfolio Plan**

* The final phase of strategic planning process is the formulation of the organizational portfolio plan.
* Management must decide which businesses to build, maintain, or eliminate, or which new businesses to add.
* The first step in this approach is to identify various divisions, product lines, etc., that can be considered a “business.”
* These are referred to as *strategic business unit* (SBUs) and they have the following characteristics:
* They have a distinctive mission.
* They have their own competitors.
* They are a single business or collection of related businesses.
* They can be planned independently of the other businesses of the total organization
* Thus, depending on the type of organization, an SBU could be a single product, product line, or division; a college of business administration; or a state mental health agency.

**C. The Complete Strategic Plan**

* + Completion of the strategic plan (Figure 1.2) facilitates the development of marketing plans for each product, product line, or division of the organization.
	+ The marketing plan serves as a subset of the strategic plan in that it allows for detailed planning at a target market level.

**IV. The Marketing Management Process**

* + Marketing management can be defined as “the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives.”
	+ This definition is consistent with the marketing concept.
	+ The marketing management process is illustrated in Figure 1.5.

**A. Situation Analysis**

* + Situation analysis can be divided into six major areas of concern:
* The Cooperative Environment
* It includes all firms and individuals who have a vested interest in the firm’s accomplishing its objectives.
* Parties of primary interest to the marketing executive in this environment are:
* Suppliers
* Resellers
* Other departments in the firm
* Subdepartments and employees of the marketing department
* Opportunities in this environment are primarily related to methods of increasing efficiency.
* The Competitive Environment
* It includes primarily other firms in the industry that rival the organization for both resources and sales.
* Opportunities in this environment include such things as:
* Acquiring competing firms
* Offering demonstrably better value to consumers and attracting them away from competitors
* In some cases, driving competitors out of the industry
* The Economic Environment
* It includes the state of the macroeconomy and changes in it which bring about marketing opportunities and constraints.
* Changes in technology can provide significant threats and opportunities.
* The Social Environment
* It includes general cultural and social traditions, norms, and attitudes.
* While these values change slowly, such changes often bring about the need for new products and services.
* The Political Environment
* It includes the attitudes and reactions of the general public, social and business critics, and other organizations, such as the Better Business Bureau.
* Dissatisfaction with such business and marketing practices as unsafe products, products that waste resources and unethical sales procedures can have adverse effects on corporation image and customer loyalty.
* The Legal Environment
* It includes a host of federal, state, and local legislation directed at protecting both business competition and consumer rights.
* In recent years, there has been less emphasis on creating new laws for constraining business practices.

**B. Marketing Planning**

* + Once an opportunity is recognized, the marketing executive must then plan an appropriate strategy for taking advantage of the opportunity.
	+ This process can be viewed in terms of three interrelated tasks that include:
* Establishing marketing objectives
* Selecting the target market
* Developing the marketing mix
	+ Establishing Objectives
* Marketing objectives usually are derived from organizational objectives; in some cases where the firm is totally marketing oriented, the two are identical.
* Marketing objectives are usually stated as standards of performance or as tasks to be achieved by given dates.
	+ Selecting the Target Market
* The success of any marketing plan hinges on how well it can identify customer needs and organize its resources to satisfy them profitably.
* Four important questions must be answered in selecting the groups of potential customers:
* What do customers want or need?
* What must be done to satisfy those wants or needs?
* What is the size of the market?
* What is its growth profile?
* Present target markets and potential target markets are then ranked according to:
* Profitability
* Present and future sales volume
* The match between what it takes to appeal successfully to the segment and the organization’s capabilities
	+ Developing the Marketing Mix
* The marketing mix is the set of controllable variables that must be managed to satisfy the target market and achieve organizational objectives.
* These controllable variables are usually classified according to four major decision areas:
* Product
* Price
* Promotion
* Place

**C. Implementation and Control of the Marketing Plan**

* + Implementing the marketing plan involves putting the plan into action and performing marketing tasks according to the predefined schedule.
	+ Controlling the marketing plan involves three steps:
	+ The results of the implemented marketing plan are measured
	+ The results are compared with objectives
	+ Decisions are made on whether the plan is achieving objectives

**D. Marketing Information Systems and Marketing Research**

* + Throughout the marketing management process, current, reliable, and valid information is needed to make effective marketing decisions.

V. The Strategic Plan, the Marketing Plan, and Other Functional Area Plans

* + Strategic planning is a top management responsibility.
	+ Marketing managers are increasingly involved in strategic analysis and planning.
	+ Nearly all strategic planning questions have marketing implications.
	+ Marketing executives are involved in the strategic planning process in at least two important ways:
* They influence the process by providing important inputs in the form of information and suggestions relating to customers, products, and middlemen.
* They must always be aware of what the process of strategic planning involves as well as the results because everything they do—the marketing objectives and strategies they develop—must be derived from the strategic plan.

**A. Marketing’s Role in Cross-Functional Strategic Planning**

* + More and more organizations are bringing managers and employees together to participate in *cross-functional teams*.
	+ Rather than making decisions independently, marketing managers work closely with team members from production, finance, human resources, and other areas to devise plans that address all concerns.
	+ The greatest advantage of strategic planning with a cross-functional team is the ability of team members to consider a situation from a number of viewpoints.
	+ In well-managed organizations, a direct relationship exists between strategic planning and the planning done by managers at all levels.
	+ If done properly, strategic planning results in a clearly defined blueprint for management action in all functional areas of the organization (Figure 1.7).

KEY TERMS

**Distinctive competencies:** Distinctive competencies are things that an organization does well—so well in fact that they give it an advantage over similar organizations. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.

**Diversification:** An organizational strategy that seeks growth through new products (often through acquisitions) for customers not currently being served.

**Market development**: An organizational strategy that seeks growth through seeking new customers for present products.

**Market penetration:** An organizational strategy that seeks growth through increasing the sale of present products to present customers.

**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 concept:** The marketing concept means that an organization should seek to make a profit by serving the needs of customer groups. Its purpose is to rivet the attention of marketing managers on serving broad classes of customer needs (customer orientation), rather than on the firm’s products (production orientation) or on devising methods to attract customers to current products (selling orientation).

**Marketing information systems:** Throughout the marketing management process, current, reliable, and valid information is needed to make effective marketing decisions. Providing this information is the task of the marketing information system and marketing research.

**Marketing management:** Marketing management is the process of planning and executing the

conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives.

**Marketing mix:** The marketing mix is the set of controllable variables that must be managed to satisfy the target market and achieve organizational objectives. The controllable variables are usually classified according to four major decision areas: product, price, promotion, and place (or channels of distribution).

**Marketing planning:** The marketing planning process produces three outputs: (1) establishing

marketing objectives, (2) selecting the target market, and (3) developing the marketing mix.

**Organizational mission:** The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. An effective mission statement will be focused on markets rather than products, achievable, motivating, and specific.

**Organizational objectives:** Organizational objectives are the end points of an organization’s mission and are what it seeks through the ongoing, long-run operations of the organization. The organizational mission is distilled into a finer set of specific, measurable, action commitments by which the mission of the organization is to be achieved.

**Organizational portfolio plan:** This stage of the strategic plan involves the allocation of resources across the organization’s product lines, divisions, or businesses. It involves deciding which ones to build, maintain, or eliminate, or which to add.

**Organizational strategies:** Organizational strategies are the choice of the major directions the

organization will take in pursuing its objectives. There are three major approaches: (1) strategies based on products and markets, (2) strategies based on competitive advantage, and (3) strategies based on value.

**Organizational strategies based on competitive advantage:** This approach to developing organizational strategy would develop either a cost leadership strategy which focuses on being the lower cost company in the industry or a differentiation strategy which focuses on being unique in the industry or market segment along dimensions that customers value.

**Organizational strategies based on products and markets:** An approach to developing organizational strategies that focuses on the four paths an organization can grow: market penetration strategies, market development strategies, product development strategies, and diversification strategies.

**Organizational strategies based on value:** This approach to developing organizational strategy seeks to succeed by choosing to deliver superior customer value using one of three value strategies—best price, best product, or best service.

**Product development:** An organizational strategy that seeks growth through developing new

products primarily for present customers.

**Situation analysis:** This stage of the marketing planning process involves the analysis of the past, present, and likely future in six major areas of concern: (1) the cooperative environment; (2) the competitive environment; (3) the economic environment; (4) the social environment; (5) the political environment; and (6) the legal environment. Opportunities for and constraints on marketing activities arise from these environments.

**Strategic business units (SBUs):** Strategic business units (SBUs) are product lines and divisions that can be considered a “business” for the purpose of the organizational portfolio plan. An SBU must have a distinct mission, have its own competitors, be a single business or collection of related businesses, and be able to be planned independently of the other SBUs.

**Strategic planning:** Strategic planning provides a blueprint for management actions for the entire organization. It includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization.

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