

## CHAPTER 2: MARKETING STRATEGY PLANNING

### CHAPTER 1 – COMMENTS ON USE OF ETHICAL DILEMMA QUESTIONS WITH THIS CHAPTER

**Situation:** What would you do? You work for an online travel agency. You meet with the salesperson from a company that offers a pricing analytics software program. The program allows you to charge different prices to customers who visit your website—so you can show higher prices to customers willing to pay more and lower prices to customers who will not buy at a high price. For example, the salesperson for this software told you, “We have found Mac users are less price sensitive than Windows computer users, so you can steer Mac users to more expensive hotels (and earn your company bigger commissions).” Another feature allows the software to detect frequent travelers. Because frequent travelers are usually traveling on business (and their company pays the bill), they are usually less price sensitive; these customers can be charged higher prices. When you ask if it is fair that different customers see different prices, the software salesperson answers, “This is just how target marketing works today. One target market is price sensitive, so we offer it a lower price. The other target market doesn’t care about price, so we keep prices higher. We optimize how much your travel agency earns from each transaction. Most of our customers see a 25 percent jump in profits after installing our software.” Would you recommend purchasing this software? How would customers paying the higher price feel if they found out other customers paid lower prices? Explain your decision.

Behavioral targeting is a controversial practice. Many privacy advocates are concerned about the implications of behavioral targeting. The question also introduces the students to price discrimination. Usually we find student less concerned about invasions of their privacy and more concerned about “unfair” pricing. If a discussion trends in these directions, you might ask students whether they think “ladies night pricing at a bar” or “student discounts” are “fair”? You might also ask how they would feel if they walked into a bookstore and the salesperson came up and suggested books by authors they had read before. Does the online context make it more acceptable to them?

### CHAPTER 2 – COMMENTS ON USE OF MARKETING ANALYTICS IN ACTION QUESTIONS WITH THIS CHAPTER

The Marketing Analytics in Action (MAiA) exercises were designed to expose students to basic (and sometimes more advanced) analytics used by marketing managers today. This exercise extends the chapter’s discussion of customer lifetime value by demonstrating how it is calculated. This exercise may require a bit more explanation by the instructor—as the analytics are more complicated. We think most students will be comfortable with the simple formula—and will not need to derive the formula.

#### Marketing Analytics in Action 2: CUSTOMER LIFETIME VALUE

An instructor may want to create a simple spreadsheet like the one shown below to demonstrate how to calculate these answers:

	Current	Question 1	Question 2
M (Profit/customer/year)	\$250	\$250	\$300
R (Retention rate)	60%	70%	60%
AC (Acquisition cost)	\$125	\$125	\$125

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Customer lifetime value	\$250	\$458	\$325
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1. \$458 – these numbers were designed to demonstrate to students the power of customer retention on customer lifetime value.
2. \$325 – in discussion, an instructor might ask if raising prices might impact any other numbers in the equation. It makes sense that retention rate might fall as more price sensitive customers chose to drink coffee at home or patronize another coffee shop – perhaps plugging lower numbers into retention rate might demonstrate such a tradeoff. Local Joe's might also find that some of the “regular” customers would visit less often – maybe offsetting his desired higher margin per customer.
3. This question is designed to get students thinking. At this stage in the class, students may not know how far to take this or be comfortable making assumptions. Yet these are important skills for marketing managers. Instructors are encouraged to discuss this question in class. So for example, ask students what might happen if Local Joe's was more aggressive in advertising and had higher acquisition costs? One potential downside is that new customers are less of a fit for Local Joe's and have a lower retention rate. Lower prices could encourage a higher retention rate and maybe higher profits per customer per year.

The goal with this exercise is to get students thinking about the options and how they might be entered into a spreadsheet. Instructors should remind students that this type of data analytics – based on assumptions – is not precise, but will often provide some directional insight.

## CHAPTER 2 – COMMENTS ON QUESTIONS AND PROBLEMS

- 2-1. This chapter opener case uses Cirque du Soleil to introduce a wide range of concepts from the chapter. Some of these are listed below, but students may find others in an abstract assignment like this:
  - Marketing strategy – targets adults with the 4 Ps
  - Target market – adults more than kids
  - Price - \$40 - \$200 per show
  - Promotion – ads in airline magazines, publicity, and word-of-mouth,
  - Publicity – articles in local newspapers
  - Place – television shows and use of DVDs to sell to customer
  - Product development – lounges in Las Vegas (might also be considered diversification depending on whether it is interpreted to target current or new customers).
  - Product development - DVDs
  - Evaluating opportunities – the fifth paragraph highlights opportunities and notes some that have been screened out.
  - Your students will identify more.
- 2-2. The case opener suggests that Cirque du Soleil has already pursued some new opportunities. What follows are some potential examples:
  - Market penetration – offer more shows when it travels to each town, multiple shows in Las Vegas
  - Market development – traveling shows in Europe, Asia, Australia, etc. offer opportunities in new markets
  - Product development – opening Cirque du Soleil hotels or a clothing line that targets current customers,

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- Diversification – they might move into pharmaceutical drugs or attempt to build cars – very much a diversification move.
- 2- 3. A marketing strategy includes the selection of a target market *and* the development of a marketing mix. Therefore, a marketing mix is only part of a marketing strategy.
  - 2- 4. Target marketing involves consciously picking some target (which might be the "mass market"), while mass marketing is not focused on some specific customers. The managers just naively assume that "everyone" or at least enough "someones" will buy to make the business successful. A meaningful example for students might be contrasting the operation of some fast-food franchises that have developed good strategies with a locally owned restaurant that is just serving "food," apparently to "everyone," and not doing very well. Local examples with which the student has had some experience are usually better than discussing the strategies of large companies that are managed from remote cities.
  - 2- 5. The target customer is placed in the center of the four Ps because the customer should be the focal point of all marketing efforts and really, all business efforts. Without potential customers – and eventually satisfied customers – there is not much point in any company effort. Almost any product (for example ball point pens or sports shirts) might be used to illustrate the way that products can and should be designed with the customer in mind, made conveniently available, promoted to these potential customers, and priced attractively or competitively – again with the customer in mind. The interrelatedness of the decisions (as shaped by the needs and attitudes of the various potential customers) should be noted.
  - 2- 6. It is important for a firm to have a clearly defined target market even if a company sells its products only from a website. This question is designed to prompt students to think about the idea of the website in the context of the marketing mix. The fact that the firm is distributing to customers "direct" via its website (rather than through wholesalers or retailers) is certainly an important decision in the marketing mix context, but the fact that the website is available to customers from all over the world doesn't mean that the firm's offering will be attractive to customers regardless of geographic location. The marketer still needs to think about the benefits its product offers relative to the needs of some set of customers, what competitors offer those customers, when and how the product is going to get to the customer's place, what communications (promotion, customer service, etc.) the customers will need, what price is appropriate, and the like. There is intense competition for attention and business on the Internet, and just "building a better mousetrap" (if the firm has in fact done that...whether it is the product offering OR the website itself!) is not any sort of assurance that it will attract, satisfy, and retain customers. A firm that has a specific target market will be able to fine tune its message and the rest of the marketing mix to the needs of the target customers; that increases the odds that it can offer them superior customer value.
  - 2- 7. This question basically serves as a review of the text discussion in the section, "Developing Marketing Mixes for Target Markets."
  - 2- 8. This question is designed to get the students thinking more seriously about what should be included in a marketing strategy – that is, to get them beyond a superficial definition of marketing strategy. Ideally, a strategy should include policy statements with respect to how each of the four *Ps* should be handled. If these are spelled out completely, then there are comprehensive guidelines for implementing strategy. Usually not all the details of implementation will be set by the strategy, but a detailed marketing plan would provide sufficient detail so there was no doubt that the implementation decisions were primarily concerned with operational (not strategy) matters. The discussion here should not leave the student thinking that there is "nothing" to implementation efforts. This is certainly not true. The

important point is that two different levels of decisions are involved here – strategy and operational.

- 2- 9. Strategy decisions are concerned with "grand plans," while operational decisions are concerned with more detailed decisions – which are made within the framework of the strategy. A local retailer might include as part of his strategy an intention to price his whole line to meet his major competitors' price levels. Regular operational decisions will have to be made with respect to which products' prices to change in order to appear to remain competitive with competitors who are varying prices on different items at the same time. This continual adjusting of prices might be extremely important to his long-run success, yet should be seen as operational decision-making, given his strategy pricing decision.
- 2- 10. This question provides students with an opportunity to demonstrate their level of comfort with this concept. This chapter provides the following definition: "the expected earnings stream (profitability) of a firm's current and prospective customers over some period of time." Students will find a way to put this definition in their own words. The emphasis should be on three elements: 1) profitability, 2) current and prospective customers, and 3) current and future profits. The implications of this approach are important because it provides a financial goal for marketing managers. The approach also emphasizes the need for a marketing manager to both *retain* current customers and *acquire* new ones. Thus, a marketing program will usually have some efforts directed at retaining and growing current customers (one or more target markets) and acquiring new customers (other target markets).
- 2- 11. This question helps students consider the variations in marketing strategy when the objective is customer acquisition as opposed to retention or enhancing sales. So for example, with a company selling oral health care products, acquisition might consider discounts and price promotions to encourage a customer to first use the product. It might also work through dentists for their recommendations. Having a high quality product that does what it says will lead to customers satisfaction and customer retention. Finally, enhancing sales comes when users of a particular brand of toothbrush also use its brand of mouthwash and/or toothpaste. Bundled packages or coupons on one product for the other might help with that. Similar strategies might also be employed by a fast food restaurant.
- 2- 12. A *strategy* is a "big picture" of what a firm will do in some market. A *marketing plan* includes a strategy and the time-related details for carrying out the strategy. And a *marketing program* is a blend of all of the firm's marketing plans. A department store might have a strategy for how to handle each of its departments and expect its department managers to develop marketing plans for each department – perhaps month by month for the next year or even up to five years. A marketing program would be the blending of all of the marketing plans into one workable program. Developing the program might require some adjusting of the plans of some departments – in order to make effective use of all of the firm's resources but not exceed them.
- 2-13. This question is designed to get the students thinking about the various target markets for a particular product – and the many factors that ought to be considered. If the instructor is familiar with the development of a new marketing strategy, it probably will be preferable to substitute this product for one of those suggested – in order to give the students a better "feel" for reality.

This exercise can easily lead into an interesting discussion of marketing strategy planning and all of the problems that can arise (but the instructor must guard against it degenerating into just a "bull" session). The general approach will be illustrated below for the new toothbrush.

The students must be led to see that there are many different potential target markets before going on to the development of one whole strategy. It might help to begin by trying to

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determine the degree of interest of some target consumers in toothbrushes in general – and the extent of interest they might have in the particular kind of product being considered. Using the marketing strategy diagram in Exhibit 2-9 as a framework – to begin to segment the "toothbrush market" – you could lead them to ask questions such as: What do consumers look for in toothbrushes? Why do they buy them? Where do they buy them? How much do they pay for them? Who buys them? All of these questions should be raised by the students. Obviously, no one answer can be developed in the classroom for all these questions (there are many target markets), but some tentative conclusions might be advanced – some consumers are worried about their gums, not just their teeth, some people don't seem to think about brushes at all, some want a brush that's easy to pack for travel, etc.

The next step would be to analyze the product in the light of the consumers' image of toothbrushes and the ritual of tooth brushing. If this product seems to have any possibilities for satisfying the needs of some consumers, then the other three *Ps* – Place, Promotion, and Price – will have to be considered. *Where* consumers traditionally buy toothbrushes may have a bearing on where they will have to be distributed. If the same types of places are chosen, a great deal of promotion may not be necessary. However, if an entirely new set of places is chosen, promotion may become more expensive. If the consumer is not particularly enthused about new products of this type, even if they are superior, then the latitude on pricing may be rather narrow. The marketing executive's job would be to weigh the four *Ps* in light of consumer analysis in order to come up with a satisfactory marketing strategy.

At this time, a well-organized discussion of all these points probably should not be expected of the students, but it is surprising what they can do. In the following pages, some examples of students' work are presented to give you an idea of the caliber of work that can be expected this early in the course.

- A. The marketing problems I believe I would face if I were to develop a new design for a toothbrush:

Concerning the consumer:

1. Characteristics of buyers and users
2. Size of purchase
3. Unfavorable attitudes of buyers of brand
4. Class of buyers
5. Number of competitors and brands
6. Differentiation of own brand from leaders

Concerning the product:

1. Quality
2. Models and sizes
3. Attractiveness
4. Shape, material, design, color, and copy

Concerning the place:

1. Number of wholesalers and retailers
2. Degree of aggressive retailer cooperation

Concerning the price:

1. Factory price

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2. Wholesalers' and retailers' price
3. Discounts, allowances, and deals
4. Price support

Concerning the promotion:

1. Selling
2. Advertising
3. Sales promotion

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- B. The first thing we have to do in setting up the marketing strategy is to determine the target market. The target for a new spinning reel would, most naturally, be the sport fisherman. Since the consumer is of such great importance in the selection of a strategy, he should be considered first and foremost. To begin with, sport fishermen can be from any social or financial class. This fact in itself presents somewhat of a problem. The reel has to be such that it will appeal to the majority of the people from these different groups.

Next we have to determine just how we are going to design this item to accomplish this. We have to make the reel so it has all the qualities we want, and price it so it can be sold in the volume necessary to make a profit. We have to decide whether we are going to make all the component parts ourselves or if we are going to do any subcontracting. These and many more considerations must be made in this connection.

Determining places of distribution to the customer is also very important. With an article such as a fishing reel, the best markets would no doubt be in or near river towns, fishing resorts, lakes, or oceans. Along the same lines, you must determine how you are going to work the distribution end of your business, whether you are going to use wholesale outlets, brokers, franchised dealers, etc.

The price of the reel now has to be set so that it will move fairly fast on the market. Competition will, of course, affect pricing. . You must also take into account the distributors and sales force and whether you are going to pay them a high commission.

Since this is a new product, promotion is going to be of major importance in establishing good markets. You will have to concern yourself with advertising, sales promotions, and training salespeople among other things. I think these would be the greatest problem areas you would encounter.

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- C. *Consumers:* The market target for the new wonder drug is all consumers, since at one time or another everybody gets sick. The drug will be also aimed at children, since children are always getting sick. The drug should be promoted more to residents of cold or damp sections of the country since susceptibility to sickness is greater in these areas.

The number of other brands is few since this is a new wonder drug. Brand loyalty will be low since this is a new product.

*Product:* The product will be in pill form. In must be decided how many sizes of bottles there should be and how many pills go in each bottle. The color of the coating of the pill is important in order to make it attractive to children. The color and graphical design of the box should stand out on the shelf.

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The brand name should be easy to pronounce and should be connected to the concept of curing sickness so that when someone thinks, "I am really sick, what can I take to get better?", immediately the name will pop into his mind after hearing it only once before.

*Place:* Samples should be distributed to doctors. The main distribution will be through drugstores and drug counters in department stores.

*Price:* The price should be within the reach of everybody. It should be priced in the range of other drugs. Many people object to the high price of drugs, but most will pay the price if they think the product is good. If the price is high, people feel that they are getting something good. So the price should appear a little high, but not so high as to take a big chunk out of the average person's pocket.

*Promotion:* Since it is a medical discovery and a significant one, an attempt should be made to have articles printed in prestigious medical journals to show doctors how good the product really is. Television is the best medium for advertising the product. "A famous doctor says" approach should be avoided since I think it is boring to people. But the doctor should not be left completely out of the advertisement. It should be emphasized that the drug is safe for all ages. All other modes of advertisement should also be used.

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- D. The new type of industrial stapling machine causes students considerable trouble as few of them have had much industrial experience. This provides another opportunity to emphasize the need for careful customer analysis.

For class discussion, it is useful to segment the stapling machine market into at least two parts – thus requiring two sets of answers. The two basic markets are for office use and for plant use (fastening boxes or assembling wood or metal pieces).

You might show that reaching office managers, production managers, purchasing agents, and even top executives in businesses where fastening is especially important affects the Place and Promotion variables. The problems of marketing industrial products should only be raised here, as they are treated extensively in the rest of the text. By the end of the book, the students will be able to handle such a problem very nicely. It might be fruitful at this time, however, to get the students to notice that industrial marketing would probably be more economically-oriented than final consumer marketing.

- 2-14. This is an integrative question. As indicated in the section, "What Does the Marketing Concept Mean" (in Chapter 1) all functional areas are dependent upon a firm's market-oriented plans. A market-oriented plan starts with customers and then expects the rest of the firm to arrange its affairs accordingly. Therefore, an example from any functional area would be appropriate here.
- 2-15. This is an important question. It gets at a key reason why it is hard for firms to be successful!! It will prompt a wide variety of different answers (and has the potential to generate some very good interaction if it is discussed in class). Most students think that the marketing concept sounds like a simple idea, and students with less work experience often think that it is easy for a firm to implement. Those with more experience are likely to "make excuses" for companies because they are more attuned to the problems. But discussion of this question helps to highlight some of the reasons that the marketing concept is not easy to implement.

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If there is any difficulty getting discussion going, ask students what they think about the firm that provides their cell phone service, the food service on campus, or the outlet where they purchased a computer. These tend to be routine pockets of dissatisfaction and there will be differences of opinion about what is important and how different firms handle issues.

In a class discussion, the point is to try to focus not just on the things that leave customers dissatisfied, but (a) what they can do to remedy the problem, and (b) the obstacles that get in the way of such efforts. One approach is to have a few students give brief examples and list them on the board, and then go back and address the remedies and/or obstacles. The trick is to try to generalize from the examples that they give. The list of generalizations can also go on the board, and then at the end of class, the instructor can point out that by the end of the course, all of those issues will have been covered. For example, if a student complains about problems with a purchase, then the professor might ask whether the retail firm that generated the problem seemed to have a bad strategy, or whether the firm didn't implement its strategy well. Was the salesperson poorly trained or maybe just in a bad mood that day? Is it possible that the customer was partly at fault? Is the customer really always right? Can a firm afford to satisfy everyone?

By the end of the discussion, the instructor can highlight the fact that the underlying tension in implementing the marketing concept is; it is difficult to make a profit and satisfy customers at the same time. Customer satisfaction drives business (and repeat business), but it can also be expensive to satisfy customers. So a firm needs to recognize that different customers have different needs, and then choose the needs it can satisfy at a cost that customers are willing to pay. This, of course, sets up the discussion of target marketing and the "fit" between the marketing mix and the firm's capabilities relative to those of competing firms.

- 2-16. An "attractive" opportunity for a firm is one that the firm has some chance of doing something about – given its resources and objectives. A "breakthrough" opportunity is an attractive opportunity that will enable the innovators to develop hard-to-copy marketing mixes that will be very profitable for a long time.

Students will give a wide variety of examples here. They are often better at identifying "attractive" opportunities than "breakthrough" opportunities. In particular, it is not unusual for students to think that just about everything is "hard to copy." Discussion of this question is a good way to highlight the importance of analyzing the current competitive environment and/or what is likely to happen with it in the future. This discussion can be used to foreshadow a similar discussion in Chapter 3, as well as introducing the concepts of product life cycles, which are developed more fully in Chapter 9.

- 2-17. By defining a market in terms of a market's needs, it is usually possible to see subsets that are not completely satisfied with the present offerings. Students should be able to come up with examples – if nothing else, examples of needs that they personally have that are not completely satisfied. Suggestions from the class can be pursued to see whether each "opportunity" is likely to be large enough to be profitable to some firm, though the focus here is simply to get students to see that there are opportunities all around them. .

- 2-18. The basic logic for thinking of the marketing strategy planning process as a narrowing down process is to be certain that the marketing manager considers the various alternative opportunities that might be available before putting all of his or her energy, and the firm's investment, into a single strategy.. There are usually more possible opportunities, each requiring different strategies (potential target markets and variations on the marketing mix), than the firm can actually pursue. The choice that is made may set the firm's course for some time to come, so it's important to focus on the strategy that has the greatest chance of success, rather than the one that at first glance appears to be OK.

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- 2-19. The major differences among the opportunities are related to whether the firm uses its present products or new products while pursuing present markets or new markets. Note: The student's examples should describe what a firm is or was doing before moving on to a new opportunity. In other words, what would be a diversification for one firm might be simply market penetration for a firm that was already in that market.
- 2-20. Familiarity with the firm's current market would probably reduce the cost and risk. The farther a firm moves from its present activities, the less it is likely to know about the market and its problems. "The grass is not always greener on the other side of the fence."
- 2-21. The text provides a discussion of reasons that international opportunities should be considered. Student answers will usually incorporate the reasons given in the text, including:
- (a) it's now becoming easier and cheaper to deal with customers in international markets, because of advances in communications and transportation;
  - (b) people in a foreign market may have needs that the firm could meet, and the people may have the money they need to be customers;
  - (c) serving larger, international markets may result in additional competitive advantages, such as greater economies of scale in production, shared expertise, etc.
  - (d) the product life cycle may be at an earlier stage in an international market, which effectively gives the firm the chance to "turn back the clock" to a stage where there is greater growth in sales and profits;
  - (e) the foreign market may offer more favorable trends with respect to the marketing environments, including the competitive environment, the legal/political environment, the economic/technological environment, and the socio-cultural environment. For example, income and population growth has subsided in the U.S.; as a result, some consumer products firms' growth will need to come from overseas markets.
- 2-22. The main purpose of this question is to encourage students to think about all of the products that they buy/use/consume that come from foreign producers. The reasons that they give for purchasing a specific product will vary dramatically – ranging from economic-oriented issues (low cost, good reliability) to emotional reasons (the status of French perfume, the "in" styling of an Italian designer). Regardless of the purchase reasons, students will usually conclude that there was a good opportunity for a domestic firm to get their business – often because there is really no barrier to prevent a domestic producer from competing. This will come out in the explanation or the "why or why not" part of the answer. After considering the "foreign" competition from that perspective, it's useful to turn things around and ask whether or not domestic firms have similar opportunities in foreign markets. This discussion might require a short digression on trade barriers (quotas, tariffs, etc.), but it also can highlight the fact that firms from all over the world are competing to "capture" customers wherever they may be.

## **CHAPTER 2 – COMMENTS ON USE OF MARKETING PLANNING FOR HILLSIDE VETERINARY CLINIC QUESTIONS WITH THIS CHAPTER**

*Appendix D (the Appendices follow Chapter 19) includes a sample marketing plan for Hillside Veterinary Clinic. Skim through the different sections of the marketing plan. Look closely at the "Marketing Strategy" section.*

- a. *What is the target market for this marketing plan?*
- b. *What is the strategy Hillside Veterinary Clinic intends to use?*
- c. *What are your initial reactions to this strategy? Do you think it will be successful? Why or why not?*

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At this point in the introductory marketing class, students need to learn about the different parts of a marketing plan at a very basic level. This helps them get an appreciation for the various elements of marketing. Often students walk into this class thinking that marketing is “easy” or “obvious.” The marketing plan shows them the amount of analysis that goes into creating a marketing strategy – even for a small business.

The first question simply requires that the student recognizes the target market. The HVC marketing plan identifies two target markets: 1) Pet owners with small animals living within 10 miles of Wellington, Colorado, who are not currently customers of HVC, and 2) Pet owners with small animals living within 10 miles of Wellington, Colorado, who are currently customers of HVC.

In class discussion, the instructor may ask why HVC has chosen these target markets. Veterinarians often specialize in small animals (cats, dogs, etc.) or large animals (cows, horses, etc.). Other vets may choose to specialize in exotic small animals (monkeys, chinchillas, ferrets, etc.). The marketing strategy process planning model might be referenced. Competitors in the area specialize in large animals – which typically involve house (or ranch or farm) calls. A company factor is Doctor Hardy’s likely training in small animals – and perhaps her innate interests. Also, there are many consumers in the fast-growing area that are likely to have small animals – making for a ready market.

As a transition to the second question, the instructor might ask the class, “Why does the marketing plan differentiate between current customers and non-customers of HVC?” This allows for a discussion of the two different targets. The former are already familiar with HVC and have an established relationship. The marketing strategy for this group includes tactics that serve to remind customers and introduce them to new products and services offered by the clinic. On the other hand, non-customers may not be aware of HVC – so tactics here try to increase awareness and encourage customers to try the clinic.

The last question is designed to get students to evaluate a marketing strategy. There is no correct answer here, and certainly most introductory marketing students will not be able to offer a detailed critique. But the instructor can encourage students to judge the likely effectiveness in light of the situation analysis.

## **CHAPTER 2 – COMMENTS ON USE OF SUGGESTED CASES WITH THIS CHAPTER**

### **Case 3: NOCO United Soccer Academy**

This case can be used to introduce the marketing strategy planning process and customer equity – both of which are discussed throughout the rest of the book. The Real NOCO Soccer case provides an early opportunity to use both of these frameworks. The marketing strategy planning process in Exhibit 2-9 might be shown on the board and used to help guide discussion. In fact, the shortage of information on competitors – at least in the short case – becomes more obvious when this framework is shown. There is a need to match the company strengths with customer needs. A S.W.O.T. analysis might be done to help students understand these concepts.

The options clearly address some of the alternative growth methods suggested in the section “Recognizing Customer Lifetime Value and Customer Equity” in the text – acquisition of new customers, retention of current customers, and increasing purchases by current customers. To dramatize the effects of customer retention, ask your students what percentage of its customers Real NOCO Soccer Academy is likely to retain each year. Despite kids moving, changing interests, and growing too old for training, the current retention rate of 80% is really quite high. This means that of the 600 customers Real NOCO Soccer Academy currently serves, it needs to attract 120 new customers each year just to stay even – and Real NOCO Soccer wants to double in size. If Real NOCO Soccer can increase customer retention by 10%, this means the company keeps 60 more customers. But is that even possible? Real NOCO

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Soccer may have no ability to control families moving from the area, kids changing interests, and aging of its customer base. This means that some customer acquisition efforts will be a necessary part of its strategy. Further, if Real NOCO Soccer can get 25% of its customers to take one additional program per year, then sales should increase by about 25%. These numbers – or variations that you might create – help to dramatize the different customer equity options in the Real NOCO Soccer case. See case discussion in Part V.

### **Case 4: Petoskey Tech Support**

This case can be used to illustrate ideas related to marketing strategy planning, including S.W.O.T. analysis. A young woman decides to go into business (doing computer service work) in a small town where she is in direct competition with another established competitor who has a strong reputation and a loyal following (and it's a firm with which she had a summer job before going into military service). Her choice of this business opportunity is influenced heavily by where she wants to live and what she has done in the past. It is of course reasonable to use these as criteria in evaluating opportunities and screening alternatives, but she doesn't develop the elements of her marketing mix very carefully. Instead she seems to expect that the community will somehow see the wisdom of bringing business to her. Students will have empathy for her situation, but she is nevertheless in a tough situation because it doesn't appear that she has any particular competitor advantage. Equally important, she really has not done anything in developing her marketing mix to try to get an advantage.

### **Case 5: Resin Dynamics**

Used in this chapter, this case also illustrates a production-oriented company that has ignored potential customers' needs and the uncontrollable environment. It is easy to show the need for target marketing in this case. See case discussion in Part V.

### **Case 12: DrV.com—Custom Vitamins**

This case can be used as an opportunity to introduce students to a relatively straightforward financial analysis involving some topics related to customer equity. See case discussion in Part V.

### **Case 29: AAA Custom Castings, Inc.**

This case can be used to illustrate production-oriented thinking – and the need for more marketing-oriented strategy planning. It also can be used toward the end of the course to "wrap everything up." See case discussion in Part V.

### **Video Case 1: Chick-fil-A**

This video summarizes the marketing strategy of Chick-fil-A®, the second largest quick-service chicken restaurant chain in the United States based on sales (\$1.975 billion in 2005). It operates over 1,250 restaurants in 37 states and Washington, D.C. Its 2005 performance marks the 38th consecutive year of system-wide sales gain. The case covers each of the 4 Ps, which are introduced in this chapter. For more details, see the *Video Instructor's Manual on the Instructor Edition of the Online Learning Center* ([www.mhhe.com/fourps](http://www.mhhe.com/fourps)).

### **Video Case 2: Bass Pro Shops**

Bass Pro Shops is the nation's leading retailer of outdoor gear. It also is regarded as a master marketer for a unique shopping experience that blends goods and services with theater and entertainment—a trend

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in retailing called “destination development.” ” This case covers each of the 4 Ps, which are introduced in this chapter. For more details, see the *Video Instructor’s Manual on the Instructor Edition of the Online Learning Center* ([www.mhhe.com/fourps](http://www.mhhe.com/fourps)).

### **Video Case 4: Potbelly Sandwich**

This video summarizes the marketing strategy of Potbelly Sandwich Works, Inc. along the 4Ps and features interview footage with Bryant Keil, Chairman and CEO of the company. Chicago-based Potbelly Sandwich Works, Inc. is a chain of sandwich shops that competes in the Quick Serve segment of the restaurant industry. Billed as a unique and “quirky” sandwich joint, Potbelly has strong appeal to young urban professionals. The case covers each of the 4 Ps, which are introduced in this chapter. For more details, see the *Video Instructor’s Manual on the Instructor Edition of the Online Learning Center* ([www.mhhe.com/fourps](http://www.mhhe.com/fourps)).

### **Video Case 6: Big Brothers and Big Sisters of America**

This video explores the processes by which Big Brothers Big Sisters of America (BBBSA) developed and implemented its strategic marketing planning process. For more than a century, Big Brothers and Big Sisters of America (BBBSA) has helped children reach their potential through professionally supported one-on-one mentoring. This case describes the marketing strategy planning process at BBBSA, a concept that is introduced here in Chapter 2.. For more details, see the *Video Instructor’s Manual on the Instructor Edition of the Online Learning Center*.

## **DISCUSSION OF MARKETING ANALYTICS: DATA TO KNOWLEDGE, PROBLEM 2: TARGET MARKETING**

In this problem, the student evaluates the profitability of a target marketing approach compared to a mass marketing approach. The spreadsheet for the problem focuses student attention on the size of the segments, the “share” that a firm wins in that market, costs of blending a marketing mix to reach the market, and revenue and profit relationships.

The initial spreadsheet for the problem appears below:

**NOTE:** *As a general convention, when reviewing the spreadsheets for these problems, cells that the students may modify in the tool are denoted with an asterisk (\*) as can be seen in the initial spreadsheet below.*

Spreadsheet		
	Targeting	Mass Marketing
PRODUCT: Production Cost per Unit	\$8.00*	\$7.50*
PLACE: Distribution Cost per Unit Sold	\$2.00*	\$2.50*
PROMOTION: Total Promotion Cost	\$12,000.00*	\$60,000.00*
PRICE: Selling Price per Unit	\$16.00*	\$14.00*
Overhead Costs	\$10,000.00*	\$20,000.00*
Number of People in the Market	25,000*	275,000*
Percent of People Who Will Buy	80.00%*	40.00%*
Firm's Percent (share) of Purchases	50.00%*	20.00%*
Quantity Sold (Units)	10,000	22,000
Total Revenue (Price times Quantity)	\$160,000.00	\$308,000.00
Total Cost (Sum of Above Costs)	\$122,000.00	\$300,000.00
Total Profit (Revenue minus Costs)	\$38,000.00	\$8,000.00

### Answers to Marketing Analytics Problem 2:

- The correct answer is C. Although higher sales volume does result in lower production costs (answer B), the need to sell the product in more locations **increases** the distribution cost rather than decreasing the distribution cost. This concept is discussed in more detail in Chapter 10 when tradeoffs between intensive, selective, and exclusive distribution are discussed.
- If the target marketer could reduce distribution cost by \$.25 per unit, from \$2.00 to \$1.75, total profit would increase by \$2,500.00 – from \$38,000.00 to \$40,500.00. The point here is that reducing the cost of any element of the marketing mix – if it still meets the needs of target customers – will help to improve profits. The spreadsheet for this analysis is shown below:

Spreadsheet		
	Targeting	Mass Marketing
PRODUCT: Production Cost per Unit	\$8.00*	\$7.50*
PLACE: Distribution Cost per Unit Sold	\$1.75*	\$2.50*
PROMOTION: Total Promotion Cost	\$12,000.00*	\$60,000.00*
PRICE: Selling Price per Unit	\$16.00*	\$14.00*
Overhead Costs	\$10,000.00*	\$20,000.00*
Number of People in the Market	25,000*	275,000*
Percent of People Who Will Buy	80.00%*	40.00%*
Firm's Percent (share) of Purchases	50.00%*	20.00%*
Quantity Sold (Units)	10,000	22,000
Total Revenue (Price times Quantity)	\$160,000.00	\$308,000.00
Total Cost (Sum of Above Costs)	\$119,500.00	\$300,000.00
Total Profit (Revenue minus Costs)	\$40,500.00	\$8,000.00

- If the target marketer can increase his share of the market from 50 percent to 60 percent, his profit will increase to \$53,000.00 (Answer D). The spreadsheet for this analysis is shown below.

Spreadsheet		
	Targeting	Mass Marketing
PRODUCT: Production Cost per Unit	\$8.00*	\$7.50*
PLACE: Distribution Cost per Unit Sold	\$1.75*	\$2.50*
PROMOTION: Total Promotion Cost	\$12,000.00*	\$60,000.00*
PRICE: Selling Price per Unit	\$16.00*	\$14.00*
Overhead Costs	\$10,000.00*	\$20,000.00*
Number of People in the Market	25,000*	27,5000*
Percent of People Who Will Buy	80.00%*	40.00%*
Firm's Percent (share) of Purchases	60.00%*	20.00%*
Quantity Sold (Units)	12,000	22,000
Total Revenue (Price times Quantity)	\$192,000.00	\$308,000.00
Total Cost (Sum of Above Costs)	\$139,000.00	\$300,000.00
Total Profit (Revenue minus Costs)	\$53,000.00	\$8,000.00

- d. Using the spreadsheet above we can see that Total Revenue would increase to \$192,000.00 (Answer B).
- e. This question is designed to start teaching students about the underlying relationships between cost, revenue, and profit. It also provides a very light introduction into the concepts of fixed and variable expenses. The correct answer is B. Total Cost does not equal Total Production Cost plus Total Distribution Cost. Those variable costs are both components of the Total Cost but you must also include fixed costs such as Overhead Costs and Total Promotion Costs.

#### MARKETING ANALYTICS DISCUSSION

Going through this exercise, students should learn that while mass marketing provides the potential to reach more customers and achieve higher revenue, the costs associated with the effort usually overshadow the gains. The target marketer who can really fine-tune his marketing mix to the needs of the target market can increase his share of the business from that target market, and his profitability. The exercise shows that it is often better to get a larger share of a smaller target market than to use a perhaps very expensive marketing mix to inefficiently compete for a small share of a larger "mass market."

## **CHAPTER 2 – SUMMARY OF CONNECT HOMEWORK EXERCISES**

Question 1: Target Marketing and the 4 Ps at Campbell's Soup

Question Type: Click and Drag

Learning Objectives: 2.3, 2.4

Topic: Developing marketing mixes for target markets

AACSB: Reflective thinking

Bloom's: Understand, apply

Question 2: The Marketing Strategy Process Planning Model

Question Type: Click and Drag

Learning Objectives: 2.7

Topic: Marketing strategy planning process highlights opportunities

AACSB: Reflective thinking

Bloom's: Remember, understand, apply

Question 3: Marketing Strategy Opportunities at Olive Garden Restaurant

Question Type: Decision Generator

Learning Objectives: 2.3, 2.4

Topic: Marketing mix

AACSB: Reflective thinking

Bloom's: Remember, understand, apply

Question 4: Bass Pro Shops and the Marketing Strategy Planning Process

Question Type: Video Case

Learning Objectives: 2.3, 2.4, 2.7

Topic: Marketing mix and marketing strategy planning

AACSB: Analytic

Bloom's: Remember, understand, apply

Question 5: The Marketing Plan (iSeelt! Video)

Question Type: Video Case

Learning Objectives: 2.5

Topic: The Marketing Plan Is a Guide to Implementation and Control

AACSB: Analytic, reflective thinking

Bloom's: Remember, understand, apply

Question 6: Target Marketing

Question Type: Marketing Analytics

Learning Objectives:

Topic: Target marketing

AACSB: Analytic, technology

Bloom's: Remember, understand, apply

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