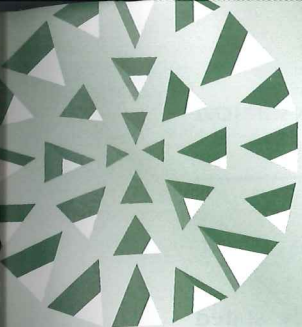


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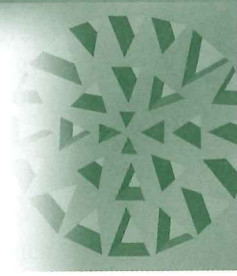
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Chapter 1

Foundations of Strategic Marketing Management



The primary purpose of marketing is to create long-term and mutually beneficial exchange relationships between an entity and the publics (individuals and organizations) with which it interacts. Though this fundamental purpose of marketing is timeless, the manner in which organizations undertake it continues to evolve. No longer do marketing managers function solely to direct day-to-day operations; they must make strategic decisions as well. This elevation of marketing perspectives to a strategic position in organizations has resulted in expanded responsibilities for marketing managers. Increasingly, they find themselves involved in charting the direction of the organization and contributing to decisions that will create and sustain a competitive advantage and affect long-term organizational performance.

The transition of the marketing manager from being only an implementer to being a maker of organization strategy has resulted in (1) the creation of the chief marketing officer (CMO) position in many organizations and (2) the popularity of strategic marketing management as a course of study and practice. Today, almost one-half of *Fortune* 1000 companies have a CMO. Although responsibilities vary across companies, a common expectation is that a CMO will assume a leadership role in defining the mission of the business; analyzing environmental, competitive, and business situations; developing business objectives and goals; and defining customer value propositions and the marketing strategies that deliver on these propositions.

The skill set required of CMOs includes an analytical ability to interpret extensive market and operational information, an intuitive sense of customer and competitor motivations, and creativity in framing strategic marketing initiatives in light of implementation considerations and financial targets and results.¹ *Strategic marketing management* consists of five complex and interrelated processes.

1. Defining the organization's business, mission, and goals
2. Identifying and framing organizational growth opportunities
3. Formulating product-market strategies
4. Budgeting marketing, financial, and production resources
5. Developing reformulation and recovery strategies

The remainder of this chapter discusses each of these processes and their relationships to one another.



DEFINING THE ORGANIZATION'S BUSINESS, MISSION, AND GOALS

The practice of strategic marketing management begins with a clearly stated business definition, mission, and set of goals or objectives. A business definition outlines the scope of a particular organization's operations. Its mission is a written statement of organizational purpose. Goals or objectives specify what an organization intends to achieve. Each plays an important role in describing the character of an organization and what it seeks to accomplish.

Business Definition

Determining what business an organization is in is neither obvious nor easy. In many instances, a single organization may operate several businesses, as is the case with large *Fortune* 500 companies. Defining each of these businesses is a necessary first step in strategic marketing management.

Contemporary strategic marketing perspectives indicate that an organization should define a business by the type of customers it wishes to serve, the particular needs of those customer groups it wishes to satisfy, and the means or technology by which the organization will satisfy these customer needs.² By defining a business from a customer or market perspective, an organization is appropriately viewed as a customer-satisfying endeavor, not a product-producing or service-delivery enterprise. Products and services are transient, as is often the technology or means used to produce or deliver them. Basic customer needs and customer groups are more enduring. For example, the means for delivering prerecorded music has undergone significant change over the past 30 years. During this period, the dominant prerecorded music technologies and products evolved from plastic records, to eight-track tapes, to cassettes, to compact discs. Today, digital downloading of music is growing. By comparison, the principal consumer buying segment(s) and needs satisfied have varied little.

Much of the recent corporate restructuring and refocusing has resulted from senior company executives asking the question, "What business are we in?" The experience of *Encyclopaedia Britannica* is a case in point.³ The venerable publishing company was once known for its comprehensive and authoritative 32-volume, leather-bound book reference series first printed in 1768. In the late 1990s, the company found itself in a precarious competitive environment. CD-ROMs and the Internet had become the study tools of choice for students and were attracting Britannica's core customers. The result? Book sales fell 83 percent between 1990 and 1997. Britannica's senior management was confident that the need for dependable and trustworthy information among curious and intelligent customers remained. However, the technology for satisfying these needs had changed. This realization prompted Britannica to redefine its business. According to a company official: "We're reinventing our business. We're not in the book business. We're in the information business." By early 2006, the company had become a premier information site on the Internet. Britannica's subscription service (eb.com) markets archival information to schools and public and business libraries. Its consumer Web site (britannica.com) is a source of information for over 500,000 subscribers and its search engine provides some 150,000 Web sites selected by expert Britannica staffers for information quality and accuracy. The company began offering its service through Apple's iPhone in 2008 and iPad in 2010 because "People today want information wherever they go," said a company executive.

Business Mission

An organization's business mission complements its business definition. As a written statement, a mission underscores the scope of an organization's operations apparent in its business definition and reflects management's vision of what the organization seeks to do. Although there is no overall definition for all mission statements, most statements describe an organization's purpose with reference to its customers, products or services, markets, philosophy, and technology. Some mission statements are generally stated, such as that for Xerox Corporation:

Our strategic intent is to help people find better ways to do great work—by constantly leading in document technologies, products and services that improve our customers' work processes and business results.

Others are more specifically written, like that for Hendison Electronics Corporation:

We serve the discriminating purchasers of home entertainment products who approach their purchase in a deliberate manner with heavy consideration of long-term benefits. We will emphasize home entertainment products with superior performance, style, reliability, and value that require representative display, professional selling, trained service, and brand acceptance—retailed through reputable electronic specialists to those consumers whom the company can most effectively service.

Mission statements also apply to not-for-profit organizations. For instance, the American Red Cross aspires

to provide for victims of disaster and help people prevent, prepare for, and respond to emergencies.

A carefully crafted mission statement that succinctly conveys organizational purpose can provide numerous benefits to an organization, including focus on its marketing effort. It can (1) crystallize management's vision of the organization's long-term direction and character; (2) provide guidance in identifying, pursuing, and evaluating market and product opportunities; and (3) inspire and challenge employees to do those things that are valued by the organization and its customers. It also provides direction for setting business goals or objectives.

Business Goals

Goals or objectives convert the organization's mission into tangible actions and results that are to be achieved, often within a specific time frame. For example, the 3M Company emphasizes research and development and innovation in its business mission. This view is made tangible in one of the company's goals: 30 percent of 3M's annual revenues must come from company products that are less than four years old.⁴

Goals or objectives divide into three major categories: production, financial, and marketing. Production goals or objectives apply to the use of manufacturing and service capacity and to product and service quality. Financial goals or objectives focus on return on investment, return on sales, profit, cash flow, and shareholder wealth. Marketing goals or objectives emphasize market share, marketing productivity, sales volume, profit, customer satisfaction, customer value creation, and customer lifetime value. When production, financial, and marketing goals or objectives are combined, they represent a composite picture of organizational purpose within a specific time frame; accordingly, they must complement one another.

Goal or objective setting should be problem-centered and future-oriented. Because goals or objectives represent statements of what the organization wishes

to achieve in a specific time frame, they implicitly arise from an understanding of the current situation. Therefore, managers need an appraisal of operations or a *situation analysis* to determine reasons for the gap between what was or is expected and what has happened or will happen. If performance has met expectations, the question arises as to future directions. If performance has not met expectations, managers must diagnose the reasons for this difference and enact a remedial program. Chapter 3 provides a discussion on performing a situation analysis.



IDENTIFYING AND FRAMING ORGANIZATIONAL GROWTH OPPORTUNITIES

Once the character and direction of the organization have been outlined in its business definition, mission, and goals or objectives, the practice of strategic marketing management enters an entrepreneurial phase. Using business definition, mission, and goals or objectives as a guide, the search for and evaluation of organizational growth opportunities can begin.

Converting Environmental Opportunities into Organizational Opportunities

Three questions help marketing managers decide whether certain environmental opportunities represent viable organizational growth opportunities:

- What might we do?
- What do we do best?
- What must we do?

Each of these questions assists in identifying and framing organizational growth opportunities. They also highlight major concepts in strategic marketing management.

The *what might we do* question introduces the concept of *environmental opportunity*. Unmet or changing consumer needs, unsatisfied buyer groups, and new means or technology for delivering value to prospective buyers represent sources of environmental opportunities for organizations. In this regard, environmental opportunities are boundless. However, the mere presence of an environmental opportunity does not mean that an organizational growth opportunity exists. Two additional questions must be asked.

The *what do we do best* question introduces the concept of organizational capability, or distinctive competency. *Distinctive competency* describes an organization's unique strengths or qualities, including skills, technologies, or resources that distinguish it from other organizations. In order for any of an organization's strengths or qualities to be considered truly distinctive and a source of competitive advantage, two criteria must be satisfied. First, the strength must be imperfectly imitable by competitors. That is, competitors cannot replicate a skill (such as the direct-selling competency of Avon) easily or without a sizable investment of time, effort, and money. Second, the strength should make a significant contribution to the benefits perceived by customers and, by doing so, provide superior value to them. For example, the ability to engage in technological innovation that is wanted and provides value to customers is a distinctive competency. Consider the Safety Razor Division of the Gillette Company.⁵ Its distinctive competencies lie in three areas: (1) shaving technology and development,

(2) high-volume manufacturing of precision metal and plastic products, and (3) marketing of mass-distributed consumer package goods. These competencies were responsible for the Gillette Fusion and Venus razors, which have sustained Gillette's dominance of the men's and women's wet-shaving market.

Finally, the *what must we do* question introduces the concept of success requirements in an industry or market. *Success requirements* (also called "key success factors," or KSFs) are basic tasks that an organization must perform in a market or industry to compete successfully. These requirements are subtle in nature and often overlooked.⁶ For example, distribution and inventory control are critical success factors in the cosmetics industry. Firms competing in the personal computer industry recognize that the requirements for success include low-cost production capabilities, access to distribution channels, and continuous innovation.

The linkage among environmental opportunity, distinctive competency, and success requirements will determine whether an organizational opportunity exists. A clearly defined statement of success requirements serves as a device for matching an environmental opportunity with an organization's distinctive competencies. If *what must be done* is inconsistent with *what can be done* to capitalize on an environmental opportunity, an organizational growth opportunity will fail to materialize. Too often, organizations ignore this linkage and pursue seemingly lucrative environmental opportunities that are doomed from the start. ExxonMobil Corporation learned this lesson painfully after investing \$500 million in the office products market over a 10-year period only to see the venture fail. After the company abandoned this venture, a former ExxonMobil executive summed up what had been learned: "Don't get involved where you don't have the skills. It's hard enough to make money at what you're good at."⁷ By clearly establishing the linkages necessary for success before taking any action, an organization can minimize its risk of failure. An expanded discussion related to identifying marketing opportunities is found in Chapter 4.

SWOT Analysis

SWOT analysis is a formal framework for identifying and framing organizational growth opportunities. SWOT is an acronym for an organization's Strengths and Weaknesses and external Opportunities and Threats. It is an easy-to-use framework for focusing attention on the fact that an organizational growth opportunity results from a good fit between an organization's internal capabilities (apparent in its strengths and weaknesses) and its external environment (reflected in the presence of environmental opportunities and threats). Many organizations also perform a SWOT analysis as part of their goal- or objective-setting process.

Exhibit 1.1 on page 6 displays a SWOT analysis framework depicting representative entries for internal strengths and weaknesses and external opportunities and threats. A strength is something that an organization is good at doing or some characteristic that gives the organization an important capability. Something an organization lacks or does poorly relative to other organizations is a weakness. Opportunities represent external developments or conditions in the environment that have favorable implications for the organization. Threats, on the other hand, pose dangers to the welfare of the organization.

A properly conducted SWOT analysis goes beyond the simple preparation of lists. Attention needs to be placed on evaluating strengths, weaknesses, opportunities, and threats and drawing conclusions about how each might affect

the organization. The following questions might be asked once an organization's strengths, weaknesses, opportunities, and threats have been identified:

1. Which internal strengths represent distinctive competencies? Do these strengths compare favorably with what are believed to be market or industry success requirements? Looking at Exhibit 1.1, for example, does "proven innovation skill" strength represent a distinctive competency and a market success requirement?
2. Which internal weaknesses potentially disqualify the organization from pursuing certain opportunities? Look again at Exhibit 1.1, and note that

EXHIBIT 1.1 Sample SWOT Analysis Framework and Representative Examples

<i>Selected Internal Factors</i>	<i>Representative</i>		<i>Selected External Factors</i>	<i>Representative</i>	
	<i>Strengths</i>	<i>Weaknesses</i>		<i>Opportunities</i>	<i>Threats</i>
Management	Experienced management talent	Lack of management depth	Economic	Upturn in the business cycle; evidence of growing personal disposable income	Adverse shifts in foreign exchange rates
Marketing	Well thought of by buyers; effective advertising program	Weak distribution network; subpar sales force	Competition	Complacency among domestic competitors	Entry of lower-cost foreign competitors
Manufacturing	Available manufacturing capacity	Higher overall production costs relative to key competitors	Consumer trends	Unfulfilled customer needs on high and low end of product category suggesting a product line expansion possibility	Growing preference for private-label products
R&D	Proven innovation skills	Poor track record in bringing innovations to the marketplace	Technology	Patent protection of complementary technology ending	Newer substitute technologies imminent
Finance	Little debt relative to industry average	Weak cash flow position	Legal/regulatory	Falling trade barriers in attractive foreign markets	Increased U.S. regulation of product-testing procedures and labeling
Offerings	Unique, high-quality products	Too narrow a product line	Industry/market structure	New distribution channels evolving that reach a broader customer population	Low-entry barriers for new competitors

the organization acknowledges that it has a “weak distribution network and a subpar sales force.” How might this organizational weakness affect the opportunity described as “new distribution channels evolving that reach a broader customer population”?

3. Does a pattern emerge from the listing of strengths, weaknesses, opportunities, and threats? Inspection of Exhibit 1.1 reveals that low-entry barriers into the market/industry may contribute to the entry of lower-cost foreign competitors. This does not bode well for domestic competitors labeled as “complacent” and the organization’s acknowledged high production costs. Similarly, each of the organization’s strengths appear to be offset by an equally compelling weakness.



FORMULATING PRODUCT-MARKET STRATEGIES

Organizational opportunities frequently emerge from an organization’s existing markets or from newly identified markets. Opportunities also arise for existing, improved, or new products and services. Matching products and markets to form product-market strategies is the subject of the next set of decision processes.

Product-market strategies consist of plans for matching an organization’s existing or potential offerings with the needs of markets, informing markets that the offerings exist, having offerings available at the right time and place to facilitate exchange, and assigning prices to offerings. In short, a product-market strategy involves selecting specific markets and profitably reaching them through an integrated program called a *marketing mix*.

Exhibit 1.2 classifies product-market strategies according to the match between offerings and markets.⁸ The operational implications and requirements of each strategy are briefly described in the following subsections.

Market-Penetration Strategy

A *market-penetration strategy* dictates that an organization seeks to gain greater dominance in a market in which it already has an offering. This strategy involves attempts to increase present buyers’ usage or consumption rates of the offering, to attract buyers of competing offerings, or to stimulate product trial among potential customers. The mix of marketing activities might include lower prices for the offerings, expanded distribution to provide wider coverage of an existing market, and heavier promotional efforts extolling the “unique” advantages of an organization’s offering over competing offerings. For example, following

EXHIBIT 1.2 Product-Market Strategies

		<i>Markets</i>	
		<i>Existing</i>	<i>New</i>
<i>Offerings</i>	<i>Existing</i>	Market penetration	Market development
	<i>New</i>	New offering development	Diversification

the acquisition of Gatorade from Quaker Oats, PepsiCo announced that it expected to increase Gatorade's already dominant share of the sports drink market through broader distribution, new flavors, and more aggressive advertising.⁹

Several organizations have attempted to gain dominance by promoting more frequent and varied usage of their offering. For example, the Florida Orange Growers Association advocates drinking orange juice throughout the day rather than for breakfast only. Airlines stimulate usage through a variety of reduced-fare programs and various family-travel packages designed to reach the primary traveler's spouse and children.

Marketing managers should consider a number of factors before adopting a penetration strategy. First, they must examine market growth. A penetration strategy is usually more effective in a growth market. Attempts to increase market share when volume is stable often result in aggressive retaliatory actions by competitors. Second, they must consider competitive reaction. Procter & Gamble implemented a penetration strategy for its Folgers coffee in selected East Coast cities, only to run head-on into an equally aggressive reaction from Kraft Foods' Maxwell House Division. According to one observer of the competitive situation:

When Folger's mailed millions of coupons offering consumers 45 cents off on a one-pound can of coffee, Maxwell House countered with newspaper coupons of its own. When Folger's gave retailers 15 percent discounts from the list price . . . , Maxwell House met them head-on. [Maxwell House] let Folger's lead off with a TV blitz Then [Maxwell House] saturated the airwaves.¹⁰

The result of this struggle was no change in market share for either firm. Third, marketing managers must consider the capacity of the market to increase usage or consumption rates and the availability of new buyers. Both are particularly relevant when viewed from the perspective of the conversion costs involved in capturing buyers from competitors, stimulating usage, and attracting new users.

Market-Development Strategy

A *market-development strategy* dictates that an organization introduce its existing offerings to markets other than those it is currently serving. Examples include introducing existing products to different geographical areas (including international expansion) or different buying publics. For example, Harley-Davidson engaged in a market-development strategy when it entered Japan, Germany, Italy, and France. Lowe's, the home improvement chain, employed this strategy when it focused attention on attracting women shoppers to its stores.

The mix of marketing activities used must often be varied to reach different markets with differing buying patterns and requirements. Reaching new markets often requires modification of the basic offering, different distribution outlets, or a change in sales effort and advertising.

Like the market-penetration strategy, market development involves a careful consideration of competitor strengths and weaknesses and competitor retaliation potential. Moreover, because the firm seeks new buyers, it must understand their number, motivation, and buying patterns in order to develop marketing activities successfully. Finally, the firm must consider its strengths, in terms of adaptability to new markets, in order to evaluate the potential success of the venture.

Market development in the international arena has grown in importance and usually takes one of four forms: (1) exporting, (2) licensing, (3) joint venture, or (4) direct investment.¹¹ Each option has advantages and disadvantages. Exporting involves marketing the same offering in another country either directly (through sales offices) or through intermediaries in a foreign country. Because

this approach typically requires minimal capital investment and is easy to initiate, it is a popular option for developing foreign markets. Procter & Gamble, for instance, exports its deodorants, soaps, fragrances, shampoos, and other health and beauty products to Eastern Europe and Russia. Licensing is a contractual arrangement whereby one firm (licensee) is given the rights to patents, trademarks, know-how, and other intangible assets by its owner (licensor) in return for a royalty (usually 5 percent of gross sales) or a fee. For example, Cadbury PLC, a London-based multinational firm, has licensed Hershey Foods to sell its candies in the United States for a fee of \$300 million. Licensing provides a low-risk, quick, and capital-free entry into a foreign market. However, the licensor usually has no control over production and marketing by the licensee. A joint venture, often called a strategic alliance, involves investment by both a foreign firm and a local company to create a new entity in the host country. The two companies share ownership, control, and profits of the entity. Joint ventures are popular because one company may not have the necessary financial, technical, or managerial resources to enter a market alone. This approach also often ensures against trade barriers being imposed on the foreign firm by the government of the host company. A problem frequently arising from joint ventures is that the partners do not always agree on how the new entity should be run. Direct investment in a manufacturing and/or assembly facility in a foreign market is the most risky option and requires the greatest commitment. However, it brings the firm closer to its customers and may be the most profitable approach for developing foreign markets. For these reasons, direct investment must be evaluated closely in terms of benefits and costs. Direct investment often follows one of the three other approaches to foreign-market entry. For example, Mars, Inc. originally exported its M&Ms, Snickers, and Mars bars to Russia but now operates a \$200 million candy factory outside Moscow. Market development efforts in the global arena are expanded on in Chapter 10.

Product-Development Strategy

A *product-development strategy* dictates that the organization create new offerings for existing markets. The approach taken may be to develop totally new offerings (product innovation) to enhance the value to customers of existing offerings (product augmentation), or to broaden the existing line of offerings by adding different sizes, forms, flavors, and so forth (product line extension). Apple's iPod is an example of product innovation. Product augmentation can be achieved in numerous ways. One is to bundle complementary items or services with an existing offering. For example, embedded software, application aids, and training programs for buyers enhance the value of personal computers. Another way is to improve the functional performance of the offering. Digital camera manufacturers have done this by improving photo quality. Many types of product-line extensions are possible. Personal-care companies market deodorants in powder, spray, and gel forms; Gatorade is sold in more than 20 flavors; and Frito-Lay offers its Lay's potato chips in a variety of package sizes.

Companies successful at developing and commercializing new offerings lead their industries in sales growth and profitability. Apple's financial performance is a case in point. A company's likelihood of success is increased if its product-development effort results in offerings that satisfy a clearly understood buyer need. In the toy industry, for instance, these needs translate into products with three qualities: (1) lasting play value, (2) the ability to be shared with other children, and (3) the ability to stimulate a child's imagination.¹² Successful commercialization occurs when the offering can be communicated and delivered to a well-defined buyer group at a price it is willing and able to pay.

Important considerations in planning a product-development strategy concern the market size and volume necessary for the effort to be profitable, the magnitude and timing of competitive response, the impact of the new product on existing offerings, and the capacity (in terms of human and financial investment and technology) of the organization to deliver the offerings to the market(s). More important, successful new offerings must have a significant “point of difference” reflected in superior product or service characteristics that deliver unique and wanted benefits to consumers. Two examples from General Mills illustrate this view.¹³ The company introduced Fringos, a sweetened cereal flake about the size of a corn chip. Consumers were supposed to snack on them, but they didn’t. The point of difference was not significant enough to get consumers to switch from competing snacks such as popcorn, potato chips, or tortilla chips. On the other hand, General Mills’ Big G Milk ‘n Cereal Bar, which combines cereal and a milk-based layer, has succeeded because it satisfies convenience-oriented consumers who desire to “eat and go.”

The potential for cannibalism must be considered with a product-development strategy. *Cannibalism* occurs when sales of a new product or service come at the expense of sales of existing products or services already marketed by the firm. For example, it is estimated that 75 percent of Gillette’s Gillette Fusion razor volume came from the company’s other razors and shaving systems. Cannibalism of this degree is common in product-development programs. The issue faced by the manager is whether it detracts from the overall profitability of the organization’s total mix of offerings. At Gillette, the cannibalism rate for Fusion is viewed favorably, because its gross profit margin is significantly higher than that of the company’s other razors.¹⁴

Diversification

Diversification involves the development or acquisition of offerings new to the organization and the introduction of those offerings to publics not previously served by the organization. Many firms have adopted this strategy in recent years to take advantage of perceived growth opportunities. Yet diversification is often a high-risk strategy because both the offerings (and often their underlying technology) and the public or market served are new to the organization.

Consider the following examples of failed diversification. Anheuser-Busch recorded 17 years of losses with its Eagle Snacks Division and incurred a \$206 million write-off when the division was finally shut down. Gerber Products Company, which holds 83 percent of the U.S. baby-food market, has been mostly unsuccessful in diversifying into child-care centers, toys, furniture, and adult food and beverages. Coca-Cola’s many attempts at diversification—acquiring wine companies, a movie studio, and a pasta manufacturer, and producing television game shows—have also proven to be largely unsuccessful. These examples highlight the importance of understanding the link between market success requirements and an organization’s distinctive competency. In each of these cases, a bridge was not made between these two concepts and, thus, an organizational opportunity was not realized.¹⁵

Still, diversifications can be successful. Successful diversifications typically result from an organization’s attempt to apply its distinctive competency in reaching new markets with new offerings. By relying on its marketing expertise and extensive distribution system, Procter & Gamble has had success with offerings ranging from cake mixes to disposable diapers to laundry detergents.

Product-Market Strategy Selection

A recurrent issue in strategic marketing management is determining the consistency of product-market strategies with the organization’s definition, mission and capabilities, market capacity and behavior, environmental forces, and competitive activities.

Proper analysis of these factors depends on the availability and evaluation of relevant information. Information on markets should include data on size, buying behavior, and requirements. Information on environmental forces such as social, legal, political, demographic, and economic changes is necessary to determine the future viability of the organization's offerings and the markets served. In recent years, for example, organizations competing in the United States have had to alter or adapt their product-market strategies because of political actions (regulation), economic fluctuations (income shifts and changes in disposable personal income), sociodemographic trends (increasing racial and ethnic diversity), attitudes (value consciousness), technological advances (the growth of the Internet), and population shifts (city to suburb and northern to southern United States)—to name just a few of the environmental changes. Competitor activities must be monitored to ascertain their existing or possible strategies and performance in satisfying buyer needs.

In practice, the strategy selection decision is based on an analysis of the costs and benefits of alternative strategies and their probabilities of success. For example, a manager may compare the costs and benefits involved in further penetrating an existing market to those associated with introducing the existing product to a new market. It is important to make a careful analysis of competitive structure; market growth, decline, or shifts; and opportunity costs (potential benefits not obtained). The product or service itself may dictate a strategy change. If the product has been purchased by all of the buyers it is going to attract in an existing market, opportunities for growth beyond replacement purchases are reduced. This situation would indicate a need to search out new buyers (markets) or to develop new products or services for present markets.

The probabilities of success of the various strategies must then be considered. A. T. Kearney, a management consulting firm, has provided rough probability estimates of success for each of the four basic strategies.¹⁶ The probability of a successful diversification is 1 in 20. The probability of successfully introducing an existing product into a new market (market-development strategy) is 1 in 4. There is a 50–50 chance of success for a new product being introduced into an existing market (product-development strategy). Finally, minor modification of an offering directed toward its existing market (market-penetration strategy) has the highest probability of success.

A useful technique for gauging potential outcomes of alternative marketing strategies is to array possible actions, the response to these actions, and the outcomes in the form of a decision tree, so named because of the branching out of responses from action taken. This implies that for any action taken, certain responses can be anticipated, each with its own specific outcomes. Exhibit 1.3 shows a decision tree.

As an example, consider a situation in which a marketing manager must decide between a market-penetration strategy and a market-development strategy.

EXHIBIT 1.3 Decision-Tree Format

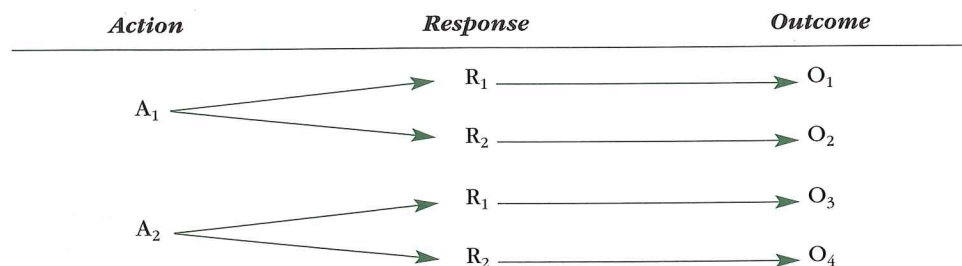
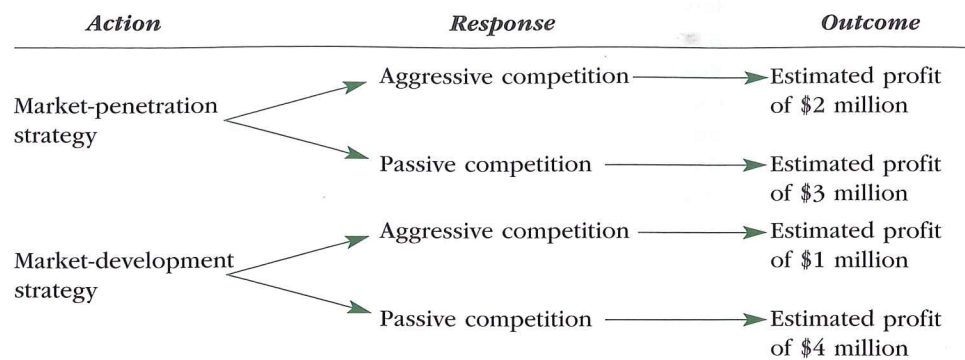


EXHIBIT 1.4 Sample Decision Tree

Suppose the manager recognizes that competitors may react aggressively or passively to either strategy. This situation can be displayed vividly using the decision-tree scheme, as shown in Exhibit 1.4. This representation allows the manager to consider actions, responses, and outcomes simultaneously. The decision tree shows that the highest profit will result if a market-development strategy is enacted and competitors react passively. The manager must resolve the question of competitive reaction because an aggressive response will plunge the profit to \$1 million, which is less than either outcome under the market-penetration strategy. The manager must rely on informed judgment to assess subjectively the likelihood of competitive response. Chapter 3 provides a more detailed description of decision analysis and its application.

The Marketing Mix and Customer Value Proposition

Matching offerings and markets requires recognition of the other marketing activities available to the marketing manager. Combined with the offering, these activities form the marketing mix.

A marketing mix typically encompasses activities controllable by the organization. These include the kind of product, service, or idea offered (product strategy), how it is communicated to buyers (communication strategy), the method for distributing the offering to buyers (channel strategy), and the amount buyers will pay for the offering (price strategy). Each of these strategies is described in Chapters 5 through 8. Here it is sufficient to note that each element of the marketing mix plays a complementary role in stimulating a market's (buyers') willingness and ability to buy and creating customer value.

An effective marketing mix also conveys a clear *customer value proposition*—a cluster of benefits that an organization promises customers to satisfy their needs. For example, Walmart's customer value proposition can be summed up as "Every-day low prices for a broad range of goods that are always in stock in convenient locations." Michelin's customer value proposition can be described as "Providing safety-conscious parents greater security in tires at a premium price."¹⁷

Formulating the Marketing Mix The appropriate marketing mix for a product or service depends on the success requirements of the market at which it is directed. The "rightness" of the marketing mix depends on the market served. Consider the case of Cover Girl Cosmetics in China. The marketing mix for Cover Girl in China shares only one common element with its marketing mix in other countries—the brand name. All product shades, textures, and colors had to be adjusted to ensure

they looked appealing on Chinese skin. Products have been packaged in small containers that resemble pieces of colorful candy, unlike other markets. The advertising and sales effort is localized expressly for the Chinese, and on-site beauty consultants assist buyers in Chinese department stores—not in self-service drug or grocery stores as in Cover Girl's other markets. Cover Girl pricing reflects local competitive conditions. According to Cover Girl's marketing director, "You can't just import cosmetics here. Companies have to understand what beauty means to Chinese women and what they look for, and product offerings, distribution, pricing and communication has to be adjusted accordingly to be right for the market."¹⁸

Internet-based technologies have created another market setting, called the *marketspace*. Companies that succeed in the new marketspace deliver customer value through the interactive capabilities of these technologies, which allow for greater flexibility in managing marketing mix elements. For example, online sellers routinely adjust prices to changing environmental conditions, purchase situations, and purchase behaviors of online buyers. Also, interactive two-way Internet-enabled capabilities in marketspace allow a customer to tell a seller exactly what his or her buying interests and requirements are, making possible the transformation of a product or service into a customized solution for the buyer. In addition, the purpose and role of marketing communications and marketing channels in this market setting have changed, as described in Chapters 6 and 7, respectively.

Besides being consistent with the needs of markets served, a marketing mix must be consistent with the organization's capacity, and the individual activities must complement one another. Several questions offer direction in evaluating an organization's marketing mix. First, is the marketing mix internally consistent? Do the individual activities complement one another to communicate a clear customer value proposition? Does the mix fit the organization, the market, and the environment into which it will be introduced? Second, are buyers more sensitive to some marketing mix activities than to others? For example, are they more likely to respond favorably to a decrease in price or an increase in sales promotion? Third, what are the costs of performing marketing mix activities and the costs of attracting and retaining buyers? Do these costs exceed their benefits? Can the organization afford the marketing mix expenditures? Finally, is the marketing mix properly timed? For example, are communications scheduled to coincide with product availability? Is the entire marketing mix timely with respect to the buying cycle of consumers, competitor actions, and prevailing environmental forces?

Implementing the Marketing Mix Implementation of the marketing mix is as much an art as a science. Successful implementation requires an understanding of markets, environmental forces, organizational capacity, and marketing mix activities with a healthy respect for competitor reactions. An example of an implementation with less than successful results is that of A&P's WEO (Where Economy Originates) program. Prior to implementing the program, A&P had watched its sales volume plateau with shrinking profits, while other grocery retailers continued to increase sales volume and profits. When the WEO program was initiated, it emphasized discount pricing (price strategy) with heavy promotional expenditures (communication strategy). The program increased sales volume by \$800 million but produced a profit loss of over \$50 million. In the words of one industry observer at the time:

Its competitors are convinced that A&P's assault with WEO was doomed from the start. Too many of its stores are relics of a bygone era. Many are in poor locations [distribution strategy] . . . They are just not big enough to support the tremendous volume that is necessary to make a discounting operation profitable [capacity] . . . stores lack shelf space for stocking general merchandise items, such as housewares and children's clothing [product strategy].¹⁹

The product-market strategy employed by A&P could be classified as a market-penetration strategy. Its implementation, however, could be questioned in terms of internal consistency, costs of the marketing mix activities, and fit with organizational capacity. Moreover, the retail grocery industry was plagued at the time by rising food and energy costs. Both environmental factors had a destructive effect on A&P's strategy success.



BUDGETING MARKETING, FINANCIAL, AND PRODUCTION RESOURCES

The fourth phase in the strategic marketing management process is budgeting. A budget is a formal, quantitative expression of an organization's planning and strategy initiatives expressed in financial terms. A well-prepared budget meshes and balances an organization's financial, production, and marketing resources so that overall organizational goals or objectives are attained.

An organization's master budget consists of two parts: (1) an operating budget and (2) a financial budget. The operating budget focuses on an organization's income statement. Because the operating budget projects future revenues and expenses, it is sometimes referred to as a *pro forma income statement* or profit plan. The financial budget focuses on the effect that the operating budget and other initiatives (such as capital expenditures) will have on the organization's cash position. For example, the master budget for General Motors includes an income statement that details revenues, expenses, and profit for existing Chevrolet models. Its financial budget included the capital expenditures for the all-electric-powered Chevrolet Volt introduced in 2010.²⁰

In addition to the operating and financial budget, many organizations prepare supplemental special budgets, such as an advertising and sales budget, and related reports tied to the master budget. For example, a report showing how revenues, costs, and profits change under different marketing decisions and competitive and economic conditions is often prepared. Budgeting is more than an accounting function. It is an essential element of strategic marketing management as well.

A complete description of the budgetary process is beyond the scope of this section. However, Chapter 2, "Financial Aspects of Marketing Management," provides an overview of cost concepts and behavior. It also describes useful analytical tools for dealing with the financial dimensions of strategic marketing management, including cost-volume-profit analysis, discounted cash flow, customer lifetime value analysis, and the preparation of pro forma income statements.



DEVELOPING REFORMULATION AND RECOVERY STRATEGIES

Strategies are rarely timeless. Changing markets, economic conditions, and competitive behavior require periodic, if not sudden, adjustments in marketing strategy.

Marketing audit and control procedures are fundamental to the development of reformulation and recovery strategies. The *marketing audit* is

a comprehensive, systematic, independent, and periodic examination of a company's—or business unit's—marketing environment, objectives, strategies and activities with a view of determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.²¹

The audit process directs the manager's attention to both the strategic fit of the organization with its environment and the operational aspects of the marketing program. Strategic aspects of the marketing audit address the synoptic question, "Are we doing the right things?" Operational aspects address an equally synoptic question—"Are we doing things right?"

The distinction between strategic operational perspectives, as well as the implementation of each, is examined in Chapter 9. Suffice it to say here that marketing audit and control procedures underlie the processes of defining the organization's business, mission, and goals or objectives, identifying external opportunities and threats and internal strengths and weaknesses, formulating product-market strategies and marketing mix activities, and budgeting resources.

Developing reformulation and recovery strategies during the planning process serves two important purposes. First, it forces the manager to consider the "what if" questions. For example, "What if an unexpected environmental threat arises that renders a strategy obsolete?" or "What if competitive and market response to a strategy is inconsistent with what was originally expected?" Such questions focus the manager's attention on the sensitivity of results to assumptions made in the strategy-development process. Second, preplanning of reformulation and recovery strategies, or *contingency plans*, leads to a faster reaction time in implementing remedial action. Marshaling and reorienting resources is a time-consuming process itself without additional time lost in planning.



DRAFTING A MARKETING PLAN

A marketing plan embodies the strategic marketing management process. It is a formal, written document that describes the context and scope of an organization's marketing effort to achieve defined goals or objectives within a specific future time period. Marketing plans go by a variety of names depending on their particular focus. For example, there are business marketing plans, product marketing plans, and brand marketing plans. At Frito-Lay, Inc., for instance, a marketing plan is drafted for a particular business (snack chips), for a product class (potato chips, tortilla chips, corn chips), and for specific brands (Lay's potato chips, Doritos tortilla chips, Fritos corn chips). Marketing plans also have a time dimension. Short-run marketing plans typically focus on a one-year period and are called annual marketing plans. Long-run marketing plans often have a three- to five-year planning horizon.

A formal, written marketing plan represents a distillation of and the attention and thought given the five interrelated analytical processes in this chapter. It is the tangible result of an intellectual effort. As a written document, a marketing plan also exhibits certain stylistic elements. Although there is no "generic" marketing plan that applies to all organizations and all situations, marketing plans follow a general format. The appendix at the end of this chapter provides an actual example of a condensed marketing plan for Paradise Kitchens, Inc., a company that produces and markets a unique line of single-serve and microwavable Southwestern/Mexican-style frozen chili products. This example illustrates both the substance and style of a five-year marketing plan.



MARKETING ETHICS AND SOCIAL RESPONSIBILITY

On a final note, it must be emphasized that matters of ethics and social responsibility permeate every aspect of the strategic marketing management process. Indeed, most marketing decisions involve some degree of moral judgment and

reflect an organization's orientation toward the publics with which it interacts. Enlightened marketing executives no longer subscribe to the view that if an action is legal, then it is also ethical and socially responsible. These executives are sensitive to the fact that the marketplace is populated by individuals and groups with diverse value systems. Moreover, they recognize that their actions will be judged publicly by others with different values and interests.

Enlightened ethical and socially responsible decisions arise from the ability of marketers to discern the precise issues involved and their willingness to take action even when the outcome may negatively affect their standing in an organization or the company's financial interests. Although the moral foundations on which marketing decisions are made will vary among individuals and organizations, failure to recognize issues and take appropriate action is the least ethical and most socially irresponsible approach.

A positive approach to ethical and socially responsible behavior is illustrated by Anheuser-Busch, which has spent more than \$830 million since 1982 to promote responsible drinking of alcoholic beverages through community-based programs and national advertising campaigns. Anheuser-Busch executives acknowledge the potential for alcohol abuse and are willing to forgo business generated by misuse of the company's products. These executives have discerned the issues and have recognized an ethical obligation to present and potential customers. They have also recognized the company's social responsibility to the general public by encouraging safe driving and responsible drinking habits.²²

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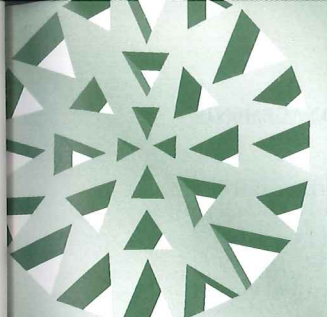
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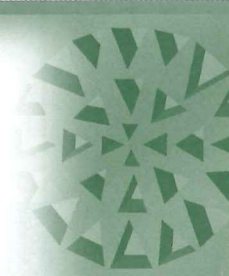
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NOTE



Appendix A

A Sample Marketing Plan



Crafting a marketing plan is hard but satisfying work. When completed, a marketing plan serves as a road map that details the context and scope of marketing activities including, but not limited to, a mission statement, goals and objectives, a situation analysis, growth opportunities, target market(s) and marketing (mix) program, a budget, and an implementation schedule.

As a written document, the plan conveys in words the analysis, ideas, and aspirations of its author pertaining to a business, product, and/or brand marketing effort. How a marketing plan is written communicates not only the substance of the marketing effort but also the professionalism of the author. Writing style will not overcome limitations in substance. However, a poorly written marketing plan can detract from the perceived substance of the plan.



WRITING AND STYLE CONSIDERATIONS

Given the importance of a carefully crafted marketing plan, authors of marketing plans adhere to certain guidelines. The following writing and style guidelines generally apply:

- Use a direct, professional writing style. Use appropriate business and marketing terms without jargon. Present and future tenses with active voice are generally better than past tense and passive voice.
- Be positive and specific. At the same time, avoid superlatives (“terrific,” “wonderful”). Specifics are better than glittering generalities. Use numbers for impact, justifying computations and projections with facts or reasonable quantitative assumptions where possible.
- Use bullet points for succinctness and emphasis. As with the list you are reading, bullets enable key points to be highlighted effectively and with great efficiency.
- Use “A-level” (the first level) and “B-level” (the second level) headings under major section headings to help readers make easy transitions from one topic to another. This also forces the writer to organize the plan more carefully. Use these headings liberally, at least once every 200 to 300 words.

This appendix is adapted from Roger A. Kerin, Steven W. Hartley, and William Rudelius, *Marketing*, 10th ed. (Burr Ridge, IL: McGraw-Hill/Irwin, 2011). Used with permission.

- Use visuals where appropriate. Illustrations, graphs, and charts enable large amounts of information to be presented succinctly.
- Shoot for a plan 15 to 35 pages in length, not including financial projections and appendices. An uncomplicated small business may require only 15 pages, while a new business startup may require more than 35 pages.
- Use care in layout, design, and presentation. Laser or ink-jet printers give a more professional look to your report. A bound report with a cover and clear title page adds professionalism.



SAMPLE FIVE-YEAR ANNOTATED MARKETING PLAN FOR PARADISE KITCHENS, INC.

The marketing plan that follows for Paradise Kitchens, Inc. is based on an actual plan developed by the company. To protect proprietary information about the company, a number of details and certain data have been altered, but the basic logic of the plan has been preserved. Various appendices are omitted due to space limitations.

Notes in the margins next to the Paradise Kitchens, Inc. marketing plan fall into two categories:

1. *Substantive notes* elaborate on the rationale or significance of an element in the marketing plan.
2. *Writing style, format, and layout notes* explain the editorial or visual rationale for the element.

As you read the marketing plan, you might consider adding your own notes in the margins related to the discussion in the text. For example, you may wish to compare the application of SWOT analysis and reference to “customer value proposition” and “points of difference” in the Paradise Kitchens, Inc. marketing plan with the discussion in Chapter 1. As you read additional chapters in the text, you may return to the marketing plan and insert additional notes pertaining to terminology used and techniques employed.

The Table of Contents provides quick access to the topics in the plan, usually organized by section and subsection headings.

Seen by many experts as the single most important element in the plan, the Executive Summary, with a maximum of two pages, "sells" the document to readers through its clarity and brevity.

The Company Description highlights the recent history and recent successes of the organization.

The Strategic Focus and Plan sets the strategic direction for the entire organization, a direction with which proposed actions of the marketing plan must be consistent. This section is not included in all marketing plans.

The Mission section includes mission statement, which focuses the activities of Paradise Kitchens for the stakeholder groups to be served.

FIVE-YEAR MARKETING PLAN

Paradise Kitchens, Inc.

Table of Contents

1. Executive Summary

2. Company Description

Paradise Kitchens, Inc. was started by cofounders Randall F. Peters and Leah E. Peters to develop and market Howlin' Coyote Chili, a unique line of single-serve and microwavable Southwestern/Mexican-style frozen chili products. The Howlin' Coyote line of chili was first introduced into the Minneapolis-St. Paul market and expanded to Denver two years later and Phoenix two years after that.

To the Company's knowledge, Howlin' Coyote is the only premium-quality, authentic Southwestern/Mexican-style, frozen chili sold in U.S. grocery stores. Its high quality has gained fast, widespread acceptance in these markets. In fact, same-store sales doubled in the last year for which data are available. The Company believes the Howlin' Coyote brand can be extended to other categories of Southwestern/Mexican food products such as tacos, enchiladas, and burritos.

Paradise Kitchens believes its high-quality, high-price strategy has proven successful. This marketing plan outlines how the Company will extend its geographic coverage from 3 markets to 20 markets by the year 2012.

3. Strategic Focus and Plan

This section covers three aspects of corporate strategy that influence the marketing plan: (1) the mission, (2) goals, and (3) core competence/sustainable competitive advantage of Paradise Kitchens.

Mission

The mission and vision of Paradise Kitchens are to market lines of high-quality Southwestern/Mexican food products at premium prices that satisfy consumers in this fast-growing food segment while providing challenging career opportunities for employees and above-average returns to stockholders.

The Goals section sets both the financial and nonfinancial targets—where possible in quantitative terms—against which the company's performance will be measured.

Lists use parallel construction to improve readability—in this case a series of infinitives starting with "To . . ."

The Situation Analysis is a snapshot to answer the question, "Where are we now?"

GOALS

For the coming five years, Paradise Kitchens seeks to achieve the following goals:

- Nonfinancial goals
 1. To retain its present image as the highest-quality line of Southwestern/Mexican products in the food categories in which it competes.
 2. To enter 17 new metropolitan markets.
 3. To achieve national distribution in two convenience store or supermarket chains by 2008 and five by 2009.
 4. To add a new product line every third year.
 5. To be among the top three chili lines—regardless of packaging (frozen, canned) in one-third of the metro markets in which it competes by 2009 and two-thirds by 2011.
- Financial goals
 1. To obtain a real (inflation adjusted) growth in earnings per share of 8 percent per year over time.
 2. To obtain a return on equity of at least 20 percent.
 3. To have a public stock offering by the year 2009.

CORE COMPETENCY AND SUSTAINABLE COMPETITIVE ADVANTAGE

In terms of core competency, Paradise Kitchens seeks to achieve a unique ability (1) to provide distinctive, high-quality chilies and related products using Southwestern/Mexican recipes that appeal to and excite contemporary tastes for these products and (2) to deliver these products to the customer's table using effective manufacturing and distribution systems that maintain the Company's quality standards.

To translate these core competencies into a sustainable competitive advantage, the Company will work closely with key suppliers and distributors to build the relationships and alliances necessary to satisfy the high taste standards of our customers.

4. Situation Analysis

This situation analysis starts with a snapshot of the current environment in which Paradise Kitchens finds itself by providing a brief SWOT (strengths, weaknesses, opportunities, threats) analysis. After this overview, the analysis probes ever-finer levels of detail: industry, competitors, company, and consumers.

The SWOT Analysis identifies strengths, weaknesses, opportunities, and threats to provide a solid foundation as a springboard to identify subsequent *actions* in the marketing plan.

SWOT ANALYSIS

Figure 1 shows the internal and external factors affecting the market opportunities for Paradise Kitchens. Stated briefly, this SWOT analysis highlights the great strides taken by the Company since its products first appeared on grocers' shelves. In the Company's favor internally are its strengths of an experienced management team and board of directors, excellent acceptance of its lines in the three metropolitan markets in which it competes, and a strong manufacturing and distribution system to serve these limited markets. Favorable external factors (opportunities) include the increasing appeal of Southwestern/Mexican foods, the strength of the upscale market for the Company's products, and food-processing technological breakthroughs that make it easier for smaller food producers to compete.

Figure 1. SWOT Analysis for Paradise Kitchens

<i>Internal Factors</i>	<i>Strengths</i>	<i>Weaknesses</i>
Management	Experienced and entrepreneurial management and board	Small size can restrict options
Offerings	Unique, high-quality, high-price products	Many lower-quality, lower-price competitors
Marketing	Distribution in three markets with excellent acceptance	No national awareness or distribution; restricted shelf space in the freezer section
Personnel	Good work force, though small; little turnover	Big gap if key employee leaves
Finance	Excellent growth in sales revenues	Limited resources may restrict growth opportunities when compared to large competitors
Manufacturing	Sole supplier ensures high quality	Lack economies of scale of large competitors
R&D	Continuing efforts to ensure quality in delivered products	Lack of canning and microwavable food-processing expertise

Each long table, graph, or photo is given a figure number and title. It then appears as soon as possible after the first reference in the text, accommodating necessary page breaks. This also avoids breaking long tables like this one in the middle. Short tables or graphs that are less than 1½ inches are often inserted in the text without figure numbers because they don't cause serious problems with page breaks.

(Continued)

Figure 1. SWOT Analysis for Paradise Kitchens (continued)

<i>External Factors</i>	<i>Opportunities</i>	<i>Threats</i>
Consumer/Social	Upscale market, likely to be stable; Southwestern/Mexican food category is fast-growing segment due to growth in Hispanic American population and desire for spicier foods	Price may limit access to mass markets; consumers value a strong brand name
Competitive	Distinctive name and packaging in its markets	Not patentable; competitors can attempt to duplicate product; others better able to pay slotting fees
Technological	Technical breakthroughs enable smaller food producers to achieve many economies available to large competitors	Competitors have gained economies in canning and microwavable food processing
Economic	Consumer income is high; convenience important to U.S. households	Many households "eating out," and bringing prepared take-out into home
Legal/Regulatory	High U.S. Food & Drug Admin. standards eliminate fly-by-night competitors	Mergers among large competitors being approved by government

The Industry Analysis section provides the backdrop for the subsequent, more detailed analysis of competition, the company, and the company's customers. Without an in-depth understanding of the industry, the remaining analysis may be misdirected.

Even though relatively brief, this in-depth treatment of the Spicy Southwestern/Mexican food industry in the United States demonstrates to the plan's readers the company's understanding of the industry in which it competes. It gives readers confidence that the company thoroughly understands its own industry.

Among unfavorable factors, the main weakness is the limited size of Paradise Kitchens relative to its competitors in terms of the depth of the management team, available financial resources, and national awareness and distribution of product lines. Threats include the danger that the Company's premium prices may limit access to mass markets and competition from the "eating-out" and "take-out" markets.

INDUSTRY ANALYSIS: TRENDS IN SPICY AND MEXICAN FOODS

Frozen Foods. According to *Grocery Headquarters*, consumers are flocking to the frozen-food section of grocery retailers. The reasons: hectic lifestyles demanding increased convenience and an abundance of new, tastier, and nutritious products. By 2007, total sales of frozen food in grocery retailers, drugstores, and mass merchandisers, such as Target and Costco (excluding Walmart), reached \$29 billion. Prepared frozen meals, which are defined as meals or entrees that are frozen and require minimal preparation, accounted for \$8.1 billion, or 26 percent of the total frozen-food market.

Sales of Mexican entrees totaled \$506 million. Heavy consumers of frozen meals, those who eat five or more meals every two weeks, tend to be kids, teens, and adults 35–44 years old.

Mexican Foods. Currently, Mexican foods such as burritos, enchiladas, and tacos are used in two-thirds of American households. These trends reflect a generally more favorable attitude on the part of all Americans toward spicy foods that include red chili peppers. The growing Hispanic population in the U.S., about 44 million and almost \$768 billion in purchasing power in 2007, partly explains the increasing demand for Mexican food. Hispanic purchasing power is projected to be \$1.2 billion in 2011.

As with the Industry Analysis, the Competitor Analysis demonstrates that the company has a realistic understanding of who its major competitors are and what their marketing strategies are. Again, a realistic assessment gives confidence to readers that subsequent marketing actions in the plan rest on a solid foundation.

COMPETITORS IN THE CHILI MARKET

The chili market represents over \$500 million in annual sales. On average, consumers buy five to six servings annually. The products fall primarily into two groups: canned chili (75 percent of sales) and dry chili (25 percent of sales).

Bluntly put, the major disadvantage of the segment's dominant product, canned chili, is that it does not taste very good. A taste test described in an issue of *Consumer Reports* magazine ranked 26 canned chili products "poor" to "fair" in overall sensory quality. The study concluded, "Chili doesn't have to be hot to be good. But really good chili, hot or mild, doesn't come out of a can."

COMPANY ANALYSIS

The Company Analysis provides details of the company's strengths and marketing strategies that will enable it to achieve the mission and goals identified earlier.

Currently, Howlin' Coyote products compete in the chili and Mexican frozen entree segments of the Southwestern/Mexican food market. While the chili obviously competes as a stand-alone product, its exceptional quality means it can complement such dishes as burritos, nachos, and enchiladas and can be readily used as a smothering sauce for pasta, rice, or potatoes. This flexibility of use is relatively rare in the prepared food marketplace. With Howlin' Coyote, Paradise Kitchens is broadening the position of frozen chili in a way that can lead to impressive market share for the new product category.

The Company now uses a single outside producer with which it works closely to maintain the consistently high quality required in its products. The greater volume has increased production efficiencies, resulting in a steady decrease in the cost of goods sold.

The higher-level "A heading" of Customer Analysis has a more dominant typeface and position than the lower-level "B heading" of Customer Characteristics. These headings introduce the reader to the sequence and level of topics covered.

Satisfying customers and providing genuine value to them is why organizations exist in a market economy. This section addresses the question of "Who are the customers for Paradise Kitchens' products?"

CUSTOMER ANALYSIS

In terms of customer analysis, this section describes (1) the characteristics of customers expected to buy Howlin' Coyote products and (2) health and nutrition concerns of Americans today.

Customer Characteristics. Demographically, chili products in general are purchased by consumers representing a broad range of socioeconomic backgrounds. Howlin' Coyote chili is purchased chiefly by consumers who have achieved higher levels of education and whose income is \$50,000 and higher. These consumers represent 50 percent of canned and dry mix chili users.

The household buying Howlin' Coyote has one to three people in it. Among married couples, Howlin' Coyote is predominantly bought by households in which both spouses work. While women are a majority of the buyers, single men represent a significant segment.

Because the chili offers a quick way to make a tasty meal, the product's biggest users tend to be those most pressed for time. Howlin' Coyote's premium pricing also means that its purchasers are skewed toward the higher end of the income range. Buyers range in age from 25 to 54 and typically reside in the western United States.

This section demonstrates the company's insights into a major trend that has a potentially large impact.

Health and Nutrition Concerns. Coverage of food issues in the U.S. media is often erratic and occasionally alarmist. Because Americans are concerned about their diets, studies from organizations of widely varying credibility frequently receive significant attention from the major news organizations. For instance, a study of fat levels of movie popcorn was reported in all the major media. Similarly, studies on the healthfulness of Mexican food have received prominent "play" in print and broadcast reports. The high caloric levels of much Mexican and Southwestern-style food had been widely reported and often exaggerated. Some Mexican frozen-food competitors, such as Don Miguel, Mission Foods, Ruiz Foods, and José Olé, plan to offer or have recently offered more "carb-friendly" and "fat-friendly" products in response to this concern.

Howlin' Coyote is already lower in calories, fat, and sodium than its competitors, and those qualities are not currently being stressed in its promotions. Instead, in the space and time available for promotions, Howlin' Coyote's taste, convenience, and flexibility are stressed.

5. Product-Market Focus

This section describes the five-year marketing and product objectives for Paradise Kitchens and the target markets, points of difference, and positioning of its lines of Howlin' Coyote chilies.

MARKETING AND PRODUCT OBJECTIVES

Howlin' Coyote's marketing intent is to take full advantage of its brand potential while building a base from which other revenue sources can be mined—both in and out of the retail grocery business. These are detailed in four areas below:

- Current markets. Current markets will be grown by expanding brand and flavor distribution at the retail level. In addition, same-store sales will be grown by increasing consumer awareness and repeat purchases, thereby leading to the more efficient broker/warehouse distribution channel.

The chances of success for a new product are significantly increased if objectives are set for the product itself and if target market segments are identified for it. This section makes these explicit for Paradise Kitchens. The objectives also serve as the planned targets against which marketing activities are measured in program implementation and control.

This section identifies the specific niches or target markets toward which the company's products are directed. When appropriate and when space permits, this section often includes a product-market matrix.

- New markets. By the end of Year 5, the chili, salsa, burrito, and enchilada business will be expanded to a total of 20 metropolitan areas. This will represent 70 percent of U.S. food store sales.
- Food service. Food service sales will include chili products and smothering sauces. Sales are expected to reach \$693,000 by the end of Year 3 and \$1.5 million by the end of Year 5.
- New products. Howlin' Coyote's brand presence will be expanded at the retail level through the addition of new products in the frozen-foods section. This will be accomplished through new product concept screening in Year 1 to identify new potential products. These products will be brought to market in Years 2 and 3. Additionally, the brand may be licensed in select categories.

TARGET MARKETS

The primary target market for Howlin' Coyote products is households with one to three people, where often both adults work, with household income typically above \$50,000 per year. These households contain more experienced, adventurous consumers of Southwestern/Mexican food and want premium-quality products.

CUSTOMER VALUE PROPOSITION

Howlin' Coyote offers busy households high-quality, "authentic" Southwestern/Mexican tasting" chilies that can be prepared easily and quickly at a competitive price.

POINTS OF DIFFERENCE

The "points of difference"—characteristics that make Howlin' Coyote chilies unique relative to competitors—fall into three important areas:

- Unique taste and convenience. No known competitor offers a high-quality, "authentic" frozen chili in a range of flavors. And no existing chili has the same combination of quick preparation and home-style taste.
- Taste trends. The American palate is increasingly intrigued by hot spices, and Howlin' Coyote brands offer more "kick" than most other prepared chilies.
- Premium packaging. Howlin' Coyote's high-value packaging graphics convey the unique, high-quality product contained inside.

An organization cannot grow by offering only "me-too products." The greatest single factor in a new product's failure is the lack of significant "points of difference" that set it apart from competitors' substitutes. This section makes these points of difference explicit.

Everything that has gone before in the marketing plan sets the stage for the marketing mix actions covered in the marketing program.

This section describes in detail three key elements of the company's product strategy: the product line, its quality and how this is achieved, and its "cutting edge" packaging.

6. Marketing Program

The four marketing mix elements of the Howlin' Coyote chili marketing program are detailed below. Note that "chile" is the vegetable and "chili" is the dish.

PRODUCT STRATEGY

After first summarizing the product line, the approach to product quality and packaging is covered.

Product Line. Howlin' Coyote chili is available in five flavors. The five are Green Chile Chili, Red Chile Chili, Beef and Black Bean Chili, Chicken Chunk Chili, and Mean Bean Chili.

Unique Product Quality. The flavoring systems of the Howlin' Coyote chilies are proprietary. The products' tastiness is due to extra care lavished upon the ingredients during production. The ingredients used are of unusually high quality. Meats are low-fat cuts and are fresh, not frozen, to preserve cell structure and moistness. Chiles are fire-roasted for fresher taste, not the canned variety used by more mainstream products. Tomatoes and vegetables are select quality. No preservatives or artificial flavors are used.

This Price Strategy section makes the company's price point very clear, along with its price position relative to potential substitutes. When appropriate and when space permits, this section might contain a break-even analysis.

Elements of the Promotion Strategy are highlighted here with B-headings in terms of the three key promotional activities the company is emphasizing for its product line: in-store demonstrations, recipes featuring its Howlin' Coyote chilies, and cents-off coupons.

Packaging. Reflecting the "cutting edge" marketing strategy of its producers, Howlin' Coyote bucks conventional wisdom in packaging. It avoids placing predictable photographs of the product on its containers. Instead, Howlin' Coyote's package shows a Southwestern motif that communicates the product's value proposition.

PRICE STRATEGY

Howlin' Coyote chili is, at \$3.99 for an 11-ounce package, priced comparably to the other frozen offerings and higher than the canned and dried chili varieties. However, the significant taste advantages it has over canned chilies and the convenience advantages over dried chilies justify this pricing strategy.

PROMOTION STRATEGY

Key promotion programs feature in-store demonstrations, recipes, and cents-off coupons.

In-Store Demonstrations. In-store demonstrations will be conducted to give consumers a chance to try Howlin' Coyote products and learn about their unique qualities. Demos will be conducted regularly in all markets to increase awareness and trial purchases.

Recipes. Because the products' flexibility of use is a key selling point, recipes will be offered to consumers to stimulate use. The recipes will be given at all in-store demonstrations, on the back of packages, and through a mail-in recipe book offer. In addition, recipes will be included in coupons sent by direct mail or freestanding inserts.

Cents-Off Coupons. To generate trial and repeat purchase of Howlin' Coyote products, coupons will be distributed in four ways:

- In Sunday newspaper inserts. Inserts are highly read and will help generate awareness.

A bulleted list adds many details for the reader, including methods of gaining customer awareness, trial, and repeat purchases as Howlin' Coyote enters new metropolitan areas.

The Distribution Strategy is described here in terms of both (1) the present method and (2) the new one to be used when the increased sales volume makes it feasible.

All the marketing mix decisions covered in the marketing program have both revenue and expense effects. These are summarized in this section of the marketing plan.

The graph shows more clearly the dramatic growth of sales revenue than data in a table would do.

- In-pack coupons. Inside each box of Howlin' Coyote chili will be coupons for \$1 off two more packages of the chili. These coupons will be included for the first three months the product is shipped to a new market. Doing so encourages repeat purchases by new users.
- Direct-mail chili coupons. Those households that fit the Howlin' Coyote demographics described above will be mailed coupons.
- In-store demonstrations. Coupons will be passed out at in-store demonstrations to give an additional incentive to purchase.

DISTRIBUTION STRATEGY

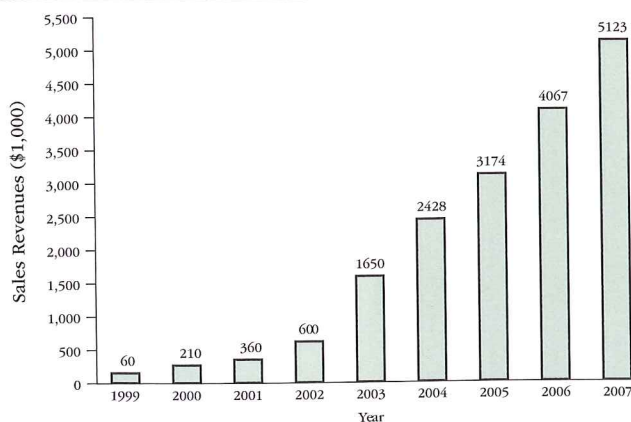
Howlin' Coyote is distributed in its present markets through a food distributor. The distributor buys the product, warehouses it, and then resells and delivers it to grocery retailers on a store-by-store basis. As sales grow, we will shift to a more efficient system using a broker who sells the products to retail chains and grocery wholesalers.

7. Financial Data and Projections

PAST SALES REVENUES

Historically, Howlin' Coyote has had a steady increase in sales revenues since its introduction. In 2003, sales jumped, due largely to new promotion strategies. Sales have continued to rise, but at a less dramatic rate. The trend in sales revenues appears in Figure 2.

Figure 2. Sales Revenues for Paradise Kitchens, Inc.



FIVE-YEAR PROJECTIONS

Five-year financial projections for Paradise Kitchens appear in Figure 3.

These projections reflect the continuing growth in number of cases sold (with eight packages of Howlin' Coyote chili per case) and increasing production and distribution economies of scale as sales volume increases.

Figure 3. Five-Year Projections: 2007–2012

<i>Financial Element</i>	<i>Units</i>	<i>Actual 2007</i>	<i>Projections</i>				
			<i>Year 1 2008</i>	<i>Year 2 2009</i>	<i>Year 3 2010</i>	<i>Year 4 2011</i>	<i>Year 5 2012</i>
Cases sold	1,000	353	684	889	1,249	1,499	1,799
Net sales	\$1,000	5,123	9,913	12,884	18,111	21,733	26,080
Gross profit	\$1,000	2,545	4,820	6,527	8,831	10,597	12,717
Selling and general and admin. expenses	\$1,000	2,206	3,835	3,621	6,026	7,231	8,678
Operating profit (loss)	\$1,000	339	985	2,906	2,805	3,366	4,039

The Five-Year Financial Projections section starts with the forecast of cases sold and the resulting net sales. Gross profit and then operating profit are projected. An actual plan often contains many pages of computer-generated spreadsheet projections, usually shown in an appendix to the plan.

The Implementation Plan shows how the company will turn plans into results. Charts are often used to specify deadlines and assign responsibilities for the many tactical marketing decisions needed to enter a new market.

The essence of Evaluation and Control is comparing actual sales with the targeted values set in the plan and taking appropriate actions. Note that the section briefly describes a contingency plan for alternative actions, depending on how successful the entry into a new market turns out to be.

Various appendices may appear at the end of the plan, depending on the purpose and audience for them. For example, detailed financial spreadsheets often appear in an appendix.

8. Implementation Plan

Introducing Howlin' Coyote chilies to 17 new metropolitan areas is a complex task and requires that creative promotional activities gain consumer awareness and initial trial among the target market households identified earlier. The anticipated rollout schedule to enter these metropolitan markets appears in Figure 4.

Figure 4. Rollout Schedule to Enter New U.S. Markets

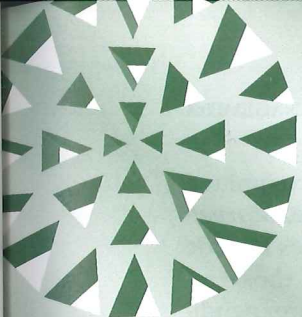
<i>Year</i>	<i>New Markets Added</i>	<i>Cumulative Markets</i>	<i>Cumulative Percentage of U.S. Market</i>
Today (2007)	2	5	16
Year 1 (2008)	3	8	21
Year 2 (2009)	4	12	29
Year 3 (2010)	2	14	37
Year 4 (2011)	3	17	45
Year 5 (2012)	3	20	53

The diverse regional tastes in chili will be monitored carefully to assess whether minor modifications may be required in the chili recipes. For example, what is seen as "hot" in Boston may not be seen as "hot" in Dallas. As the rollout to new metropolitan areas continues, Paradise Kitchens will assess manufacturing and distribution trade-offs. This is important in determining whether to start new production with selected high-quality regional contract packers.

9. Evaluation and Control

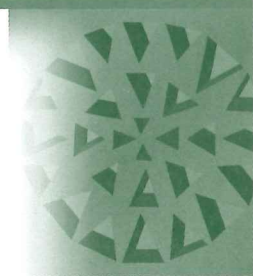
Monthly sales targets in cases have been set for Howlin' Coyote chili for each metropolitan area. Actual case sales will be compared with these targets and tactical marketing programs modified to reflect the unique sets of factors in each metropolitan area. The speed of the rollout program may increase or decrease, depending on Paradise Kitchens' performance in the successive metropolitan markets it enters.

10. Appendices



Chapter 2

Financial Aspects of Marketing Management



Marketing managers are accountable for the impact of their actions on profit and cash flow. Therefore, they need a working knowledge of basic accounting and finance concepts. This chapter provides an overview of several concepts from accounting and finance that are useful in marketing management: (1) variable and fixed costs, (2) relevant and sunk costs, (3) margins, (4) contribution analysis, (5) liquidity, (6) operating leverage, (7) discounted cash flow, and (8) customer lifetime value analysis. In addition, considerations when preparing pro forma income statements are described.



VARIABLE AND FIXED COSTS

An organization's costs divide into two broad categories: variable costs and fixed costs.

Variable Costs

Variable costs are expenses that are uniform per unit of output within a relevant time period (usually defined as a budget year); yet total variable costs fluctuate in direct proportion to the output volume of units produced. In other words, as volume increases, total variable costs increase.

Variable costs are divided into two categories, one of which is *cost of goods sold*. For a manufacturer or a provider of a service, cost of goods sold covers materials, labor, and factory overhead applied directly to production. For a reseller (wholesaler or retailer), cost of goods sold consists primarily of the cost of merchandise. The second category of variable costs consists of expenses that are not directly tied to production but that nevertheless vary directly with volume. Examples include sales commissions, discounts, and delivery expenses.

Fixed Costs

Fixed costs are expenses that do not fluctuate with output volume within a relevant time period (the budget year) but become progressively smaller per unit of output as volume increases. The decrease in per-unit fixed cost results from the increase in the number of output units over which fixed costs are allocated. Note, however, that no matter how large volume becomes, the absolute size of fixed costs remains unchanged.