Marketing

A Relationship Perspective

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2. Auflage

Verlag Franz Vahlen München 2015

Verlag Franz Vahlen im Internet:
www.vahlen.de
ISBN 978 3 8006 4928 0

Zu Inhalts- und Sachverzeichnis

3 Strategy Formulation in the Marketing Planning Process

Learning Objectives

After studying this chapter you should be able to:

- understand the importance of strategic marketing planning
- identify the main steps in strategic marketing planning
- develop an appropriate business mission statement
- describe the criteria for stating good strategic marketing objectives
- understand how portfolio models are used to select alternatives
- explain the advantages and disadvantages of using strategic models like Ansoff's growth matrix, the BCG and GE models
- understand the advantages of segmentation
- describe the steps involved in segmentation
- explain the STP-process
- discuss criteria for successful segmentation in B2C and B2B markets
- discuss ways of segmenting global markets
- discuss possible barriers in implementing segmentation in the organisation

The word '**strategy**' is derived from the Greek term 'strategós' and when it appeared in use during the 18th century, it was seen in its narrow sense as the 'art of the general' and 'the art of arrangement' of troops. Military strategy deals with the planning and conduct of campaigns, the movement and disposition of forces, and the deception of the enemy. Thus, strategy originally referred to the skills and decision making process of the general (executive), while 'stratagem', translated as 'an operation or act of generalship', and referred to a specific decision made by the executive.

To complicate matters even further, some writers suggest that a 'strategy' implies a formal and explicitly stated logic, whilst others have argued that a strategy can emerge from a set of decisions and need not be explicitly stated. Mintzberg and Walters (1985) even specifically distinguished between 'deliberate' and 'emergent' strategies.

3.1 Strategic Marketing Planning

Strategic planning is the process of developing and maintaining a strategic fit between the company's goals and capabilities and its changing marketing opportunities (Kotler and Armstrong, 2009). Planning is a complex process which consists of several interrelated stages. However, with time there is change and hence planning is and should be a continuous process, where each stage needs to be reconsidered for relevancy and in relation to the other stages. The plan is the stages 'frozen' in time; the process is a continuous assessment of the relevancy of each of these stages with changes in time.

In planning we look ahead to decide what to do. The planning process itself is a systematic way of approaching the following questions and they will be used as guidance for the rest of the chapter.

- What business are we in? (Mission statement – section 3.1.1)
- Where are we today (situation analysis – chapter 2)
- Where do we want to go (strategic objectives – section 3.1.2)
- How do we get there?
  - Estimation of planning gap and problem diagnosis (section 3.1.3)
  - The search for strategic alternatives (Ansoff's growth matrix, Porter's three generic strategies, the BCG and GE mode – section 3.1.4 – 3.1.8)
  - Strategy evaluation and selection (section 3.1.10)
  - Estimating financial consequences/How can progress be measured? (Marketing metrics) (section 3.1.11)

Although there is never any certainty about the future, every business or organisation will sensibly lean towards a proactive rather than a reactive stance. A proactive stance is one where the organisation tries to predict the future in order to influence it, that is, plan to adapt to it rather than just to surrender it. This is in contrast with a mere reactive stance where action mainly takes place in response to events with no plan to anticipate events and seek to influence them. This is similar to the two concepts explained in Chapter 2: Market driving (Resource-Based View) versus Market driven (Market Orientation View).

3.1.1 Vision and Mission Statement

The **vision and mission concepts** are often interlinked but generally there is a difference:

- A **business mission statement** describes 'Who we are and what is the overall purpose of our business'. It is a company's reason for being and reflects people's idealistic motivations for doing the company's work by capturing the soul of the organisation. The core purpose or mission of a company is like a 'guiding star' on the horizon continuously providing direction and inspiring change. It is important to state that mission statements should not only be defined in technology terms ('We make and sell furniture') but with respect to the market and in terms of customer needs as products and technologies eventually become outdated, but basic market needs may last forever. For example Nike's mission is not simply to sell shoes but to 'Help people experience the emotion of competition, winning and crushing competitors'.
- A **business vision statement** describes 'Where we wish to go,' 'What do we wish to become?' It provides a mental image of the successful accomplishment of the mission. It is typically:
  - Short
  - Idealistic and imaginative
  - Inspires enthusiasm
  - Ambitious

The rest of this section will primarily be about the mission: Mission reflects unique qualities of the program.

Whether the organisation is a large corporation or a small non-profit agency, its mission statement visibly articulates its strategic scope. The mission statement should answer fundamental questions such as, 'What is our business?', 'Who are our constituencies?', 'What value do we provide customers, employees, suppliers, and other constituent groups?' and 'What should our business be in the future?' Senior management in all businesses needs to answer such questions. The responsibility for developing and articulating a mission statement is at the corporate level.

Mission statements should be driven by three factors: heritage, resources, and environment (Hollensen, 2006).

The organisation's heritage is its history – where it has been, what it has done well, and what it has done poorly. A superior mission statement cannot ignore previous events and how they shaped the organisation. It also must be sensitive to the organisation's image in the minds of its constituencies. Past successes should be extended, past failures avoided, and the organisation's current image must be addressed realistically

For example, for a food company to adopt a mission statement such as 'to be a world leader in information technology in five years' will be perceived as unrealistic by customers, employees, and shareholders. Such a mission statement is likely to elicit more scepticism than support.

Resources refer to everything the organisation can manage, such as cash reserves, recognized brands, unique technologies, and talented employees. Resources can also include borrowing power, existing relationships with distributors, and excess plant capacity. A good mission statement notes the organisation's resources and sets paths that are compatible with what the organisation has at its disposal. As in the case of heritage, mission statements that are out of touch with organisation's resources elicit scepticism and can do more harm than good. If a minor regional brand were to include 'penetrating Asian markets' in its mission statement, it would be met with substantial scepticism.

The environment is everything happening currently that affects the company's ability to achieve objectives or implement strategies, both inside and outside the organisation. Some environmental factors are temporary, such as a hurricane. Most temporary factors are too short-sighted to be considered in a mission statement. Other factors, however, such as changes in the political system of the Russian Republic, terror acts, rise or fall of oil prices may have a longer life and should be considered in the mission statement if they affect the organisation's ability to survive and prosper.

At the corporate level, the mission statement defines the organisation's business and reflects fundamental beliefs about its strengths and weaknesses, as well as its environment.

Collins and Porras (2002) suggest that the vision framework is envisioned future which consists of a 10-30-year **big, hairy, audacious goal (BHAG)** plus vivid descriptions of what it will be like to achieve it. A true BHAG is clear and compelling, serves as a unifying focal point of effort, and acts as a catalyst for team spirit. It has a clear finish line, so the organisation can know when it has achieved the goal; it imbues motivation as people like to shoot for finish lines. A BHAG engages people – it is tangible, energizing, highly focused and people get it right away; it takes little or no explanation.

Although organisations may have many BHAGs at different levels operating at the same time, vision requires a special type of BHAG – a vision-level BAHAG that applies to the entire organisation and requires 10 to 30 years of effort to complete.

Examples include:

- Become a $ 125 billion company by the year 2000 (Wal-Mart, 1990)
- Democratize the automobile (Ford Motor Company, early 1900s)
- Become the company most know for changing the worldwide poor-quality image of Japanese products (Sony, early 1950s)
- Become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been (City Bank, predecessor to Citicorp, 1915)
- Become the dominant player in commercial aircraft and bring the world into the jet age (Boeing, 1950)

Corporate mission statements can vary in length, but should always communicate a clear sense of the organisation's purpose and be specific enough to be useful in developing goals and objectives. Typically, mission statements focus on meeting customer needs and providing value to its shareholders. Furthermore, they often include judgments about the most promising directions for organisations, implying that directions not listed are not as promising and should be given lower priority or ignored altogether.

In addition to vision-level BHAGs, an envisioned future needs a vivid description which is a vibrant, engaging, and specific description of what it will be like to achieve the BHAG. It translates the vision from words into pictures and creates an image that people can carry around in their heads (Collins and Porras, 2002). Henry Ford brought to life the goal of democratizing the automobile using the following vivid description: 'I will build a motor car for the great multitude … It will be so low in price that no man making a good salary will be unable to own one and enjoy with his family the blessings of hours of pleasure in God's great open spaces … When I'm through, everybody will be able to afford one, and everyone will have one. The horse will have disappeared from our highways, the automobile will be taken for granted…[and we will] give a large number of men employment at good wages.'

Not all organisations have mission statements, and not all mission statements meet the ideal standards described above. Developing a company mission statement that provides long-term vision and guidance in developing goals and objectives can be complicated. Writing an effective mission statement requires senior managers to struggle with the questions listed earlier – questions that sound simple but can be tough issues for an organisation to address. The increasing visibility and importance of marketing as a philosophy for doing business, however, forces many organisations to tackle the task of defining their corporate mission. At the same time, an emphasis on marketing also helps organisations ensure that meeting customer needs profitably lies at the centre of any mission statement (Hollensen, 2006).

3.1.2 Strategic Objectives

Strategic management also requires that firms set strategic objectives-specific and measurable performance standards for strategically important areas. The company's mission needs to be turned into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them (Kotler and Armstrong, 2009).

An organisation cannot set realistic, realizable objectives until it has the requisite information but, on the basis of experience, marketing management will nonetheless have tentative on sales volume, market share or whatever indicators represent progress towards accomplishing the firm's vision. What exactly these tentative will be influenced by subjective estimates of what is considered reasonable at the time in relation to what resources are likely to be available.

For a manager to be able to direct an activity towards the achievement of some objectives it must be possible to imagine the goal in a way that is meaningful for guiding the activity. This is why objective objectives purely in terms of profit are inadequate; they offer too little direction.

Strategic objectives can be stated in terms of different criteria, such as sales, market share or return on investment, or they can be stated in absolute or relative terms. To be effective, objectives must be specific in terms of:

- the performance dimension being measured
- the measures most appropriate for the performance dimension
- the target value for each measure
- the time by which the target should be achieved

The emphasis given each component of the organisation's objectives, and the level at which measures and the time horizon are set, can differ at different organisational levels. At the corporate level, profit and growth, objectives might be most important and the time horizon might be set in five-year increments. At a business unit level, however, cash flow and cost reductions may be most important in declining markets, and market share gains in emerging markets. Similarly, the time horizon might be shorter than five years for business units because a new technology will make current operations obsolete, or it might be longer because market acceptance is slow. The characteristics of business units and their immediate environment should primarily establish strategic objectives, provided that the objectives do not violate the organisation's mission. The objectives should also be compatible with the culture unless the business unit is soon to be divested (Hollensen, 2006).

Strategic objectives at different managerial levels can sometimes diverge. Conflict can also arise between the different levels of organisational judgment. An organisation might set objectives pertaining to a desired culture that conflict with its more detailed objectives for staff development. Consider, for example, a mission statement that states as a goal providing opportunities for employee personal development at the same time that the company claims to value teamwork. Maximising individual employee development can undermine teamwork if the primary means of development is to promote high performers quickly. Such a company has conflicting objectives, even if they are implicit and not simply recognized.

Managers must establish strategic objectives with great concern. Strategic objectives must be articulated at every level of the organisation at which it makes sense to have objectives. They must be expressed in terms that are easily understood by the people who are required to achieve them, they must be measurable and specific, and they must be set at achievable levels. Setting objectives at attainable yet challenging levels is important.

It should be clear that strategic objectives must be in tune with the organisation's mission; at the same time they may conflict over what are relevant evaluation criteria, performance measures, and time horizons. Conflict between strategic objectives must be resolved through compromise, and it is senior management's job to reconcile these differences within the broad framework of having a market-oriented philosophy of doing business (Hollensen, 2006).

3.1.3 Estimation of the Planning Gap and Problem Diagnosis

What do the 'facts' suggest will be the future if the firm takes no action to change current strategies? Such a prediction is known as a 'reference projection'. A reference projection is the future that can be expected in the absence of planned change. The reference projection is compared with some 'target projection' or the set of tentative goals, which the company sets for itself. The **planning gap (performance gap)** is the difference between the target and the reference projections (see Figure 3.1).

The gap may stem from the difference between future desired profit objectives and a forecast of expected profit based on past performance and following existing strategy.

In the face of such a planning gap, a number of options are available; the intention, however is to close the gap. For example, the gap could be closed by revising objectives in a downward way. Such a step might be taken where the initial objectives are unrealistic. Alternatively, or in addition, the gap could be closed by actions designed to move the company off the projection curve and towards the desired curve.

The planning gaps identified will depend on which performances are of interest. At the highest level, it could be cash flow projections, economic value added, earnings per share, sales and market share or various financial indices like return on investment (ROI). At the marketing level, it would be in terms of sales, market share, costs or various behavioural indices like buyer attitudes.

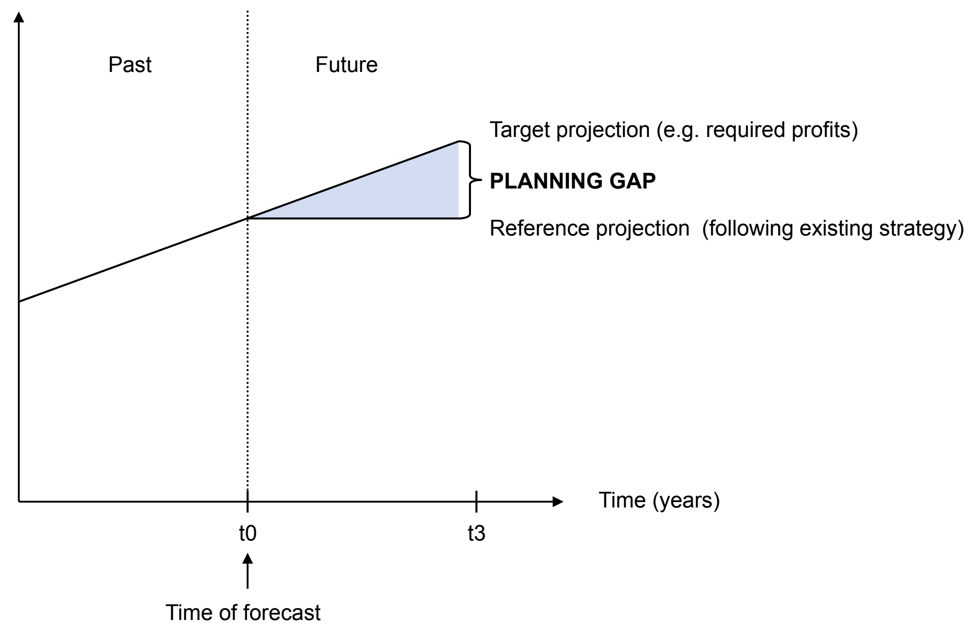

Figure 3.1: Illustration of the 'planning gap'

Problem Diagnosis

If a company has a large planning gap, we speak freely of its being the problem. More accurately, the planning gap is not the problem but the symptom of one. The recognition of a problem situation is not in itself the identification of the actual problem. We do not discover a problem but diagnose one. Problem diagnosis aims at identifying the type of solution that applies which is the first step on the road to developing an actual solution, just as diagnosing a failure to start the car as being due to some electrical fault, is the first step towards getting the car started again. Unfortunately, different people will make different diagnosis, depending on their experience, professional expertise and their concerns.

We cannot recognize a problem without understanding what would count as a solution, just as we cannot comprehend an objective without accepting what would count as the achievement of it. The actual problem that is addressed depends somewhat on which individual or group can make the problem, as they see it, count. But all management stakeholders in a company are influenced by believable arguments and so true technical expertise usually succeeds. Hopefully, it must for if the wrong problem is addressed, the wrong decisions are made and this can be more wasteful of resources than solving the right problem in an inefficient way. Although we hesitate to acknowledge it, the fact is that once we move away from some pure deductive system like mathematics, we are in the realm of persuasion where persuasive rhetoric is crucial so that a dramatic description of what is considered to be the problem can emotionally compel attention and often our assent (Hollensen, 2006).

3.1.4 The Search for Strategy Alternatives for Closing Planning Gap

The strategic options for closing the planning gap should not only fit the challenging situation and take account of trends and competition but should also take advantage of the firm's core competencies and strengths. Where the solution is other than a crisis one, there is time for more reflective planning, guided by:

- The situation as revealed by the performance gap;
- The perceived problem;
- The strengths, weaknesses, opportunities and threats identified in the historical review/situation analysis;
- Current strategies and policies;
- Existing capabilities or competencies.

The strategy search process should always allow for the possibility of inspiration, which may beat anything arrived at by systematic analysis. It is not uncommon for someone to come up with an idea that is instantly recognizable as being the right answer. The inspired solution is thus accepted, not because it saves time but because it is perceived to be advanced and effective. This said, the identification of appropriate strategies rests on having the requisite experience and the content of the strategy, not procedure, is all-important. Where the requisite experience is lacking, the search for strategies becomes opaque (Hollensen, 2006).

3.1.5 Ansoff's Generic Strategies for Growth

One aspect of strategic management is the development of precise strategies for achieving company objectives. Strategies must respond to the environment and provide specific guidelines for decision-making. Because companies face unique combinations of internal and external factors, the strategies developed by any one organisation are unlikely to be entirely adaptable to any other organisation. At a more general level, however, it is possible to discern recurring patterns in the strategies adopted by organisations. These recurring patterns are called generic strategies.

So if we elaborate on the 'planning' gap in Figure 3.1 we get what is illustrated in Figure 3.2 where the 'gap' is filled up with Ansoff's expansion-strategies:

Market Penetration

Organisations seeking to grow by gaining a larger market share in their current industry or market follow a penetration strategy. Following alternatives are available:

- Increase market share on current markets with current products
- Increase product share (Increase frequency of use, increase quantity used, new applications)

The most basic method of gaining market penetration in existing markets with current products is by winning competitor's customers. This may be achieved by more effective use of the marketing mix, e.g. by more valuable promotion, distribution, or by cutting prices. The launch of the 3G iPhone is an example of Apple using price policy to achieve market penetration. The price of \$ 199 was considerably cheaper than that of the 2G iPhone, which was priced at \$ 399, and yet offered more benefits including faster mobile internet access (Webb, 2008).