CHAPTER 1

Marketing in Today's Economy

Introduction

As noted in Beyond the Pages 1.1, competing in today's economy means finding ways to break out of commodity status to meet customers' needs better than competing firms. All organizations—both for-profit and non-profit—require effective planning and a sound marketing strategy to do this effectively. Without these efforts, organizations could not satisfy customers or meet the needs of other stakeholders. For example, having an effective marketing strategy allows Toyota to develop popular products, such as its line of hybrid vehicles and its new low-cost Scion line. Further, effective planning and strategy allows Procter & Gamble to continually improve the performance of Tide and to make a key acquisition in its purchase of the Gillette Company, all the while continuing its expansion into the lucrative pharmaceuticals market. These and other organizations use sound marketing strategy to leverage their strengths and capitalize on opportunities that exist in the market. Every organization—from your favorite local restaurant to giant multinational corporations; from city, state, and federal governments to charities such as Habitat for Humanity and the American Red Cross—develops and implements marketing strategies.

How organizations plan, develop, and implement marketing strategies is the focus of this book. To achieve this focus, we provide a systematic process for developing customer-oriented marketing strategies and marketing plans that match an organization to its internal and external environments. Our approach focuses on real-world applications and practical methods of marketing planning, including the process of developing a marketing plan. The chapters of this book focus on the steps of this process. Our goal is to give the reader a deeper understanding of marketing planning, the ability to organize the vast amount of information needed to complete the planning process, and an actual "feel" for the development of marketing plans.

Beyond the Pages 1.1

WELCOME TO COMMODITY HELL[1]

Welcome to commodity hell, where your product is just like everyone else's, your profit margins are low, and price is the only true means of differentiation that matters to customers. If this scenario sounds far-fetched, it isn't. Many companies today find themselves in this difficult situation. Commoditization is the curse of mature markets whereby products lack real means of differentiation and customers begin to see all competing products as offering roughly the same benefits. When consumers see competing products as commodities, price is the only thing that matters.

Commoditization is a consequence of mature industries, where slowing innovation, extensive product assortment, excess supply, and fickle, price-conscious consumers force margins to the floor. Since firms have few competitive differences, they cannot increase margins. They must also spend a great deal on promotion to attract new customers. This situation makes firms more vulnerable to the entry of new competitors. Consider the airline industry. Notwithstanding a few minor differences, most air travelers see all airlines as being roughly the same. They all get passengers from Point A to Point B while offering the same basic customer services. This makes price the driving force in consumer decision making and allows discount airlines such as Southwest and Jet Blue to steal customers away from traditional full-service carriers. This same precarious situation exists in a broad range of industries including telephone service, hotels, packaged goods, automobiles, household appliances, and retailing.

As might be expected, low-price leaders can do quite well in commodity hell. Southwest, for example, has been profitable for over 32 years—something no other airline can claim. Wal-Mart and Dell are champions at navigating their way through commodity status. Other firms, however, avoid commodity status through the most basic of marketing tactics: brand building. Here, firms break free from commodity status by developing a distinctive brand position that separates them and their products from the competition. By offering compelling reasons for consumers to buy products, brand building allows firms to increase margins.

For example, Starbucks clearly sells one of the most commoditized, ubiquitous products of all time: coffee. Starbucks Chairman Howard Schultz, however, does not accept that his firm is in the coffee business. Instead, Schultz sees Starbucks as a "third place" to hang out (with home and work being #1 and # 2, respectively). Through this mentality, Starbucks offers its customers much more than coffee, including wireless Internet access, music, food, and relaxation. In another example, Best Buy has taken steps to improve its customer experience. The company has done extensive marketing research to learn everything it can about its customers. One result is the creation of a boutique store catering to soccer moms. And, unlike other big-box electronic retailers, Best Buy develops its own in-house brands of innovative new products, bringing them to market months ahead of its competitors. As a result, Best Buy has increased its margins by 0.5 percent over the past 2 years.

Getting out of commodity hell is not an easy feat. To do so, firms must give consumers a compelling reason to buy their products over competing products. Ultimately, winning the commodity game is all about innovation. Consider the ten firms that top *Fortune*'s list of the World's Most Innovative Companies for 2006 (in order): Apple, Google, 3M, Toyota, Microsoft, GE, Procter & Gamble, Nokia, Starbucks, and IBM. Each of these companies offers innovative products that stand apart from the competition; yet each competes in mature industries known for commoditization. These companies prove that innovation and good marketing strategy are the antidotes for commodity hell.

In this first chapter, we review some of the major challenges and opportunities that exist in planning marketing strategy in today's economy. We also review the nature and scope of major marketing activities and decisions that occur throughout the planning process. Finally, we look at some of the major challenges involved in developing marketing strategy.

The Challenges and Opportunities of Marketing in Today's Economy

Although the euphoria over the dot-com bubble and its subsequent demise is long over, the fact remains that advances in computer, communication, and information technology have forever changed the world and the world of marketing. It wasn't that long ago when few people knew the difference between a .com and a .org, much less the names of today's powerhouse companies such as Amazon, Google, Yahoo!, and eBay. Consider these fundamental changes to marketing and business practice, as well as our own personal buying behavior:

- **Power Shift to Customers** The astounding growth of the Internet has shifted power to customers, not marketers. Rather than businesses having the ability to manipulate customers via technology, customers often manipulate businesses because of their access to information and ability to comparison shop. Individual consumers and business customers can compare prices and product specifications in a matter of minutes. In many cases, customers are able to set their own prices, such as purchasing airline tickets at Priceline.com. In addition, customers can now interact with one another because merchants such as Amazon and eBay allow customers to share opinions on product quality and supplier reliability. As power continues to shift to customers, marketers have little choice but to ensure that their products are unique and of high quality, thereby giving customers a reason to purchase their products and remain loyal to them.
- **Massive Increase in Product Selection** The variety and assortment of goods and services offered for sale on the Internet and in traditional stores is staggering. In grocery stores alone, customers are faced with countless options in the cereal and soft-drink aisles. The growth in online retailing now allows customers to purchase a car from CarsDirect.com, handmade, exotic gifts from Mojo Tree (http://www.mojotree.co.uk), or a case of their favorite wine from Wine.com. Increased transaction efficiency (for example, 24/7 access, delivery to home or office) allows customers to fulfill their needs more easily and conveniently than ever before. Furthermore, the vast amounts of information available online has changed the way we communicate, read the news, and entertain ourselves. Customers can now have the news delivered to them via RSS feeds (really simple syndication) from hundreds of sources. This radical increase in product selection and availability has exposed marketers to inroads by competitors from every corner of the globe.

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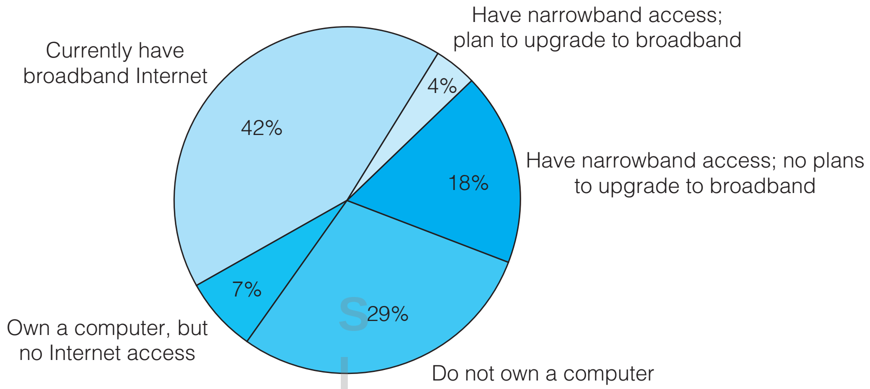
EXHIBIT 1.1 **U.S. HOUSEHOLDS BY INTERNET ACCESS**



Source: National Technology Scan 2005, Park Associates (http://www.clickz.com/stats/sectors/demographics/article.php/3587496).

- **Audience and Media Fragmentation** Since the advent of cable television in the 1970s, mass-media audiences have become increasingly fragmented. Television audiences, for example, shifted from the big three networks (ABC, CBS, NBC) and began watching programming on ESPN, HGTV, Nickelodeon, and the Discovery Channel. When the growth of the Internet, satellite radio, and mobile communication is added to this mix, it becomes increasingly difficult for marketers to reach a true mass audience. Media audiences have become fragmented due to (1) the sheer number of media choices that we have available today and (2) the limited time that we have to devote to any one medium. As shown in Exibit 1.1, a full 42 percent of U.S. households now have broadband Internet access. Across the board, the time that we devote to traditional television, radio, and print media is declining, while the time that we spend with interactive media (online, wireless, gaming) is on the rise. Despite the challenge of reaching mass audiences today, media fragmentation does have a big advantage: It is easier to reach small, highly targeted audiences.
- **Changing Value Propositions** The speed and efficiency of commerce today has changed the way that customers view value. For example, fewer customers automatically turn to travel agents for assistance in booking airline tickets, cruises, or hotel stays. Now, customers turn to travel sites like Expedia.com or book directly at websites operated by travel and lodging providers. A similar change has taken place in the real estate industry as buyers are moving their house hunting online, while sellers are increasingly taking the "for sale by owner" route.[2] Similar changes have occurred in banking, mortgage lending, and car buying. The lesson for marketers is clear: In situations where customers see goods and services as commodities, customers will turn to the most convenient, least-expensive alternative. This fact makes it increasingly difficult for marketers to differentiate their product offering in today's economy.

- **Shifting Demand Patterns** In some cases, changes in technology have shifted customer demand for certain product categories. The explosive growth in the digital distribution of music and video bears this out. The success of Apple's iPod and iTunes, as well as the ongoing issues associated with copyright protection and digital piracy, proves that customers absolutely prefer to get their music and video from the Internet. The repercussions of this demand shift for the recording and movie industries are enormous. For example, in the traditional movie theater business, ticket sales have declined 7 percent in recent years due to the growing popularity of DVD distribution by mail (for example, Netflix) and increasing sales of home theater equipment.[3] Now, an emerging sector devoted to online movie distribution has appeared, with CinemaNow being one of the early pioneers.
- **New Sources of Competitive Advantage** Businesses that link their internal computer networks with the networks of customers, suppliers, and other partners can leverage the advantages of e-commerce. Dell Computer, for example, has seamlessly integrated its supply chain—from suppliers (manufacturers of chips, drives, displays, and so on), to assembly, to product delivery (United Parcel Service). As a result, Dell enjoys reduced costs, operational efficiency, economies of scale, and broad customer reach, which are all key aspects of its leadership in the personal computer industry.[4] Dell's example illustrates that to be successful marketers must be able and willing to network with other firms to create new efficiencies and competitive advantages. In today's economy, some of the best competitive advantages stem from partnerships and alliances with other firms.
- **Privacy, Security, and Ethical Concerns** Changes in technology have made our society much more open than in the past. As a result, these changes have forced marketers to address real concerns about security and privacy, both online and offline. Businesses have always collected routine information about their customers. Now, customers are much more attuned to these efforts and the purposes for which the information will be used. Though customers appreciate the convenience of e-commerce, they want assurances that their information is safe and confidential. Concerns over online privacy and security are especially acute with respect to controversial businesses—such as casinos or pornography—and with respect to children. For example, many well-known and respected companies, including Mrs. Fields Cookies and Hershey Foods, have been fined for violating the standards of the Children's Online Privacy Protection Act.[5] Exhibit 1.2 provides an overview of this law and its standards.
- **Unclear Legal Jurisdiction** When a company does business in more than one country (as virtually all Internet-based firms do), that company often faces a dilemma with respect to differing legal systems. Today, this difference is especially keen for firms that do business in both the United States and China. Google, for example, faced a difficult situation when the Chinese government demanded that Google censor certain types of information from the company's popular search engine. Though Google is a U.S. firm, it complied with the Chinese request by

EXHIBIT 1.2

THE CHILDREN'S ONLINE PRIVACY PROTECTION ACT

The Children's Online Privacy Protection Act (COPPA) applies to operators of commercial websites and online services that attempt to collect personal information from children under the age of 13. The law explains what must be included in the firm's privacy policy, when and how to seek verifiable consent from a parent or guardian, and the firm's responsibilities to protect children's privacy and safety. Firms cannot evade the law's provisions by claiming that children under 13 cannot visit their sites; nor can they make information optional or ask the visitor's age.

In implementing the provisions of COPPA, the Federal Trade Commission issued the Children's Online Privacy Protection Rule, which is designed to give parents control over the information that is collected from their children. The rule requires website operators to

- post a description of its privacy policy on the site's home page and any other area where personal information is collected.
- provide notice to parents about the site's information collection practices. This full disclosure must describe (1) the type of information collected, (2) why the information is being collected, (3) how the information will be used and stored, (4) whether the information will be disclosed to third parties, and (5) parental rights with regard to information content and usage.
- obtain verifiable parental consent to the collection and use of a child's personal information for internal use. The operator must also give parents the opportunity to choose not to have this information disclosed to third parties.
- give parents access to their child's information, give them the right and means to review and/or delete this information, and give parents the choice to opt out of the future collection or use of the information.
- not require that children provide more information than is reasonably necessary to participate in an activity. Children cannot be required to provide information as a condition of participation.
- maintain the security, confidentiality, and integrity of all personal information collected from children.

Source: U.S. Federal Trade Commission, Kidz Privacy (http://www.ftc.gov/bcp/conline/edcams/kidzprivacy/index.html).

launching a new Chinese search engine that censors information considered sensitive by the Chinese government.[6] Doing business in China is also an issue with respect to protection of intellectual-property rights, where Chinese laws do not offer the same protections found in the United States.[7] Another important legal issue involves the collection of sales tax for online transactions. In the early days of e-commerce, most online merchants did not collect sales taxes for online transactions—giving them a big advantage against store-based merchants. States countered that they were losing millions in yearly tax revenue. In 2003, major retailers—including Wal-Mart, Target, and Toys "R" Us—in an agreement with a consortium of thirty-eight states and the District of Columbia agreed to collect online sales taxes.[8] However, many online merchants still do not charge sales tax, especially if they do not have a physical presence in a given state.

Although the full effect of these challenges will not be recognized for some time, circumstances have forced businesses to move ahead by adjusting their marketing activities at both the strategic and tactical levels. As we review the major marketing concepts and activities in this chapter, we will look at how today's challenges have affected strategic planning in these areas.

Basic Marketing Concepts

Marketing is many different things. Many people, especially those not employed in marketing, see marketing as a function of business. From this perspective, marketing parallels other business functions such as production, research, management, human resources, and accounting. As a business function, the goal of marketing is to connect the organization to its customers. Other individuals, particularly those working in marketing jobs, tend to see marketing as a process of managing the flow of products from the point of conception to the point of consumption. The field's major trade organization, the American Marketing Association (AMA), recently changed the definition of *marketing* after 20 years. From 1985 until 2005, the AMA defined marketing this way:

> *Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*[9]

In 2005 the AMA changed the definition of *marketing* to better reflect the realities of competing in today's marketplace:

> *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*[10]

Notice that the changes in the definition are not merely cosmetic in nature. The new definition stresses two critical success factors in marketing today: value and customer relationships. The notion of value recognizes that customer satisfaction can be derived from many different aspects of the total product offering, not just from having access to high-quality products at a low price. Customer relationships—which grow and thrive on exceptional value—are an absolute necessity in the commodity-driven status of many product markets. Whereas the former definition of *marketing* had a decidedly transactional focus, the new definition emphasizes long-term relationships that provide value for both customers and the firm.

A final way to think about marketing relates to meeting human and social needs. This broad view links marketing with our standard of living, not only in terms of enhanced consumption and prosperity but also in terms of society's well-being. Through marketing activities, consumers can buy cars from South Korea and wines from South Africa; and organizations can earn a viable profit, making both employees and stockholders happy. However, marketing must also bear responsibility for any negative effects that it may generate. This view demands that marketers consider the social and ethical implications of their actions and whether they practice good citizenship by giving back to their communities. As exemplified in the New Belgium Brewery case at the end of the text, firms can successfully meet human and social needs through socially responsible marketing and business practices.

Let's take a closer look at several basic marketing concepts. As we will see, ongoing changes in today's economy have forever altered our way of thinking about these foundational aspects of marketing.

What Is a Market?

At its most basic level, a *market* is a collection of buyers and sellers. We tend to think of a market as a group of individuals or institutions that have similar needs that can be met by a particular product. For example, the housing market is a collection of buyers and sellers of residential real estate, and the automobile market includes buyers and sellers of automotive transportation. Marketers or sellers tend to use the word *market* to describe only the buyers. This basic understanding of a market has not changed in a very long time. What has changed, however, is not so much the "what" but the "where" of a market—that is, the location of the buyers and sellers. In both consumer markets (like housing and automobiles) and business markets (like replacement parts and raw materials), the answer to the "where" question is quickly becoming "anywhere" as markets become less defined by geography.

Until recently, marketers have considered a market to be a physical location where buyers and sellers meet to conduct transactions. Although those venues (for example, grocery stores, malls, and flea markets) still thrive, technology mediates some of the fastest-growing markets. The term *marketspace* has been coined to describe these electronic marketplaces unbound by time or space.[11] Some of the largest marketspaces, such as Amazon.com, eBay, and Monster.com, are now household names. In fact, Amazon.com has become the marketspace equivalent of a shopping mall as the company now sells shoes, apparel, jewelry, beauty aids, and sporting goods in addition to its traditional offerings of books and electronics. Marketspaces also exist in the business-to-business realm. The shift from marketplaces to marketspaces has significant ramifications for marketers. The fact that customers can shop and place orders 24/7 means that these businesses must be capable of operating in that same time frame. In effect, marketspace operators never take a break at closing time—they never close. Furthermore, the substitution of technology for human interaction can be both a blessing and a curse. Some marketspaces, like CarsDirect.com, are successful because they eliminate the hassle of dealing with another human in the buying process. Many customers, however, have been slow to embrace marketspaces because they lack the human element. In these cases, the design and implementation of the online experience is a serious challenge for marketspace operators. Finally, the wealth of information available through today's marketspaces not only makes customers more educated than ever before but also gives customers increased power through comparison shopping and price negotiation.

Another interesting shift related to markets is the advent of metamarkets and metamediaries. A *metamarket* is a cluster of closely related goods and services that center around a specific consumption activity. A *metamediary* provides a single access point where buyers can locate and contact many different sellers in the metamarket.[12] Assume, for example, that you are engaged to be married. How many different buying decisions will you and your fiancé have to make in the coming months? How many

EXHIBIT 1.3 COMMON METAMARKETS AND PARTICIPANTS

	Metamarkets		
	Automotive	Home Ownership	Parenting
Metamediaries	http://www.edmunds.com	http://www.realtor.com	http://www.parenting.ivillage.com
	http://autos.msn.com	http://realestate.msn.com	http://www.parenting.com
	http://www.carsdirect.com	http://www.bhg.com	
	http://www.kbb.com		
Metamarket Participants	Buyers	Homeowners	Parents
	Manufacturers	Builders	Doctors
	Car dealerships	Real estate agents	Retailers
	Banks	Mortgage companies	Baby supply manufacturers
	Credit unions	Insurance companies	Insurance firms
	Credit reporting services	Home inspectors and appraisers	Financial planners
	Insurance firms	Pest control services	Educational providers
	Rating services	Magazines	Toy manufacturers
	Magazines	Television programs	Television programs
	Television programs	Retailers	Movies
	Aftermarket parts/accessories		
	Repair services		
	Car rental firms		
	Auction houses		

newspaper ads, websites, and magazines will you explore? Although the businesses and decisions are diverse, they all converge on the single theme of wedding planning. This is the driving principle behind a metamarket. Exhibit 1.3 shows examples of common metamarkets and metamediaries. Although customers don't use these terms, they fully understand the concept of finding information and solutions in one place. For example, iVillage (http://www.ivillage.com) has become the Internet's preeminent metamediary with respect to women's issues. One of its most popular sections deals with pregnancy and parenting, which has become the first stop for many anxious parents in need of advice. Metamediaries like iVillage fulfill a vital need by offering quick access and one-stop shopping to a wide variety of information, goods, and services.

What Is Exchange?

Closely related to the concept of a market, our ideas about exchange have changed in recent years. *Exchange* is traditionally defined as the process of obtaining something of value from someone by offering something in return; this usually entails obtaining products for money. For exchange to occur, five conditions must be met:

1. *There must be at least two parties to the exchange.* Although this has always been the case, the exchange process today can potentially include an unlimited number of participants. Online auctions provide a good example. Customers who bid on an item at eBay may be one of many participants to the exchange process. Each

participant changes the process for the others, as well as the ultimate outcome for the winning bidder. Some auctions include multiple quantities of an item, so the potential exists for multiple transactions within a single auction process.

2. *Each party has something of value to the other party*. Exchange would be possible but not very likely without this basic requirement. The Internet has exposed us to a vast array of goods and services that we did not know existed previously. Today, we buy a television or stereo receiver from not only a local merchant but also have access to hundreds of online merchants. Furthermore, the ability to comparison shop products and their prices allows customers to seek out the best value.
3. *Each party must be capable of communication and delivery*. The advantages of today's communication and distribution infrastructure are amazing. We can seek out and communicate with potential exchange partners anywhere and anytime via telephone, personal computers, handheld devices, and wireless telephones. We can also conduct arm's-length transactions in real time, with delivery of exchanged items occurring in a matter of hours if necessary.
4. *Each party must be free to accept or reject the exchange*. In the online world, this condition of exchange becomes a bit more complicated. Customers have grown accustomed to the ease with which they can return items to local merchants. Easy return policies are among the major strengths of traditional offline merchants. Returning items is more difficult with online transactions. In some cases, the ability to reject an exchange is not allowed in online transactions. Ordering airline tickets on Priceline.com and winning a bid on an item at eBay are contractually binding acts for the customer. In other words, once the actual purchasing process has started, the customer is not free to reject the exchange.
5. *Each party believes that it is desirable to exchange with the other party*. Customers typically have a great deal of information about or even a history with offline merchants. In online exchange, customers often know nothing about the other party. To help resolve this issue, a collection of third-party firms has stepped in to provide ratings and opinions about online merchants. Sites like BizRate.com and Epinions.com not only provide these ratings but also provide product ratings and serve as shopping portals. eBay goes one step further by allowing its users to rate both buyers and sellers. This gives both parties to the exchange process some assurance that reputable individuals or organizations exist on the other side of the transaction.

The bottom line is that exchange has become all too easy in today's economy. Opportunities for exchange bombard us virtually everywhere we go—even in our own homes. Customers don't even have to trouble themselves with giving credit cards or completing forms for shipping information. Most online merchants will remember this information for us if we let them. For example, Amazon's 1-Click® ordering feature allows customers to purchase products with a single mouse click.[13] The ease with which exchange can occur today presents a problem in that individuals who do not have the authority to exchange can still complete transactions. This is especially true for underage customers.

What Is a Product?

It should come as no surprise that the primary focus of marketing is the customer and how the organization can design and deliver products that meet customers' needs. Organizations create essentially all marketing activities as a means toward this end; this includes product design, pricing, promotion, and distribution. In short, an organization would have no reason to exist without customers and a product to offer them.

But what exactly is a product? A very simple definition is that a *product* is something that can be acquired via exchange to satisfy a need or a want. This definition permits us to classify a broad number of "things" as products:[14]

- **Goods** Goods are tangible items ranging from canned food to fighter jets, from sports memorabilia to used clothing. The marketing of tangible goods is arguably one of the most widely recognizable business activities in the world.
- **Services** Services are intangible products consisting of acts or deeds directed toward people or their possessions. Banks, hospitals, lawyers, package-delivery companies, airlines, hotels, repair technicians, nannies, housekeepers, consultants, and taxi drivers all offer services. Services, rather than tangible goods, dominate modern economies like the U.S. economy.
- **Ideas** Ideas include platforms or issues aimed at promoting a benefit for the customer. Examples include cause-related or charitable organizations such as the Red Cross, the American Cancer Society, Mothers Against Drunk Drivers, or the American Legacy Foundation's campaign against smoking.[15]
- **Information** Marketers of information include websites, magazine and book publishers, schools and universities, research firms, churches, and charitable organizations. In the digital age, the production and distribution of information has become a vital part of our economy.
- **Digital Products** Digital products, such as software, music, and movies, are among the most profitable in our economy. Advancements in technology have also wreaked havoc in these industries because pirates can easily copy and redistribute digital products in violation of copyright law. Digital products are interesting because content producers grant customers a license to use them, rather than outright ownership.
- **People** The individual promotion of people, such as athletes or celebrities, is a huge business around the world. The exchange and trading of professional athletes takes place in a complex system of drafts, contracts, and free agency. Other professions, such as politicians, actors, professional speakers, and news reporters, also engage in people marketing.

- **Places** When we think of the marketing of a place, we usually think of vacation destinations like Rome or Orlando. However, the marketing of places is quite diverse. Cities, states, and nations all market themselves to tourists, businesses, and potential residents. The state of Alabama, for example, has done quite well in attracting direct investment by foreign firms. Over the last decade, Alabama has landed assembly plants from Mercedes, Honda, and Hyundai, as well as many different parts plants and related firms. It's no wonder that some people think of Alabama as the new Detroit.[16]

- **Experiences and Events** Marketers can bring together a combination of goods, services, ideas, information, or people to create one-of-a-kind experiences or single events. Good examples include theme parks such as Disney World and Universal Studios, athletic events like the Olympics or the Super Bowl, or stage and musical performances like *The Phantom of the Opera* or a concert by Madonna.

- **Real or Financial Property** The exchange of stocks, bonds, and real estate, once marketed completely offline via real estate agents and investment companies, now occurs increasingly online. For example, Realtor.com is the nation's largest real estate listing service, with over 2.5 million searchable listings. Likewise, Schwab.com is the world's largest and top-rated online brokerage.

- **Organizations** Virtually all organizations strive to create favorable images with the public—not only to increase sales or inquiries but also to generate customer goodwill. In this sense, General Electric is no different than the United Way: Both seek to enhance their images in order to attract more people (customers, volunteers, and clients) and money (sales, profit, and donations).

We should note that the products in this list are not mutually exclusive. For example, firms that sell tangible goods almost always sell services to supplement their offerings, and vice versa. Charitable organizations simultaneously market themselves, their ideas, and the information that they provide. Finally, special events, like the Daytona 500, combine people (drivers), a place (Daytona), an event (the race), organizations (sponsors), and goods (souvenirs) to create a memorable and unique experience for race fans.

To effectively meet the needs of their customers and fulfill organizational objectives, marketers must be astute in creating products and combining them in ways that make them unique from other product offerings. Customers' decisions to purchase one product or group of products over another is primarily a function of how well that choice will fulfill their needs and satisfy their wants. Economists use the term *utility* to describe the ability of a product to satisfy a customer's desires. Customers usually seek out exchanges with marketers who offer products that are high in one or more of these five types of utility:

- **Form Utility** Products high in form utility have attributes or features that set them apart from the competition. Often these differences result from the use of high-quality raw materials, ingredients, or components or from the use of highly efficient production processes. For example, Ruth's Chris Steakhouse, considered by many to be one of the nation's top restaurants, provides higher form utility than other national chains because of the quality of beef they use. Papa John's Pizza even stresses form utility in its slogan "Better Ingredients. Better Pizza." In many product categories, higher-priced product lines offer more form utility because they have more features or "bells-and-whistles." Cars are a good example.

- **Time Utility** Products high in time utility are available when customers want them. Typically, this means that products are available now rather than later. Grocery stores, restaurants, and other retailers that are open around the clock provide exceptional time utility. Often the most successful restaurants around college campuses are those that are open 24/7. Many customers are also willing to pay more for products available in a shorter time frame (such as overnight delivery via Federal Express) or for products available at the most convenient times (such as midmorning airline flights).
- **Place Utility** Products high in place utility are available where customers want them, which is typically wherever the customer happens to be at that moment (such as grocery delivery to a home) or where the product needs to be at that moment (such as florist delivery to a workplace). Home delivery of anything (especially pizza), convenience stores, vending machines, and e-commerce are examples of good place utility. Products that are high in both time and place utility are exceptionally valuable to customers because they provide the utmost in convenience.
- **Possession Utility** Possession utility deals with the transfer of ownership or title from marketer to customer. Products higher in possession utility are more satisfying because marketers make them easier to acquire. Marketers often combine supplemental services with tangible goods to increase possession utility. For example, furniture stores that offer easy credit terms and home delivery enhance the possession utility of their goods. In fact, any merchant that accepts credit cards enhances possession utility for customers who do not carry cash or checks. Expensive products, like a home or a new factory, require acceptable financing arrangements to complete the exchange process.
- **Psychological Utility** Products high in psychological utility deliver positive experiential or psychological attributes that customers find satisfying. Sporting events often fall into this category, especially when the competition is based on an intense rivalry. The atmosphere, energy, and excitement associated with being at the game can all create psychological benefits for customers. Conversely, a product might offer exceptional psychological utility because it lacks negative experiential or psychological attributes. For example, a vacation to the beach or the mountains might offer more psychological

© Jerry Driendl/The Image Bank/Getty Images utility to some customers because it is seen as less stressful than a vacation to Disney World.

The strategic and tactical planning of marketing activities involves the important basic concepts that we have explored in this section. Marketers often struggle with finding and reaching the appropriate markets for their products. In other cases, the market is easily accessible, but the product is wrong or does not offer customers a compelling reason to purchase it. The ability to match markets and products in a way that satisfies both customer and organizational objectives is truly an art and a science. Doing so in an environment of never-ending change creates both opportunities and challenges for even the strongest and most respected organizations.

The process of planning marketing activities to achieve these ends is the focus of this book. As we turn our attention to an overview of major marketing activities and decisions, we also want to lay out the structure of the text. The chapters roughly coincide with the major activities involved in developing marketing strategy and writing a marketing plan. Although our approach is orderly and straightforward, it provides a holistic representation of the marketing planning process from one period to the next. As we will see, marketing planning is an evolving process that has no definite beginning or ending point.

Major Marketing Activities and Decisions

Organizations must deal with a number of activities and decisions in marketing their products to customers. These activities vary in both complexity and scope. Whether the issue is a local restaurant's change in copy for a newspaper ad or a large multinational firm launching a new product in a foreign market, all marketing activities have one thing in common: They aim to give customers a reason to buy the organization's product. In this section, we briefly introduce the activities and decisions that will be the focus of the remaining chapters of this book.

Strategic Planning

If an organization is to have any chance of reaching its goals and objectives, it must have a game plan or road map for getting there. A *strategy*, in effect, outlines the organization's game plan for success. Effective marketing requires sound strategic planning at a number of levels in an organization. At the top levels of the organization, planners concern themselves with macro issues such as the corporate mission, management of the mix of strategic business units, resource acquisition and assignments, and corporate policy decisions. Planners at the middle levels, typically a division or strategic business unit, concern themselves with similar issues but focus on those that pertain to their particular product/market. Strategic planning at the lower levels of an organization is much more tactical in nature. Here, planners concern themselves with the development of marketing plans—more specific game plans for connecting products and markets in ways that satisfy both organizational and customer objectives.

Although this book is essentially about strategic planning, it focuses on tactical planning and the development of the marketing plan. *Tactical planning* concerns itself with specific markets or market segments and the development of marketing programs that will fulfill the needs of customers in those markets. The *marketing plan* provides the outline for how the organization will combine product, pricing, distribution, and promotion decisions to create an offering that customers will find attractive. The marketing plan also concerns itself with the implementation, control, and refinement of these decisions.

To stand a reasonable chance for success, marketing plans should be developed with a keen appreciation of how they fit into the strategic plans of the middle- and upper-levels of the firm. In Chapter 2, we discuss the connection among corporate, business-unit, and marketing planning, as well as how marketing plans must be integrated with the plans of other functions in the organization (financial plans, production plans, and others). We also discuss the structure of the marketing plan and some of the challenges involved in creating one.

Social Responsibility and Ethics

The role of social responsibility and ethics in marketing strategy has come to the forefront of important business issues in today's economy. Our society still reverberates from the effects of corporate scandals at Enron, WorldCom, and ImClone, among others. Although these scandals make for interesting reading, many innocent individuals have suffered the consequences from these companies' unethical behavior. *Social responsibility* refers to an organization's obligation to maximize its positive impact on society while minimizing its negative impact. In terms of marketing strategy, social responsibility addresses the total effect of an organization's marketing activities on society. A major part of this responsibility is *marketing ethics*, or the principles and standards that define acceptable conduct in marketing activities. Ethical marketing can build trust and commitment and is a crucial ingredient in building long-term relationships with all stakeholders. Another major component of any firm's impact on society is the degree to which it engages in philanthropic activities. Many firms now make philanthropy a key strategic activity.

In Chapter 3, we discuss the economic, legal, ethical, and philanthropic dimensions of social responsibility, along with the strategic management of corporate integrity in the marketing planning process. Although there are occasional lapses, most firms understand their economic and legal responsibilities. However, ethical responsibilities, by their nature, are not so clearly understood. Consequently, ethical lapses can be quite damaging. For example, consumers and privacy advocates were appalled to learn that many Sony BMG music CDs installed DRM (digital rights management) software on the hard drives of many unsuspecting computer users.[17] When a user played one of these CDs, the software installed itself as a root kit, thereby making itself undetectable. The software connected with Sony's computers, thus allowing Sony to track the user's CD usage. Sony is still reeling from the financial and brand image fallout from this decision.

Research and Analysis

Strategic planning depends heavily on the availability and interpretation of information. Without this lifeblood, strategic planning would be a mindless exercise and a waste of time. Thankfully, today's planners are blessed with an abundance of information due to improving technology and the Internet. However, the challenge of finding and analyzing the right information remains. As many marketing planners have found, having the right information is just as important as having the right product.

Marketers are accustomed to conducting and analyzing research, particularly with respect to the needs, opinions, and attitudes of their customers. Although customer analysis is vital to the success of the marketing plan, the organization must also have access to three other types of information and analysis: internal analysis, competitive analysis, and environmental analysis. *Internal analysis* involves the objective review of internal information pertaining to the firm's current strategy and performance, as well as the current and future availability of resources. Analysis of the competitive environment, increasingly known as *competitive intelligence,* involves analyzing the capabilities, vulnerabilities, and intentions of competing businesses.[18] Analysis of the external environment, also known as *environmental scanning,* involves the analysis of economic, political, legal, technological, and cultural events and trends that may affect the future of the organization and its marketing efforts. Some marketing planners use the term *situation analysis* to refer to the overall process of collecting and interpreting internal, competitive, and environmental information.

The development of a sound marketing plan requires the analysis of information on all fronts. In Chapter 4, we address the collection and analysis of internal, customer, competitive, and environmental information. We also discuss the challenges involved in finding the right information from an overwhelming supply of available information. The uncertainty and continual change in the external environment also create challenges for marketers (as the Internet boom and bust have shown us). As we will see, this type of research and analysis is perhaps the most difficult aspect of developing a marketing plan.

Developing Competitive Advantage

To be successful, a firm must possess one or more competitive advantages that it can leverage in the market in order to meet its objectives. A *competitive advantage* is something that the firm does better than its competitors and gives it an edge in serving customers' needs and/or maintaining mutually satisfying relationships with important stakeholders. Competitive advantages are critical because they set the tone, or strategic focus, of the entire marketing program. When these advantages are tied to market opportunities, the firm can offer customers a compelling reason to buy their products. Without a competitive advantage, the firm and its products are likely to be just one more offering among a sea of commoditized products. Southwest Airlines, for example, maintains a cost-based competitive advantage over its rivals due to its no-frills strategy of high efficiency, limited routes, a uniform fleet of airplanes, online reservation system, low pricing, and dedicated people. Southwest's marketing strategy has allowed the company to remain profitable for over 32 years. Southwest is also the only air carrier to remain consistently profitable since the September 11, 2001 terrorist attacks.[19]

In Chapter 5, we discuss the process of developing competitive advantages and establishing a strategic focus for the marketing program. We also address the role of SWOT analysis as a means of tying the firm's strengths or internal capabilities to market opportunities. Further, we discuss the importance of developing goals and objectives. Having good goals and objectives is vital because these become the basis for measuring the success of the entire marketing program. For example, Hampton Inn has a goal of 100 percent customer satisfaction. Customers do not have to pay for their stay if they don't have complete satisfaction.[20] Goals like these are useful in not only setting milestones for evaluating marketing performance but also motivating managers and employees. This can be especially true when marketing goals or objectives help drive employee evaluation and compensation programs.

Marketing Strategy Decisions

An organization's marketing strategy describes how the firm will fulfill the needs and wants of its customers. It can also include activities associated with maintaining relationships with other stakeholders such as employees or supply chain partners. Stated another way, marketing strategy is a plan for how the organization will use its strengths and capabilities to match the needs and requirements of the market. A marketing strategy can be composed of one or more marketing programs; each program consists of two elements—a target market or markets and a marketing mix (sometimes known as the four Ps of product, price, place, and promotion). To develop a marketing strategy, an organization must select the right combination of target market(s) and marketing mix(es) in order to create distinct competitive advantages over its rivals.

Market Segmentation and Target Marketing The identification and selection of one or more target markets is the result of the market segmentation process. Marketers engage in *market segmentation* when they divide the total market into smaller, relatively homogeneous groups or segments that share similar needs, wants, or characteristics. When marketers select one or more *target markets,* they identify one or more segments of individuals, businesses, or institutions toward which the firm's marketing efforts will be directed. As described in Beyond the Pages 1.2, marketers increasingly use online social networking as a way to target the lucrative youth market.

Advances in technology have created some interesting changes in the ways that organizations segment and target markets. Marketers can now analyze customer-buying patterns in real time at the point of purchase via barcode or RFID (radio-frequency identification) scanning in retail stores and analyzing clickstream data in online transactions. This allows organizations to target specific segments with product offers or

Beyond the Pages 1.2

TARGETING YOUNG CONSUMERS VIA ONLINE SOCIAL NETWORKING[21]

Social networking sites on the Internet have proved to be very popular with both users and advertisers. Sites like MySpace.com and Facebook.com allow users to "hang out" in an online equivalent of shopping malls, parking lots, and bars. Most users are teens and young adults who use the sites to trade messages, photos, music, and blogs. The largest and most profitable of these sites currently is MySpace, which was acquired by News Corp. in 2005 for $580 million. Other sites like Facebook and LinkedIn are also busy and profitable.

Although social networks are very popular, they have attracted a fair amount of criticism. Many argue that these sites make it easier for predators to reach teens and children through the use of their online profiles. Business experts have been skeptical of the long-term success of social networking as a business model. They argue that younger audiences are fickle and will leave these sites for the next hot thing on the Internet. Others argue that the questionable nature of the content on these sites is a risky proposition when tied to advertising strategies.

Despite these criticisms, online social networking appears to have legs for the long term—forcing media companies and advertisers to take notice. The reason is simple: the demographic profile of the social networking audience is extremely lucrative. MySpace alone reaches over 70 million registered users, mostly in the 12- to 17-year-old age range. Power like that has forced an increasing number of advertisers to consider social networking as a viable media strategy. Target, NBC, Procter & Gamble, Viacom, and Geffen A&M Records are only some of the firms that have run ad campaigns on MySpace.

In addition to the demographic bonanza, social networking also allows firms to carefully target promotions to the right audience and collect a striking amount of information about users. For example, Procter & Gamble launched Secret Sparkle to 16- to 24-year-old girls and women using MySpace. These users were not only exposed to ads for the product but also allowed to participate in a Secret Sparkle sweepstakes. Volkswagen also used MySpace as a part of its "Unpimp Your Auto" campaign for the GTI. The campaign featured Helga, a blond bombshell, and Wolfgang, a German engineer, who both maintained profiles on MySpace. More than 7500 fans signed up as Helga's friends.

Though the future of social networking sites looks promising, the protection of minor children remains a nagging issue. In early 2006, MySpace began taking aggressive steps to ensure the safety of children, including hiring a former federal prosecutor as its first chief security officer. MySpace and other social networking sites must find a balance between security and free expression. If these firms tighten up too much, users will leave and so will advertisers.

promotional messages.[22] Furthermore, technology now gives marketers the ability to target individual customers through direct mail and e-mail campaigns. This saves considerable time and expense by not wasting efforts on potential customers who may not be interested in the organization's product offering. However, these new opportunities for marketers come at a price: Many potential buyers resent the ability of marketers to reach them individually. Consequently, customers and government authorities have raised major concerns over privacy and confidentiality. This is especially true with respect to RFID, which uses tiny radio-enabled chips to track merchandise. Because RFID chips can be scanned from distances up to 25 feet, many fear that the technology will allow companies to track consumers even after they leave a store.[23]

Chapter 6 discusses the issues and strategies associated with market segmentation and target marketing. In that discussion, we will examine different approaches to market segmentation and look at target marketing in both consumer and business markets. Effective segmentation and target marketing sets the stage for the development of the product offering and the design of a marketing program that can effectively deliver the offering to targeted customers.

Product Decisions Earlier in the chapter, we discussed the many different types of products that can be offered to customers today. As one of the basic parts of marketing, the product and the decisions that surround it are among the most important aspects of marketing strategy. This importance hinges on the connection between the product and the customers' needs. Even large corporations fail to make this connection at times. McDonald's, for example, spent over $100 million in the mid-1990s to launch the Arch Deluxe—a hamburger designed for adult tastes. The product failed miserably because it was designed for older customers (not the children who are McDonald's core market), was expensive, and had a very high-calorie content. McDonald's customers avoided the Arch Deluxe, and the sandwich was eventually discontinued.[24] As this example illustrates, marketing is unlikely to be effective unless there is a solid linkage between a product's benefits and customers' needs.

In Chapter 7, we will discuss the decisions that marketers make about products and their total product offering. Product decisions include much more than issues regarding design, style, or features. Marketers must also make decisions regarding package design, branding, trademarks, warranties, new product development, and product positioning. *Product positioning* involves establishing a mental image, or position, of the product offering relative to competing offerings in the minds of target buyers. The goal of positioning is to distinguish or differentiate the firm's product offering from those of competitors by making the offering stand out among the crowd. For example, the mental image that most customers have about Wal-Mart is associated with everyday low prices. Target has a slightly different position, one that emphasizes value with a stronger sense of style and quality.

Pricing Decisions Pricing decisions are important for several reasons. First, price is the only element of the marketing mix that leads to revenue and profit. All other elements of the marketing mix, such as product development and promotion, represent expenses. Second, price typically has a direct connection with customer demand. This connection makes pricing the most overmanipulated element of the marketing mix. Marketers routinely adjust the price of their products in an effort to stimulate or curb demand. Third, pricing is the easiest element of the marketing program to change. Very few other aspects of marketing can be altered in real time. This is a huge plus for marketers who need to adjust prices to reflect local market conditions or for online merchants who want to charge different prices for different customers based on total sales or customer loyalty. Finally, pricing is a major quality cue for customers. In the absence of other information, customers tend to equate higher prices with higher quality.

Pricing decisions are the subject of Chapter 8, where we will discuss buyer and seller perspectives on pricing, pricing objectives, the issue of price elasticity, and strategies for setting profitable and justifiable prices. One of the reasons that pricing is so interesting is that price represents a major point in marketing strategy where buyer and seller motivations come into conflict. Although other elements of the marketing mix are relatively stable, the price can be negotiated. The ease with which buyers can compare prices among competing firms today makes setting the right price even more challenging for marketers.

Distribution and Supply Chain Decisions Distribution and supply chain issues are among the least apparent decisions made in marketing, particularly with customers. The goal of *distribution and supply chain management* is essentially to get the product to the right place, at the right time, in the right quantities, at the lowest possible cost. *Supply chain* decisions involve a long line of activities—from the sourcing of raw materials, through the production of finished products, to ultimate delivery to final customers. Most of these activities, which customers take for granted, take place behind the scenes. Few customers, for example, contemplate how their favorite cereal ends up on their grocer's shelf or how Dell can have a made-to-order laptop at your door in days. Customers just expect these things to happen. In fact, most customers never consider these issues until something goes wrong. Suddenly, when the grocer is out of an item or an assembly line runs low on component parts, distribution and supply chain factors become quite noticeable.

As we will discuss in Chapter 9, distribution and supply chain issues are critical for two major reasons: product availability and distribution costs. The importance of product availability is obvious; customers cannot buy your product if it is not available at the right time and place or in the right quantities. Distribution decisions are therefore closely connected to the issues of time, place, and possession utility that we discussed earlier in the chapter. The importance of distribution costs is tied to the firm's profit margin. No matter how you look at it, distribution is expensive. As a result, firms that take the time to build highly efficient and effective distribution systems can lower their operating costs and create a competitive advantage against rival firms. For large companies, even a fractional decrease in costs can lead to big increases in profits.

Promotion Decisions Modern marketing has replaced the term *promotion* with the concept of *integrated marketing communication* (IMC), or the coordination of all promotional activities (media advertising, direct mail, personal selling, sales promotion, public relations, packaging, store displays, website design, personnel) to produce a unified, customer-focused message. Here, the term *customers* not only refers to customers in the traditional sense but also includes employees, business partners, shareholders, the government, the media, and society in general. IMC rose to prominence in the 1990s as businesses realized that traditional audiences for promotional efforts had become more diverse and fragmented. IMC can also reduce promotional expenses by eliminating the duplication of effort among separate departments (marketing, sales, advertising, public affairs, and information technology) and by increasing efficiencies and economies of scale.

As we will see in Chapter 10, the goals of IMC are the same as traditional promotion—namely, to inform, persuade, and remind customers (that is, all stakeholders) about the organization and its product offerings so as to influence their behavior. Promotional decisions are the most noticeable and among the most expensive of all marketing activities. In today's society, it is virtually impossible to not be exposed to promotional messages. Some of these messages, like Nike's "Just Do It," have become ingrained into modern culture. However, even a good message cannot overcome poor decisions regarding other marketing program elements.

Implementation and Control

Once a marketing strategy has been selected and the elements of the marketing mix are in place, the marketer must put the plan into action. *Marketing implementation,* the process of executing the marketing strategy, is the "how" of marketing planning. Rather than being an add-on at the end of the marketing strategy and marketing plan, implementation is actually a part of planning itself. That is, when planning a marketing strategy, the organization must always consider how the strategy will be executed. Sometimes, the organization must revisit the strategy or plan to make revisions during the strategy's execution. This is where marketing control comes into play. Adequate control of marketing activities is essential to ensure that the strategy stays on course and focused on achieving its goals and objectives.

The implementation phase of marketing strategy calls into play the fifth P of the marketing program: people. As we will learn in Chapter 11, many of the problems that occur in implementing marketing activities are "people problems" associated with the managers and employees on the frontline of the organization who have responsibility for executing the marketing strategy. Many organizations understand the vital link between people and implementation by treating their employees as indispensable assets. Aflac, for example, has been named eight consecutive times by *Fortune* magazine to its list of the "100 Best Companies to Work for in America." The Georgia-based company has developed a corporate culture that focuses on caring for employees and providing for their needs.[25] Other companies cited as having good relationships with their employees include The Container Store, J.M. Smucker, and S.C. Johnson & Son.

Developing and Maintaining Customer Relationships

Over the last decade, marketers have come to the realization that they can learn more about their customers and earn higher profits if they develop long-term relationships with them. This requires that marketers shift away from transactional marketing and embrace a relationship marketing approach. The goal of *transactional marketing* is to complete a large number of discrete exchanges with individual customers. The focus is on acquiring customers and making the sale, not necessarily on attending to customers' needs and wants. In *relationship marketing,* the goal is to develop and maintain long-term, mutually satisfying arrangements where both buyer and seller focus on the value obtained from the relationship. As long as this value stays the same or increases, the relationship is likely to deepen and grow stronger over time. Exhibit 1.4 lists the basic characteristics of transactional versus relationship marketing. Relationship marketing promotes customer trust and confidence in the marketer, who can then develop a deeper understanding of

EXHIBIT 1.4 **MAJOR CHARACTERISTICS OF TRANSACTIONAL AND RELATIONSHIP MARKETING**

	Transactional Marketing	Relationship Marketing
Marketing focus	Customer acquisition	Customer retention
Time orientation	Short term	Long term
Marketing goal	Make the sale	Mutual satisfaction
Relationship focus	Create exchanges	Create value
Customer service priority	Low	High
Customer contact	Low to moderate	Frequent
Commitment to customers	Low	High
Characteristics of the interaction	Adversarial, manipulation, conflict resolution	Cooperation, trust, mutual respect, confidence
Source of competitive advantage	Production, marketing	Relationship commitment

customers' needs and wants. This puts the marketer in a position to respond more effectively to customers' needs, thereby increasing the value of the relationship for both parties.

The principles and advantages of relationship marketing are the same in both business-to-business and consumer markets. Relationship marketing activities also extend beyond customers to include relationships with employees and supply chain partners. In Chapter 12, we will discuss these and other aspects of relationship marketing in greater depth. Long-term relationships with important stakeholders will not materialize unless these relationships create value for each participant. This is especially true for customers faced with many different alternatives among firms competing for their business. Because the quality and value of a marketer's product offering typically determine customer value and satisfaction, Chapter 12 will also explore the role of quality, value, and satisfaction in developing and maintaining customer relationships. Issues associated with quality, value, and satisfaction cut across all elements of the marketing program. Hence, we discuss these issues in our final chapter as a means of tying all marketing program elements together.

Taking on the Challenges of Marketing Strategy

One of the greatest frustrations and opportunities in marketing is change—customers change, competitors change, and even the marketing organization changes. Strategies that are highly successful today will not work tomorrow. Customers will buy products today that they will have no interest in tomorrow. These are truisms in marketing. Although frustrating, challenges like these also make marketing extremely interesting and rewarding. Life as a marketer is never dull.

Another fact about marketing strategy is that it is inherently people driven. Marketing strategy is about people (inside an organization) trying to find ways to deliver exceptional value by fulfilling the needs and wants of other people (customers, shareholders, business partners, society at large), as well as the needs of the organization itself. Marketing strategy draws from psychology, sociology, and economics to better understand the basic needs and motivations of these people—whether they are the organization's customers (typically considered the most critical), its employees, or its stakeholders. In short, marketing strategy is about people serving people.

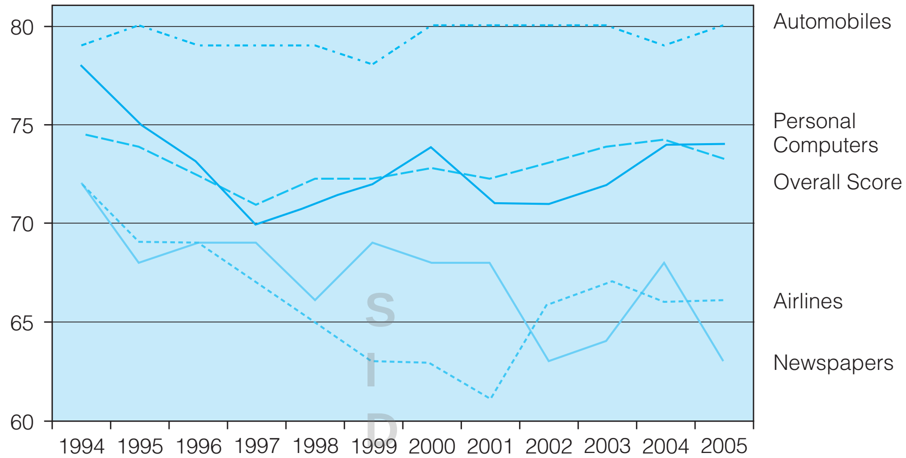
The combination of continual change and the people-driven nature of marketing makes developing and implementing marketing strategy a challenging task. A perfect strategy that is executed perfectly can still fail. This happens because there are very few rules for how to do marketing in specific situations. In other words, it is impossible to say that given "this customer need" and these "competitors" and this "level of government regulation" that Product A, Price B, Promotion C, and Distribution D should be used. Marketing simply doesn't work that way. Sometimes, an organization can get lucky and be successful despite having a terrible strategy and/or execution. The lack of rules and the ever-changing economic, sociocultural, competitive, technological, and political/legal landscapes make marketing strategy a terribly fascinating subject.

Most of the changes that marketers have faced over the past 20 years deal with the basic evolution of marketing and business practice in our society. One of the most basic shifts involves the increasing demands of customers. Today, customers have very high expectations about basic issues such as quality, performance, price, and availability. American customers in particular have a passion for instant gratification that marketers struggle to fulfill. Some evidence suggests that marketers have not met this challenge. The American Customer Satisfaction Index, computed by the National Quality Research Center at the University of Michigan, indicates that customer satisfaction has trended downward since the Center first computed the index in 1994. As shown in Exhibit 1.5, some industries such as newspapers and airlines have suffered large declines in customer satisfaction. Satisfaction in other industries, such as the automotive industry, has remained fairly high and stable.

The decline in satisfaction can be attributed to several reasons. For one, customers have become much less brand loyal than in previous generations. Today's customers are very price sensitive, especially in commoditized markets where products lack any real means of differentiation. Consequently, customers constantly seek the best value and thrive on their ability to compare prices among competing alternatives. Customers are also quite cynical about business in general and are not that trusting of marketers. In short, today's customers have not only more power but also more attitude. This combination makes them a formidable force in the development of contemporary marketing strategy.

Marketers have also been forced to adapt to shifts in markets and competition. In terms of their life cycles, most products compete today in very mature markets. Many firms also compete in markets where product offerings have become commoditized by a lack of differentiation (for example, customers perceive competing offerings as essentially the same). Some examples include airlines, wireless phone service, department stores, laundry supplies, and household appliances. Product commoditization

EXHIBIT 1.5 **AMERICAN CUSTOMER SATISFACTION INDEX**



Source: American Customer Satisfaction Index and the University of Michigan Business School, http://www.theacsi.org, 2006.

pushes margins lower and reduces brand loyalty even further. To meet this challenge, U.S. firms have moved aggressively into foreign markets in an effort to increase sales and find new growth opportunities. At the same time, however, foreign firms have moved into U.S. markets to meet the challenges of maturing markets in their own countries. It is interesting to watch Wal-Mart move aggressively into China while British retailer Tesco launches a chain of large convenience stores in California.[26] The end result of these changes is that firms around the globe face new competition and new challenges.

In the face of increasing competition and maturing markets, businesses have been forced to cut expenses to remain competitive. Some businesses do this by eliminating products or product lines, such as when GM recently dropped the Hummer H1. Others have maintained their product mix but have aggressively sought ways to lower their distribution costs. The growth in direct distribution (manufacturer to end user) is a result of these efforts. Still, other firms have been forced to take drastic measures such as downsizing and laying off employees to trim expenses. Fortunately, the news is not all gloomy. Firms have found that success often comes from aggressive cooperation rather than competition. Today, businesses have formed alliances and partnerships at a record pace. For example, many considered the 2001 service agreement between Federal Express (FedEx) and the U.S. Postal Service a triumph in the extremely competitive package-delivery market. Under the agreement, FedEx placed drop boxes in post offices, while the postal service turned its Express Mail service over to FedEx.[27] Recent agreements between U.S. automakers to produce alternative-fuel vehicles (AFVs) are also a testament to this booming trend.

Developing a viable and effective marketing strategy has become extremely challenging. Even the most admired marketers in the world like McDonald's, Procter & Gamble, Anheuser-Busch, and Toyota occasionally have problems meeting the demands of the strategic planning process and developing the "right" marketing strategy. Our goal in this book is not to teach you to develop the "right" strategy. Rather, our approach will give you a framework for organizing the planning process and the ability to see how all of the pieces fit together. Think of it as a mind-set or way to think about marketing strategy. The remainder of this text dedicates itself to these goals.

Lessons from Chapter 1

Marketing challenges and opportunities in the new economy include

- a shift in power to customers caused by increased access to information.
- a massive increase in product selection due to line extensions and global sourcing.
- greater audience and media fragmentation as customers spend more time with interactive media and less time with traditional media.
- changing customer perceptions of value and demands for greater convenience.
- shifting demand patterns for certain product categories, especially those delivered electronically.
- new sources of competitive advantage such as partnerships and alliances.
- new concerns over privacy, security, and ethics.
- unclear legal jurisdictions, especially in global markets.

Marketing

- is parallel to other business functions such as production, research, management, human resources, and accounting. The goal of marketing is to connect the organization to its customers.
- is defined as an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.
- has changed in focus over the past 20 years. Today, marketing stresses value and customer relationships.
- is linked with our standard of living not only in terms of enhanced consumption and prosperity but also in terms of society's well-being.

Basic marketing concepts include

- market—a collection of buyers and sellers.
- marketplace—a physical location where buyers and sellers meet to conduct transactions.
- marketspace—an electronic marketplace not bound by time or space.
- metamarket—a cluster of closely related goods and services that centers around a specific consumption activity.
- metamediary—a single access point where buyers can locate and contact many different sellers in the metamarket.
- exchange—the process of obtaining something of value from someone by offering something in return; this usually involves obtaining products for money. There are five conditions of exchange:
  1. There must be at least two parties to the exchange.
  2. Each party has something of value to the other party.
  3. Each party must be capable of communication and delivery.
  4. Each party must be free to accept or reject the exchange.
  5. Each party believes that it is desirable to exchange with the other party.
- product—something that can be acquired via exchange to satisfy a need or a want.
- utility—the ability of a product to satisfy a customer's needs and wants. The five types of utility provided through marketing exchanges are form utility, time utility, place utility, possession utility, and psychological utility.

Major marketing activities and decisions include

- strategic and tactical planning.
- social responsibility and ethics.
- research and analysis.
- developing competitive advantages and a strategic focus for the marketing program.
- marketing strategy decisions, including decisions related to market segmentation and target marketing, the product, pricing, distribution, and promotion, which will create competitive advantages over rival firms.
- implementing and controlling marketing activities.
- developing and maintaining long-term customer relationships, including a shift from transactional marketing to relationship marketing.

Some of the challenges involved in developing marketing strategy include

- unending change—customers change, competitors change, and even the marketing organization changes.
- the fact that marketing is inherently people driven.
- the lack of rules for choosing appropriate marketing activities.
- the basic evolution of marketing and business practice in our society.
- the increasing demands of customers.
- an overall decline in brand loyalty and an increase in price sensitivity among customers.
- increasing customer cynicism about business and marketing activities.
- competing in mature markets with increasing commoditization and little real differentiation among product offerings.
- increasing expansion into foreign markets by U.S. and foreign firms.
- aggressive cost-cutting measures in order to increase competitiveness.
- increasing cooperation with supply chain partners and competitors.

Questions for Discussion

1. Increasing customer power is a continuing challenge to marketers in today's economy. In what ways have you personally experienced this shift in power; either as a customer or as a businessperson? Is this power shift uniform across industries and markets? How so?
2. How concerned are you about privacy and security in today's economy? Are you more concerned about online security or about the potential ramifications of RFID technology? Will these issues still be important in 10 years? Explain.
3. The text argues that marketing possesses very few rules for choosing the appropriate marketing activities. Can you describe any universal rules of marketing that might be applied to most products, markets, customers, and situations?

Exercises

1. The pace of change in our economy was frenetic from 1999 to 2001 (the so called dot-com boom). Shortly thereafter, the bubble burst and the boom collapsed. Perform some research to discover the reasons for this collapse. Are there signs that the same thing is happening again today? If so, what are they? How can firms prevent another collapse?

2. Log on to a metamediary in the automobile metamarket (for example, http://www.edmunds.com, http://www.autos.msn.com, or http://www.carsdirect.com). What aspects of the car buying experience does the metamediary offer? Which aspects of the experience are missing? How does the metamediary overcome these missing aspects?
3. Think about all of the exchanges that you participate in on a weekly or monthly basis. How many of these exchanges have their basis in long-term relationships? How many are simple transaction-based exchanges? Which do you find most satisfying? Why?

CHAPTER 2

Strategic Marketing Planning

Introduction

The process of strategic marketing planning can be either complex or relatively straightforward. As evidenced in Beyond the Pages 2.1, strategic planning for a multinational corporation like General Motors, with its multiple divisions and business units, is more intricate than planning the marketing strategy of a sole-proprietorship. Although the issues differ, the planning process is the same in many ways. Ultimately, the goals and objectives can be similar. Large or small, all marketers strive to meet the needs of their customers while meeting their own business and marketing objectives.

One way to think about the marketing planning process is to picture it as a funnel.[1] At the top are important corporate decisions dealing with the firm's mission, vision, goals, and the allocation of resources among business units. Planning at this level also involves decisions regarding the purchase or divestment of the business units themselves. Procter & Gamble's acquisition of Gillette is a good example of the decision-making complexity that is often typical of major corporate decisions. These decisions trickle down the funnel to the business-unit level where planning focuses on meeting goals and objectives within defined product markets. Planning at this level must take into account and be consistent with decisions made at the corporate level. However, in organizations having only one business unit, corporate and business-unit strategy are the same. The most specific planning and decision making occurs at the bottom of the funnel. It is at this level where organizations make and implement tactical decisions regarding marketing strategy (target markets and the marketing mix) as well as marketing plans.

In this chapter, we examine the planning process at different points in this process. We begin by discussing the overall process by considering the hierarchy of decisions that must be made in strategic marketing planning. Next, we introduce the marketing plan and look at the marketing plan framework used throughout the text. We also discuss the role and importance of the marketing plan in marketing strategy.

Beyond the Pages 2.1

GM'S NEW STRATEGY[2]

After years of dismal sales, financial losses, and market losses to Japanese automakers, General Motors (GM) in 2006 began taking bold moves to restructure its operating philosophy. CEO Richard Wagoner, the architect of GM's new strategy, had to do something to stop the bleeding. GM was losing just under $11 billion per year. Its parts supplier, Delphi, was going through bankruptcy reorganization. And, GM's U.S. market share had fallen 1 percent as car buyers began to shy away from GM products, fearing that the company was headed for its own day in bankruptcy court.

Wagoner's plan has two fronts: aggressive cost cutting and new auto designs. Cost cutting is not new to GM. However, years of downsizing were not enough to solve GM's problems. One of the biggest reasons is GM's bloated $5.3 billion retirement program. So many former GM employees are supported on the program that each active GM employee supports 3.2 retirees and spouses. Overall, the retirement program costs GM roughly $1,500 per vehicle—an amount that quickly cancels out profit on most models.

Wagoner's tactic is to shrink GM to a market defensible size until 2010 when retiree costs will drop as more of them qualify for Social Security and Medicare. To get to that point, GM is closing twelve factories, cutting 30,000 jobs, and offering buyout packages to its entire North American workforce. To raise cash, GM plans to sell a 51 percent controlling interest in its GMAC financing division to Cerberus Capital for $14.1 billion. The sale of GMAC is widely criticized because it has been the main source of GM's revenue for decades. In total, GM's cost-cutting moves are expected to result in a net income of $1.6 billion in 2007.

GM's new strategy also involves new auto designs. GM recently adopted Toyota's strategy of globalization whereby parts, platforms, and production are synchronized around the world. These changes, along with a new development and design team, have lead to more Asian- and European-designed cars appearing in U.S. showrooms. Some recent winning designs include the Saturn Aura and Sky, the redesigned Chevy Tahoe, the Buick Lucerne, the Chevy Equinox and HHR, and many Cadillac offerings. GM will also drop some of its seventy models, including the original Hummer H1. However, GM remains hesitant to trim less successful brands. In particular, many investors are pushing GM to drop its Pontiac division entirely, as the company did with its Oldsmobile division several years ago.

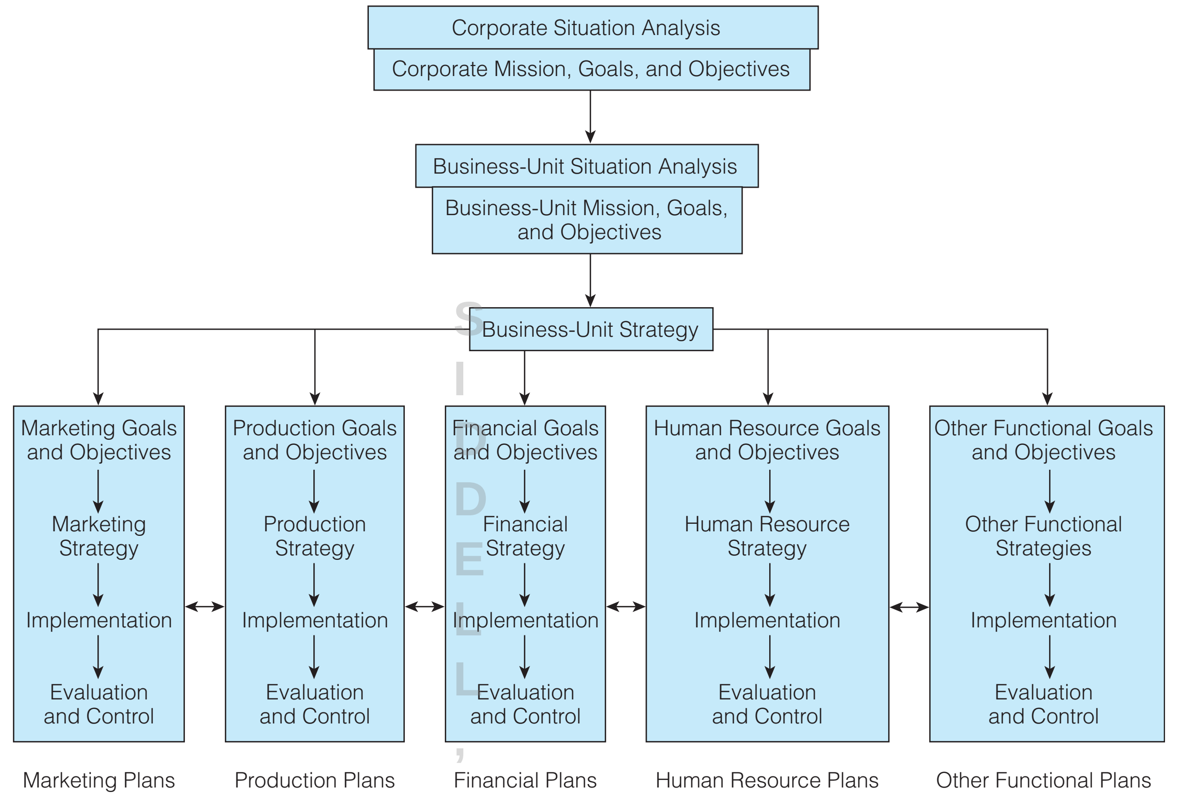
So far, Wagoner's strategy is working. The company reported a $445 million profit in the first quarter of 2006—pushing GM's stock price up more than 32 percent. However, two major issues worry many at GM: oil prices and labor relations. GM will have to renegotiate its master contract with the United Auto Workers when the current contract expires in September 2007. To put GM on more secure financial footing, Wagoner needs significant union concessions. Despite these looming issues, Wagoner and industry analysts are cautiously optimistic. And for now at least, Wall Street has stopped using the "B" word when it discusses GM's future.

Finally, we explore recent developments in strategic planning such as the balanced-performance scorecard.

The Strategic Planning Process

Whether at the corporate, business-unit, or functional level, the planning process begins with an in-depth analysis of the organization's internal and external environments—sometimes referred to as a *situation analysis*. As we will discuss in Chapter 4, this analysis focuses on the firm's resources, strengths, and capabilities vis-à-vis competitive, customer, and environmental issues. Based on an exhaustive review of these relevant environmental issues, the firm establishes its mission, goals, and/or objectives; its

EXHIBIT 2.1 **THE STRATEGIC PLANNING PROCESS**



strategy; and several functional plans. As indicated in Exhibit 2.1, planning efforts within each functional area will result in the creation of a strategic plan for that area. Although we emphasize the issues and processes concerned with developing a customer-oriented marketing strategy and marketing plan, we should stress that organizations develop effective marketing strategies and plans in concert with the organization's mission and goals, as well as the plans from other functional areas. Senior management must coordinate these functional plans in a manner that will achieve the organization's mission, goals, and objectives.

In this text, we are interested in a particular type of functional plan—the marketing plan. A *marketing plan* is a written document that provides the blueprint or outline of the organization's marketing activities, including the implementation, evaluation, and control of those activities. The marketing plan serves a number of purposes. For one, the marketing plan clearly explains how the organization will achieve its goals and objectives. This aspect of marketing planning is vital—not having goals and objectives is like driving a car without knowing your destination. In this sense, the marketing plan serves as the "road map" for implementing the marketing strategy. It instructs employees as to their roles and functions in fulfilling the plan. It also provides specifics regarding the allocation of resources and includes the specific marketing tasks, responsibilities of individuals, and the timing of all marketing activities.

Although our focus is on marketing planning and strategy, we cannot emphasize enough that marketing decisions must be made within the boundaries of the organization's overall mission, goals, and objectives. The sequencing of decision stages outlined in the following sections begins with broad decisions regarding the organizational mission, followed by a discussion of the corporate or business-unit strategy. It is within these contexts that marketing goals/objectives and marketing strategies must be developed and implemented.

Organizational Mission Versus Organizational Vision

To adequately address the role of the organizational mission in strategic planning, we must first understand the subtle differences between the organization's mission and its vision. A *mission,* or *mission statement,* seeks to answer the question "What business are we in?" It is a clear and concise statement (a paragraph or two at most) that explains the organization's reason for existence. By contrast, a *vision,* or *vision statement,* seeks to answer the question "What do we want to become?" For example, Pfizer—the world's largest research-based pharmaceutical company—defines its mission this way: "We dedicate ourselves to humanity's quest for longer, healthier, happier lives through innovation in pharmaceutical, consumer, and animal health products." Compare this to the company's vision: "We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live."[3] Similarly, Google's mission is "to organize the world's information and make it universally accessible and useful." Google's vision is "Never settle for the best." Note that an organization's vision tends to be future oriented, in that it represents where the organization is headed and where it wants to go.

If you ask many businesspeople "What is your reason for existence?" their response is likely to be "To make money." Although that may be their ultimate objective, it is not their raison d'être. Profit has a role in this process, of course, but it is a goal or objective of the firm, not its mission or vision. The mission statement identifies what the firm stands for and its basic operating philosophy. Profit and other performance outcomes are ends and thus are out of place and tend to confuse the mission statement.

Elements of the Mission Statement A well-devised mission statement for any organization, unit within an organization, or single-owner business should answer the same five basic questions. These questions should clarify for the firm's stakeholders (especially employees):

1. Who are we?
2. Who are our customers?
3. What is our operating philosophy (basic beliefs, values, ethics, and so on)?
4. What are our core competencies or competitive advantages?
5. What are our responsibilities with respect to being a good steward of our human, financial, and environmental resources?

A mission statement that delivers a clear answer to each of these questions installs the cornerstone for the development of the marketing plan. If the cornerstone is weak, or not in line with the foundation laid in the preliminary steps, the entire plan will have no real chance of long-term success. Exhibit 2.2 outlines several mission statements considered to be among the best. As you read these statements, consider how well they answer those five questions.

The mission statement is the one portion of the strategic plan that should not be kept confidential. It should tell everyone—customers, employees, investors, competitors, regulators, and society in general—what the firm stands for and why it exists. Mission statements facilitate public relations activities and communicate to customers and others important information that can be used to build trust and long-term relationships. The mission statement should be included in annual reports and major press releases, framed on the wall in every office, and personally owned by every employee of the organization. Goals, objectives, strategies, tactics, and budgets are not for public viewing. A mission statement kept secret, however, is of little value to the organization.

Mission Width and Stability In crafting a mission statement, management should be concerned about the statement's width. If the mission is too broad, it will be meaningless to those who read and build upon it. A mission to "make all people happy around the world by providing them with entertaining products" sounds splendid but provides no useful information. Overly broad missions can lead companies to establish plans and strategies in areas where their strengths are limited. Such endeavors almost always result in failure. Exxon's past foray into office products and Sears' expansion into real estate and financial services serve as reminders of the problems associated with poorly designed mission statements. Although a well-designed mission statement should not stifle an organization's creativity, it must help keep the firm from moving too far from its core competencies.

Overly narrow mission statements that constrain the vision of the organization can prove just as costly. Early in the twentieth century, the railroads defined their business as owning and operating trains. Consequently, the railroad industry had no concerns about the invention of the airplane. After all, they thought, the ability to fly had nothing to do with trains or the railroad business. Today, we know that firms such as American Airlines, Southwest Airlines, and Federal Express, rather than Burlington, Union Pacific, or Santa Fe, dominate the passenger and time-sensitive freight business. The railroads missed this major opportunity because their missions were too narrowly tied to railroads, as opposed to a more appropriate definition encompassing the transportation business.

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EXHIBIT 2.2 THE BEST MISSION STATEMENTS

In their book, *Say It and Live It: The 50 Corporate Mission Statements That Hit the Mark,* Patricia Jones and Larry Kahaner identify 50 companies that possess outstanding mission statements. This exhibit lists several of these companies, along with their 1995, 2000, and 2006 mission statements. Remember that these organizations customized their mission statements to fit their own needs and goals, not to match the criteria established in this chapter.

Boeing

1995 To be the number one aerospace company in the world and among the premier industrial concerns in terms of quality, profitability, and growth.

2000 Our mission is bigger and broader than ever. It is to push not just the envelope of flight, but the entire envelope of value relating to our customers and shareholders.

2006 People working together as a global enterprise for aerospace leadership.

Leo Burnett

1995 The mission of the Leo Burnett Company is to create superior advertising. In Leo's words: "Our primary function in life is to produce the best advertising in the world, bar none. This is to be advertising so interrupting, so daring, so fresh, so engaging, so human, so believable and so well-focused as to themes and ideas that, at one and the same time, it builds a quality reputation for the long haul as it produces sales for the immediate present."

2000 Our Vision: To be an indispensable source of our clients' competitive advantage. Our Mission: We will work with our clients as a community of star-reachers whose ideas build leadership brands through imagination and a sensitive and deeper understanding of human behavior.

2006 We are Leo Burnett. Our aspiration is simply to be the best marketing communications company in the world, bar none.

Celestial Seasonings

1995 Our mission is to grow and dominate the U.S. specialty tea market by exceeding consumer expectations with the best tasting, 100 percent natural hot and iced teas, packaged with Celestial art and philosophy, creating the most valued tea experience. Through leadership, innovation, focus, and teamwork we are dedicated to continuously improving value to our consumers, customers, employees, and stakeholders with a quality-first organization.

2000 We believe in creating and selling healthful, naturally oriented products that nurture people's bodies and uplift their souls. Our products must be

- superior in quality,
- of good value,
- beautifully artistic, and
- philosophically inspiring.

Our role is to play an active part in making this world a better place by unselfishly serving the public. We believe we can have a significant impact on making people's lives happier and healthier through their use of our products.

2006 To create and sell healthful, naturally oriented products that nurture people's bodies and uplift their spirits. Our products must be:

- superior in quality
- of good value
- beautifully artistic
- philosophically inspiring

Our role is to play an active part in making this world a better place by unselfishly serving the public. We can have a significant impact on making people's lives happier and healthier through their use of our products.

Intel Corporation

1995 Do a great job for our customers, employees and stockholders by being the preeminent building block supplier to the computing industry.

2000 Intel's mission is to be the preeminent building block supplier to the worldwide Internet economy.

2006 Intel's corporate mission is to "Do a great job for our customers, employees and stockholders by being the preeminent building block supplier to the worldwide Internet economy."

Source: Patricia Jones and Larry Kahaner, *Say It and Live It: The 50 Corporate Mission Statements That Hit the Mark* (New York: Doubleday, 1995); and the websites of these companies.

Mission stability refers to the frequency of modifications in an organization's mission statement. Of all the components of the strategic plan, the mission should change the least frequently. It is the one element that will likely remain constant through multiple rounds of strategic planning. Goals, objectives, and marketing plan elements will change over time, usually as an annual or quarterly event. When the mission changes, however, the cornerstone has been moved and everything else must change as well. The mission should change only when it is no longer in sync with the firm's capabilities, when competitors drive the firm from certain markets, when new technology changes the delivery of customer benefits, or when the firm identifies a new opportunity that matches its strengths and expertise. As we discussed in Chapter 1, the growth of the Internet and electronic commerce has affected many industries. The importance and role of travel agents, stockbrokers, and car dealers have changed dramatically as customers changed the way that they shop for travel, financial products, and automobiles. Organizations in these and other industries have been forced to refocus their efforts by redefining their mission statements.

Customer-Focused Mission Statements In recent years, firms have realized the role that mission statements can play in their marketing efforts. Consequently, mission statements have become much more customer oriented. People's lives and businesses should be enriched because they have dealt with the organization. A focus on profit in the mission statement means that something positive happens for the owners and managers of the organization, not necessarily for the customers or other stakeholders. For example, a focus on customers is one of the leading reasons for the long-running success of Southwest Airlines. The company's mission has not changed since 1988:

> *The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.*[4]

The mission statement of cultural icon Ben & Jerry's Ice Cream consists of three interrelated parts and is a good example of how an organization can work to have a positive impact on customers and society:[5]

> *Product Mission: To make, distribute & sell the finest quality all natural ice cream & euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.*
>
> *Economic Mission: To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders & expanding opportunities for development and career growth for our employees.*
>
> *Social Mission: To operate the company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally & internationally.*

The infamous 1982 Tylenol cyanide tragedy illustrated the importance of a customer-oriented mission statement. After several deaths occurred as a result of outside tampering with Tylenol capsules, McNeilab and Johnson & Johnson immediately pulled all Tylenol capsules from the market at a direct cost of $100 million. When asked about the difficulty of this decision, executives said that the choice was obvious given Johnson & Johnson's mission statement. That statement, developed decades earlier by the firm's founders, established that Johnson & Johnson's primary responsibility is to the doctors, nurses, patients, parents, and children who prescribe or use the company's products. Because the mission dictated the firm's response to the crisis, Tylenol became an even more dominant player in the pain-reliever market after the tragedy.[6]

Customer-focused mission statements are the norm for charities and humanitarian organizations. These nonprofit organizations—just like their for-profit counterparts—strive to fulfill their missions through effective marketing programs. For instance, the mission of the American Red Cross reads this way:

> *The American Red Cross, a humanitarian organization led by volunteers, guided by its Congressional Charter and the Fundamental Principles of the International Red Cross Movement, will provide relief to victims of disasters and help people prevent, prepare for, and respond to emergencies.*

Unlike other charitable organizations, the American Red Cross holds a key competitive advantage: its congressional charter. This gives the American Red Cross the authority needed to respond no matter the nature or complexity of the crisis. During the aftermath of Hurricanes Katrina, Rita, and Wilma in 2005, the American Red Cross initiated its single largest disaster response in the organization's 125-year history. Through a massive promotional campaign and significant corporate sponsorships, the American Red Cross was able to raise the $2.1 billion needed for relief efforts.[7]

Corporate or Business-Unit Strategy

All organizations need a *corporate strategy*, the central scheme or means for utilizing and integrating resources in the areas of production, finance, research and development, human resources, and marketing, to carry out the organization's mission and achieve the desired goals and objectives. In the strategic planning process, issues such as competition, differentiation, diversification, coordination of business units, and environmental issues all tend to emerge as corporate strategy concerns. In small businesses, corporate strategy and business-unit strategy are essentially the same. Although we use both terms, corporate and business-unit strategy apply to all organizations, from large corporations to small businesses and nonprofit organizations.

Larger firms often find it beneficial to devise separate strategies for each strategic business unit (SBU), subsidiary, division, product line, or other profit center within the parent firm. Business-unit strategy determines the nature and future direction of each business unit, including its competitive advantages, the allocation of its resources, and the coordination of the functional business areas (marketing, production, finance, human resources, and so on). Many organizations manage their differing SBUs in ways that create synergies by providing customers a single-branded solution across multiple markets. Sony, for example, has a number of SBUs and joint ventures, including Sony Electronics (televisions, DVD, mobile electronics, computers), Sony BMG Music Entertainment (record labels such as Arista, Epic, Columbia, and LaFace), Sony Pictures Entertainment (Columbia TriStar studios, movie distribution), Sony Ericsson (mobile multimedia and cell phones), and Sony Computer Entertainment (the PlayStation family of games and consoles).[8]

An important consideration for a firm determining its corporate or business-unit strategy is the firm's capabilities. When a firm possesses capabilities that allow it to serve customers' needs better than the competition, it is said to have a *competitive,* or *differential advantage*. Although a number of advantages come from functions other than marketing—such as human resources, research and development, or production—these functions often create important competitive advantages that can be exploited through marketing activities. For example, Wal-Mart's long-running strategic investments in logistics allow the retailer to operate with lower inventory costs than its competitors—an advantage that translates into lower prices at retail. The 3M Company is highly regarded for its expertise in research and development. The company's advantage in research and innovation allows its thirty-five business units to excel in six different business segments: consumer and office, display and graphics, electro and communications, health care, industrial and transportation, and safety, security, and protection services.[9]

Competitive advantages cannot be fully realized unless targeted customers see them as valuable. The key issue is the organization's ability to convince customers that its advantages are superior to those of the competition. Wal-Mart has been able to convey effectively its low price advantage to customers by adhering to an everyday low-price policy. The company's advertising plays on this fact by using a happy face to "roll back" prices. Interestingly, Wal-Mart's prices are not always the lowest for a given product in a given geographic area. However, Wal-Mart's perception of offering low prices translates into a key competitive advantage for the firm.

Functional Goals and Objectives

Marketing and all other business functions must support the organization's mission and goals, translating these into objectives with specific quantitative measurements. For example, a corporate or business-unit goal to increase return on investment might translate into a marketing objective to increase sales, a production objective to reduce the cost of raw materials, a financial objective to rebalance the firm's portfolio of investments, or a human resources objective to increase employee training and productivity. All functional objectives should be expressed in clear, simple terms so that all personnel understand what type and level of performance that the organization desires. In other words, objectives should be written so that their accomplishment can be measured accurately. In the case of marketing objectives, units of measure might include sales volume (in dollars or units), profitability per unit, percentage gain in market share, sales per square foot, average customer purchase, percentage of customers in the firm's target market who prefer its products, or some other measurable achievement.

It is also important for all functional objectives to be reconsidered for each planning period. Perhaps no strategy arose in the previous planning period to meet the stated objectives. Or perhaps the implementation of new technology allowed the firm to greatly exceed its objectives. In either case, realism demands the revision of functional objectives to remain consistent with the next edition of the functional area plan.

Functional Strategy

Organizations design functional strategies to provide a total integration of efforts that focus on achieving the area's stated objectives. In production, this might involve strategies for procurement, just-in-time inventory control, or warehousing. In human resources, strategies dealing with employee recruitment, selection, retention, training, evaluation, and compensation are often at the forefront of the decision-making process. In marketing strategy, the process focuses on selecting one or more target markets and developing a marketing program that satisfies the needs and wants of members of that target market. AutoZone, for example, targets do-it-yourself "shade-tree mechanics" by offering an extensive selection of automotive replacement parts, maintenance items, and accessories at low prices.

Functional strategy decisions do not develop in a vacuum. The strategy must (1) fit the needs and purposes of the functional area with respect to meeting its goals and objectives, (2) be realistic given the organization's available resources and environment, and (3) be consistent with the organization's mission, goals, and objectives. Within the context of the overall strategic planning process, each functional strategy must be evaluated to determine its effect on the organization's sales, costs, image, and profitability.

Implementation

Implementation involves activities that actually execute the functional area strategy. One of the more interesting aspects of implementation is that all functional plans have at least two target markets: an external market (customers, suppliers, investors, potential employees, the society at large) and an internal market (employees, managers, executives). This occurs because functional plans, when executed, have repercussions both inside and outside the firm. Even seemingly disconnected events in finance or human resources can have an effect on the firm's ultimate customers—the individuals and businesses that buy the firm's products.

For a functional strategy to be implemented successfully, the organization must rely on the commitment and knowledge of its employees—its internal target market. After all, employees have a responsibility to perform the activities that will implement the strategy. For this reason, organizations often execute internal marketing activities designed to gain employee commitment and motivation to implement functional plans.

Evaluation and Control

Organizations design the evaluation and control phase of strategic planning to keep planned activities on target with goals and objectives. In the big picture, the critical issue in this phase is coordination among functional areas. For example, timely distribution and product availability almost always depend on accurate and timely production. By maintaining contact with the production manager, the marketing manager helps ensure effective marketing strategy implementation (by ensuring timely production) and, in the long run, increased customer satisfaction. The need for coordination is especially keen in marketing where the fulfillment of marketing strategy always depends on coordinated execution with other functional strategies.

The key to coordination is to ensure that functional areas maintain open lines of communication at all times. Although this can be quite a challenge, it is helpful if the organizational culture is both internally and externally customer oriented. Maintaining a customer focus is extremely important throughout the strategic planning process but especially so during the implementation, evaluation, and control phases of the process. Functional managers should have the ability to see the interconnectedness of all business decisions and act in the best interests of the organization and its customers.

In some ways, the evaluation and control phase of the planning process is an ending and a beginning. On one hand, evaluation and control occur after a strategy has been implemented. In fact, the implementation of any strategy would be incomplete without an assessment of its success and the creation of control mechanisms to provide and revise the strategy or its implementation—or both, if necessary. On the other hand, evaluation and control serve as the beginning point for the planning process in the next planning cycle. Because strategic planning is a never-ending process, managers should have a system for monitoring and evaluating implementation outcomes on an ongoing basis.

The Marketing Plan

The result of the strategic planning process described in the first portion of this chapter is a series of plans for each functional area of the organization. For the marketing department, the marketing plan provides a detailed formulation of the actions necessary to carry out the marketing program. Think of the marketing plan as an action document—it is the handbook for marketing implementation, evaluation, and control. With that in mind, it is important to note that a marketing plan is not the same as a business plan. Business plans, although they typically contain a marketing plan, encompass other issues such as business organization and ownership, operations, financial strategy, human resources, and risk management. Although business plans and marketing plans are not synonymous, many small businesses will consolidate their corporate, business-unit, and marketing plans into a single document.

A good marketing plan requires a great deal of information from many different sources. An important consideration in pulling all this information together is to maintain a big-picture view while keeping an eye on the details. This requires looking at the marketing plan holistically rather than as a collection of related elements. Unfortunately, adopting a holistic perspective is rather difficult in practice. It is easy to get deeply involved in developing marketing strategy only to discover later that the strategy is inappropriate for the organization's resources or marketing environment. The hallmark of a well-developed marketing plan is its ability to achieve its stated goals and objectives.

In the following sections, we explore the marketing plan in more detail, including the structure of a typical marketing plan. This structure matches the marketing plan worksheets in Appendix A and the sample marketing plan in Appendix B. As we work through the marketing plan structure, keep in mind that a marketing plan can be written in many different ways. Marketing plans can be developed for specific products, brands, target markets, or industries. Likewise, a marketing plan can focus on a specific element of the marketing program such as a product development plan, a promotional plan, a distribution plan, or a pricing plan.

Marketing Plan Structure

All marketing plans should be well organized to ensure that all relevant information is considered and included. Exhibit 2.3 illustrates the structure, or outline, of a typical marketing plan. We say that this outline is "typical," but there are many other ways to organize a marketing plan. Although the actual outline used is not that important, most plans will share common elements described here. Regardless of the specific outline that you use to develop a marketing plan, keep in mind that a good marketing plan outline is all of the following:

- **Comprehensive** Having a comprehensive outline is essential to ensure that there are no omissions of important information. Of course, every element of the outline may not be pertinent to the situation at hand, but at least each element receives consideration.
- **Flexible** Although having a comprehensive outline is essential, flexibility should not be sacrificed. Any outline that you choose must be flexible enough to be modified to fit the unique needs of your situation. Because all situations and organizations are different, using an overly rigid outline is detrimental to the planning process.
- **Consistent** Consistency between the marketing plan outline and the outline of other functional area plans is an important consideration. Consistency may also include the connection of the marketing plan outline to the planning process used at the corporate or business-unit levels. Maintaining consistency ensures that executives and employees outside of marketing will understand the marketing plan and the planning process.
- **Logical** Because the marketing plan must ultimately sell itself to top managers, the plan's outline must flow in a logical manner. An illogical outline could force top managers to reject or underfund the marketing plan.

The marketing plan structure that we discuss here has the ability to meet all four of these points. Although the structure is comprehensive, you should freely adapt the outline to match the unique requirements of your situation.

EXHIBIT 2.3 **MARKETING PLAN STRUCTURE**

I. Executive Summary
   a. Synopsis
   b. Major aspects of the marketing plan

II. Situation Analysis
   a. Analysis of the internal environment
   b. Analysis of the customer environment
   c. Analysis of the external environment

III. SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats)
   a. Strengths
   b. Weaknesses
   c. Opportunities
   d. Threats
   e. Analysis of the SWOT matrix
   f. Developing competitive advantages
   g. Developing a strategic focus

IV. Marketing Goals and Objectives
   a. Marketing goals
   b. Marketing objectives

V. Marketing Strategy
   a. Primary (and secondary) target market
   b. Product strategy
   c. Pricing strategy
   d. Distribution/supply chain strategy
   e. Integrated marketing communication (promotion) strategy

VI. Marketing Implementation
   a. Structural issues
   b. Tactical marketing activities

VII. Evaluation and Control
   a. Formal controls
   b. Informal controls
   c. Implementation schedule and timeline
   d. Marketing audits

Executive Summary The *executive summary* is a synopsis of the overall marketing plan, with an outline that conveys the main thrust of the marketing strategy and its execution. The purpose of the executive summary is to provide an overview of the plan so that the reader can quickly identify key issues or concerns related to his or her role in implementing the marketing strategy. Therefore, the executive summary does not provide detailed information found in the following sections or any other detailed information that supports the final plan. Instead, this synopsis introduces the major aspects of the marketing plan, including objectives, sales projections, costs, and performance evaluation measures. Along with the overall thrust of the marketing strategy, the executive summary should also identify the scope and time frame for the plan. The idea is to give the reader a quick understanding of the breadth of the plan and its time frame for execution.

Individuals both within and outside the organization may read the executive summary for reasons other than marketing planning or implementation. Ultimately, many users of a marketing plan ignore some of the details because of the role that they play. The CEO, for example, may be more concerned with the overall cost and expected return of the plan and less interested in the plan's implementation. Financial institutions or investment bankers may want to read the marketing plan before approving any necessary financing. Likewise, suppliers, investors, or others who have a stake in the success of the organization sometimes receive access to the marketing plan. In these cases, the executive summary is critical because it must convey a concise overview of the plan and its objectives, costs, and returns.

Although the executive summary is the first element of a marketing plan, it should always be the last element to be written because it is easier (and more meaningful) to write after the entire marketing plan has been developed. There is another good reason to write the executive summary last: It may be the only element of the marketing plan read by a large number of people. As a result, the executive summary must accurately represent the entire marketing plan.

Situation Analysis The next section of the marketing plan is the *situation analysis*, which summarizes all pertinent information obtained about three key environments: the internal environment, the customer environment, and the firm's external environment. The analysis of the firm's internal environment considers issues such as the availability and deployment of human resources, the age and capacity of equipment or technology, the availability of financial resources, and the power and political struggles within the firm's structure. In addition, this section summarizes the firm's current marketing objectives and performance. The analysis of the customer environment examines the current situation with respect to the needs of the target market (consumer or business), anticipated changes in these needs, and how well the firm's products presently meet these needs. Finally, the analysis of the external environment includes relevant external factors—competitive, economic, sociocultural, political/legal, and technological—that can exert considerable direct and indirect pressures on the firm's marketing activities.

A clear and comprehensive situation analysis is one of the most difficult parts of developing a marketing plan. This difficulty arises because the analysis must be both comprehensive and focused


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on key issues in order to prevent information overload—a task actually made more complicated by advances in information technology. The information for a situation analysis may be obtained internally through the firm's marketing information system, or it may have to be obtained externally through primary or secondary marketing research. Either way, the challenge is often having too much data and information to analyze rather than having too little.

SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis *SWOT analysis* focuses on the internal factors (strengths and weaknesses) and external factors (opportunities and threats)—derived from the situation analysis in the preceding section—that give the firm certain advantages and disadvantages in satisfying the needs of its target market(s). These strengths, weaknesses, opportunities, and threats should be analyzed relative to market needs and competition. This analysis helps the company determine what it does well and where it needs to make improvements.

SWOT analysis has gained widespread acceptance because it is a simple framework for organizing and evaluating a company's strategic position when developing a marketing plan. However, like any useful tool, SWOT analysis can be misused unless one conducts the appropriate research to identify key variables that will affect the performance of the firm. A common mistake in SWOT analysis is the failure to separate internal issues from external issues. Strengths and weaknesses are internal issues unique to the firm conducting the analysis. Opportunities and threats are external issues that exist independently of the firm conducting the analysis. Another common mistake is to list the firm's strategic alternatives as opportunities. However, alternatives belong in the discussion of marketing strategy, not in the SWOT analysis.

At the conclusion of the SWOT analysis, the focus of the marketing plan shifts to address the strategic focus and competitive advantages to be leveraged in the strategy. The key to developing strategic focus is to match the firm's strengths with its opportunities to create capabilities in delivering value to customers. The challenge for any firm at this stage is to create a compelling reason for customers to purchase its products over those offered by competitors. It is this compelling reason that then becomes the framework or strategic focus around which the strategy can be developed. As explained in Beyond the Pages 2.2, even perennial successes like Dell Computer shift their strategic thinking to stay fresh and competitive.

Marketing Goals and Objectives Marketing goals and objectives are formal statements of the desired and expected outcomes resulting from the marketing plan. *Marketing goals* are broad, simple statements of what will be accomplished through the marketing strategy. The major function of goals is to guide the development of objectives and to provide direction for resource allocation decisions. *Marketing objectives* are more specific and are essential to planning. Objectives should be stated in quantitative terms to permit reasonably precise measurement. The quantitative nature of marketing objectives makes them easier to implement after development of the strategy.

Beyond the Pages 2.2

DELL'S MAKEOVER[10]

Dell, the onetime bedrock of growth for investors, made a surprising announcement in May 2006 that it would not meet its earning projections for the first quarter. The announcement pushed Dell shares down to around $25—a point more than 40 percent less than a year earlier. This was the third time in four quarters that Dell had failed to meet revenue expectations. Of course, Dell was not losing money. Still, investors were left wondering what had happened to the consistent double-digit growth posted by Dell over the past several years.

Competition is what happened. Dell's chief U.S. rival—Hewlett-Packard—had completed its cost restructuring and was now able to offer PCs at prices that either matched or beat Dell's. Foreign, low-cost producers—such as Lenovo and Acer—were also stealing market share away from Dell. Not only had Dell lost its edge in pricing, but the quality of the company's customer service was also in decline. The end result: Dell's share of the worldwide PC market fell from 18.6 percent to 18.1 percent, while its U.S. share fell from 33.9 percent to 32.3 percent.

Increasing competition had forced Dell to cut prices—often to rock-bottom levels. In the past, this strategy wouldn't have been a problem for Dell. But cost improvements throughout the industry had cut Dell's pricing advantage in half to roughly 5 percent. This small pricing advantage was not enough to maintain Dell's edge in the highly competitive market. Analysts argued that Dell's price cutting went too far and that the company did not invest enough in the "customer experience" as it attempted to maintain margins.

To break away from its price-cutting strategy, Dell underwent a makeover. To protect the brand, Dell planned to spend $100 million to improve customer service and technical support. In the initial part of this effort, Dell added more than 2,000 workers to cut phone waiting times by 50 percent. The company also began aggressively pushing its mid- and high-end machines, most notably its XPS line of desktops and notebooks. Part of this strategy was Dell's acquisition of Alienware—a Miami-based PC maker known for its high-end gaming machines and hip styling. Dell also announced that it would begin using AMD processor chips in its line of high-end servers, a move that ended Intel's dominance in Dell machines. Both analysts and computer experts hailed this move because AMD processors are considered by many to be more powerful and energy efficient than Intel's chips. Some speculate that Dell will eventually offer AMD processors in desktops and notebooks because AMD chips are used in many Alienware machines.

Dell executives believe that the company's makeover will return it to double-digit growth. However, industry experts don't expect Dell to end its bargain pricing anytime soon. They argue that the key to Dell's success is to give consumers a compelling nonprice reason to buy its machines.

This section of the marketing plan has two important purposes. First, it sets the performance targets that the firm seeks to achieve by giving life to its strategic focus through its marketing strategy (that is, what the firm hopes to achieve). Second, it defines the parameters by which the firm will measure actual performance in the evaluation and control phase of the marketing plan (that is, how performance will actually be measured). At this point, it is important to remember that neither goals nor objectives can be developed without a clearly defined mission statement. Marketing goals must be consistent with the firm's mission, and marketing objectives must flow naturally from the marketing goals.

Marketing Strategy This section of the marketing plan outlines how the firm will achieve its marketing objectives. In Chapter 1, we said that marketing strategies involve selecting and analyzing target markets and creating and maintaining an appropriate marketing program (product, distribution, promotion, and price) to satisfy the needs of those target markets. It is at this level where the firm will detail how it will gain a competitive advantage by doing something better than the competition: Its products must be of higher quality than competitive offerings, its prices must be consistent with the level of quality (value), its distribution methods must be as efficient as possible, and its promotions must be more effective in communicating with target customers. It is also important that the firm attempt to make these advantages sustainable. Thus, in its broadest sense, marketing strategy refers to how the firm will manage its relationships with customers in a manner that gives it an advantage over the competition.

Marketing Implementation The implementation section of the marketing plan describes how the marketing program will be executed. This section of the marketing plan answers several questions with respect to the marketing strategies outlined in the preceding section:

1. What specific marketing activities will be undertaken?
2. How will these activities be performed?
3. When will these activities be performed?
4. Who is responsible for the completion of these activities?
5. How will the completion of planned activities be monitored?
6. How much will these activities cost?

Without a good plan for implementation, the success of the marketing strategy is seriously jeopardized. For this reason, the implementation phase of the marketing plan is just as important as the marketing strategy phase. You should remember, too, that implementation hinges on gaining the support of employees: Employees implement marketing strategies, not organizations. As a result, issues such as leadership, employee motivation, communication, and employee training are critical to implementation success.

Evaluation and Control The final section of the marketing plan details how the results of the marketing program will be evaluated and controlled. Marketing control involves establishing performance standards, assessing actual performance by comparing it with these standards, and taking corrective action if necessary to reduce discrepancies between desired and actual performance. Performance standards should be tied back to the objectives stated earlier in the plan. These standards can be based on increases in sales volume, market share, or profitability or even advertising standards such as brand-name recognition or recall. Regardless of the standard selected, all performance standards must be agreed upon before the results of the plan can be assessed.

The financial assessment of the marketing plan is also an important component of evaluation and control. Estimates of costs, sales, and revenues determine financial projections. In reality, budgetary considerations play a key role in the identification of alternative strategies. The financial realities of the firm must be monitored at all times. For example, proposing to expand into new geographic areas or alter products without financial resources is a waste of time, energy, and opportunity. Even if funds are available, the strategy must be a "good value" and provide an acceptable return on investment to be a part of the final plan.

Finally, should it be determined that the marketing plan has not lived up to expectations; the firm can use a number of tools to pinpoint potential causes for the discrepancies. One such tool is the *marketing audit*—a systematic examination of the firm's marketing objectives, strategy, and performance. The marketing audit can help isolate weaknesses in the marketing plan and recommend actions to help improve performance. The control phase of the planning process also outlines the actions that can be taken to reduce the differences between planned and actual performance.

Using the Marketing Plan Structure

In Appendix A are marketing plan worksheets that expand the marketing plan structure into a comprehensive framework for developing a marketing plan. These worksheets are designed to be *comprehensive, flexible,* and *logical*. The consistency of this framework with other planning documents will depend on the planning structure used in other functional areas of an organization. However, this framework is certainly capable of being consistent with the plans from other functional areas.

Although you may not use every single portion of the worksheets, you should at least go through them in their entirety to ensure that all important information is present. You should note that the sample marketing plan provided in Appendix B uses this same framework. However, this plan does not match the framework *exactly* because the framework was adapted to match the characteristics of a unique planning situation. You will also find additional marketing plan examples on our text's website (http://www.thomsonedu.com/marketing/ferrell).

Before we move ahead, we offer the following tips for using the marketing plan framework to develop a marketing plan:

- **Plan ahead** Writing a comprehensive marketing plan is very time consuming, especially if the plan is under development for the first time. Initially, most of your time will be spent on the situation analysis. Although this analysis is very demanding, the marketing plan has little chance for success without it.
- **Revise, then revise again** After the situation analysis, you will spend most of your time revising the remaining elements of the marketing plan to ensure that they mesh with each other. Once you have written a first draft of the plan, put it away for a day or so. Then, review the plan with a fresh perspective and fine-tune sections that need changing. Because the revision process always takes more time than expected, it is wise to begin the planning process far in advance of the due date for the plan.

- **Be creative** A marketing plan is only as good as the information that it contains and the effort and creativity that go into its creation. A plan developed half-heartedly will collect dust on the shelf.
- **Use common sense and judgment** Writing a marketing plan is an art. Common sense and judgment are necessary to sort through all of the information, weed out poor strategies, and develop a sound marketing plan. Managers must always weigh any information against its accuracy, as well as their own intuition, when making marketing decisions.
- **Think ahead to implementation** As you develop the plan, always be mindful of how the plan will be implemented. Great marketing strategies that never see the light of day do little to help the organization meet its goals. Good marketing plans are those that are realistic and doable given the organization's resources.
- **Update regularly** Once the marketing plan has been developed and implemented, it should be updated regularly with the collection of new data and information. Many organizations update their marketing plans on a quarterly basis to ensure that the marketing strategy remains consistent with changes in the internal, customer, and external environments. Under this approach, you will always have a working plan that covers 12 months into the future.
- **Communicate to others** One critical aspect of the marketing plan is its ability to communicate to colleagues, particularly top managers who look to the marketing plan for an explanation of the marketing strategy, as well as for a justification of needed resources, like the marketing budget.[11] The marketing plan also communicates to line managers and other employees by giving them points of reference to chart the progress of marketing implementation. A survey of marketing executives on the importance of the marketing plan revealed that

> *the process of preparing the plan is more important than the document itself. . . . A marketing plan does compel attention, though. It makes the marketing team concentrate on the market, on the company's objectives, and on the strategies and tactics appropriate to those objectives. It's a mechanism for synchronizing action.*[12]

Research indicates that organizations that develop formal, written strategic marketing plans tend to be more tightly integrated across functional areas, more specialized, and more decentralized in decision making. The end result of these marketing plan efforts is improved financial and marketing performance.[13] Given these benefits, it is surprising that many firms do not develop formal plans to guide their marketing efforts. For example, a survey of CEOs done by the American Banking Association found that only 44 percent of community banks have a formal marketing plan.[14]

Purposes and Significance of the Marketing Plan

The purposes of a marketing plan must be understood to appreciate its significance. A good marketing plan will fulfill these five purposes in detail:

1. It explains both the present and future situations of the organization. This includes the situation and SWOT analysis and the firm's past performance.
2. It specifies the expected outcomes (goals and objectives) so that the organization can anticipate its situation at the end of the planning period.
3. It describes the specific actions that are to take place so that the responsibility for each action can be assigned and implemented.
4. It identifies the resources that will be needed to carry out the planned actions.
5. It permits the monitoring of each action and its results so that controls may be implemented.

Feedback from monitoring and control provides information to start the planning cycle again in the next time frame.

These five purposes are very important to various persons in the firm. Line managers have a particular interest in the third purpose (description of specific actions) because they are responsible for ensuring the implementation of marketing actions. Middle-level managers have a special interest in the fifth purpose (monitoring and control) because they want to ensure that tactical changes can be made, if needed. These managers must also be able to evaluate why the marketing strategy does or does not succeed.

The most pressing concern for success, however, may lie in the fourth purpose: identifying needed resources. The marketing plan is the means of communicating the strategy to top executives who make the critical decisions regarding the productive and efficient allocation of resources. Very sound marketing plans can prove unsuccessful if implementation of the plan is not adequately funded. It is important to remember that marketing is not the only business function competing for scarce resources. Other functions such as finance, research and development, and human resources have strategic plans of their own. It is in this vein that the marketing plan must sell itself to top management.

Organizational Aspects of the Marketing Plan

Who writes the marketing plan? In many organizations, the marketing manager, brand manager, or product manager writes the marketing plan. Some organizations develop marketing plans through committees. Others will hire professional marketing consultants to write the marketing plan. However, in most firms, the responsibility for planning lies at the level of a marketing vice president or marketing director.[15] The fact that top managers develop most marketing plans does not necessarily refute the logic of having the brand or product manager prepare the plan. However, except in small organizations where one person both develops and approves the plan, the authority to approve the marketing plan is typically vested in upper-level executives. At this stage, top managers usually ask two important questions:

1. Will the proposed marketing plan achieve the desired marketing, business-unit, and corporate goals and objectives?
2. Are there alternative uses of resources that would better meet corporate or business-unit objectives than the submitted marketing plan?

In most cases, *final* approval actually lies with the president, chairman, or CEO of the organization.[16] Many organizations also have executive committees that evaluate and screen marketing plans before submission to the approving executive. In the end, regardless of who writes the marketing plan, the plan must be clear and persuasive to win the approval of the decision makers who make the evaluation. It is also critical that these individuals make efficient and timely decisions with respect to the marketing plan. To give the plan every chance for success, very little time should elapse between the completion of the plan and its implementation.

Once a marketing plan has been approved, it still faces many obstacles before its marketing programs can come to fruition. Exhibit 2.4 outlines some of these obstacles. One major hurdle involves the relative time horizon of the organization's key stakeholders, particularly its managers and investors. It is quite common for American firms to ignore long-range strategy and focus on the near term. Typically, this is caused by a compensation structure that rewards executives for short-term financial results such as profit, market capitalization, or stock price. Unfortunately, this mind-set can play havoc on many marketing activities—such as advertising to build brand awareness—because their results are only apparent over longer time horizons. Consequently, many firms will shift strategies "midstream" rather than wait for results to emerge.

Maintaining Customer Focus and Balance in Strategic Planning

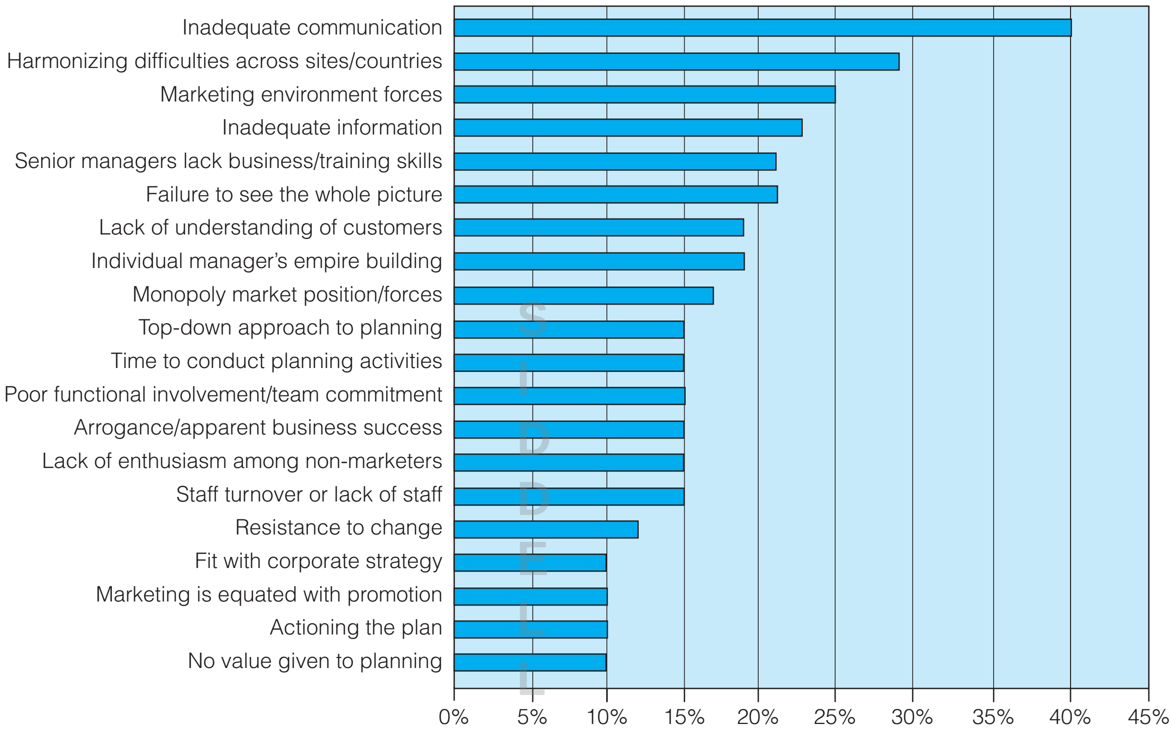
In the past two decades, many firms have changed the focus and content of their strategic planning efforts and marketing plans. Of these changes, two stand out: (1) renewed emphasis on the customer and (2) the advent of balanced strategic planning. These changes require shifting focus from the company's products to the unique requirements of specific target market segments. Firms have also had to become more astute at linking marketing activities to other functional areas.

Customer-Focused Planning

Focusing on the customer has not been the hallmark of strategic planning throughout history. Early in the twentieth century, planning focused on production ideals

EXHIBIT 2.4

MAJOR OBSTACLES TO DEVELOPING AND IMPLEMENTING MARKETING PLANS



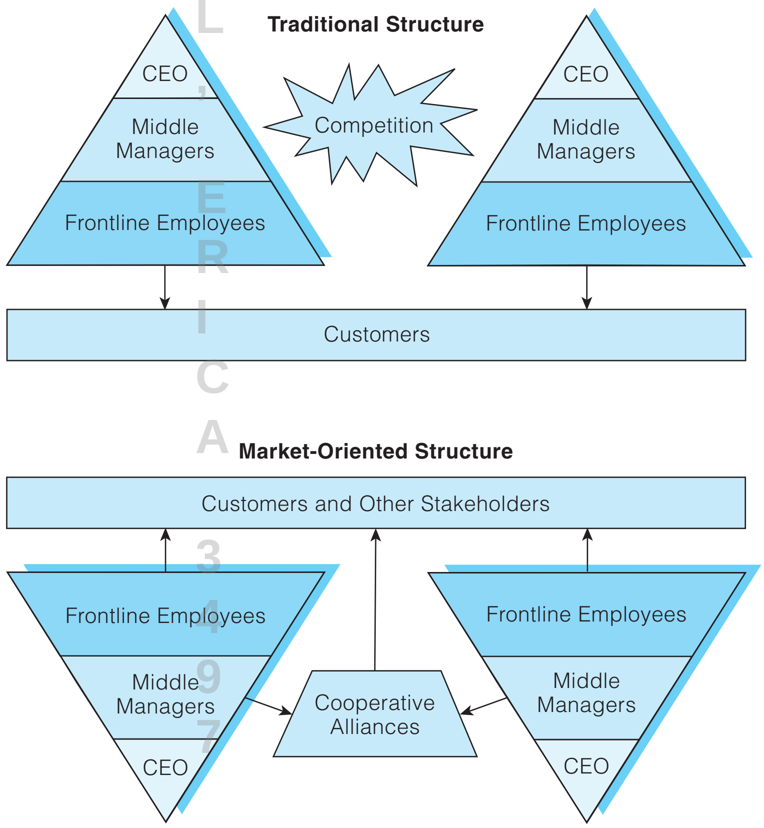
Source: Lyndon Simkin, "Barriers Impeding Effective Implementation of Marketing Plans—A Training Agenda," Journal of Business and Industrial Marketing 17 (Winter 2002): 13. Permission granted by Emerald Group Publishing Corp., http://www.emeraldinsight.com.

such as efficiency and quality. Automobile pioneer Henry Ford has long been credited with the statement that customers could have any color car that they wanted as long as it was black. This mentality, though it worked well in its day, meant that strategic planning proceeded with little regard for customer needs and wants. Today, cars, trucks, and SUVs (sport utility vehicles) come in an array of colors that Henry Ford would have never contemplated. By the middle of the twentieth century, strategic planning focused on *selling* products to customers rather than making products for customers. Marketing strategies during this time concentrated on overcoming customer resistance and convincing them to buy products whether they needed them or not. Today, we no longer see door-to-door sales of vacuum cleaners, brushes, or encyclopedias.

The cornerstone of marketing thought and practice during the mid-to-late twentieth century was the marketing concept, which focused on customer satisfaction and the achievement of the firm's objectives. Having a market or customer orientation meant putting customers' needs and wants first. This shift in thinking led to the growth of marketing research to determine unmet customer needs and systems for satisfying those needs. Today's twenty-first-century marketing organizations move one step beyond the marketing concept to focus on long-term, value-added relationships with customers, employees, suppliers, and other partners. The focus has shifted from customer transactions to customer relationships and from competition to collaboration.

Market-oriented firms are those that successfully generate, disseminate, and respond to market information. These firms focus on customer analysis, competitor analysis, and integrating the firm's resources to provide customer value and satisfaction as well as long-term profits.[17] To be successful, the firm must be able to focus its efforts and resources toward understanding their customers in ways that enhance the firm's ability to generate sustainable competitive advantages.[18] By creating organizational cultures that put customers first, market-oriented firms tend to perform at higher levels and reap the benefits of more highly satisfied customers. Exhibit 2.5 depicts the difference between a traditional and market-oriented organizational structure. Where traditional structures are very authoritative, with

EXHIBIT 2.5 **TRADITIONAL VERSUS MARKET-ORIENTED ORGANIZATIONAL STRUCTURES**



decision-making authority emanating from the top of the hierarchy, market-oriented structures decentralize decision making.

In a market-oriented organization, every level of the organization has its focus on serving customer needs. Each level serves the levels above it by taking any actions necessary to ensure that each level performs its job well. In this case, the role of the CEO is to ensure that his or her employees have everything they need to perform their jobs well. This same service mentality carries through all levels of the organization, including customers. Thus, the job of a frontline manager is to ensure that frontline employees are capable and efficient. The end result of the market-oriented design is a complete focus on customer needs.

In today's business environment, an orientation toward customers also requires that the organization's suppliers and even competitors be customer oriented as well. Though competing firms can continue to serve customers separately, customers can also be served through cooperative efforts that place customers ahead of competitive interests. For example, Toyota has a number of partnerships with rival automakers, particularly focused on emerging hybrid technology. Nissan is using Toyota's hybrid fuel system in its vehicles, while GM is collaborating with Toyota in developing new fuel-cell technologies. GM and Toyota have a long-standing relationship in the joint production of vehicles including the Toyota Corolla, the Pontiac Vibe, and the Toyota Tacoma.[19]

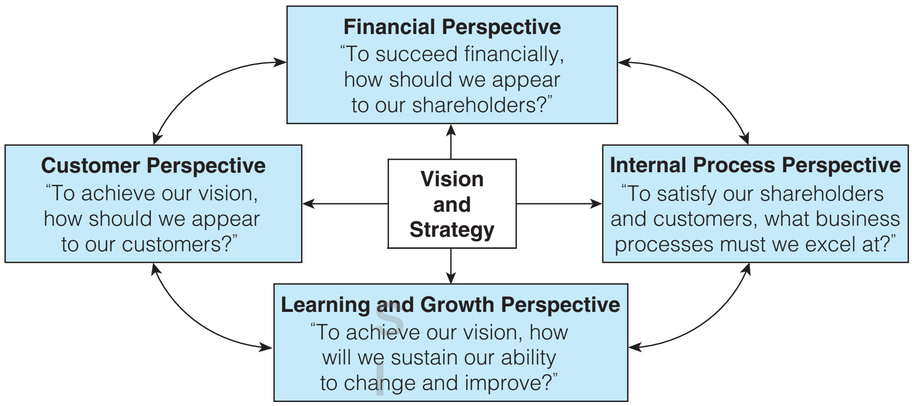
Balanced Strategic Planning

The shift to balanced strategic planning was borne out of necessity. As firms approached the twenty-first century, they realized that traditional planning and measurement approaches could not capture value created by the organization's intangible assets. These assets—including such vital issues as customer relationships, processes, human resources, innovation, and information—were becoming increasingly important to business success, but they were not being reported through traditional financial measures. One solution to this problem was the development of the balanced-performance scorecard by Robert Kaplan and David Norton of Harvard University.[20] Their approach to strategic planning is illustrated in Exhibit 2.6.

The basic tenet of the balanced-performance scorecard is that firms can achieve better performance if they align their strategic efforts by approaching strategy from four complementary perspectives: financial, customer, internal process, and learning and growth. The financial perspective is the traditional view of strategy and performance. This perspective is vital but should be balanced by the other components of the scorecard. The customer perspective looks at customer satisfaction metrics as a key indicator of firm performance, particularly as the firm moves ahead. Financial measures are not suited to this task because they report past performance rather than current performance. The internal process perspective focuses on the way that the business is running by looking at both mission-critical and routine processes that drive day-to-day activity. Finally, the learning and growth perspective focuses on people and includes such vital issues as corporate culture, employee training, communication, and knowledge management.[21]

EXHIBIT 2.6

THE BALANCED PERFORMANCE SCORECARD



Source: Robert S. Kaplan and David P. Norton, *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (Boston: Harvard Business School Press, 2001).

The balanced scorecard has been used successfully by many public- and private-sector organizations. Kaplan and Norton found that these successful firms typically adhered to five common principles when implementing the balanced scorecard:[22]

1. *Translate the strategy into operational terms.* Successful firms can illustrate the cause-and-effect relationships that show how intangible assets are transformed into value for customers and other stakeholders. This provides a common frame of reference for all employees.

2. *Align the organization to strategy.* Successful firms link different functional areas through common themes, priorities, and objectives. This creates synergy within the organization that ensures that all efforts are coordinated.

3. *Make strategy everyone's everyday job.* Successful firms move the strategy from the executive boardroom to the front lines of the organization. They do this through communication, education, allowing employees to set personal objectives, and tying incentives to the balanced scorecard.

4. *Make strategy a continual process.* Successful firms hold regular meetings to review strategy performance. They also establish a process whereby the firm can learn and adapt as the strategy evolves.

5. *Mobilize change through executive leadership.* Successful firms have committed energetic leaders who champion the strategy and the balanced scorecard. This ensures that the strategy maintains momentum. Good leaders also prevent the strategy from becoming an obstacle to future progress.

The balanced scorecard doesn't refute the traditional approach to strategic planning. It does, however, caution business leaders to look at strategy and performance as a multidimensional issue. Financial measures, though important, simply cannot tell the whole story. One of the major benefits of the balanced scorecard is that it forces organizations to explicitly consider *during strategy formulation* those factors that are critical to strategy execution. We cannot stress this point enough. Good strategy is always developed with an eye toward how it will be implemented. Issues within the balanced scorecard such as employee training, corporate culture, organizational learning, and executive leadership are critical to the implementation of any strategy.

Lessons from Chapter 2

Strategic marketing planning

- begins with broad decisions and then flows into more specific decisions as the process proceeds through subsequent planning stages.
- involves establishing an organizational mission, corporate or business-unit strategy, marketing goals and objectives, marketing strategy, and ultimately a marketing plan.
- must be consistent with the organization's mission and the corporate or business-unit strategy.
- must be coordinated with all functional business areas to ensure that the organization's goals and objectives will be considered in the development of each functional plan, one of which is the marketing plan.
- establishes marketing-level goals and objectives that support the organization's mission, goals, and objectives.
- develops a marketing strategy, which includes selecting and analyzing target markets and creating and maintaining an appropriate marketing program to satisfy the needs of customers in those target markets.
- ultimately results in a strategic market plan that outlines the activities and resources required to fulfill the organization's mission and achieve its goals and objectives.

The organizational mission

- answers the broad question "What business are we in?"
- identifies what the firm stands for and its basic operating philosophy by answering five basic questions:
  1. Who are we?
  2. Who are our customers?
  3. What is our operating philosophy (basic beliefs, values, ethics, and so on)?
  4. What are our core competencies or competitive advantages?

5. What are our responsibilities with respect to being a good steward of our human, financial, and environmental resources?

- is not the same as the organization's vision, which seeks to answer the question "What do we want to become?"
- should not be too broad or too narrow, thereby rendering it useless for planning purposes.
- should be customer oriented. People's lives and businesses should be enriched because they have dealt with the organization.
- should never focus on profit. A focus on profit in the mission means that something positive happens for the owners and managers of the organization, not necessarily for the customers or other stakeholders.
- must be owned and supported by employees if the organization has any chance of success.
- should not be kept secret but instead communicated to everyone—customers, employees, investors, competitors, regulators, and society in general.
- should be the least changed part of the strategic plan.

Business-unit strategy

- is the central scheme or means for utilizing and integrating resources in the areas of production, finance, research and development, human resources, and marketing to carry out the organization's mission and achieve the desired goals and objectives.
- is associated with developing a competitive advantage where the firm leverages its capabilities in order to serve customers' needs better than the competition.
- determines the nature and future direction of each business unit, including its competitive advantages, the allocation of its resources, and the coordination of functional business areas (marketing, production, finance, human resources, and so on).
- is essentially the same as corporate strategy in small businesses.

The marketing plan

- provides a detailed explanation of the actions necessary to execute the marketing program and thus requires a great deal of effort and organizational commitment to create and implement.
- should be well organized to ensure that it considers and includes all relevant information. The typical structure or outline of a marketing plan includes these elements:

    Executive summary
    Situation analysis

SWOT analysis
Marketing goals and objectives
Marketing strategies
Marketing implementation
Evaluation and control

- should be based on an outline that is comprehensive, flexible, consistent, and logical.
- fulfills five purposes:

  Explains both the present and future situations of the organization.
  Specifies expected outcomes (goals and objectives).
  Describes the specific actions that are to take place and assigns responsibility for each action.
  Identifies the resources needed to carry out the planned actions.
  Permits the monitoring of each action and its results so that controls may be implemented.

- serves as an important communication vehicle to top management and to line managers and employees.
- is an important document, but not nearly as important as the knowledge gained from going through the planning process itself.
- is most often prepared by the director or vice president of marketing but is ultimately approved by the organization's president, chairman, or CEO.

Customer-focused strategic planning

- requires that organizations shift focus from products to the requirements of specific target market segments, from customer transactions to customer relationships and from competition to collaboration.
- puts customers' needs and wants first and focuses on long-term, value-added relationships with customers, employees, suppliers, and other partners.
- must be able to focus its efforts and resources toward understanding customers in ways that enhance the firm's ability to generate sustainable competitive advantages.
- instills a corporate culture that places customers at the top of the organizational hierarchy.
- finds ways to cooperate with suppliers and competitors to serve customers more effectively and efficiently.

Balanced strategic planning

- was borne out of necessity because traditional planning and measurement approaches could not capture value created by an organization's intangible assets (customer relationships, processes, human resources, innovation, and information).

- was advocated strongly by Kaplan and Norton with their creation of the balanced-performance scorecard.
- considers traditional financial indicators of performance but also looks at planning from three additional perspectives: customers, internal processes, and learning and growth.
- is used successfully by many public- and private-sector organizations. Successful firms are those that adhere to five principles when implementing the balanced scorecard:

  Translate the strategy into operational terms.
  Align the organization to strategy.
  Make strategy everyone's everyday job.
  Make strategy a continual process.
  Mobilize change through executive leadership.

- does not refute the traditional approach to strategic planning, but it does caution business leaders to look at strategy and performance as a multidimensional issue.
- forces organizations to explicitly consider *during strategy formulation* those factors that are critical to strategy execution. Good strategy is always developed with an eye toward how it will be implemented.

Questions for Discussion

1. In many organizations, marketing does not have a place of importance in the organizational hierarchy. Why do you think this happens? What are the consequences for a firm that gives little importance to marketing relative to other business functions?
2. Defend or contradict this statement: Developing marketing strategy is more important than implementing marketing strategy because if the strategy is flawed its implementation doesn't matter.
3. What are some of the potential difficulties in approaching strategic planning from a balanced perspective? Isn't financial performance still the most important perspective to take in planning? Explain.

Exercises

1. Review each of the mission statements listed in Exhibit 2.2. Do they follow the guidelines discussed in this chapter? How well does each answer the five basic questions? What do you make of the changes or lack thereof in these mission statements over time?
2. Talk with a small-business owner about the strategic planning process that he or she uses. Do they have a mission statement? Marketing goals and objectives?

A marketing plan? What are the major issues that he or she faces in implementing their marketing program?

3. Palo Alto Software maintains a website devoted to business and marketing plans. Log on to http://www.bplans.com/ma/ and take a look at a few of the sample marketing plans available. Do these plans use the same framework discussed in this chapter?

CASE 2

USA Today and the Future of Information Distribution

USA Today, subtitled "The Nation's Newspaper," debuted in 1982 as America's first national general-interest daily newspaper. The paper was the brainchild of Allen H. Neuharth, who until 1989 was Chairman of Gannett Co., Inc.—a diversified international $7.6 billion news, information, and communications company. Gannett is a global information juggernaut that publishes 100 daily and 1,000 nondaily newspapers, operates 20 broadcast television stations and roughly 130 websites, and is engaged in marketing, commercial printing, newswire services, data services, and news programming. Gannett is currently the largest U.S. newspaper group in terms of circulation—its 100 daily newspapers have a combined circulation of 7.3 million.

When *USA Today* debuted in 1982, it achieved rapid success due to its innovative format. No other media source had considered a national newspaper written in shorter pieces than a traditional paper and sprinkled with eye-catching, colorful photos, graphs, and charts. Designed to address the needs of a sound-byte generation, readers found *USA Today*'s content refreshing and more engaging than other papers. Circulation grew rapidly from roughly 350,000 in 1982 to approximately 2.3 million today. *USA Today*, the nation's largest-selling daily newspaper, easily outsells second-place *Wall Street Journal* and its 1.7-million circulation. *USA Today*'s website, www.usatoday.com, is one of the Internet's top sites for news and information.

The History and Growth of *USA Today*

In February 1980, Allen Neuharth met with "Project NN" task-force members to discuss his vision for producing and marketing a unique nationally distributed daily newspaper. Satellite technology had recently solved the problem of limited geographic distribution. Neuharth was also ready to take advantage of two trends in the reading public: (1) an increasingly short attention span among a generation nurtured on television and (2) a growing hunger for more information. Neuharth believed that readers face a time crunch in a world where so much information is available but so little time to absorb it. His vision for *USA Today* positioned the paper as an information source that would provide more news about more subjects in less time.

Geoffrey Lantos, Stonehill College, prepared this case with significant research support from Casey Brossett, David Davenport, Kelly Mitchell, and Sherry Thompson (Florida State University MBA Class of 2006–2007). This case is intended for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation.

Research suggested that *USA Today* should target achievement-oriented men in professional and managerial positions who were heavy newspaper readers and frequent travelers. Whereas the *New York Times* targeted the nation's intellectual elite, thinkers, and policy makers and the *Wall Street Journal* targeted business leaders, *USA Today* was to be targeted at Middle America—young, well-educated Americans who were on the move and cared about current events.

By early 1982, a team of news, advertising, and production personnel from the staffs of Gannett's daily newspapers developed, edited, published, and tested several different prototypes. Gannett sent three different 40-page prototype versions of *USA Today* to almost 5,000 professional people. Along with each prototype, they sent readers a response card that asked what they liked best and least about the proposed paper and whether they would buy it. Although the content of each prototype was similar, the layout and graphics presentations differed. For example, one prototype included a section called "Agenda" that included comics and a calendar of meetings to be held by various professional organizations. According to marketplace feedback, readers liked the prototypes. The Gannett board of directors unanimously approved the paper's launch. On April 20, 1982, Gannett announced that the first copies of *USA Today* would be available in the Washington, DC, and Baltimore areas.

USA Today Launches

On September 15, 1982, 155,000 copies of the newspaper's first edition hit the newsstands. On page 1, founder Neuharth wrote a short summary of *USA Today*'s mission statement, explaining that he wanted to make *USA Today* enlightening and enjoyable to the public, informative to national leaders, and attractive to advertisers. The first issue sold out. A little over a month following its debut, *USA Today*'s circulation hit 362,879—double the original year-end projection. In April 1983, just seven months after its introduction, the newspaper's circulation topped the one-million mark. The typical reader turned out to be a professional, usually a manager, about 40 years old, well educated, with an income of about $60,000 a year. The typical reader was also a news or sports junkie.

For a newspaper, *USA Today* was truly unique. Designed for the TV generation, the paper was laid out for easy access and quick comprehension by time-pressed readers. Examples of this formatting included extensive use of briefs, columns, secondary headlines, subheads, breakouts, at-a-glance boxes, and informational graphics. These techniques capture the most salient points of a story and present them in a format that readers appreciate. Gannett's research had shown that readers get most of their information from such snippets and that they were just as interested in sports, movie reviews, and health information as they were in traditional news. Each issue presented four sections: News, Money, Life, and Sports. The paper's motto fit its design: "An economy of words. A wealth of information."

Because *USA Today* was nontraditional, the critics were numerous and fierce. In their view, the paper was loaded with gimmicks—tight, short stories; no jumps from page to page, except for the cover story (stories that jump to another page are one of newspaper readers' major complaints); splashy, colorful graphics everywhere; a distinctive, casual writing style; a colorful national weather map; a round-up of news items from each state, one paragraph each; summary boxes; little charts and statistics-laden sports coverage; and a focus on celebrity and sports, with more detailed sports stories than almost any other paper in the nation. There was no foreign staff and little interest in the world outside the United States. It was quickly derided for its shallowness by journalists and labeled "McPaper"—junk-food journalism or the fast food of the newspaper business—due to its terse, brash writing style and its short coverage of complex issues. It was not considered serious. Even within Gannett, Neuharth met with bitter resistance from certain senior executives. Nevertheless, readers admired the paper for its focus on brevity and clarity—short sentences and short words.

Clearly, the paper filled a gap in the market, satisfying several unmet needs and wants. *USA Today*'s success came from listening to its readers and giving them what they wanted. The paper communicates with readers on a personal level very quickly (many of the short, fact-filled stories are under 250 words), clearly, and directly, in an upbeat and positive way. The color is riveting and gives the paper a contemporary look, as do the space-defying number of stories, factoids, larger-than-usual pictures, bar graphs, and charts, all squeezed onto each page without seeming too crowded. Instead of confusion, readers get neatness and order. The paper's dependably consistent organization enables readers to go directly to any one of *USA Today*'s major sections. As a result, it takes an average of only 25 minutes for a reader to peruse the paper.

Marketing Program Adjustments

Despite its critics, *USA Today*'s circulation surpassed 1.4 million by late 1985 as the paper expanded to 56 pages in length. The cover price had also increased to 50¢, double its original price of 25¢ per issue. By this time, *USA Today* had become the second largest paper in the country, with a circulation topped only by the *Wall Street Journal*. Although Neuharth had predicted that *USA Today* would turn a profit within a few years, his prediction proved to be overly optimistic. It took about five years to move into profitability, with *USA Today* losing an estimated $600 million during its first decade as it slowly built a national reputation. By 1993, however, profits were approximately $5 million. One year later, profits doubled to about $10 million.

During its early growth, the paper unearthed a class of newspaper reader few others had stumbled upon: the business traveler. Airline deregulation had led to a large general price decline for airline tickets, inducing a swell in business travel. On-the-road business travelers wished to keep abreast of both world and national news as well as what was going on in their home state and how their local sports teams were doing. *USA Today* rushed in to fill the void but in doing so quickly entered direct competition with the *Wall Street Journal*. By this time, hard-line newspapers, including the *New York Times,* began adding color; shorter, more tightly written stories; and beefed-up circulation campaigns to compete with "The Nation's Newspaper." The *Wall Street Journal* followed suit by introducing two new sections—Money & Investing and Marketplace—to broaden the paper's coverage of media, marketing, technology, and personal investing. In the face of this competition, as well as an awareness of changing reader needs, *USA Today* responded through innovation of its own.

Product Innovation To stay ahead of the imitative competition, *USA Today* decided to become a more serious newspaper with improved journalism. The shift from primarily soft news to hard news began with the space shuttle *Challenger* disaster in 1986. By 1991 editors began focusing much more sharply on hard news rather than soft features, and by 1994 under president and publisher Tom Curley, there was a massive drive to upgrade the paper to be a more serious, more responsible news-oriented product.

Gannett also incorporated less traditional value-added features to keep readers interested. The paper added 1-800 and 1-900 "hot-line" numbers that readers could call for expert information on financial planning, college admissions, minority business development, taxes, and other subjects. Thousands of readers responded to reader-opinion polls and write-in surveys on political and current event issues. Editorial pages were also redesigned to provide more room for guest columnists and to encourage debate. Gannett also initiated a high school "Academic All Star" program that it later expanded to include colleges and universities. The increasing ubiquity of the Internet in the late 1990s also resulted in some changes in content. For instance, the Money section began to focus more on technology issues and to look at business through an e-commerce perspective.

The first major redesign in *USA Today*'s history occurred in 2000 as the paper moved from a 54-inch to a 50-inch width. The goal of the redesign was to make the paper easier to read and cleaner in design. The pages were slimmer and hence easier to handle, especially in tight spaces like airplanes, trains, buses, and subways, and the paper fit more readily into briefcases as Gannett had learned from focus groups.

Promotional Innovation *USA Today* also innovated in its promotional activities. Historically, the paper had limited its promotion to outdoor advertising and television. However, in the late 1980s Neuharth undertook a "BusCapade" promotion tour; traveling to all fifty states to talk with people about *USA Today*. Neuharth succeeded in raising public awareness of his paper, which was credited for the *USA Today* move into profitability. Encouraged by his success, Neuharth forged ahead with a "JetCapade" campaign where he and a small news team traveled to thirty countries in seven months, stimulating global demand for the paper. During a visit to the troops of Operation Desert Storm in the Persian Gulf in 1991, General Norman Schwarzkopf expressed a need for news from home. *USA Today* arranged for delivery of 18,000 copies per day. The overseas success of *USA Today* led to the publication of *USA Today International*, which is now available in more than ninety countries in Western Europe, the Middle East, North Africa, and Asia.

Early on, *USA Today* faced a challenge in selling ad space to advertisers because they were not convinced that it would pay to advertise in the paper. Gannett's first strategy for enlisting advertisers was the Partnership Plan, which provided six months of free space to those who purchased six months of paid advertising. *USA Today* also began to accept regional advertising across a wide variety of categories such as travel, retail, tourism, and economic development. Color advertisements could arrive as late as 6:00 p.m. the day before publication, giving local advertisers increased flexibility. The paper also moved aggressively into "blue-chip circulation," where bulk quantities of *USA Today* are sold at discounted prices to hotels, airlines, and restaurants, and are provided free of charge to customers. Today, over 500,000 copies of *USA Today* are distributed daily through blue-chip circulation.

USA Today pulled off another promotional first in 1999 when it broke one of the most sacred practices of daily newspapers and began offering advertising space on the front page (one-inch strips across the entire width of the bottom of the page). This highly sought after front-page position was sold through one-year contracts for $1 to $1.2 million each, with each advertiser taking one day a week. As *USA Today* continued to prosper, advertisers became quite attracted to the paper's large volume of readers. To help cope with advertiser demand, the paper implemented the necessary technology to allow advertisers to transmit copy electronically 24 hours per day.

Distribution Innovation Fast delivery has always been important to *USA Today*. By the late 1990s, the paper was earning kudos for its ability to deliver timely news, thanks to its late deadlines. For instance, in many parts of the country, *USA Today* could print later sports scores than local or regional papers. In hard news, *USA Today* was able to offer more up-to-date coverage by rolling the presses over four hours earlier than the *Wall Street Journal* and almost three hours later than the *New York Times*. The paper added print sites around the world in a move to further speed up distribution. An innovative readership program was also added that brought *USA Today* to more than 160 college campuses around the nation. Likewise, technological advances allowed the paper's production to be totally digital. A new computer-to-plate technology was implemented to give newsrooms later deadlines and readers earlier delivery times.

The Launch of *USA Today Online*

A decade after *USA Today*'s launch, Gannett found itself in the enviable position of owning one of America's most successful newspapers. *USA Today* was the most widely read newspaper in the country, with a daily readership of over 6.5 million. In an era when nearly all major national media were suffering declines in readership or viewing audience, *USA Today* continued to grow. Rising distribution and promotion costs, however, were beginning to make the newspaper slightly unprofitable. To reverse this trend, *USA Today* created several spin-offs, including its first special-interest publication, *Baseball Weekly*. During its first month of operation, *Baseball Weekly*'s circulation reached 250,000 copies. Venturing into news media, *USA Today* joined with CNN to produce a football TV program and launched SkyRadio to provide live radio on commercial airline flights.

The major spin-off, however, was *USA Today Online,* which the company introduced on April 17, 1995. The online version was seen as a natural companion to the print version of *USA Today,* given the paper's worldwide distribution. The first version was available through CompuServe's Mosaic browser and required special software, a CompuServe Network connection, and a monthly subscription of $14.95 plus $3.95 per hour. By June 1995, *USA Today Online* converted to a free service that worked with any web browser and Internet service provider. The *Online* was later dropped in favor of USAToday.com.

Like its print sister, USAToday.com is bright, upbeat, and full of nugget-sized news stories. The online version allows readers to receive up-to-the-moment news that incorporates colorful visuals and crisp audio. It provides one of the most extensive sites on the web, featuring thousands of pages of up-to-the-minute news, sports, business and technology news; four-day weather forecasts; and travel information available 24/7.

Another revenue generator, launched in 1998 in response to frequent reader requests for archived material, was the pay-per-view archives service (http://archives.usatoday.com). The *USA Today* Archives section allows readers to do a free, unlimited search of the paper's articles that have appeared since April 1987. Articles may be downloaded for $3.95 per story or as a part of the site's monthly and yearly service plans.

USA Today is not an operation that rests on its laurels, so the website has also been updated several times. A number of partnerships have been added to the site in the areas of online classifieds and a marketplace where users can purchase a variety of goods and services. The company added a companion travel site in 2002.

USA Today—Today

In looking at the total national newspaper market, *USA Today* is successful. It has seen over 20 years of continuous growth and now boasts over 2.3 million readers. Gannett's newspaper revenues consist primarily of advertising sales (75 percent) and circulation sales (19 percent). Total newspaper publishing revenues for the first quarter in 2006 were $1.7 billion. Advertising sales accounted for $1.3 billion, and circulation sales accounted for $324 million. Overall revenues are up six percent compared to the first quarter of 2005. The increase is due to Gannett's acquisition of some of Knight-Ridder's properties. Had Gannett not acquired part of Knight-Ridder, its revenues would have declined 1.6 percent.

Newsprint costs have risen lately for all newspapers. At Gannett they have increased a little more than 12 percent in the second quarter of 2006. The company is currently testing cheaper newsprint from China, in hopes of reducing this cost.

The *USA Today* website receives roughly 55 million visits per month, with 10.5 million unique visitors per month. It is interesting that this success has occurred during a time when overall newspaper readership is declining. In the United States, weekly newspaper readership declined from 58.6 percent of adults in 1998 to 51.6 percent in 2005. At the beginning of the twenty-first century, only *USA Today*, the *Los Angeles Times*, and the *Denver Post* were experiencing large gains in circulation among all national, daily papers in the United States. Partly due to rising newsprint costs, *USA Today* raised its single-copy price to 75 cents in 2004. This represented a significant jump in revenue for the company because single-copy sales comprise 65 percent of the its paid circulation. The move had no effect on overall paid circulation, which grew by 0.1 percent in the six-month period ending March 2006.

Newsprint costs are a key challenge for the newspaper industry as a whole. In fact, rising costs have forced virtually all newspaper firms to add online news as a means to increase readership and cut distribution expenses. However, the move to free online news is a double-edged sword: Some experts suggest that approximately 14 percent of readers will switch from newspaper to online news, effectively cannibalizing the readership of printed news. Whether online news poses a major threat to *USA Today* is debatable.

However, recent changes in Gannett leadership, in the industry, and in the way that the company approaches business are meant to prepare the company for the twenty-first century. New CEO Craig Dubow comes from the company's Broadcast Division and is committed to getting news and information into the hands of consumers faster than ever before. To aid the company in doing this, Gannett created a new position, president of Gannett Digital, responsible for the web-based and innovative technological components of the business. USAToday.com has added blogs, RSS (really simple syndication), and podcasting to ensure that its news stays relevant to busy and mobile readers. Perhaps Gannett's most important recent decision was to purchase interest in a company with unique technology that aggregates news on the Internet and categorizes the news into 300,000 topics. The technology also has the ability to sort information by zip code. Another technology gained through acquisition, PointRoll, is a service that allows Internet advertisers to expand their online space. One innovative way Gannett has leveraged this service is to provide local advertisers with a means to direct consumers to local merchants. As a web user rolls the cursor over an ad, the ad expands, revealing information about the closest retailer. Finally, *USA Today* has moved quickly to establish partnerships that can prepare the company for the future. The company's partnerships with Cingular, Sprint, and Verizon allow it to provide news content specifically formatted for small-screen devices.

The Future of *USA Today*

Despite its success, *USA Today* will never be able to rest on its laurels. Competition in print and online information distribution is fierce. Internet-based companies, like Yahoo! and Google, have now moved into the advertising market. The multitude of choices for both consumers and advertisers means that *USA Today* will have to work harder at innovation, finding a way to differentiate its products from the sea of competition. This will be a challenging task given the continuing decline in newspaper readership and the growing consumer demand for free online news.

As *USA Today* looks toward its future, a number of issues must be considered. The following sections describe the current situation of *USA Today* as well as the key issues that the company must face as it plans for its future.

Customer Environment

The overwhelming majority of *USA Today*'s circulation is within the United States. The readers of the newspaper are 64 percent male and 36 percent female with an average age of 46 and an average income of $91,210. The readers of the online site are 53 percent male and 47 percent female with an average age of 45. Most *USA Today* readers work in middle- to upper-management positions and are often purchasing decision makers for their offices and households, technological junkies, and sports fans. They also participate in a wide range of leisure activities. Eighty-six percent of print and online readers combined own a computer, and most of those have Internet access. Seventy-five percent of readers participate in sports and are active sports fans. Seventy-five percent of *USA Today* readers have active lives that include attending movies and domestic and foreign travel.

Important players in the purchase process are subscribers, single-copy buyers, and third-party sponsors, often referred to as blue-chip buyers. Eighty percent of *USA Today*'s purchasers are also users, and they bear the financial responsibility for the product. These consumers also share their papers with family and friends, which increases readership. Twenty percent of paid copies are purchased by third parties, which distribute complimentary copies to the end user to add value to their own goods or services. For example, hotel guests often enjoy a copy of *USA Today* during breakfast or while waiting in the lobby. Newspapers purchased at coin-operated vending machines do not always have associated complimentary products.

Paid editions of *USA Today* are currently distributed via newsstand retailers, large grocery store chains, bookstores, coin-operated vending machines, and directly to the consumer through home delivery. Home-delivery customers are the newspaper's most loyal customers and are most likely to buy daily delivery at 13- to 52-week intervals. Single-copy buyers tend to purchase the paper out of daily routine (heavy users) or on occasion based on specific newsworthy events (light users). Complimentary distribution of *USA Today* occurs primarily in hotels, airport terminals, and restaurants and at college campuses across the United States. *USA Today* content is also available in e-formats from USAToday.com, mobile phone access, and e-mail updates. The availability of *USA Today* via e-distribution is a deterrent for some consumers to purchasing the print product. Currently, however, customers cannot receive updated news in real time unless they have access to an RSS-enabled mobile device.

Competition

Gannett has competitors from several fields including other national newspapers such as the *Wall Street Journal* and the *New York Times*; cable networks; nationally syndicated terrestrial and satellite radio such as XM and Sirius; and Internet information portals such as Yahoo!, Google, and AOL.

The Wall Street Journal One of *USA Today*'s biggest newspaper competitors is the *Wall Street Journal,* owned by Dow Jones & Co. Inc. The company's product lines include newspapers, newswires, magazines, websites, indexes, television, and radio. The *Journal*'s website, www.wsj.com, adds over 1,000 news stories per day and includes price information on over 30,000 stocks and funds worldwide. The *Wall Street Journal* has strategic alliances with other information companies including CNBC, Reuters, and SmartMoney.

Circulation for the *Wall Street Journal* print version is two million, and wsj.com receives 175,000 unique visitors per day and has 768,000 paid subscriptions. The *Wall Street Journal* targets influential business readers as its primary audience. Sixty percent of the print newspaper's readers and 54 percent of its online readers are employed as top management. The average household income is $191,000, and net worth is $2.1 million. Net worth for online readers is $1.6 million. The company charges a subscription fee of $99 per year for both the print and online versions. The paper also offers a bundled package with both print and online content for $125 per year. Single copies of the weekday print version cost $1, and the weekend print version costs $1.50.

Dow Jones has been making improvements to the *Journal* in an attempt to make it more competitive. It added a Weekend Edition in 2005, designed to help advertisers reach the paper's audience at home on the weekends. Some new plans for improvement include reformatting the paper to a 48-inch width and changing the navigational format and content of the print version. The change is expected to reduce operating expenses by $18 million per year. The *Wall Street Journal* has already launched changes in its international version. The international print edition has become more compact and includes stronger links to the website. These changes are expected to improve profits by $17 million per year. The *Wall Street Journal* is also planning to add advertisements to its front page. *USA Today* was criticized for doing this in the past, but this practice is becoming more common as newspapers look for ways to increase revenue.

***The* New York Times** In addition to the *New York Times*, the New York Times Co. owns other newspapers and related websites, two New York City radio stations, nine television stations serving seven states, and the search engine About.com, which they acquired in 2005 for $410 million. The *New York Times* is available at 60,000 newsstands and retailers and 4,000 Starbucks coffee shops.

Circulation for the *New York Times* is 1.7 million; the website, www.nytimes.com, enjoys 1.3 million unique visitors per day and 10.8 million registered users. The newspaper's target market is the intellectual elite. As explained in its press kit, "The New York Times—Influential people read it because influential people read it." The average household income is $88,523. The *New York Times* costs $252.20 per year for the seven-day paper in New York and $130 per year for either the weekday paper or the weekend paper in New York. Outside of New York, the paper costs $309.40 per year for the seven-day paper and $153.40 per year for the weekday paper and $187.20 per year for the weekend paper. The *New York Times*' online content is free although it requires a registration. Online users can also acquire extra content, including access to the archives, through its TimesSelect site, which is $49.95 per year. The price of a single copy of the print version is $1.

The company has recently made some changes in an attempt to be more profitable. The *New York Times* raised its home-delivery rates by four percent, which the company expects will raise circulation revenues by $7 or $8 million in 2006. The *Times* also reduced the number of pages in its stock section, which is expected to reduce expenses by $4 million per year. Additionally, the paper has also begun to implement cost-saving policies, including staff reductions, which is expected to reduce costs by $45 million per year. They have decided to also follow the examples of other newspapers by making plans to reduce the width of its print version.

Other Competitors *USA Today* also faces competition for audience attention and advertising dollars from companies outside its industry, including television, radio, and Internet providers. When compared to other media options, newspapers fare poorly in terms of daily media consumption:

	Percentage of Adults Reached (aged 18 and over)	Percentage of Daily Media Consumption	Percentage Citing as Primary News Source
Television	89.9	58.3	70.1
Radio	74.2	22.8	9.3
Newspapers	62.6	4.4	11.2
Internet	59.8	12.4	9.4

In 2005 the major television networks started taking advantage of new distribution technologies. NBC entered into a partnership with DIRECTV to offer a day-after service, and its NBC News division is the first to distribute its news through iTunes. ABC partnered with Apple to offer some of its programs to iPod users for $1.99 per download. ABC also offers a $4.95 per month subscription to its ABC News Now service, which is targeted at young adults. CBS partnered with Comcast Cable to offer its programming on Comcast's video-on-demand service. CBS also offered content from its local news, weather, and sports programs available to Sprint users for $4.99 per month. Overall, the television industry has started a consolidation trend with many cable and network channels joining together under one parent company. The industry faces a 2009 deadline to fully convert to digital programming. Currently, however, only one percent of consumers have purchased the necessary equipment to receive digital programming.

Radio has always been a strong competitor for newspapers. However, the growth of satellite radio has made the medium more attractive to advertisers. Both satellite providers, XM and Sirius, offer a comparable mix of music, news, sports, and talk programming for a flat fee of $12.95 per month. XM, the larger network, offers 170 channels to its over seven million subscribers. Sirius offers 125 channels to its 4.5 million subscribers. Both services are extremely popular, with impressive annual revenue growth of 128 percent (XM) and 262 percent (Sirius).

Internet information providers are another source of competition for *USA Today*. One billion people globally have access to the Internet either at home or at work. Most Internet information providers make their money through subscriptions, advertising, or both. It is important to note that the Internet as a communications and advertising medium is no longer tied to desktop computers. Virtually all major Internet providers and content developers are working to push information to handheld devices. Cingular and Sprint have led the way by offering multimedia content to their users via Internet-enabled cell phones. CBS Radio and Clear Channel Radio provide sports radio to Sprint customers through the Mspot service for $5.95 per month. MSNBC.com has recently launched a new mobile service that provides sports, local, and national news content.

Economic Issues

Higher newsprint costs, a shaky advertising environment, and declining circulation have been plaguing the newspaper industry. The high cost of newsprint is a constant problem for newspapers; however, the industry has been able to cut costs through the increased use of recycled fiber. Between 1989 and 2004, the amount of recycled fiber in newspapers rose from 10 percent to 32 percent. With respect to advertising, newspapers have been struggling in the midst of a soft ad market, particularly in the automotive, retail, and employment sectors. National newspaper advertising in the first quarter of 2006 fell 4.8 percent. However, Internet advertising rose 19.4 percent during this same period. Total advertising expenditures in the United States through all media are expected to grow by 5.6 percent during 2006.

The roughly 1,500 daily newspapers in the United States have a combined circulation of 54 million daily and 58 million for Sunday. In the first quarter of 2006, daily circulation fell 2.5 percent while Sunday circulation declined by 3.1 percent. Newspaper website visits, however, increased during the same time period. More than one-third of web users visit a newspaper website at least once per month.

Technological Advancements

Technology is central to the future of the newspaper industry because of the changes it has brought in the way that consumers can seek out timely and relevant news and information. Technological advancements offer interested consumers more options than ever to access news and news coverage, and this has led to a marked decline in newspaper circulation as people use the Internet and other means to get timely news and information. Technology has not only given consumers more options but it has also allowed them the ability to customize the news that they receive at a level they were never able to do before.

Delivering news via the latest wireless devices is perhaps the most threatening alternative to newsprint. However, these devices are also an opportunity for *USA Today* to maintain its readership. Wireless handheld devices, such as the Blackberry and a growing list of smart phones, are increasingly being used to deliver news coverage in specific content areas such as stock reports and sports scores. For example, ESPN and Sprint at one time partnered to offer Mobile ESPN using mobile virtual network operator (MVNO) technology, giving sports fans the ability to receive almost continuous scores and stats for their favorite teams and players. Similarly, *USA Today* and Gannett have developed partnerships with such companies as MobileVoiceControl, Inc. to allow those who have Blackberries to enjoy natural voice access to *USA Today*'s news content. The partnership allows *USA Today* to give Blackberry users the ability to search and receive continuously updated and customizable coverage in news, finances, sports, and even weather by merely pressing a button and speaking a command. Thus, *USA Today* has already recognized a need to transition from print to wireless, and the company has begun to do just that in partnering with companies on the leading edge of wireless technology.

Other information-distribution technologies are on the horizon. One of the most promising is electronic paper, or e-paper. E-papers are flexible digital screens that are similar to newsprint with respect to thickness, rolling/curling ability, and portability. Unlike newspapers, however, e-papers are reusable in that users can download up-to-date information to them via wireless technology. The technology is already being used for e-poster advertisements in stores. A typical e-paper is expected to cost $300 to $400 and is expected be available beginning in 2007.

Overall, advancing technology may have initiated the decline of the newspaper industry. However, technology is also likely to be the industry's savior. Technology allows *USA Today* and other newspapers to deliver news in more cost-efficient, customizable, and useful ways than will ever be possible using newsprint.

Sociocultural Trends

As many in the industry are aware, newspaper readership stands to lose a great deal due to changing demographics. The Newspaper Association of America notes that newspaper readership is strongest among adults aged 65 and older because 70 percent of this group reads a newspaper daily. Within other mature-age groups, specifically those constituting baby boomers (adults aged 40–59), only 50 to 60 percent read a newspaper daily. These figures support the contention that newspapers will lose readers at an alarming rate as this segment of the population ages over the next 10 to 30 years. To offset this trend, newspapers are attempting to attract and cater to new and younger readers. The transition is a difficult one, however, because there is a significant difference between the interests of current newspaper readers and the younger demographic that newspapers hope to gain. Baby boomers are most interested in major news stories and local news coverage. Younger readers, however, are more interested in sports (mainly males) and entertainment coverage, along with comics.

Addressing this concern and hoping to boost readership among younger generations, *USA Today* now includes in its online version a blog entitled "Pop Candy" where readers can exchange information and opinions about aspects of pop culture such as music and celebrities. Also, in 2006 *USA Today* planned to include excerpts from its "On Deadline" blog in the print edition. One part of the blog, "Looking Ahead," will serve in print as a guide to upcoming events, while another will round up other outlets' news coverage in true blog fashion.

Looking Ahead

Although increasing digital options for news and information have some industry observers bemoaning the death of newspapers, the majority seems to feel that newspapers do have a bright future and will thrive if they develop a healthy online presence and adapt to evolving media-consumption patterns. A 2006 survey conducted by the Pew Research Center for the People and the Press found that 79 percent of newspaper readers read the printed paper only, 12 percent read a paper's website only, and 9 percent read both. Another 2006 Pew Center study reported that, although the Internet has grown significantly over the past decade, it is supplementing rather than replacing traditional media outlets like newspapers and television. The study found that one-third of Americans go online for news, mainly to read the headlines. Nonetheless, online readers still spend more time getting news from traditional sources than they do getting it online. Further research suggests that the online editions of newspapers are actually driving readers to their print editions, thereby helping prevent further readership losses.

In the face of continual competition in both offline and online markets, *USA Today* continues to push the envelope of innovation and marketing strategy. To remain successful, *USA Today* must continue to use a value-added strategy that can further enhance distribution of its proprietary content and ensure continued differentiation with respect to the competition.

Questions for Discussion

1. What opportunities in the marketing environment did Gannett seize in launching *USA Today*? How did the company learn about and respond to these opportunities? Answer these same questions for USAToday.com.
2. How has a continuous strategy of marketing innovation proved successful for *USA Today* and USAToday.com? Do you believe that *USA Today* is well positioned for the future? Explain.
3. What are the SWOT implications for *USA Today* as it looks toward its future? What strengths and opportunities can *USA Today* leverage as it looks for a competitive advantage in the distribution of news and information?
4. Based on *USA Today*'s experiences with print and online news, evaluate the long-term potential of printed news and the newspaper publishing industry. Do you believe that printed newspapers will continue to survive despite digital competition?

Sources

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