

## 2

DEVELOPING SUCCESSFUL MARKETING  
AND ORGANIZATIONAL STRATEGIES

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<sup>2</sup> The slide number references are for the PowerPoint presentation for this chapter, which is available on the *Instructor’s Resource CD-ROM* or can be downloaded from the *Marketing: The Core, 5/e* website. See [www.mhhe.com/kerin](http://www.mhhe.com/kerin).

# POWERPOINT RESOURCES TO USE WITH LECTURES

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<sup>3</sup> TV ads, videos, and video cases with QR Codes can be viewed on a separate media website for *Marketing: The Core, 5/e*, which is [core.kerin.tv](http://core.kerin.tv). For example, to view QR 2-1, the proper URL syntax is <http://core.kerin.tv/qr2-1>.

## LEARNING OBJECTIVES (LO)

After reading this chapter students should be able to:

- LO1:** Describe two kinds of organizations and the three levels of strategy in them.
- LO2:** Describe how core values, mission, organizational culture, business, and goals are important to organizations.
- LO3:** Explain why managers use marketing dashboards and marketing metrics.
- LO4:** Discuss how an organization assesses where it is now and where it seeks to be.
- LO5:** Explain the three steps of the planning phase of the strategic marketing process.
- LO6:** Describe the elements of the implementation and evaluation phases of the strategic marketing process.

## KEY TERMS

business p. 26

business portfolio analysis p. 31

core values p. 25

diversification analysis p. 33

goals p. 26

market segmentation p. 35

market share p. 26

marketing dashboard p. 28

marketing metric p. 28

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## LECTURE NOTES

### WANT TO BE AN ENTREPRENEUR? GET AN “A” IN A CORRESPONDENCE COURSE IN ICE CREAM MAKING!

Entrepreneurs Ben Cohen and Jerry Greenfield “aced” their \$5 college course in ice cream making and headed to Vermont in 1978 to start Ben & Jerry’s. Some facts about their company, which was acquired by Unilever in 2000:

- Buys milk products that are bovine growth hormone-free from a dairy cooperative.
- Uses social entrepreneurship to help nonprofit organizations give jobs to and train at-risk youth and young adults with its PartnerShops programs.
- Practices Fair Trade-certified sourcing of key ingredients.
- Markets its limited edition “Goodbye Yellow Brick Road” ice cream to benefit Sir Elton John’s AIDS Foundation.
- The Ben & Jerry’s website reflects its creative, funky approach to business—linking its prosperity to a concern for social causes.
- Ben & Jerry’s is the market leader in the global ice cream industry, which is expected to reach \$68 billion in sales by 2015.
- Ben & Jerry’s and other organizations set goals to give an overall direction to their organizational and marketing strategies.
- The marketing department converts these goals into plans that are implemented and then evaluated.

### I. TODAY’S ORGANIZATIONS [LO1]

In studying today’s visionary organizations, one must understand:

- The kinds of organizations that exist.
- What strategy is.
- How strategy relates to the three levels of structure found in many large organizations.

#### A. Kinds of Organizations

- An *organization* is a legal entity of people who share a common mission.
- Organizations develop *offerings*, which are products, services, or ideas that create value for both the organization and its customers.

- Organizations consist of two types:
  1. A *business firm* is a privately owned organization that serves its customers in order to earn a profit.
    - a. One goal of a business firm is **profit**, which is the:
      - Money left after a business firm’s total expenses are subtracted from its total revenues.
      - Reward for the risk it undertakes in marketing its offerings.
    - b. Business firms must earn a profit to survive.
  2. A *nonprofit organization* is a nongovernmental organization that serves its customers but does not have profit as an organizational goal.
    - a. Goals of nonprofit organizations include operational efficiency or client satisfaction.
    - b. Examples of nonprofit organizations include charities and cooperatives.

## **MAKING RESPONSIBLE DECISIONS**

### **Social Responsibility: Using Social Entrepreneurship to Help People**

- Teach for America, SightLife, and Hand in Hand International are examples of “social entrepreneurship.”
- *Social entrepreneurship* applies innovative approaches to organize, create, and manage a venture to solve the practical needs of society. Social entrepreneurs:
  - a. Usually are nonprofit organizations.
  - b. Focus on issues facing people who lack the financial or political means to solve their own problems.

### **[QR Code 2-1: Teach For America Video]**

- **Teach for America.**
  - a. Is a national corps of recent college graduates who commit to teach for two years in urban and rural public schools.
  - b. In the Fall 2011:
    - 9,300 corps members taught throughout the U.S.
    - Nearly 24,000 alumni continue working from inside and outside the field of education for the changes necessary to ensure educational excellence and equity.

- **SightLife.**
  - a. Has a mission “to end cornea blindness.”
  - b. Cornea blindness affects 10 million people globally, who can be cured by transplanting a donated, healthy cornea to replace a diseased one.
  - c. SightLife finds cornea donors and prepares tissues for surgery.
  - d. Hired Tim Schottman to help them create 900 eye banks around the world.
- **Hand in Hand International.**
  - a. Uses microfinance to provide small loans to women in India, South Africa, and Afghanistan who want to start and operate a small business.
  - b. Reaches out to the poorest, least educated, would-be businesswomen:
    - Gives them basic education.
    - Then the skills needed to operate a business.

- The terms *firm*, *company*, *corporation*, and *organization* are used interchangeably to refer to both business and nonprofit operations.
- Organizations that develop similar offerings, when grouped together, create an *industry*, such as the automobile industry or the ice cream industry.
  - a. **[Figure 2-A]** The dynamics of an industry and how it is structured impact the strategic decisions organizations make.
  - b. These strategic decisions create a compelling and sustainable competitive advantage to achieve superior performance for an organization’s offerings.
  - c. Organizations must clearly understand the industry in which they compete.

## B. What Is Strategy?

- An organization has limited human, financial, technological, and other resources available to produce and market its offerings—it can’t be all things to all people!
- **Strategy** is organization’s long-term course of action designed to deliver a unique customer experience while achieving its goals.
  - a. All organizations set a strategic direction.
  - b. Marketing helps to set a strategic direction and to move the organization there.

## C. Structure of Today’s Organizations

**[Figure 2-1]** Large organizations are very complex and consist of three levels:

1. **Corporate Level.** Is the level in an organization where top management directs overall strategy for the entire organization. Consists of:
  - a. Board of directors, individuals both inside and outside the organization.
  - b. Chief executive officer (CEO), the highest ranking officer in the organization.
    - CEOs must possess leadership skills.
    - CEOs must have the expertise to:
      - Oversee the organization’s daily operations.
      - Spearhead its strategic planning efforts.
  - c. Chief marketing officer (CMO), who is responsible to frame and implement the organization’s strategy to achieve its goals.
    - CMOs must think strategically to deliver value to the organization.
    - Most CMOs have multi-industry backgrounds, possess cross-functional expertise, use analytical skills, and have intuitive marketing insights.
2. **Strategic Business Unit Level.** Multimarket, multiproduct firms manage a portfolio or groups of businesses.
  - a. A *strategic business unit* (SBU) is a subsidiary, division, or unit of an organization that markets a set of related offerings to a clearly defined group of customers.
  - b. At the *strategic business unit level*, managers set a more specific strategic direction for their businesses to exploit value-creating opportunities.
  - c. For firms with a single business focus like Ben & Jerry’s, the corporate and business unit levels may merge.
3. **Functional Level.** Is the level in an organization where groups of specialists actually create value for the organization.
  - a. A *department* refers to those specialized functions, such as marketing or finance.
  - b. At this level, the strategic direction becomes more specific and focused.
  - c. *Cross-functional teams*:
    - Consist of a small number of people from different departments in an organization...
    - Who are mutually accountable to accomplish a task or common set of performance goals.
    - Senior management may form these teams to develop new or improve existing offerings.



- Sometimes these teams will have representatives from outside the organization, such as suppliers and customers, to assist them.

## **LEARNING REVIEW**

### **1. What is the difference between a business firm and a nonprofit organization?**

Answer: A business firm is a privately owned organization that serves its customers to earn a profit so that it can survive. A nonprofit organization is a nongovernmental organization that serves its customers but does not have profit as an organizational goal. Instead, its goals may be operational efficiency or client satisfaction.

### **2. What are examples of a functional level in an organization?**

Answer: The functional level in an organization is where groups of specialists from the marketing, finance, manufacturing/operations, accounting, information systems, research & development, and/or human resources departments focus on a specific strategic direction to create value for the organization.

## **II. STRATEGY IN VISIONARY ORGANIZATIONS [LO2]**

- Successful organizations must be forward looking—anticipating and responding quickly and effectively to future events.
  - **[Figure 2-2]** A visionary organization:
    - a. Specifies its foundation (why does it exist?).
    - b. Sets a direction (what will it do?).
    - c. Formulates strategies (how will it do it?).
- A. Organizational Foundation: Why Does It Exist?**
- An organization’s foundation is its philosophical reason for being—why it exists.
  - Successful visionary organizations use this foundation to guide and inspire their employees through their core values, mission, and organizational culture.
- 1. Core Values.**
- a. Are the fundamental, passionate, and enduring principles of an organization that guide its conduct over time.
  - b. Are developed by an organization’s founders or senior management.
  - c. Are consistent with their essential beliefs and character.
  - d. Capture the collective heart and soul of the organization.

- e. Serve to inspire and motivate its stakeholders to take productive action.
- f. Held by or communicated to *stakeholders* of an organization, which consist of its employees, shareholders, board of directors, suppliers, distributors, creditors, unions, government, local communities, and customers.
- g. Are timeless.
- h. Guide the organization's conduct.
- i. Must be communicated and supported by the CEO and board of directors.

## 2. Mission.

- a. Is a statement of the organization's function in society, often identifying its customers, markets, products, and technologies.
- b. Is shaped by an organization's core values.
- c. Is often used interchangeably with *vision*.
- d. A *mission statement* should be clear, concise, meaningful, inspirational, focused, and long-term.
- e. Medtronic's founder, Earl Bakken, wrote a mission statement half a century ago, and it remains virtually unchanged:

“To contribute to human welfare by application of biomedical engineering in the research, design, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life.”

### **[QR Code 2-2: Medtronic Video]**

- f. Both business firms (Medtronic, Southwest Airlines) and nonprofit organizations (American Red Cross) have compelling mission statements.
- g. *Star Trek* has one of the best-known mission statements:
 

“To explore strange new worlds, to seek out new life and new civilizations, to boldly go where no one has gone before.”
- h. Mission statements offer a clear, challenging, and compelling picture of an envisioned future.
- i. Some organizations, such as Ben & Jerry's, have added a social element to their mission statements to reflect their moral ideals.
- j. Stakeholders are asking organizations to be exceptional citizens by providing long-term value while solving society's problems.

### 3. Organizational Culture.

- a. An important corporate-level marketing function is communicating its core values and mission to its stakeholders.
- b. An **organizational culture** is the set of values, ideas, attitudes, and norms of behavior that is learned and shared among the members of an organization.

### B. Organizational Direction: What Will It Do?

Figure 2-2 shows that the organization's foundation enables it to set a direction, in terms of (1) the "business" it is in and (2) its specific goals.

#### 1. Business.

- a. A **business** describes the clear, broad, underlying industry or market sector of an organization's offering.
- b. An organization defines its business by looking at the set of organizations that sell similar offerings—those that are in direct competition with each other.
- c. The organization answers these questions:
  - "What do we do?"
  - "What business are we in?"
- d. Harvard professor Theodore Levitt's *Marketing Myopia* article states that organizations must not define their business and customer focus too narrowly.
  - Railroads are in the "transportation" business, not the railroad business.
  - Medtronic is in the "healthcare" business, not the medical device business.
- e. Given the increase in global competition and the recent economic crisis, many organizations are rethinking their *business models*, which:
  - Consist of the strategies an organization develops to provide value to the customers it serves.
  - Are often triggered by technological innovation.

## MARKETING MATTERS

### Entrepreneurship: The Netflix Launch and Its Continually Changing Business Model!

- Netflix is a movie-rental business.
- **The Original Business Model.**
  - a. Initially, Netflix was by mail, not subscription-based.
  - b. In 1999, it became a subscription service, like it is today.

- **Netflix’s Changing Business Model.**
  - a. The Netflix “DVDs-by-mail” model delivered movies on DVD for a fixed monthly fee.
  - b. In 2008, Netflix changed its business model:
    - From “Watch Now,” which allowed subscribers to watch streaming movies on a PC.
    - To partnering with TiVo, Xbox, and others so subscribers can watch movies on TV using these systems to see one of about 12,000 movies.
  - c. In mid-2011, Netflix changed its business model once again by:
    - Deciding to split the company into two.
    - Introducing controversial new pricing options: DVD only, streaming only, or both.
  - d. In late-2011, Netflix changed its business model once again. When customer reaction exploded, Reed Hastings cancelled the plan to separate Netflix’s DVD-by-mail business from its movie streaming service.

**2. Goals. Goals or objectives** (used interchangeably) are statements of an accomplishment of a task to be achieved, often by a specific time.

- a. Goals convert the organization’s mission and business into performance targets to measure how well it is doing.
- b. Business firms pursue several different types of goals:
  - *Profit.* Most firms seek the highest financial return on their investments (ROI) as possible.
  - *Sales* (dollars or units). A firm may elect to maintain or increase sales even though profitability may not be maximized.
  - *Market share.*
    - A firm may choose to maintain or increase its **market share**, which:
    - Is the ratio of sales revenue of the firm to...
    - The total sales revenue of all firms in the industry, including the firm itself.
  - *Quality.* A firm may choose to focus on high quality.
  - *Customer satisfaction.*
    - Customers are the reason an organization exists.
    - Can monitor their satisfaction through surveys or complaints.

- *Employee welfare.*
    - Employees play a critical role in the firm’s success.
    - Goals state the firm’s commitment to good employment opportunities and working conditions.
  - *Social responsibility.* A firm may seek to balance the conflicting goals of its stakeholders to promote their overall welfare, even at the expense of profits.
- c. Nonprofit organizations also set goals:
- Private organizations strive to serve customers efficiently.
  - Government agencies try to serve the public good.

### C. Organizational Strategies: How Will It Do It?

Figure 2-2 shows that the organization’s strategies are concerned with the “how”—the actual results. Strategies can vary in two ways:

1. **Variation by Level.** Moving from the corporate to the strategic business unit to the functional level involves creating increasingly detailed strategies and plans.
2. **Variation by Offering.** The strategy will be far different when marketing a very tangible physical product, a service, or an idea.

## LEARNING REVIEW

### 3. What is the meaning of an organization’s mission?

Answer: A mission is a statement of the organization’s function in society, often identifying its customers, markets, products, and technologies. It is often used interchangeably with *vision*.

### 4. What is the difference between an organization’s business and its goals?

Answer: An organization’s business describes the clear, broad, underlying industry or market sector of an organization’s offering. An organization’s goals (or objectives) are statements of an accomplishment of a task to be achieved, often by a specific time. Goals convert an organization’s mission and business into long- and short-term performance targets to measure how well it is doing.

### D. Tracking Strategic Directions with Marketing Dashboards [LO3]

Marketing dashboards allow marketing managers to know whether they are making progress regarding their strategic direction.

#### 1. Car Dashboards and Marketing Dashboards.

- a. A **marketing dashboard** is the visual computer display of the essential information related to achieving a marketing objective.

- b. A marketing dashboard can also provide further detail using active hyperlinks.
- c. On a car's dashboard, we glance at the fuel gauge and take action when our gas is getting low.
- d. With a marketing dashboard, a marketing manager glances at a graph or table and makes a decision whether to:
  - Take action.
  - Do more analysis to better understand the problem.

## 2. Dashboards, Metrics, and Plans.

- a. **[Figure 2-3]** Sonatica's marketing dashboard graphically displays key performance indicators linked to its product lines.
- b. Each performance variable is a **marketing metric**, which is a measure of the quantitative value or trend of a marketing activity or result.
- c. Only a few metrics should be shown on a marketing dashboard so that managers aren't overwhelmed with too much irrelevant data.
- d. Today's marketers use *data visualization*, which presents information about an organization's marketing metrics graphically so marketers can:
  - Spot deviations from plans.
  - Take corrective actions.
- e. Data visualization tools include graphs, maps, charts, spark line graphs, and others, and provide a snapshot of how parts of a business are performing.
- f. **[Figure 2-3A]** *Website Traffic Sources*.
  - The color-coded perimeter of the pie chart shows the three main sources of website traffic.
  - Each of eight specific sources represented as one slice in the pie.
    - Referral sites at 47%, of which:
      - \* Sonatica's Facebook visits comprise 15 percent of website traffic.
      - \* Up from a month ago (as shown by the vertical line).
    - Search engines at 37 percent.
    - Direct traffic at 16 percent.
- g. **[Figure 2-3B]** *Sales Performance by SBU*.
  - The *spark lines*:
    - Are the wavy lines in the far left column.
    - Show the 13-month trends of Sonatica's strategic business units.

- The trends in electronics and peripherals are generally up, causing their sales to exceed their YTD (year to date) targets.
- Conversely:
  - Both software and hardware sales failed to meet YTD targets...
  - Which is noted by the red “warning” circles in the rows at the far right.
  - This suggests immediate corrective actions for the software and hardware SBUs.

**h. [Figure 2-3C] Monthly Website Visits by State.**

- The U.S. map shows that the darker the state, the greater the number of website visits for the current month.
- Texas has close to 20,000 visits per month, while Illinois has none.

## USING MARKETING DASHBOARDS

### How Well is Ben & Jerry’s Doing?

#### Dollar Sales and Dollar Market Share

Marketers use the common sales and market share metrics to measure the performance of their organization’s offerings in the marketplace.

**Your Challenge.**

As the marketing manager for Ben & Jerry’s, you have been asked to provide a snapshot of the firm’s total super premium ice cream product line performance for the United States. You choose the following marketing metrics: dollar sales and dollar market share.

Scanner data from checkout counters in grocery stores and other retailers shows that the total sales for the super-premium category of ice cream—the segment of the market in which Ben & Jerry’s competes—for 2012 were \$1.25 billion. The Ben & Jerry’s sales department reports that the firm sold 50 million units at an average price of \$5.00 per unit, resulting in total dollar sales of \$250 million.

**Your Findings.** Dollar sales and dollar market share metrics are calculated as follows:

$$\text{Sales (\$)} = \text{Average Price} \times \text{Quantity Sold}$$

$$\text{Sales (\$)} = \$5 \text{ per Unit} \times 50 \text{ Million Units}$$

$$\text{Sales (\$)} = \$250 \text{ Million}$$

$$\text{Market Share (\%)} = \frac{\text{Ben \& Jerry's Sales (\$)}}{\text{Total Industry Sales (\$)}} = \frac{\$250 \text{ million}}{\$1.25 \text{ billion}}$$

$$\text{Market Share (\%)} = 0.20 \text{ or } 20\%$$

Further, your dashboard shows that dollar sales increased by \$10 million from 2011 to 2012, and that dollar market share grew from 18.4 percent to 20.0 percent.

[See UMD02SalesMktShare.xls]

### Your Action.

These results need to be compared with (1) the goals established for these metrics and (2) with previous years' results to see if the trends are increasing, flat, or decreasing. Marketers also calculate market share based on units sold, if data are available.

- i. Most organizations tie the marketing metrics tracked on their marketing dashboards to the quantitative objectives in their marketing plans.
- j. A **marketing plan** is a road map for the marketing activities of an organization for a specified future period of time, such as one year or five years.
- k. A **business plan** is a road map for the entire organization for a specified future period of time, such as one year or five years.

## Supplemental Lecture

### 3. Types of Marketing Plans.

- a. A marketing plan sets the direction for the marketing activities of the firm.
  - Is the heart of a business plan.
  - Varies with the planning period, the purpose, and the audience.
- b. *Long-Range Marketing Plans.*
  - Cover marketing activities from 2 to 5 years into the future.
  - Rarely go beyond 5 years because the uncertainties present make the benefits of planning less than the effort expended.
  - Are directed at top-level executives and board of directors.
- c. *Annual Marketing Plans.*
  - Are developed by a marketing or product manager.
  - Deal with marketing goals and strategies for a product, product line, or entire firm for a single year.
  - Are fine-tuned through reviews by senior management.

### 4. Appendix A: Building an Effective Marketing Plan.

- a. [Figure 2-B] Appendix A provides guidelines for writing a marketing plan.
  - There is no generic structure for a marketing or business plan.
  - Depends on factors such as the time period, industry, and size and kind of organization involved.



## Supplemental Lecture Continued

- b.** The elements in a marketing plan and business plan also depend heavily on (1) who the audience is and (2) what its purpose is:
- A marketing or business plan for an internal audience:
    - Seeks to point the direction for future activities.
    - Is sent to all individuals in the organization who must implement the plan or who will be affected by it.
    - Often has an objective of justifying a request for financial resources.
  - If the plan is directed to an external audience—such as friends, banks, venture capitalists, potential investors—in order to raise capital, it:
    - Has the additional function of being an important sales document.
    - Contains elements such as the strategic plan/focus, organization, and biographies of key personnel that rarely appear in an internal plan.
    - Has financial information that:
      - \* Is far more detailed because the plan is used to raise capital.
      - \* Tells prospective investors how they will get their money back, earning a profit on their investment.
- c.** The format for a marketing plan also depends on:
- *The kind and complexity of the organization.*
    - A small, local business will have a relatively simple plan.
    - A large, hierarchical company will have various levels of detail in a tiered marketing plan.
  - *The industry.* Both small and large businesses analyze competition, but the geographical factors and the time factor may be very different.
- d.** A business plan contains details on the R&D, operations, or manufacturing activities of the organization.
- A business plan contains details on the R&D, operations, or manufacturing activities of the organization.
  - For a manufacturing business, the marketing plan is probably 60 or 70 percent of the entire business plan.
  - For a small business, the marketing and business plans are identical.

### **[ICA 2-1: Calculating a “Fog Index” for Your Own Writing]**

## Supplemental Lecture

### 5. Guidelines for Effective Marketing Plans.

- a. “Plans are nothing; planning is everything.”
- b. Careful planning focuses an organization’s efforts and leads to success.
- c. The plans themselves, which change with events, are often secondary.
- d. Effective planning and plans have:
  - Identifiable objectives.
  - Specific strategies or courses of action.
  - The means to execute them.
- e. Some guidelines in developing effective marketing plans are:
  - *Set measurable, achievable goals.* Goals should be:
    - Quantified and measurable in terms of:
      - \* *What* is to be accomplished.
      - \* *When* it is to be accomplished.
    - Achievable so as to motivate people.
  - *Use a base of facts and valid assumptions.*
    - The more a marketing plan is based on facts and valid assumptions, the less uncertainty and risk are associated with executing it.
    - Good marketing research helps.
  - *Use simple, but clear and specific, plans.*
    - People at all levels in the firm must know what, when, and how they are to accomplish their tasks.
    - Involve people with the right skills and experience in the planning.
  - *Have complete and feasible plans.* Marketing plans must:
    - Incorporate all the key marketing mix factors.
    - Be supported by adequate resources.
  - *Make plans controllable and flexible.* Marketing plan results must:
    - Be compared with planned targets.
    - Allow replanning—the flexibility to update the original plans.
  - *Find the right person to implement the plans.* But make sure that person is heavily involved in making the plans.
  - *Work toward consensus building.* “Ownership” of the plan by team members and stakeholders increases the chances for its success.

### III. SETTING STRATEGIC DIRECTIONS [LO4]

Setting strategic directions involves answering two questions:

- Where are we now?
- Where do we want to go?

#### A. A Look Around: Where Are We Now?

Asking an organization where it is at the present time involves identifying its competencies, customers, and competitors.

**1. Competencies.** Answers the question, “What do we do best?”

**a. Core competencies.**

- Are a firm’s special capabilities—skills, technologies, and resources.
- Distinguishes them from other firms and provide value to its customers.
- Should be distinctive enough to provide a competitive advantage.

**b. A competitive advantage** is a unique strength relative to competitors that provides superior returns, often based on quality, time, cost, or innovation.

**2. Customers.** Strategy must provide genuine value and benefits to present and prospective customers to ensure they have a satisfying customer experience.

**3. Competitors.** Globally, the lines among competitive sectors are increasingly blurred. For example:

**a.** Lands’ End started as a catalog retailer and defined other catalog retailers as its competitors.

**b. [Figure 2-C] Intertype Competition—**As part of Sears, Lands’ End competes with:

- Not only other catalog clothing retailers...
- But also department stores, mass merchandisers, specialty shops, Internet retailers, and...
- Even itself, with departments within Sears.

#### B. Growth Strategies: Where Do We Want to Go?

- Knowing where the organization is at the present time enables managers to set a direction for the firm and allocate resources to move in that direction.
- Two techniques to aid in these decisions are (1) business portfolio analysis and (2) diversification analysis.

## 1. Business Portfolio Analysis.

- a. [Figure 2-D] The Boston Consulting Group's (BCG) uses **business portfolio analysis**, which:
- Is a technique that managers use to quantify performance measures and growth targets to...
  - Analyze its clients' strategic business units (SBUs) as though they were a collection of separate investments.
  - The tool's purpose is to determine whether each SBU or offering is sufficiently appealing to receive a cash infusion.
  - This BCG analysis can also be applied at the product line, individual product (offering), or brand level.
  - Many large U.S. firms have used the BCG's business portfolio analysis.
- b. [Figure 2-4] A firm using business portfolio analysis positions each of its SBUs on a growth-share matrix.
- The vertical axis is the *market growth rate*, which is the annual rate of growth of the SBU's industry.
  - The horizontal axis is the *relative market share*, defined as the sales of the SBU divided by the sales of the largest firm in the industry.
    - A relative market share of  $10\times$  (at the left end of the scale) means that the SBU has 10 times the share of its largest competitor.
    - A share of  $0.1\times$  (at the right end of the scale) means it has only 10 percent of the share of its largest competitor.
  - The area of the circles in a growth-share matrix is proportional to the corresponding SBU's annual sales.
- c. BCG has given names and descriptions to the four quadrants in its growth-share matrix based on the amount of cash they generate for or require:
- *Cash cows* (lower left). SBUs that generate large amounts of cash that can be invested in other SBUs.
    - Have a dominant share of slow-growth markets.
    - Provide cash to cover the organization's overhead.
    - Enable the organization to invest in other SBUs.
  - *Stars* (upper left).
    - Are SBUs with a high share of high-growth market that need extra cash to finance future growth.
    - Are likely to become *cash cows* when their growth slows.

- *Question marks* or *problem children* (upper right). Are SBUs with a low share of high-growth markets.
    - Require lots of cash to maintain or increase market share.
    - Management chooses which SBUs to invest in and phase out.
  - *Dogs* (lower right). Are SBUs with a low share of slow-growth markets.
    - May generate enough cash to sustain themselves but do not hold promise of becoming winners for the firm.
    - Consider dropping *dogs* unless relationships with other SBUs, competition, or potential strategic alliances exist that benefit the firm.
- d. A firm’s SBUs often start as *question marks* and go counterclockwise around Figure 2-4 to become *stars*, then *cash cows*, and finally *dogs*.
- e. When changing an SBU’s relative market share, management must decide what strategic role each SBU should have in the future and then inject or remove cash from it.
- f. Kodak provides an example of how new technology and changing consumer tastes can dramatically impact an iconic brand.
- By 1976, Kodak had 90 percent of film and 85 percent of camera sales in the U.S.
  - Until 2000, Kodak relied on its traditional film sales and *not* camera purchases for the bulk of its revenues and profits.
  - This marketing strategy is often called the “razor and blade strategy,” which is a phrase resulting from the idea that:
    - A company like Gillette can lose money selling its Fusion razors...
    - Because of the huge profits from the repeat sales of razor blades.
  - The appearance of digital cameras around 2000 radically changed Kodak’s business forever as film sales began to evaporate.
- g. Figure 2-4 depicts four Kodak SBUs as of early 2003 (the solid red circles).
- h. Its growth-share matrix shows the challenge Kodak faced in the camera and film business with the arrival of digital technology:
- The area of each solid red circle in Figure 2-4 is roughly proportional to the SBU’s 2003 sales revenue.
  - The white circles show where the four SBUs were in 2012.
  - In 2003, Kodak shifted its strategy from film to digital technology.
  - Below is a snapshot of four product lines that were affected by the shift to a digital strategy:

1. *Kodak film.*
    - Was an \$8 billion *cash cow* in 2003.
    - Since then, sales have been in a free fall due to digital cameras.
    - By 2009, film sales declined to \$500 million, making it a *dog!*
    - Experts believe film sales will evaporate by 2012.
  2. *Kodak digital cameras.*
    - Kodak invented the digital camera in 1975.
      - \* The firm did not exploit the technology because...
      - \* It feared cannibalizing sales from its film business.
    - Kodak became the market share leader in the U.S. in 2005, making the digital camera SBU a *cash cow*.
    - With the arrival of smartphones:
      - \* Sales began to fall dramatically by 2012.
      - \* Making the digital camera SBU a *question mark*.
  3. *Kodak ink-jet printers and cartridges to print digital photos at home.*
    - Starting as a strong *star* in the late 2000s, this market has soured as online photo sharing has grown.
    - Today, almost a *billion* Facebook users have uploaded more than 250 million photos *per day* to the social media website.
    - The use of Kodak ink-jet photo printers to print hard copies of photos has declined since 2009, making this SBU a *question mark*.
    - Kodak believes that this *question mark* SBU can grow significantly due to its strong market position and technologies.
  4. *Kodak self-service kiosks in retail outlets.*
    - Kodak photo kiosks allow photo enthusiasts to take the images from their digital camera or smartphone and then store, share, manipulate, and print them.
    - Kodak photo kiosks, currently the market leader, is a *star*.
    - Today, 100,000 Kodak Picture kiosks are located in retail outlets.
    - Kodak Picture kiosks could become a potential *question mark* or even a *dog* if consumers continue to post their photos online instead of printing them.
- In January 2012, Kodak filed for bankruptcy protection. It was a victim of its inability to:
    - Recognize and adapt to consumer trends.
    - Implement new technologies to response to them.

- Kodak is “phasing out” its digital cameras, picture frames, and pocket video cameras in 2012 due in large part to the growth of smartphones.
- The clear message for marketing strategists: Know *when* to change your business model and *do* it—fast!

## 2. Diversification Analysis.

- a. Diversification analysis** is a technique that helps a firm search for growth opportunities from among current and new markets as well as current and new products.
- For any market, there is both a current product (what the firm now sells) and a new product (something the firm might sell in the future).
  - For any product, there is both a current market (existing customers) and a new market (potential customers).

### ***[ICA 2-2: How Far Can General Mills Go with Line and Brand Extensions?]***

- b. [Figure 2-5]** This results in four market-product strategies:

- *Market penetration.*
  - Is a marketing strategy to increase sales of current products in existing markets.
  - There is no change in the basic product line or the market served.
  - Increased sales to existing customers are possible either by selling:
    - \* More of the product through better promotion or distribution.
    - \* The same amount of the product at a higher price.

### ***[QR Code 2-3: B&J’s Bonnaroo Buzz Ad]***

- *Market development.*
  - Is a marketing strategy to sell current products to new markets.
  - Is risky if the firm has no experience selling in the new market.
- *Product development.*
  - Is a marketing strategy to sell a new product to current markets.
  - Is risky because customers may not see a clear connection between a company’s expertise in one offering transferring to another.
- *Diversification.*
  - Is a marketing strategy to develop new products and sell them in new markets.
  - Is a potentially high-risk strategy because the company has neither previous production nor marketing experience on which to draw.

## LEARNING REVIEW

### 5. What is the difference between a marketing dashboard and a marketing metric?

Answer: A marketing dashboard is the visual computer display of the essential information related to achieving a marketing objective. Each variable in a marketing dashboard is a marketing metric, which is a measure of the quantitative value or trend of a marketing activity or result.

### 6. What is business portfolio analysis?

Answer: Business portfolio analysis is a technique that managers use to quantify performance measures and growth targets to analyze its clients' strategic business units (SBUs) as though they were a collection of separate investments.

### 7. Explain the four market-product strategies in diversification analysis.

Answer: The four market-product marketing strategies in diversification analysis are:

- *Market penetration.* Increasing sales of current products in current markets. There is no change in either the basic product line or the markets served. Rather, selling more of the product or selling the product at a higher price generates increased sales.
- *Market development.* Selling current products to new markets.
- *Product development.* Selling new products to current markets.
- *Diversification.* Developing new products and selling them in new markets.

## IV. THE STRATEGIC MARKETING PROCESS [LO5]

- After the organization assesses where it's at and where it wants to go, it asks:
  1. How do we allocate our resources to get to where we want to go?
  2. How do we convert our plans into actions?
  3. How do our results compare with our plans, and do deviations require new plans?
- The **strategic marketing process** is an approach whereby an organization allocates its marketing mix resources to reach its target markets.
- **[Figure 2-6]** This process is divided into three phases: planning, implementation, and evaluation.

### A. The Planning Phase of the Strategic Marketing Process

- Planners have a tongue-in-cheek truism: "If you don't know where you're going, any road will get you there."
- The planning phase consists of three steps as outlined below.



## 1. Step 1: Situation (SWOT) Analysis.

- a. A **situation analysis** involves taking stock of where the firm or product has been recently, where it is now, and where it is headed in terms of the organization's marketing plans and the external forces and trends affecting it.
- b. [Figure 2-7] A **SWOT analysis** is an acronym describing an organization's appraisal of its internal **Strengths** and **Weaknesses** and its external **Opportunities** and **Threats**.
- c. A SWOT analysis studies four areas to build a firm's marketing program:
  - Identifying trends in the organization's industry.
  - Analyzing the organization's competitors.
  - Assessing the organization itself.
  - Researching the organization's present and prospective customers.
- d. The Ben & Jerry's SWOT analysis table in Figure 2-7 shows:
  - The combination of internal versus external factors (the rows).
  - Favorable versus unfavorable factors (the columns).
  - Ben & Jerry's strengths, weaknesses, opportunities, and threats.
- e. Must translate the SWOT analysis into specific actions to grow the firm.
- f. The Ben & Jerry's SWOT analysis suggests the following:
  - *Build on a strength.* Find distribution efficiencies with Unilever's existing ice cream brands.
  - *Correct a weakness.* Recruit experienced managers from other consumer products firms to help stimulate growth.
  - *Exploit an opportunity.* Develop a new line of low-fat frozen yogurts to respond to consumer health concerns.
  - *Avoid a disaster-laden threat.* Focus on less risky international markets, such as Canada and Mexico.

## 2. Step 2: Market-Product Focus and Goal Setting.

- a. Developing a marketing program involves determining what products will be targeted at which customers.
- b. This decision often based on **market segmentation**, which involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action.
- c. A firm can identify the segments on which it will focus its efforts—its target market segments—and develop specific marketing programs to reach them.

- d. Goal setting involves setting measurable marketing objectives to be achieved.
  - For a specific market, the goal may be to introduce a new product.
  - For a specific brand or product, the goal may be to create a promotional campaign or pricing strategy to get more consumers to purchase.
- e. Medtronic's 5-year plan for its Champion heart pacemaker is to reach the "affordable and reliable" Asian segments:
  - *Set marketing and product goals.* Design and market such a pacemaker in three years for the Asian market.
  - *Select target markets.* The pacemaker will be targeted at cardiologists and medical clinics in India, China, and other Asian countries.
  - *Find points of difference.*
    - **Points of difference** are characteristics of a product that make it superior to competitive substitutes.
    - For the Champion pacemaker:
      - \* High quality, long life, reliability, ease of use, and low cost.
      - \* NOT state-of-the-art features that drive up production costs.
  - *Position the product.*
    - "Positioned" in cardiologists' and patients' minds as a medical device that is high quality and reliable with a long, nine-year life.
    - The "Champion" name was selected after testing names in Asia.

### 3. Step 3: Marketing Program.

- a. This step is the "how" aspect of the planning phase: developing the marketing program's marketing mix and the budget.
- b. **[Figure 2-8]** The components of each marketing mix element that comprise a cohesive marketing program.
- c. Example: Medtronic's Champion heart pacemaker.
  - *Product strategy.* Offer a pacemaker with features Asian patients need.
  - *Price strategy.* Control costs to price it below \$1,000 (U.S.).
  - *Promotion strategy.* Demonstrate at medical conventions across Asia.
  - *Place (distribution) strategy.* Search out and train reputable medical distributors across Asia to call on cardiologists and medical clinics.
- d. Putting a marketing program into effect requires the development of a sales forecast and a budget that is approved by top management.

### **[ICA 2-3: Marketing Yourself]**

## Supplemental Lecture

### 4. Problems in Marketing Planning and Strategy.

Problems that occur during the planning phase of the strategic marketing process:

- a. Bad news is filtered out as information goes up the line to give top management a very rosy picture.
- b. Plans may be based on very poor assumptions about environmental factors, especially changing economic conditions and competitors' actions.
- c. Planners and their plans have lost sight of their customers' needs.
- d. Too much time and effort are spent on data collection and writing plans.
- e. The plans developed are too complex to implement.
- f. Line operating managers feel no sense of ownership in implementing the plans.
- g. The solution: Assign more planning activities to those line managers responsible for actually carrying them out.

## LEARNING REVIEW

### 8. What are the three steps of the planning phase of the strategic marketing process?

Answer: The three steps of the planning phase of the strategic marketing process are:

- *Situation (SWOT) analysis.* Involves taking stock of where the firm or product has been recently, where it is now, and where it is headed in terms of the organization's marketing plans and the external forces and trends affecting it. To do this, an organization uses a SWOT analysis, an acronym that describes an organization's appraisal of its internal **S**trengths and **W**eaknesses and its external **O**pportunities and **T**hreats.
- *Market-product focus and goal setting.* Determines what products an organization will offer to which customers. This is often based on market segmentation—aggregating prospective buyers into groups or segments that have common needs and will respond similarly to a marketing action.
- *Marketing program.* Is where an organization develops the marketing mix elements and budget for each offering.

### 9. What are points of difference and why are they important?

Answer: Points of difference are those characteristics of a product that make it superior to competitive substitutes—offerings it faces in the marketplace. They are important factors in the success or failure of a new product.

## B. The Implementation Phase of the Strategic Marketing Process [LO6]

- The second phase of the strategic marketing process—implementation—involves carrying out the marketing plan that emerges from the planning phase.

### Supplemental Lecture

- It is not enough to have a great marketing plan. The key is to successfully execute it.
- **[Figure 2-E]** When a marketing plan fails, it's difficult to determine whether the failure is due to poor planning or poor implementation.
  - a. Effective managers identify whether the problems involve:
    - The plan and strategy.
    - Its implementation.
    - Both, and then correct the problems.
  - b. Figure 2-E shows the outcomes of good and bad marketing planning versus good and bad marketing implementation:
    - Good planning and good implementation in cell 1 spell success.
    - Cells 2 and 3 indicate trouble because either the marketing planning or marketing implementation—not both—is bad.
    - A firm or product does not stay permanently in cell 2 or 3.
      - If the problem is solved, the result can be success (cell 1).
      - If not, it is failure (cell 4).

- The implementation phase of the strategic marketing process involves:
  1. **Obtaining Resources.**
    - a. The marketing manager must obtain the people and money necessary to successfully deliver the marketing program.
    - b. This is done by diverting profits from its SBU *cash cows* to *stars*.
  2. **Designing the Marketing Organization.**
    - a. A marketing program needs a marketing organization to implement it by converting marketing plans into reality.
    - b. **[Figure 2-9]** The product or brand managers and their subordinates help plan, implement, and evaluate the marketing plans for their firm's offerings.
    - c. The entire marketing organization is responsible for converting these marketing plans to reality as part of the corporate marketing team.

## Supplemental Lecture

- d. [Figure 2-F] Shows the marketing organization of a typical strategic business unit in a consumer packaged goods firm like P&G or General Mills.
- A chief marketing officers (CMO) is a senior-level executive (other than a vice president) responsible for a firm's marketing activities.
    - The CMO position reflects the broadening role as the inside-the-company “voice of the consumer” in responding to dynamic marketplace changes.
    - Today, a CMO must understand:
      - \* The changing characteristics of global consumer segments.
      - \* How to market to these consumers.
  - The distinctions between line and staff positions in marketing are:
    - Managers in *line positions*:
      - \* Have the authority and responsibility to issue orders to the people who report to them.
      - \* Are connected with solid lines in the organizational chart.
    - People in *staff positions*:
      - \* Have the authority and responsibility to advise people in line positions but cannot issue direct orders to them.
      - \* Are connected with dotted lines in the organizational chart.
    - Consists of the Dinner Products, Baked Goods, and Desserts groups.
- e. Most marketing organizations use divisional groupings to implement plans and achieve their organizational objectives:
- *Product line groupings* are organizational groupings in which a unit is responsible for specific product offerings.
  - *Functional groupings* are organizational groupings that represent the different departments or business activities within a firm.
  - *Geographical groupings* are organization groupings in which:
    - Sales territories are subdivided according to geographical location.
    - Each sales director has regional sales managers reporting to him/her.
    - These, in turn, have district managers reporting to them.
    - Field sales representatives report to district managers.
  - *Market-based groupings* are organizational groupings that use specific customer segments.

## Supplemental Lecture Continued

- f. A *category manager* in consumer products firms:
- Has profit-and-loss responsibility for an entire product line.
  - Attempts to reduce the possibility of one brand's actions hurting another brand in the same category.
- g. The *product manager* or *brand manager*:
- Is the key person who heads the product or brand group in the marketing department of most consumer or business product firms.
  - In Figure 2-F, the *product manager* or *brand manager* and assistants:
    - Comprise the *product group* or *brand group* within the marketing department.
    - Are enclosed with dashed red line in the organizational chart.
  - The product manager plans, implements, and evaluates the annual and long-range marketing plans for the products for which he or she is responsible.
  - The benefits of a product manager system are that product managers:
    - Are strong advocates for their assigned products.
    - Cut red tape to work with people in various functions both inside and outside the organization.
    - Assume profit-and-loss responsibility for product line performance.
  - The drawbacks are that product managers:
    - Have little direct authority, so they...
    - Must use persuasion rather than issue direct orders to get things done.

### 3. Defining Precise Tasks, Responsibilities, and Deadlines.

- a. Successful implementation requires that people know the tasks for which they are responsible and the deadlines for completing them.
- b. The outcome of meetings should be an *action item list*, which is an aid to implementing a marketing plan, consisting of four columns:
- The task.
  - The person responsible for completing that task.
  - The date to finish the task.
  - What is to be delivered.

- c. Within hours of completing a meeting, the action item list:
  - Is circulated to those attending.
  - Serves as the starting agenda for the next meeting.
- d. An action item list:
  - Is forward looking.
  - Clarifies the targets.
  - Puts pressure on people to achieve their tasks by the specified deadlines.
- e. **[Figure 2-G]** You are part of a team that is required to do a term project on “How the college can increase attendance at its performing arts concerts?”
  - The instructor limits the project in the following ways:
    - A mail survey must be used to collect data from a sample of students regarding their attitudes, behaviors, etc. on concert attendance.
    - The term paper must be submitted by the end of the 11-week quarter.
  - To begin the assignment, you need to:
    - Identify all the project tasks.
    - Estimate the time you can reasonably allocate to each one.
  - To complete it in 11 weeks, your team:
    - Must work on different activities at the same time.
    - Some activities must be independent enough to overlap.
  - Requires specialization and cooperation between Students A, B, and C:
    - Suppose only Student C can type.
    - Student A might construct the survey and select the sample.
    - Student B might tabulate the data.
    - Must figure out which activities can be done concurrently to save time.
- f. **[Figure 2-10]** Scheduling activities can be done efficiently with a *Gantt chart*:
  - Is a graphical representation of a program schedule, which:
    - Shows the relationships through time of the various program tasks.
    - Are related to action item lists.
  - Developing a program schedule involves:
    - Identifying the main tasks.
    - Determining the time required to complete each.
    - Arranging the activities to meet the deadline.
    - Assigning responsibilities to complete each task.

- The key to all scheduling techniques is to distinguish:
    - Tasks that *must* be done *sequentially* from...
    - Those that *can* be done *concurrently*.
  - Software programs, such as Microsoft Project, simplify the task of developing a schedule or Gantt chart.
- 4. Executing the Marketing Program.** The effective execution of a marketing plan requires attention to detail for both marketing strategies and marketing tactics.
- a.** A **marketing strategy** is the means by which a marketing goal is to be achieved, usually characterized by a specified target market and a marketing program to reach it.
  - b.** **Marketing tactics** are detailed day-to-day operational decisions essential to the overall success of marketing strategies.

### Supplemental Lecture

**5. Improving Implementation of Marketing Programs.**

Effective marketing plan implementation results from good management skills and practices.

- a.** Communicate goals and the means of achieving them.
- b.** Successful programs almost always have a *program champion*, who:
  - Is a person who is able and willing to cut red tape and move the program forward.
  - Has the ability to move back and forth between:
    - Big-picture strategy questions and...
    - Specific details when the situation calls for it.
  - Believes in the adage: “Better to ask forgiveness than permission.”
- c.** Reward successful program implementation. People rewarded for achieving their firm’s goals have:
  - An incentive to see programs successfully implemented because they...
  - A personal ownership and a stake in that success.
- d.** Need to take action and avoid “paralysis by analysis:”
  - Is the tendency to excessively analyze a problem instead of taking action.
  - Calls for a “bias for action.”
  - Recommends a “do it, fix it, try it” approach.
  - Get 90 percent perfection, which is good enough.



### Supplemental Lecture Continued

- Let the marketplace help fine-tune the product and process.
- Results in better implementation.
- e. Foster open communication to surface problems.
  - Create a work environment where employees are:
    - Willing to speak out when they see problems without fear of recrimination or reprisal.
    - Solving the problem as a group rather than finding someone to blame.
  - Solutions should be solicited from anyone who has a creative idea to suggest—from the janitor to the president—regardless of status or rank.
  - Surface the problem immediately when trouble develops and get help:
    - Don't keep the problem to yourself.
    - Look for ideas from competitors.
    - Look for talented people within the firm for solutions.

### C. The Evaluation Phase of the Strategic Marketing Process

- The evaluation phase of the strategic marketing process:
  - a. Seeks to keep the marketing program moving in the direction set for it.
  - b. Follows the planning and implementation phases.
- **[Figure 2-H]** The essence of evaluation is to:
  - a. Compare results with planned goals.
  - b. Identify deviations and then take corrective actions.

### Supplemental Lecture

- In the planning phase, marketing plans:
  - a. Have both quantified goals and a specific marketing metrics to...
  - b. Measure whether the goals are actually achieved.
- In the implementation phase, marketing actions:
  - a. Are taken to achieve the goals ...
  - b. Established in the planning phase.

## Supplemental Lecture Continued

- In the evaluation phase, the quantitative results are:
  - a. Measured using the marketing metrics.
  - b. Compared with the estimated or projected results of the marketing actions.
  - c. The marketing manager looks for two kinds of deviations, each of which triggers a different kind of marketing action:
    - *Actual results fall short of goals.* Requires corrective action.
    - *Actual results exceed goals.*
      - Act quickly to identify the reasons for the positive deviations.
      - Exploit the unforeseen opportunities.
- In the past decade, measuring the performance of marketing activities has become a central focus in many organizations.
- In finance, the return on investment (ROI) metric relates the total investment made to the total return generated from the investment.
- Marketing *ROI*:
  - a. Is the extension of the return on investment (ROI) metric to...
  - b. Measure the effectiveness of marketing expenditures.
- The evaluation phase of the strategic marketing process tries to improve marketing ROI through the effective use of:
  - a. One or a few key *marketing metrics*, which...
  - b. Are the marketing, product, and/or brand goals from step 2 of the planning phase, as shown in Figure 2-H.
  - c. A marketing dashboard:
    - Can display a variety of metrics in graphical form (charts, tables, etc.).
    - Presents data hourly, daily, weekly, monthly, quarterly, or annually.
    - Displays actual results that vary significantly from plans, alerting marketing managers to potential problems.

## Supplemental Lecture Continued

- Includes (see Chapter 7):
    - Primary data: Results from surveys, social network data mining inquiries, and other research.
    - Internal secondary data: Financial statements, sales reports, etc.
    - External secondary data: Syndicated scanner data from SymphonyIRI Group or ACNielsen, website “hits,” and Nielsen TV ratings, etc.
  - d. The deviations from plans shown in the evaluation phase in Figure 2-H:
    - Become the immediate focus of the marketing manager, who then...
    - Tries to improve the firm’s marketing ROI.
- Example: Kodak’s actual and planned sales from 2003 to 2012.
- 1. Comparing Results with Plans to Identify Deviations.**
- a. **[Figure 2-11]** Kodak’s sales revenues from 1998 through 2003, or line AB exhibit a very flat trend.
  - b. Extending the 1998–2003 trend to 2012 along line BC shows very flat sales revenues, a totally unacceptable, no-growth strategy.
  - c. Kodak’s growth target of 5 to 6 percent annually, the line BD, would give sales revenues of about \$15 billion in 2006 and about \$24 billion in 2012.
  - d. This reveals a wedge-shaped *planning gap*, which:
    - Is the difference between the projection of the path to reach a new goal (line BD) and...
    - The projection of the path of the results of a plan already in place (line BC).
  - e. The ultimate purpose of the firm’s marketing program is to “fill in” this planning gap (wedge DBC).
    - Must move its future sales revenue line from the no-growth line BC up to the challenging target of line BD.
    - But poor performance:
      - Results in actual sales being far less than the targeted levels.
      - The actual situation Kodak faced in 2011 (line BE), where sales were about \$6 billion.
  - f. This is the essence of evaluation: comparing actual results with goals set.

- g. Good or poor performance can result in actual sales revenues being above or far less than the targeted levels, which requires managers to take actions.
  - h. In 2003, Kodak used trend extrapolation to project the historic trend through 2012.
    - The discrepancy between line BC (the trend extrapolation) and BE (Kodak's actual annual sales revenues) shows that serious forecasting problems can occur.
    - In this case, Kodak failed to anticipate the drastic decline in sales of its film and film cameras due to sociocultural, economic, and technological changes in the marketplace.
  - i. The Kodak example highlights the difficulties in making long-range projections in industries in which consumer tastes and technology are changing rapidly.
- 2. Acting on Deviations.** When evaluation shows that actual performance fails to meet expectations, managers need to take corrective actions by:
- a. *Exploiting a positive deviation.*
    - When actual results are far better than the plan called for, managers find ways to exploit the situation.
    - For Kodak, it might try to move quickly to offer their innovative digital camera products to international customers.
  - b. *Correcting a negative deviation.*
    - When actual performance fails to meet expectations, managers need to:
      - Modify the marketing mix elements to...
      - Develop a new marketing program for the offering.
    - Sadly, Kodak, never was able to develop a *cash cow* or *star* from its existing SBUs from 2003 to 2012.

### Supplemental Lecture

#### **D. Using Marketing Metrics and Marketing Dashboards at General Mills**

- It's mid-January and you are part of the Warm Delights team at General Mills.
- **[Figure 2-I]** Big G uses the data and metrics shown in the marketing dashboard.

## Supplemental Lecture Continued

- The evaluation step of the strategic marketing process can be summarized using:
  - a. This marketing dashboard.
  - b. The three-step challenge-findings-actions format.

### 1. The Distribution Challenge for Warm Delights Minis.

- a. You're to analyze the distribution channel strategy for Warm Delight Minis.
- b. This hypothetical example:
  - Is based on the type of scanner data General Mills uses.
  - Has been simplified as to the data and analysis presented.
- c. The marketing dashboard in Figure 2-I focuses on:
  - The distribution of the six existing Warm Delights Minis flavors.
  - The impact of adding two new flavors introduced in the fall—Lemon Swirl cake and Cinnamon Swirl cake.
- d. The challenge is to gain distribution on retailers' shelves.
- e. General Mills:
  - Uses the marketing metrics shown in Figure 2-I to...
  - Evaluate the five main distribution channels for Warm Delights Minis:
    - Grocery stores (Kroger, Safeway).
    - Mass merchandisers (Walmart, Target).
    - Warehouse club stores (Sam's Club, Costco).
    - Convenience stores (7-Eleven, Circle K).
    - Drug stores (Walgreens, CVS/Pharmacy).

### 2. The Findings for Warm Delights Minis.

The marketing dashboard in Figure 2-I is divided into four charts, each with different marketing metrics:

- a. **[Figure 2-I1]** *2012 Monthly Unit Sales by Channel (Millions)*. Shows that:
  - The sales revenues for:
    - Warehouse clubs and convenience stores are flat or trending down.
    - Mass merchandisers and grocery stores are up slightly.
  - The grocery store channel is clearly the most important.
  - Drugstores jumped from September to December.

## Supplemental Lecture Continued

**b. [Figure 2-I2]** *Percent of Stores Carrying Warm Delights Minis by Channel.* Shows that:

- The percentage of stores in each channel carrying one or more of the flavors of Warm Delights Minis in both November and December.
- The percentage of drug stores carrying at least one flavor jumped from 64 percent in November to 91 percent in December.
- Your team needs to understand better what happened.

**c. [Figure 2-I3]** *Percent of Total Sales Revenues by Channel.* Shows that:

- The importance of the grocery channel.
- The increased monthly sales revenue in the drug channel.

**d. [Figure 2-I4]** *Average Number of Flavors Carried by Channel.* Shows that:

- An important reason for the increased unit and dollar sales from the drug channel is due to...
- Increasing the average number of flavors carried in a drugstore from 1.4 to 3.0 from November to December.

### 3. The Actions for Warm Delights Minis.

**a.** Further analysis of marketing dashboard and metrics revealed the jump in sales individual flavors of Warm Delights Minis in the drugstore channel was because:

- A major chain (like Walgreens) added the product line.
- Drugstores are embracing the new flavors, making customers more aware that there are now actively selling many food lines.

**b.** Additional investigation reveals that the minor sales changes for the other four channels are due to the two new flavors simply replacing older, slower-moving ones.

**c.** Hot desserts experience increased seasonal demand in winter. You decide to:

- Invest in the Warm Delights brand.
- Schedule additional national TV advertising in late January and throughout February for the Warm Delights brand.
- Exploit seasonal demand and trends in sales growth and distribution.
- Research ways to:
  - Attract other potential chains in all the five main channels used...
  - Based on the sales from adding a single major drugstore chain.

## LEARNING REVIEW

**10. What is the implementation phase of the strategic marketing process?**

Answer: The implementation phase carries out the marketing plan that emerges from the planning phase and consists of: (1) obtaining resources; (2) designing the marketing organization; (3) developing planning schedules; and (4) executing the marketing program designed in the planning phase.

**11. How do the goals set for a marketing program in the planning phase relate to the evaluation phase of the strategic marketing process?**

Answer: The planning phase objectives are used as the benchmarks with which the actual performance results are compared in the evaluation phase to identify deviations from the written marketing plans and then correct negative ones or exploit positive ones.

## APPLYING MARKETING KNOWLEDGE

1. (a) Using Medtronic as an example, explain how a mission statement gives a strategic direction. (b) Create a mission statement for your own career.

Answers:

- a. **Explain how a mission statement gives a strategic direction.** A mission statement is an expression of the organization's function in society, often identifying its customers, markets, products, and technologies. Medtronic's mission statement is "to contribute to human welfare by application of biomedical engineering in the research, design, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life." The "rising mural" in its headquarters powerfully communicates the inspiration and focus of its mission to its stakeholders: employees, doctors, and patients alike. Moreover, it appears on a medallion that is presented to each new employee. Finally, each December five or six patients and their physicians describe to assembled employees how Medtronic products have changed their lives. These activities send clear messages to employees and other stakeholders about Medtronic's strategic direction.
  - b. **Create a mission statement for your own career.** An example of a mission statement for a student's career might be: "To be recognized as an outstanding, ethically and environmentally responsible, global marketing executive."
2. **What competencies best describe (a) your college or university and (b) your favorite restaurant?**

Answers:

- a. **Your college or university.** [NOTE: These vary along a continuum from community colleges to research universities.] Flexible course scheduling to accommodate the special needs of part-time and working students. A world-class research institution for biotechnology; student-oriented faculty.
  - b. **Your favorite restaurant.** Genuine French cuisine. A family menu at a reasonable price.
3. **Why does a product often start as a question mark and then move counterclockwise around the BCG's growth-share matrix shown in Figure 2-4?**

Answer: When a product is introduced, it is usually a "question mark" because it is "new" and there is uncertainty about consumers' acceptance of it. After a period of time, depending on the product category, the "not-so-new" product could be classified as a "star" if its growth rate is sizeable and has a significant share of the product category. If the growth rate in the product category falls substantially and there is great competition from competing brands, the product probably will fall in the "cash cow" category. If, however, the product isn't supported with an effective marketing program, it could become a "dog."



4. **Select one strength, one weakness, one opportunity, and one threat from the SWOT analysis for Ben & Jerry's shown in Figure 2-7. Suggest an action that a marketing manager there might take to address each factor.**

Answers:

- a. **Strength.** Leverage its brand name by continuing to offer crazy new flavors, products (ice cream, yogurt, sorbet, low-fat/carb, etc.). Promote its social mission in college campus newspapers in cities where Ben & Jerry's is sold, either in its own outlets or in grocery stores.
  - b. **Weakness.** Communicate the benefits of Ben & Jerry's social mission (number of people employed, trained, etc.). Develop and implement a management trainee program for those employees willing to make a long-term commitment to the firm.
  - c. **Opportunity.** Develop partnerships or franchise relationships with firms or individuals in markets where Ben & Jerry's has not yet fully penetrated, such as South America, Australia, etc. where ice cream consumption is moderate to strong. Also, develop ice cream-based products, such as ice cream sandwiches, cookies, cakes, etc.
  - d. **Threat.** Offer low-carb products with Splenda or other sugar substitutes. Find lower cost but socially responsible "Fair Trade" suppliers and manufacturers in overseas markets where consumers are more price-sensitive due to less income to spend on discretionary products like super premium ice cream.
5. **What is the main result of each of the three phases of the strategic marketing process? (a) planning, (b) implementation, and (c) evaluation.**

Answers:

- a. **Planning phase.** Results are formal marketing plans that identify specific objectives to be achieved by a particular time and the specific actions to achieve those objectives.
- b. **Implementation phase.** Results are formal measurements of the results achieved, which can be compared with the plans established in the planning phase to determine if any deviations from plans occurred.
- c. **Evaluation phase.** Results are new actions taken to exploit opportunities where deviations from plans are better than expected or to take corrective actions where deviations from plans are worse than expected.

**6. The goal-setting step in the planning phase of the strategic marketing process sets quantified objectives for use in the evaluation phase. What does a manager do if measured results fail to meet objectives? Exceed objectives?**

Answers:

If the marketing manager discovers a planning gap, which is a difference between the projection of the path to reach a new goal and the projection of the path of the results of a plan already in place for the marketing program, he or she can take the following actions:

- a. **Fails to meet objectives.** Correct a negative deviation by making minor or major changes to the existing marketing program of a product to better reflect future expectations in the marketing environment.
- b. **Exceeds objectives.** Exploit a positive deviation by strengthening strategic partnerships, engage in a market development or product development strategy, etc. to maintain or enhance the firm's position.

## BUILDING YOUR MARKETING PLAN

1. **Read Appendix A, “Building an Effective Marketing Plan.” Then write a 600-word executive summary for the Paradise Kitchens marketing plan using the numbered headings shown in the plan. When you have completed the draft of your own marketing plan, write a 600-word executive summary to go in the front of your own marketing plan.**

Suggestions: In Question #1, students are asked to write a 600-word executive summary for the Paradise Kitchens marketing plan in Appendix A. This gives them a chance to practice a draft of an executive summary for their own marketing plan. A 600-word executive summary for the Appendix A marketing plan appears below.

### FIVE-YEAR MARKETING PLAN FOR PARADISE KITCHENS, INC.

#### 1. Executive Summary

#### 2. Company Description

Paradise Kitchens was started in 1989 to develop and market Howlin’ Coyote Chili.

#### 3. Strategic Focus and Plan

Three key aspects of the company’s corporate strategy:

- **Mission/Vision.** Howlin’ Coyote Chili intends to market the highest-quality line of single serve and microwaveable Southwestern/Mexican-style frozen chili products.
- **Goals.**
  - a. Nonfinancial goals include: retaining its high quality image; entering 17 new metropolitan markets; achieving nationwide distribution in two convenience store or supermarket chains by 2012 and five by 2013; adding a new product line every third year; and being among the top five chili lines in one-third of the metro markets in which it competes by 2013 and two-thirds by 2015.
  - b. Financial goals include: achieving a real growth in earnings per share of 8 percent per year over time; obtaining a return on equity of at least 20 percent; and having a public stock offering by 2013.
- **Core Competency and Sustainable Advantage.** Paradise Kitchens seeks to
  - (1) provide distinctive, high-quality chili and related products using Southwestern/Mexican recipes that appeal to and excite contemporary tastes and
  - (2) use effective manufacturing and distribution systems that maintain high quality standards to deliver its products to consumers.

#### 4. Situation Analysis

An analysis of Paradise Kitchens’ marketing environment reveals:

- **SWOT Analysis.** The Company's favorable internal factors are an experienced management team, excellent acceptance in its three metropolitan markets, and a strong manufacturing and distribution system. Favorable external factors include increasing appeal of Southwestern/Mexican foods, a strong upscale market for the Company's products, and a desire for convenience. The main weaknesses are Paradise Kitchens' small size relative to its competitors in terms of depth of management team, its limited financial resources to respond to growth opportunities and competitive actions, lack of national awareness and distribution of product lines, and lack of food processing expertise. Threats include the danger that the Company's premium prices may limit access to mass markets and competition from the eat-out and take-out markets.
- **Industry Analysis.** There is a rising trend in frozen foods in general and spicy and Mexican foods in particular. The Mexican entree market represents over \$506 million in annual sales of the \$29 billion total frozen food sales due in part to the increase of the Hispanic population in the U. S., which reached 48 million and almost \$978 billion in purchasing power in 2009.
- **Competitors in the Chili Market.** The chili market is also a \$500 million market in the U.S. and is divided into two segments: canned chili, sold by Hormel, Dennison, Campbell's, and others (75%), and dry chili, sold by Lowry's, Stagg, etc. (25%). Bush, a major marketer of beans, now sells chili in a glass jar. Canned chili does not taste very good. Dry chili requires consumers to add their own meat, beans, and tomatoes, taking more preparation time.
- **Company Analysis.** The principals of the firm have extensive consumer packaged food experience.
- **Customer Analysis.** Howlin' Coyote households consist of one to three people. Among married couples, both spouses work. Although a majority of buyers are women, single men represent a significant segment. Teenage boys devour it. Because chili is a quick and tasty meal, the product's biggest users tend to be those pressed for time. Premium pricing also means that purchasers are skewed toward the higher end of the income range: \$50,000 and above. Buyers range in age from 25 to 54. The high caloric level of much Mexican and Southwestern-style food has been widely reported and often exaggerated. Less certain is any link between such reports and consumer buying behavior. Therefore, while Howlin' Coyote is lower in calories, fat, and sodium than its competitors, those qualities are not being stressed in promotion. Instead, taste, convenience, and flexibility are stressed.

## 5. Market-Product Focus

A five-year marketing and product objectives for Paradise Kitchens and Howlin' Coyote chili includes:

- **Marketing and Product Objectives.** Paradise Kitchens will expand its brand at the retail level by increasing consumer awareness and repeat purchases, adding several new markets by Year 5, increasing food service sales, and adding new frozen food products.

- **Target Markets.** The primary market is 1 to 3 person households with incomes of at least \$50,000.
- **Points of Difference.** Howlin' Coyote chili is superior to those offered by competitors based on its taste, convenience, and packaging.
- **Positioning.** Howlin' Coyote chili is both tasty and easily and quickly prepared for today's consumer.

## 6. Marketing Program

The marketing program applies the information summarized above, as shown below:

- **Product Strategy.** Emphasize high quality and flavor; packaging is distinctive art communicating out-of-the ordinary positioning.
- **Price Strategy.** Priced comparably with other frozen chili, higher than canned or dry—but worth it.
- **Promotion Strategy.** Use in-store demonstrations, recipes, and cents-off coupons.
- **Place (Distribution) Strategy.** Continue to use a food distributor until sales grow enough to justify shifting to a more efficient system using a broker.

## 7. Financial Data and Projections

The marketing plan provides past sales revenues for 2001-2011 along with five-year financial projections for 2012-2016.

## 8. Organization

The marketing plan also outlines an organization chart and staffing plan.

## 9. Implementation Plan

Paradise Kitchens will use a five-year rollout schedule to enter new U.S. markets. The plan will be monitored to assess whether minor modifications may be required in chili recipes for different metropolitan areas. Comparing actual versus target monthly sales by metropolitan area will provide evaluation and control. Tactical marketing programs will be modified to reflect unique factors in each area.

## 10. Evaluation and Control

Actual case sales will be compared with monthly targets and tactical marketing programs modified to reflect the unique sets of factors in each metropolitan area. The speed of the rollout program will depend on Paradise Kitchens' performance in the metropolitan markets it enters. Finally, Paradise Kitchens will respond to variations in regional tastes.

### Appendix A. Biographical Sketches of Key Personnel

### Appendix B. Detailed Financial Projections

- 2. Using Chapter 2 and Appendix A as guides, give focus to your marketing plan by (a) writing your mission statement in 25 words or less, (b) listing three nonfinancial goals and three financial goals, (c) writing your competitive advantage in 35 words or less, and (d) doing a SWOT analysis table.**

Suggestions: Question #2 asks students to get a jump start on writing their marketing plan by putting on paper their mission statement, non-financial and financial goals, competitive advantage for the organization, and a SWOT analysis. This is a very threatening first step for many students. To assist students in writing effective marketing plans, instructors should emphasize to students the importance of (a) reading the pertinent chapter(s) in the textbook that relates to the element of the marketing plan and (b) studying the red and blue boxes in the margin of the Appendix A Sample Marketing Plan that gives hints on effective writing and identifies relevant textbook chapters, respectively.

- 3. Draw a simple organization chart for your organization.**

- A. Develop a Gantt chart to schedule the key activities to implement your marketing plan.**

### **Helping with Common Student Problems**

Our experience from working with thousands of students writing marketing plans is the need to encourage them to (a) get started and get something on paper and (b) be specific. One way to accomplish this is to have students hand in a two-page draft of the start of their marketing plan containing the four items listed above in Question #2.

Our experience is that it is useful to have instructors make comments directly on this draft using the grading standard (perhaps using the grading sheet shown in the Instructor's Resource Manual) marketing plan—but not give an actual grade on the two-page draft. This forces the student to get started and get something on paper and also lets them receive constructive suggestions from the instructor without the threat of a grade. We suggest the two-page draft be submitted the class period after the 7-5-3 class presentations.

## TEACHING NOTE FOR VIDEO CASE 2

### IBM: Using Strategy to Build a “Smarter Planet”

This case describes how IBM’s Smarter Planet initiative is (1) encapsulated to the company’s mission and values, (2) translated into a business strategy, and (3) implemented in a coherent and comprehensive fashion for companies in a variety of industries. Interviews with senior IBM executives explain how this is done from both a conceptual and practical perspective.

#### Synopsis

**Show Slide 2-66.** IBM was founded in 1911, when several business machine companies merged to form the Computing-Tabulating-Recording Company (CTR). The company had 1,300 employees and sold scales, time recorders, meat and cheese slicers, and tabulators. In 1914, Thomas J. Watson, Sr. joined the company as general manager and implemented several important business practices including a focus on customer service, conservative dress for salespeople, development of large-scale custom-built solutions for businesses, and a positive, professional outlook communicated by his favorite slogan “THINK.”

As CTR grew it offered new products such as an electric adding machine and a punch card press, and, as a result, it adopted the name International Business Machines from one of its Canadian subsidiaries. Blue covers on the computers, blue letters in the IBM logo, and dark blue suits worn by IBM salespeople, led to the now popular company nickname, “Big Blue.” Today, *Fortune* magazine ranks IBM as the 18<sup>th</sup> largest company in the United States with sales of \$99.8 billion and 426,000 employees in more than 200 countries. *Forbes* magazine ranks IBM as the fourth most valuable brand in the world.

In support of its mission IBM developed an overarching strategy called “Building a Smarter Planet.” The Smarter Planet initiative is designed for clients who value IBM’s industry and process expertise, systems integration capability, and research capacity. In addition, IBM created a Smarter Planet marketing plan to describe the company’s view of the next era of information technology and its impact on business and society.

#### Teaching Suggestions

Students can use the case information, the IBM corporate home page ([www.ibm.com](http://www.ibm.com)), the IBM Smarter Planet website ([www.ibm.com/smarterplanet](http://www.ibm.com/smarterplanet)), and their own perceptions of IBM and observations of the Smarter Planet campaign.

1. Ask your students about their perceptions of IBM, what business it is in, and what its mission might be.
2. Ask your students to describe their perceptions of changes in the environment that would be important to IBM. Are they aware of declining trade barriers, the growth of developing economies, and the impact of the World Wide Web?
3. Some students may remember seeing “Smarter Planet” ads on television or in magazines. Ask them to describe the ads and how they represent a strategy at IBM.

**[QR Code 2-4: IBM Video Case]**

## Answers to Questions

### 1. What is IBM's "Smarter Planet" business strategy? How does this strategy relate to IBM's mission and values?

Answers:

The strategic marketing process consists of three phases—planning, implementation, and evaluation. The planning phase consists of three steps—situation analysis, goal setting, and the marketing program. IBM used the strategic marketing process by applying each of the three steps in the planning phase to develop its "Smarter Planet" strategy.

- a. **What is IBM's "Smarter Planet" business strategy?** A strategy is an organization's long-term course of action designed to deliver a unique customer experience while achieving its goals. IBM's "Smarter Planet" business strategy is based on the idea that the next major revolution in the global marketplace will be the instrumentation and integration of the world's processes and infrastructures generating unprecedented amounts of data. This knowledge can help reduce costs, cut waste, improve efficiency, and increase productivity for companies, industries, and cities.
- b. **How does this strategy relate to IBM's mission and values?** This strategy complements IBM's expressed mission and values. IBM's mission statement (stated in the case) is to:
  - Strive to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems, and microelectronics.
  - Translate these advanced technologies into value for our customers through our professional solutions, services, and consulting businesses worldwide.

IBM's values (stated in the case) emphasize:

- Dedication to every client's success.
- Innovation that matters—for our company and for the world.
- Trust and personal responsibility in all relationships.

The "Smarter Planet" strategy clearly promotes leadership in the delivery of information technologies that provide valued customer solutions (mission) and a commitment to the customers' success through meaningful innovation, and professional behavior.



**2. Conduct a SWOT analysis for IBM's Smarter Planet initiative. What are the relevant trends to consider for the next three to five years?**

Answers:

As the first step in the planning phase of the strategic marketing process, a SWOT analysis is part of a situational analysis a firm conducts to: (1) identify industry trends; (2) analyze competitors; (3) assess itself; and (4) research consumers (see Chapter 2). SWOT is an acronym that describes an organization's appraisal of its internal **S**trengths and **W**eaknesses and its external **O**pportunities and **T**hreats.

a. **A SWOT analysis for IBM's Smarter Planet initiative.** Listed below is a brief, non-exhaustive SWOT analysis for IBM and its "Smarter Planet" initiative or strategy:

- **Strengths.**
  - Well-known global brand name.
  - New technologies and patents.
  - A planning process that included online discussions among 50,000 employees.
  - A clear concise mission statement.
- **Weaknesses.**
  - IBM's size may make change difficult.
  - Products such as PCs and hard disk drives are becoming commodities and are not customizable.
  - Once the values, mission, and strategy are determined employees must create the detailed plans for accomplishing them.
- **Opportunities.**
  - Growth markets such as China, India, Brazil and Africa.
  - Business analytics and optimization.
  - Cloud and smarter computing.
  - Connectivity.
- **Threats.**
  - Shift to custom-made technological solutions.
  - Demand for Smarter Planet solutions will depend on interest in change rather than just reaction to problems.
  - Demonstrating success will require accurate and timely measurement of relevant outcomes.

b. **The relevant trends IBM should consider for the next three to five years.**

- **Environmental Trends.**
  - Fewer trade barriers.
  - Growth of developing economies.
  - Increasing access to the World Wide Web.
- **Customer Trends.**
  - Desire for a “globally integrated enterprise.”
  - Desire for “connectivity across technologies.”
  - Desire for “custom-made technological solutions.”

3. **How can IBM communicate its strategy to companies, cities, and governments? How is Watson a part of the communication strategy?**

Answers:

- a. **Communicating IBM’s strategy to companies, cities, and governments.** IBM’s marketing and communications professionals developed a marketing plan that included:
- A “Letter from the Chairman” Sam Palmisano, describing how the Smarter Planet initiative represented an infusion of intelligence into the way the world actually works.
  - Print and television advertising focusing on IBM’s ability to improve the world now.
  - Website information that included videos, statistics, and industry reports.
  - Publicity events, such as the appearance of the IBM computer named “Watson” on the TV game show Jeopardy!
- b. **Using Watson a part of IBM’s communication strategy.** While there may be short-term costs involved in shifting IBM from commodity-based businesses to customizable businesses, IBM believes that the transformation will provide growth for the company and its employees, success for its customers, and improved value for its stockholders.

4. **What are the benefits of the Smarter Planet initiative to (a) society and (b) IBM?**

Answers:

- a. **Benefits to society.** IBM’s Smarter Planet strategy benefits society by providing solutions for forward-thinking organizations that share a common outlook: they see change as an opportunity and they act on possibilities, not just react to problems. The solutions also help reduce costs, cut waste, improve efficiency, and increase productivity for companies, industries, and cities.
- b. **Benefits to IBM.** While there may be short-term costs involved in shifting IBM from commodity-based businesses to customizable businesses, IBM believes that the transformation will provide growth for the company and its employees, success for its customers, and improved value for its stockholders.

## 5. How should IBM measure the results of the Smarter Planet strategy?

Answer:

Since introducing the Smarter Planet strategy, IBM has collaborated with more than 600 organizations around the globe. In each case, there are different measures of the results of “smart” solutions. These include reduced traffic congestion, reduced inventory levels, and improved customer service. The U.S. Department of Energy measured power usage and found that consumers with smart electric meters saved 10 percent on their power bills. Retailers who implemented smart systems cut supply chain costs by 30 percent, reduced inventory levels by 25 percent, and increased sales by 10 percent. The Memphis Police Department reduced crime by 28 percent.

### Epilogue

IBM was recently ranked number two (behind Coke) in Interbrand’s brand valuation survey with a value of \$70 billion. The company has become an excellent example of how to manage change in a large company at a time when small business start-ups and entrepreneurs are the focus of media attention. The Smarter Planet initiative now has more than 2,000 projects worldwide and is one of the reasons IBM’s stock price has increased more than 70% since 2004. The use of Watson in the marketing program was also extremely successful, generating 1.3 billion media impressions and \$50 million worth of media exposure.

In January 2012, IBM appointed Virginia Rometty, its VP of Sales, Marketing, and Strategy, as its 10<sup>th</sup> CEO (replacing Palmisano). The appointment is viewed as an indication of the importance of marketing and the new strategy at IBM.

Sources: Steve Lohr, “Retired Chief Leave Behind a Refashioned I.B.M.,” *The International Herald Tribune*, January 2, 2012, p. 15; “Brand of the Year 2011 Shortlist,” *Marketing*, November 9, 2011; and Jack Neff, “2011 Marketer A-List,” *Advertising Age*, November 7, 2011, p. 20.