FOURTH EDITION

Marketing Management

A RELATIONSHIP APPROACH

INSTRUCTORS MANUAL

Svend Hollensen

Contents

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PREFACE

INTRODUCTORY COMMENTS

The textbook 'Marketing Management – A relationship approach' has been written for lecturers teaching courses or executive education programmes in Marketing Management.

The book is structured according to five main decision phases that companies face in the marketing management process.

The schematic outline of the book in the figure below shows how the different parts fit together.
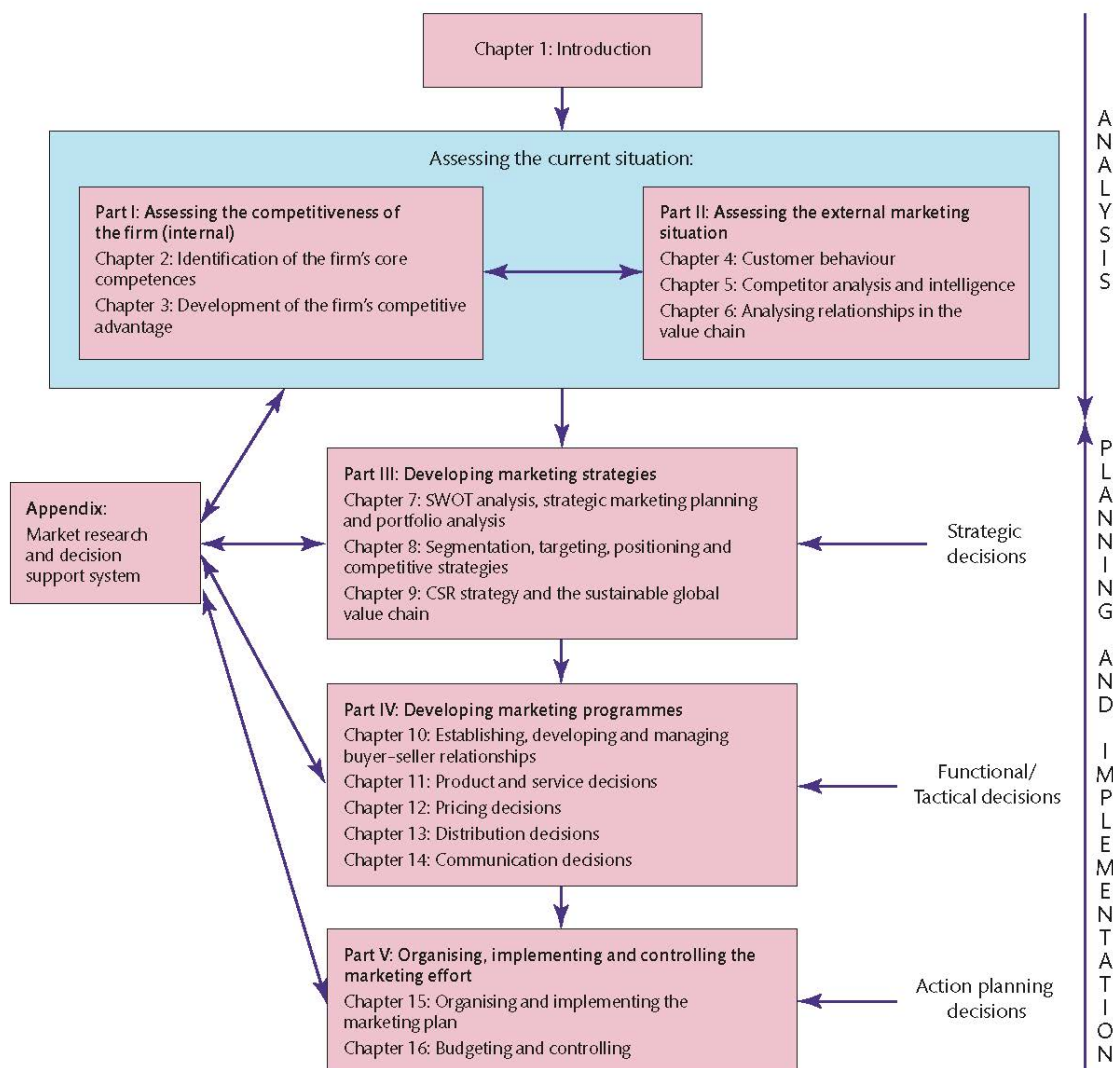
As is seen in this figure, 'marketing research' will be regarded as a support system for all five phases of the decision process.

The figure above regards the marketing planning system as a hierarchical approach, but if we look at the planning system as more iterative we can illustrate it as the following figure:

1. Where are we now?
SWOT, Key Competences, Competitive Advantages, Market share

6. How do we monitor performance?
KPIs, evaluate performance against KPIs

2. Where do we want to be in the future?
Market shares, Customer acquisition and Retention targets, Customer satisfaction targets

5. How do we get there short-term?
Who does what and when?
Locate responsibilities

3. How do we get there long-term?
STP (Segmentation, Targeting and Positioning), Value proposition, Use of strategy tools (Ansoff, BCG, GE/McKinsey)

4. How do we get there mid-term?
Marketing Mix (4Ps, 7Ps), Social Media Marketing, E-commerce

1. Situation Analysis (Part 1 and II)
6. Control (Part V)
2. Objectives (Part III)
5. Action (Part V)
3. Strategy (Part III)
4. Marketing Mix (Part IV)

S C O A M S

This Instructor's Manual (IM) has been especially prepared for adopters of the textbook.

The principal objective of the IM is to help instructors create an exciting, informative and successful classroom experience for their students. The material has been written to allow you the flexibility to design a course tailored to your own objectives, methods and conceptual framework.

This IM helps busy marketing lecturers in their job of teaching the subject. It is not intended to suggest that there is 'one way' of using the textbook, 'one way' of analysing the case studies and discussion questions, and 'one way' of teaching global marketing. In short, it is intended to supplement your creative skills in teaching marketing. Together with the textbook, the IM forms a package of materials designed to facilitate course development and execution.

The IM follows the ordering of the material in the book. This means that each chapter in this IM contains the following:

- Teaching notes on the 21 cases included in the book (an end-of-chapter case for each of the sixteen cases and a video case study for each of the five parts). These case notes are not intended to be exhaustive, but are rather starting points for the instructor's own preparation.

- Model answers to 'discussion questions'. The 'Questions for discussion' can be used in a variety of ways. They can be used as essay questions to test students' knowledge and understanding of the subject matter. Some of them may form the focus of a tutorial discussion. You may also wish to encourage students to use them as self-administered tests of knowledge and understanding of each chapter as they read the textbook.

I hope that you will find the material in this IM helpful, and that it will assist you in developing a course that meets your needs and the objectives for your students.

I look forward to receiving your comments on the textbook itself and on the Instructor's Manual.

Svend Hollensen

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DIFFERENT LEVELS OF LEARNING

Learning concerns *changing* behaviour through a permanent change of knowledge, skills or attitudes. The lecturer in international marketing may have different sets of teaching objectives including the development of:

- *Knowledge:* Understanding the basic material. The lecturer may encourage the understanding of the many, often conflicting, schools of thought and facilitate gaining insight into the assumptions, possibilities and limitations of each theory or model.

- *Skills:* A higher level of learning. Learn how to simultaneously perform a number of elements requiring understanding of the entirety rather than the individual component.

- *Attitude:* Ability to:

    - evaluate the usefulness of some specific practice;

    - instill a critical, analytical, flexible and creative mind-set.

Hence, a learning situation must encourage students to be critical, must challenge them to be analytical, must force them to be mentally flexible and must demand creativity and unconventional thinking. In short, students cannot be instructed but must learn the art of strategy by thinking and acting themselves. The role of the lecturer is to create the circumstances for this learning. We therefore refer to this type of teaching as facilitative.

TEACHING OBJECTIVES

When translating the teaching objectives, approach and format into a course setup, the lecturer must consider a large number of 'design variables'. In other words, international, global marketing course structures can significantly differ from one another on quite a few dimensions. Some design variables can be determined by the lecturer, while others must be taken as given. Some of the most important ones are:

- *Course scope:* Professors/lecturers must decide whether to cover all chapters in the book and whether to skip, or even add, particular articles.

- *Class session sequence:* The order in which topics will be covered must also be determined.

    Following the chapters in their numerical sequence is a logical choice. So it is probably ideal for most students to study the text in the order in which it is presented. As a general suggestion, instructors who assign chapters in an order that differs from the text order should consider explaining to students briefly but explicitly the logic for the selected structure. The instructor who sees the 'big picture' can have very good reasons for selecting a particular order, but students going through the material for the first time may wonder what the special value of the structure might be.

- *Class session length:* The length of class sessions can vary from 45 minutes to much more, although this is usually not determined by the lecturer.

- *Class session frequency:* The number of class sessions can vary (typically ten to twenty sessions) but is usually also difficult to influence.

- *Class session density:* Class sessions can be clustered into a compact module of 2–5 days (intensive courses for management) or can be spread out, so that teaching takes place intermittently – one to three times a week – over a longer period of time (typically a semester).

- *Class session preparation:* Some lecturers require students to perform activities prior to a class session, for instance to prepare readings, a case and/or an assignment. Other lecturers integrate these activities into the class sessions.

- *Class session structure:* Each class session can be a mix of activities ranging from listening and discussions to 'role playing' and assignments. All of these activities can be plenary, in small groups or individual. Each can involve different levels of student–lecturer interaction.

- *Course cases:* Lecturers also need to determine which specific end-of-parts cases will be used.

- *Course assignments:* Besides class session related work, lecturers can also assign other duties, such as the writing of a seminar, desk research on the Internet or field research. These assignments can be carried out in groups or individually.

- *Course examination:* It must also be determined how the students' progress will be evaluated. Exams can be written or oral, open or closed book, individual or group work and can vary in number, length, weight and level.

TEACHING METHODS

There are many different teaching methods in use. The most popular are: lecturing, case studies, Internet exercises, research projects and class discussions. Other more specialised approaches such as 'role playing' are also used. The principal factor on which they differ is the extent to which they allow involvement by the participant. In selecting a teaching method we must attempt to connect the method with the objectives of the course. The selected teaching method must also respect the background (educational, social and cultural) of the students.

Lecturing, where theories and models are presented, is suitable for large audiences where participation is not possible because of the numbers involved.

My suggestion for a course design based on the textbook (sample syllabus) is primarily based on a combination of lectures (theory) and case studies. In this connection, there are four types of teaching from which lecturers can choose:

- *Theory only:* A classical university course is one that revolves around the theory, whereby no use is made of cases. It is used if case teaching is too difficult – for example, if one professor must teach a group of more than hundred students.

- *Theory first, then case:* Many lecturers prefer to supplement a discussion of the theory with a case analysis. Commonly they will spend a class session or the beginning of a class session with a presentation and/or class discussion based on the theory. After this initial exploration, the lecturer will turn to the case as an exercise for gaining a deeper understanding. This teaching format is usually employed if professors prefer to have a well-structured, theory-driven case discussion. The key questions are how can the theories be applied and what are their limitations?

- *Case first, then theory:* The opposite teaching format is to start with a practical strategic management issue, in the form of a case or otherwise. The class discussion will then focus on understanding the strategic issue and seeking a course of action. Only after the students have finished the case and have developed a 'feel' for the issue does the lecturer place it in a broader theoretical context. In other words, the theoretical discussion is grounded in the class's practical case analysis. This teaching format is usually employed if lecturers prefer an exploratory, theory-seeking case discussion. The key questions are what can be learnt from this specific situation and can these lessons be generalised and transferred to other situations?

- *Theory and case simultaneously:* Finally, some lecturers try to combine the theory-driven and case-driven teaching formats by intertwining the two. They will often start with a short

theoretical introduction to the topic and then launch into the case. The case discussion will often require a short theoretical intermezzo for clarification and conclusions, after which the case discussion is resumed. At the end of the case discussion, the theoretical insights are consolidated by means of a final overview. This teaching format is usually employed if lecturers place much emphasis on students' ability to move skilfully from general principle to practical situations and back again.

As stated earlier, there is no best way to teach 'marketing management' – no teaching format that is best under all circumstances. The most appropriate format will depend on such variables as the number of students, their level and abilities, the skills of the lecturer and the time available. The most important thing is to make a choice that fits with these circumstances and to follow this choice through in a consistent manner.

The case study as a teaching/learning method

A case study is normally a description of a situation, which may be factually based or fictional, which the student has to analyse in order to make recommendations and answer some specific questions. The cases in the textbook can vary from the very short and simple to lengthy and complex ones.

The reasons for including case study material in this text are twofold. I hope that it will help develop analytic 'marketing management' skills, decision-making and action learning skills among students while illustrating how marketing models can be applied to 'real life' situations. The students also learn to create and defend recommendations for marketing action.

Participants may, however, get the wrong impression of the 'real life' situation. They may fail to realise that decisions taken in the classroom are different from those that have to be made in a live situation where the circumstances and the information available are different. What does matter, however, is that students know what they would do if faced with similar circumstances. Case studies emphasise diagnostic skills and develop confidence in understanding the problems to be solved.

The actual organisation in the case study part of the course is based on personal experience. I certainly do not intend to suggest a 'best' method. From my experience that is based on talks with colleagues, four methods of using case studies appear to be common:

- Students prepare an individual written analysis.
- Small groups discuss the case situation (with or without set questions).
- A student presents a case analysis and a recommended course of action to the class and its merits are debated.
- The tutor leads the discussion from the beginning of the teaching session, perhaps starting by asking one student to give his/her views on a key issue of the case. If the students know beforehand that this will happen it may give an added spur for them to prepare the case adequately.

I would like to emphasise that these are not the only approaches to organising a case study session, nor are they necessarily the best: each person should experiment to find out which method works for them in which situation.

Students' learning objective of case studies

- Awareness of/acquaintance with...
- Knowledge of... To what depth and breadth?

- Ability to identify and bring together relevant data.
- Judgement skills in the face of inadequate data.
- Ability to analyse that data.
- Competence in the use of specific methods or techniques of analysis.
- Perception and ability to draw inferences.
- Creativity in formulating recommendations for action.
- Recognition of the problems that might arise in implementing the recommendation.
- Presentation and communication skills.

Seen from the tutor's (lecturer's) perspective these are the following possible case discussion strategies:

THE TASKS OF THE TUTOR	POSSIBLE CASE DISCUSSION STRATEGIES
Asks questions	Tutors need to develop their questioning skills so that the session is marked by a high level of student participation
	Goes into depth (why?)
	Other aspects (what else?)
	Limitations (what if?)
	On facts, values, concepts
	Committing/non-committing
	Open ended/narrow
	Helpful/frustrating
Makes comments	Subject-oriented/process-oriented
Uses chalk-board	Tutor (yes/no)
	Students (yes/no)
	Everything/selective
	Random/ordered
	Pre-prepared
Uses other teaching aids	Before/during/after (what happened?)
	Invite managers of case companies as guest lecturers
Uses other techniques	Role playing, voting
Adds resources	Case data, knowledge, concepts
	New company/industry data from the Internet
Concludes	Yes/No to the main questions
	Summarises/synthesises

PROCEDURE FOR CASE ANALYSIS (FOR STUDENTS)

The following framework can be used for case analysis:

- *Step 1:* Read the case thoroughly with a view to understanding the key international marketing issue illustrated by the case.
  Discriminate between information which is relevant and that which is superfluous and/or ambiguous.
  Select and apply relevant theoretical marketing models.

- *Step 2:* Define clearly and concisely the basic problems in the case (some of the questions in this textbook's cases are already formulated, but these questions are only meant to guide and do not necessarily cover all basic problems). Identify main issues, for example, increased international competition, changes in underlying consumer tastes. Do not be confused with 'symptoms' – for example, declining market share, lower profitability. Identify the key decision to be made, for example, how to expand internationally, how to position the product, how to increase international competitiveness, etc.

- *Step 3:* Use the information and facts provided in the case to analyse the situation:

  - The market, demand (buyer) competition, etc.

  - Company strengths and weaknesses, external opportunities and threats (SWOT analysis)

- *Step 4:* Based on the analysis in step 3, identify possible alternative strategy solutions to cope with the problem defined in step 2. State assumptions that are made in order for the strategies to work. *Evaluate* the *pros* and *cons* of each alternative. This should be the main focus of your attention.

- *Step 5:* Recommend a course of action selecting the alternative proposed in step 3. Which would you consider most appropriate to solve the problem identified in step 2, taking into consideration the analysis made in step 3? Include some specifics regarding how the marketing team may implement the recommendations.

If the case study is made as a written report: write clear, well-structured and convincing reports.

CASE SUMMARIES

Description of Part Video Case Studies and end-of-chapter case studies in 'Marketing Management':

Case overview – 'Marketing Management – A relationship approach'

Video Case studies in the book:

Part	Video case studies / Subtitles	Location of headquarters	Target market area and type
Part I Assessing the competitiveness of the firm (internal)	**BYD electrical cars** The Chinese electric car manufacturer is considering sales worldwide	China	World B2C/B2B

Part II Assessing the external marketing situation	**Müller Yoghurts** Penetrating the US market	Germany	US market B2C/B2B
Part III Developing marketing strategies	**Nivea** Segmentation of the sun care market	Germany	World B2C
Part IV Developing marketing programmes	**Tequila Avión** A premium tequila is introduced	United States	USA/World B2C
Part V Organising, implementing and controlling the marketing effort	**Pret A Manger** How to control the expansion of an international restaurant chain	UK	UK/USA/World B2C/B2B

Chapter Case studies in the book

Chapter	Chapter case study	Location of headquarters	Target market area and type
1 Introduction	**1.1 Hunter Boots Ltd** The iconic British brand is moving into exclusive fashion	UK	World B2C
2 Identification of the firm's core competences	**2.1 Electrolux** A white goods manufacturer is considering growth opportunities worldwide	Sweden	World B2C
3 Development of the firm's competitive advantage	**3.1 Nintendo Switch** Is this the 'Blue Ocean' come-back?	Japan	World B2C
4 Customer behaviour	**4.1 Spotify** The online music-streaming company is growing fast but is suffering financial imbalance	Sweden/UK	World B2B
5 Competitor analysis and intelligence	**5.1 Cereal Partners Worldwide (CPW)** No. 2 world player is challenging the No. 1 – Kellogg	UK/Switzerland	World B2C
6 Analysing relationships in the value chain	**6.1 ARM** Challenging Intel in the world of computer chips	UK	World B2B

7 SWOT analysis, strategic marketing planning and portfolio analysis	**7.1 William Demant** One of the world's market leaders in hearing aids is defending its position with the Oticon brand	Denmark	World/Japan B2C/B2B
8 Segmentation, targeting, positioning and competitive strategies	**8.1 LEGO Friends** The world's third largest toy manufacturer is moving into the girls' domain	Denmark	World B2C
9 CSR strategy and the sustainable global value chain	**9.1 YouthAIDS** Social marketing in a private non-profit organisation	USA	World B2C/B2B
10 Establishing, developing and managing buyer–seller relationships	**10.1 Dassault Falcon** The private business jet, Falcon, is navigating in the global corporate business sector	France	World B2B
11 Product and service decisions	**11.1 Tinder** The famous dating app brand is facing increasing competition from e.g. Badoo	USA	World B2C
12 Pricing decisions	**12.1 Harley-Davidson** How should the pricing strategy be affected by the new EU tariffs in 2018?	USA	World B2C
13 Distribution decisions	**13.1 Bosch Indego** How to build B2B and B2C relationships in a new global product market – robotic lawnmowers	Germany	World B2C/B2B
14 Communication decisions	**14.1 Orabrush Inc.** How a 'pull' B2C YouTube marketing strategy helped consumers to focus on the 'bad breath' problem	United States	World B2C
15 Organising and implementing the marketing plan	**15.1 DJI Technology Co. Ltd** A Chinese 'born global' is dominating the world market for drones with its Phantom and Marvic drones	China	World B2C/B2B
16 Budgeting and controlling	**16.1 Huawei smartphones** Expanding into the international markets for smartphones	China	World

SUGGESTED LECTURE PLAN: MARKETING MANAGEMENT COURSE

Sample syllabus

1. Lecturer

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2. Course objectives

The development of marketing theory and practice is undergoing a paradigm shift from a transactional to a relationship orientation. However, as many companies are still relying on the traditional marketing approach, the course will balance on the edge between Relationship Marketing (RM) and Traditional (transactional) Marketing (TM).

The course objectives are:

- To introduce the students to the main concepts of 'Marketing Management', both the traditional marketing concept and also how this can be combined with the relationship marketing concept.

- To present the students with an analytic framework for building a *chain of relationships* (networks/value net) between the focal firm and its main stakeholders, including customers, suppliers, distribution channel intermediaries and firms producing complementary products/services. Even relationships to competitors are considered.

- To offer the students an analytic framework for the development, implementation and control of marketing plans with the purpose of developing long-term relationships with customers that competitors cannot easily duplicate.

Having followed this course, the student should be better equipped to understand how the firm could achieve competitiveness through the design and implementation of relationship-based marketing programmes.

3. Course content

The course has a clear decision-oriented approach. The structure of the course follows the *marketing planning process* of the firm. Based on an analysis of the competitive advantages of the firm (session) and the analysis of the external situation (session), the firm is able to develop marketing strategies (session) and marketing programmes (session). Finally, the firm has to implement and control the efforts in the markets and if necessary make corrective changes in the marketing strategy (session).

4. Literature

Svend Hollensen: *'Marketing Management – A relationship approach'*. Pearson Benelux, Fourth Edition, 2019.

5. Pre-requisites

An introductory course in marketing and/or economics.

6.   Duration

Number of class hours per course: 30.

7.   Teaching methods used

Lectures combined with group presentations and discussions of case studies.

Possible course structure – based on a 15 week course:

Week (date)	Session topics (Two class hours per week session)	Required reading
1	Structure of the book Introduction The TM versus the RM concept Relevant market research types for assessment of market potential The SOSMAC model + introduction to the KPI 'regime'	<u>Text</u>: **Preface** + **Chapter 1** + Appendix <u>Class cases</u>: BYD electric cars (Part I Video case study)
2	**Identification of 'core competencies'** The resourced-based view (RBV) Market-orientation view (MOV) Exploitation vs. Exploration Value creation vs. Value capture Customer experiences and experimental marketing Artificial Intelligence (AI) and its influence on Marketing **Development of competitive advantages** Sources of competitive advantages A holistic model of competitiveness Make- or buy (outsourcing) analysis The Sharing Economy	<u>Text</u>: **Chapters 2 + 3** <u>Class cases</u>: Hunter Boots (Case 1.1) <u>Group case</u>: Electrolux (Case 2.1) – **Group no. 1**
3	**Customer behaviour** PESTEL analysis Consumer decision making (B2C) Organisational decision making (B2B) (the Buy-Grid model) Customer satisfaction Customisation	<u>Text</u>: **Chapter 4** <u>Class case</u>: Müller Yoghurts (Part II Video case study) <u>Group case</u>: Nintendo Switch (Case 3.1) – **Group no. 2**

4	**Competitor analysis/Intelligence (CI)**	Text: **Chapter 5**
	Who are the competitors?	Group case: Spotify (Case 4.1) – **Group no. 3**
	How do we learn about our competitors?	
	Market/resource commonality	
	Response patterns of our competitor	
	Organisation for CI	
	Gamification and its use for marketers	
5	**Analysing relationships in the value chain (the value net)**	Text: **Chapter 6**
	Customer relationships	Group case: Cereal Partners Worldwide (Case 5.1) – **Group no. 4**
	Supplier relationships	
	Complementor relationships	
	Competitor relationships	
	Internal marketing relationships	
6	**SWOT, strategic marketing planning and portfolio analysis**	Text: **Chapter 7**
	SWOT analysis	Group case: ARM (Case 6.1) – **Group no. 5**
	Portfolio analysis	
	BCG – model	
	GE – Matrix	
	International portfolio analysis	
	Supplier portfolios	
7	**Segmentation, targeting, positioning and competitive strategies**	Text: **Chapter 8**
	Segmentation in the B2C market	Class case: Nivea (Part III Video case study)
	Segmentation in the B2B market	Group case: William Demant (Case 7.1) – **Group no. 6**
	Target marketing	
	Positioning	
	Generic competitive strategies	
	Offensive/defensive competitive strategies	

8	**CSR Strategy and the sustainable global value chain**	Text: **Chapter 9**
	Social Marketing as part of CSR	Group case: LEGO Friends (Case 8.1) – **Group no. 7**
	Cause-related marketing	
	The sustainable global value chain	
	Design and implementation of the intern	
	Poverty (BOP market) as a 'market' opportunity	
	The 'green' market as a business opportunity	
9	**Establishing, developing and managing buyer-seller relationships**	Text: **Chapter 10**
	Building buyer-seller relationships in B2B and B2C markets	Class case: Tequila Avión (Part IV Video case study)
	Relationship quality	Group case: YouthAIDS (Case 9.1) – **Group no. 8**
	Managing loyalty	
	The CRM path to customer loyalty	
	Key Account Management (KAM)	
10	**Product/service decisions**	Text: **Chapter 11**
	Dimensions of the product	Group case: Dassault Falcon business jets (Case 10.1) – **Group no. 9**
	Service strategies (Service-Dominant Logic)	
	New product development and PLC	
	Brand equity and branding alternatives	
	Implications of the Internet for product decisions	
	'Long Tail' strategies	
	3-D Printing – a possible industrial revolution in customisation	
	Global mobile app marketing	
	Internet-of-Things (IoT) and its use for marketers	
11	**Pricing decisions**	Text: **Chapter 12**
	Pricing strategies	Group case: Tinder (Case 11.1) – **Group no. 10**
	Experience curve pricing	
	Price bundling	————
	Relationship pricing	
	Pricing on the Internet (e.g. the Freemium model)	
	Subscription-based pricing	

12	**Distribution decisions**	Text: **Chapter 13**
	Functions of channel participants	Group case: Harley-Davidson (Case 12.1) – **Group no. 11**
	Distributor portfolio analysis	
	Relationships between manufacturer and distributor	
	Channel structure	
	Managing logistics	
	Retailing/mystery shopping	
	Communication process	
	Communication tools	
	Personal selling	
	Trade fairs and exhibitions	
	Distribution by smartphones	
	Multiple distribution and omni-channel strategy	
	Blockchain technology and its influence on Marketing and SCM	
13	**Communication decision**	Text: **Chapter 14**
	Communication process	Group case: Bosch Indego
	Communication tools	(Case 13.1) – **Group no. 12**
	Personal selling	
	Trade fairs and exhibitions	
	Implications of Internet for communication decisions	
	Social Media Marketing (6-C model)	
	From 'Bowling' to 'Pinball'	
	Influencer Marketing, e.g. Micro-influencers	
	Categorisation of Social Media	
	Social Media funnel	
	Development of the Social Media Marketing plan	
14	Organising and implementing the marketing plan:	Text: **Chapter 15**
	Marketing audit	Class case: Pret A Manger
	Building the marketing plan	(Part V Video case study)
	Organisation and implementation of the marketing effort	Group case: Orabrush Inc. (Case 14.1) – **Group no. 13**
	The role of internal marketing	

15	Budgeting and controlling	Text: **Chapter 16**
	Annual plan – budgeting	Group case: DJI Technology (Case 15.1) – **Group no. 14**
	Controlling the marketing programme	
	Customer life time value (CLTV)	Group case: Huawei (Case 16.1) – **Group no. 15**
	Economic value-added with successful implementation of customer relationship management (CRM)	
	Social Media metrics	

Text = S. Hollensen, 'Marketing Management', 2019

Class case = To be discussed in class. The tutor leads the discussion.

Group case = Case study no. in 'Marketing Management'. A group makes a 20 minute presentation in class with subsequent discussion in class. The group is more than welcome to update the case through the Internet.

If more than fifteen sessions are available, the Appendix ('Marketing research/decision support system') can be used for separate sessions.

CHAPTER 1
Introduction

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Describe how marketing management is placed in the overall company strategy.

- Compare and discuss the differences and similarities between the traditional (transactional) marketing approach and the relationship marketing approach.

- Explain what implications the relationship marketing approach has on the traditional (transactional) marketing mix (the four Ps).

- Describe and discuss the three different organisational forms of relationship marketing.

CHAPTER SUMMARY

Over the last decade, considerable emphasis has been placed on the importance of Relationship Marketing (RM). The re-orientation of marketing has been at the expense of the traditional approach to marketing, that is, Transactional Marketing (TM – the 4 Ps). However, the premises of this book are that transactional marketing is still relevant and should be practised concurrently with various types of relational marketing.

In RM, customers take a much more active role than they are normally given. The success of RM is also, to a large extent, dependent on the attitudes, commitment and performance of the employees. If they are not committed to their role as part-time marketers and are not motivated to perform in a customer-oriented fashion, the strategy fails. Besides customers and internal employees, the stakeholder-view also includes other actors in the RM-process: suppliers, competitors and other external actors.

The chapter ends with a categorisation of RM into three forms of organisation: dyadic relationships, chain of relationships and networks. The 'classic' dyadic buyer–seller relationship tends to ignore the role of other stakeholders whereas networks are a more complex structure of relationships involving several stakeholders.

TEACHING NOTES TO CASE STUDIES

Case 1.1: Hunter Boots Ltd – The iconic British brand is moving into exclusive fashion

www.hunter-boot.com

1. **What are the main reasons for the recent international marketing success of the Hunter Boots?**

   - Ability to move the 'wellies' into the fashion world.

   - Collaboration with top designers, such as Jimmy Choo.

   - Their effective marketing campaigns, using celebrity endorsement to make their boots appear to be the must have item.

   - Ability to identify celebrities wearing Hunter Boots at festivals, rock concerts and other events.

2. Recently Hunter has added outerwear (leather footwear and handbags) to their international product range. What are the pros and cons of extending the product range in this way? Should Hunter Boots Ltd include further products like eyewear and watches?

The difference between 'Brand Extensions' and 'Line Extensions' (see also figure below):

Brand Extension is a marketing strategy according to which a well-known brand uses the same brand name to enter into a totally unrelated product category. It is done primarily to leverage on the existing brand equity. Some marketers argue that since building a brand is a costly affair, once you have built a brand you should leverage its value by using the same brand name in other new categories as well. For example, **Virgin**, which was initially a record label, entered into other lines of business like aviation, game stores, video stores, telecom, etc.

Line Extension is a marketing strategy according to which the scope of the product a brand represents is increased, i.e. when you are adding varieties or variations or flavours of the same branded product, you are basically doing line extension. Like brand extension, line extension is also done to leverage on the brand equity by targeting a bigger chunk of the user base. When Coke introduced Diet Coke to target diet conscious people, they extended their line.

While there are some benefits to both line and brand extension, marketers today believe that both strategies dilute the brand positioning by widening their focus. Experts like Jack Trout and Al Ries have argued against both the strategies saying that in an age when brands are becoming more and more niche and specific it is not a very good idea to dilute the brand by trying to be 'something to everyone, instead of being everything to someone.'

A company introduces a *line extension* (also referred to as product line extension) by using an established product's brand name (Hunter) to launch new or slightly different products that may or may not be in the same product category.

As their boots are not only used by practical users, they are also seen and worn as a fashion item; this then has given them the option to make *brand line extension* into other luxury fashion clothing products (such as handbags) or practical walking items of clothing (such as leather footwear).

Pros:

- In case of product diversification a strong brand name like 'Hunter' can help in leveraging the new products belonging to that brand.

- Reducing the financial risk associated with new product development by leveraging the parent brand name (Hunter) to enhance consumers' perception as a result of its core brand equity.

- It can help Hunter in spreading their customer base.

- It also helps in enhancing the product portfolio of Hunter by introducing complimentary products in the market.

- It may expand the Hunter shelf space presence at the retailers.

Cons:

- If the new line extension fails, consumers' attitudes toward the core brand name (Hunter) and the core products (wellies) may be damaged.

- Hunter should make sure that the people at managerial level are well versed in the process to be followed in launching new products under the Hunter brand. The lack of market knowledge about the new brand line extensions could turn against Hunter.

In general, there is a potential for intra-firm competition between the parent product (Hunter) and the line extension or between two or more line extensions. The key to avoiding intra-firm competition is to clearly differentiate between products. Although similar, the products must be

different enough that they will not compete with one another as much as they will with the brands of rival companies.
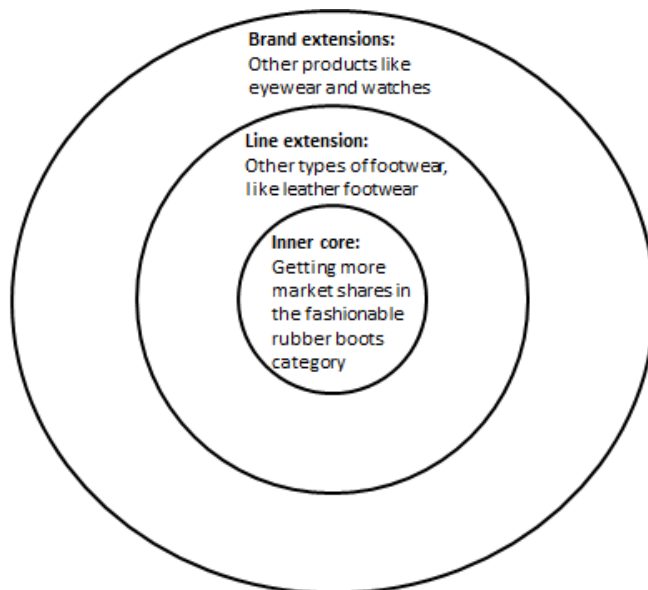
This issue will not be a danger if Hunter launches line extensions like eyewear and watches. What may be a concern here is actually the opposite: that products like eyewear and watches are too far away from the original product, wellies (see figure above). It may be too expensive for Hunter to capture market share in markets for eyewear and watches. Instead they should concentrate on getting more market share in line extensions already done, like other types of footwear.

3. How should Hunter react to the last two years' negative financial developments?

Fundamentally, there are two ways to improve profits: To increase sales (revenues), and/or to reduce costs. The way with reducing costs (variable costs per product boot) has already started as the company moved manufacturing from Scotland to China. Of course, there are still opportunities to reduce the fixed costs in the Hunter Boot Ltd HQ. The way with increasing sales should be considered as the most relevant option. Prices of Hunter boots could perhaps still be increased, as the customer perceived value is relatively high compared to the price. But of course, the competition is also increasing, so price increases should be made cautiously.

One strategy that has proved to be successful in the past is the use of 'Celebrity Endorsement'. When Kate Moss was seen wearing Hunter boots, it immediately gave a boost to the sales.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. What are the similarities between relationship marketing (RM) and transactional marketing (TM)?

The two approaches have the same starting point: focus on customer satisfaction. Furthermore, both approaches need the same powerful instruments in the implementation of the marketing plan: personal selling, budgeting revenues and costs, etc. The instrumental dimension has been largely neglected in the early academic discussion of the RM concept.

2. How does a relationship marketing strategy differ from a transactional marketing strategy?

In the 'pure' versions of TM and RM Table 1.2 (in the textbook) gives an overview of the differences between the two approaches.

The exchange-based TM approach is based on a notion of mass markets where individual customers are anonymous. The goal is to make customers choose one particular brand over competing brands. This easily creates a situation of competition between the marketer and the customer. In transaction marketing situations, customers, as unidentified members of a segment, are exposed to a number of competing products, and they are supposed to make independent choices from among the available options. The two parties have conflicting interests. The starting point is that the customer does not want to buy; he or she has to be persuaded to do so.

RM emphasises cooperation rather than competition and consequent conflict among the parties; and it emphasises cooperation rather than competition and consequent conflict among the marketing actors. In relationship marketing, where interactions and cooperation exist at some level, the customer and the supplier or service provider are not totally isolated from each other. The relationship is based on value creation in interactions between the supplier or service provider and the customer; cooperation is required to create the value that the customer is looking for. Of course, this does not mean that conflicts could not exist; however, cooperation is the driving force, not conflict.

3. Which kinds of industries could benefit from the use of RM versus TM and vice versa?

Industries favouring RM:

Complex computer-systems, building projects (because cooperation and partnership between the partners is needed to get a satisfactory solution for the customer).

Industries favouring TM:

Where mass production of standard products is taking place, like foodstuffs, components and raw materials (like cement).

4. In which situations would customers not be expected to be interested in RM?

Market situations are characterised by low customer interactivity/arm's length and impersonal contact with the manufacturer.

PART I
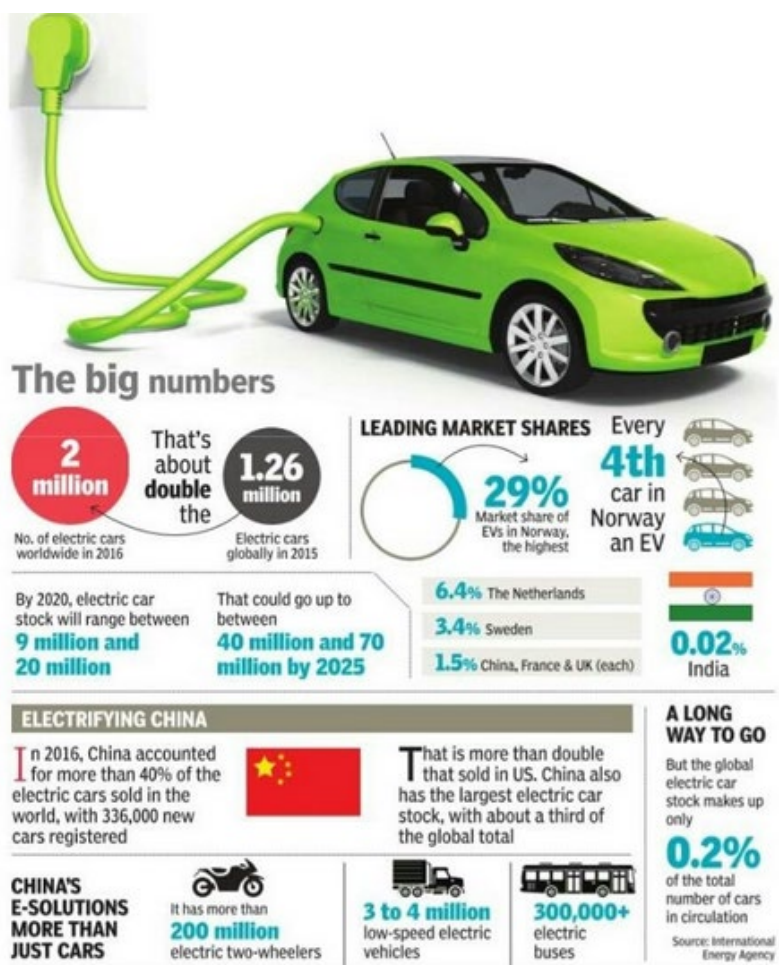# Assessing the competitiveness
of the firm (internal)

Part I Video case: BYD electrical cars

The Chinese electric car manufacturer is considering sales worldwide

BYD Auto Co., Ltd is a Chinese privately owned automobile manufacturer and a wholly owned subsidiary of BYD Company. It was founded in January 2003, following BYD Company's acquisition of Tsinchuan Automobile Company in 2003. Its principal activity is the design, development, manufacture and distribution of automobiles, buses, forklifts, rechargeable batteries and trucks sold under the BYD brand. In 2008, BYD Auto began selling its first mass-produced PHEV. It also has a 50/50 joint venture with Daimler AG, Shenzhen BYD Daimler New Technology Co., Ltd, which develops and manufactures luxury electric cars sold under the Denza brand.

BYD claims that the company name stands for 'Build Your Dream'. The manufacturer is also one of the key manufacturers of battery cells and has been the most aggressive among all Chinese EV makers in its push into cars that charge from the grid electricity.

BYD was China's top EV (electric vehicle) manufacturer in 2016, with 100,000 units delivered, out of total sales of 494,000 cars. The split between EVs and PHEVs was 50:50. In 2017 the Chinese competitor BAIC took over leadership in selling EVs to the Chinese market.

The big numbers

2 million — No. of electric cars worldwide in 2016

That's about double the

1.26 million — Electric cars globally in 2015

By 2020, electric car stock will range between **9 million and 20 million**

That could go up to between **40 million and 70 million by 2025**

LEADING MARKET SHARES

29% Market share of EVs in Norway, the highest

Every **4th** car in Norway an EV

6.4% The Netherlands
3.4% Sweden
1.5% China, France & UK (each)

0.02% India

ELECTRIFYING CHINA

In 2016, China accounted for more than 40% of the electric cars sold in the world, with 336,000 new cars registered

That is more than double that sold in US. China also has the largest electric car stock, with about a third of the global total

A LONG WAY TO GO

But the global electric car stock makes up only **0.2%** of the total number of cars in circulation

Source: International Energy Agency

CHINA'S E-SOLUTIONS MORE THAN JUST CARS

It has more than **200 million** electric two-wheelers

3 to 4 million low-speed electric vehicles

300,000+ electric buses

1. Please explain the key marketing problems for BYD's electric car business

Elon Musk told 60 Minutes he started Tesla because he wanted to show the world that electric vehicles were not *'ugly and slow and boring like a golf cart*' Changing that perception was a big enough goal that Musk said he founded Tesla even though he didn't think it would succeed.

The key challenges for BYD's electric car business have very much to do with the general customer perception regarding electric cars:

- Limited driving range, because of limited battery capacity.

- The lack of charging stations. If you want people to run electric cars in the city and suburbs, there will have to be many more charging stations installed.

- People do not like waiting, as it takes a while to charge an electric car, not to mention planning trips.

- Especially for BYD it may be a problem that BYD is not a specialist in electric cars, as this is only one part of their total automotive product range.

2. Please make an analysis of BYD's relevant environment for electric cars

The substantial and rising number of people in the middle class in China with its growing income is transforming the Chinese consumer market, where people in general can better afford an electric car.

Some of the key players in BYD's environment are mentioned in this figure:
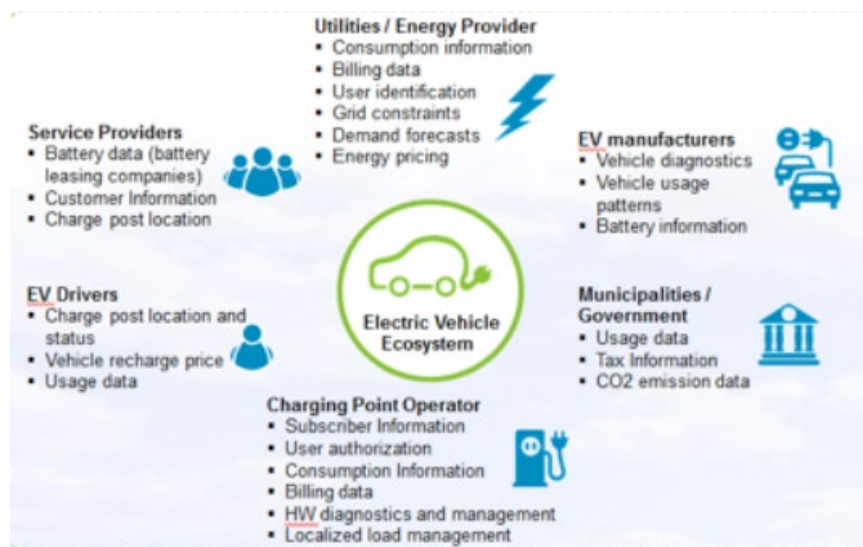
Key players in BYD's relevant environment include the following:

- EV (electric vehicle) drivers
- Utilities and energy providers
- Charging point operators
- EV manufacturers
- Service providers
- Municipalities and governments

Each of them can leverage the following advantages:

- **EV drivers**: Charging their vehicle Europe-wide, regardless of their energy provider; locating charging points with detailed information such as available plugs, forms of payment and consumption cost

- **Utilities and energy providers**: One communication channel, standardised bilateral contracts and payment support, reducing potential management issues with financial settlement and international conversion, improving overall utilisation of charging infrastructure using analytics services, less administrative bureaucracy

- **Charging point operators**: One communication channel, interoperable standards and payment support, reducing potential management issues with financial settlement and international conversion, improving overall utilisation of charging infrastructure using analytics services, less administrative bureaucracy

- **EV manufacturers**: Scalable open-standards cloud environment to link various services, interoperable standards and payment support; ability to get insights from analytics services; less administrative bureaucracy

- **Service providers**: Scalable open-standards cloud environment to link various services, interoperable standards and payment support; development of new and improved services including analytics services; less administrative bureaucracy

- **Municipalities and governments**: Improved air quality and reduced CO2 emissions with an increasing number of EVs on the streets, less administrative bureaucracy

3. **What are BYD's resources and capabilities in the electric car business?**

- BYD's key resources and capabilities come from their battery business, where they are one of the key suppliers to other EV OEMs. Then around 2010 BYD made a forward vertical integration, by using its battery as the first step to make a complete EV.

- BYD is developing their EVs after the Chinese local taste.

- Low cost – highly skilled labour in R&D and Production in China.

4. **Based on the analysis of questions/tasks 1, 2 and 3 what are your recommendations for BYD's future marketing management initiatives?**

Electric cars are the future. A campaign should give you a glimpse of what that means and make you feel excited about driving the future. An app for your smartphone that is user friendly and a constant Internet connection are the new assets that people will pay attention to. Style and design with a battery that could take you further will make or break a decision between two cars of a similar price. Performance and elegance are attributes that are up for grabs in the electric car market.

Smart marketers like BYD already understand that modern consumers are self-directed. But consumers aren't just seeking content – they're seeking personalised experiences. In other words, they're looking for content that does more than just promote a product, but an idea – In BYD's case it could be around the Green Agenda – Saving CO2 etc.

The key is to start small, identify what works, and then scale out a cohesive campaign that tells an authentic story – across multiple channels, connecting with people in real-time, no matter where they are.

BYD should focus on delivering a better customer experience. Marketers like BYD have to make sure they have the right technology and customer data to allow them to deliver the right content and experiences across channels and in the moment.

5. **Will the use of Leonardo DiCaprio help with penetration of the US EV market?**

Yes, probably a good idea, as Leonardo DiCaprio has celebrity status in China.

CHAPTER 2
Identification of the firm's core competences

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Explain the difference between the resource-based view (RBV) and the market-orientation view.

- Describe and explain different strategy options in the RBV.

- Explain the connection between the RBV and relationship marketing.

- Describe and discuss the concept of the value chain.

- Explain the difference between 'value creation' and 'value capture.'

- Explain how 'experiential marketing' differs from 'traditional marketing.'

- Explain the purpose of using Augmented Reality in marketing planning.

- Discuss the relevance of using Artificial Intelligence (AI) in marketing planning.

CHAPTER SUMMARY

Competences are the skills, knowledge and technologies that an organisation possesses on which its success depends. Although an organisation will need to reach a threshold level of competence in all activities that it undertakes, it is likely that only some of these activities are core competences. These core competences underpin the ability of the organisation to outperform the competition and therefore must be defended and nurtured. Core competences concern those resources that are fundamental to a company's strategic position.

In Chapter 3, basic perspectives on identification of core competences are presented:

- resource-based view (RBV): an 'inside-out' perspective;

- market-orientation view (MOV): an 'outside-in' perspective;

- value chain based view (VBV): in between RBV and MOV.

The RBV emphasises the importance of firm-specific assets and knowledge. The underlying approach of the RBV is:

- to see the firm as a bundle of tangible and intangible resources;

- to see some of these resources as costly to copy and trade. A firm's resource position can lead to sustained competitive advantage.

Especially in knowledge-intensive firms, distinctive capabilities consist of intangible/tacit resources. At each stage of the value chain the firm seeks to add value and thus compete with its rivals. The simplified version of the value chain used throughout this text contains only the primary activities of the firm. The value chain is not a collection of independent activities but a system of interdependent activities. The firm's value chain activities are also related to other actors' value chains. Competitive advantages are created if the firm can:

- offer better perceived value for customers,
- perform the value chain activities at a lower cost than competitors.

Today, the right combination of the product value chain and the service value chain is not a sufficient competitive differentiator. Adding 'customer experiences' and 'experiential marketing' occurs when a company intentionally uses products in combination with services to engage individual customers in a way that creates a memorable event, which can characterised in one of four groups: entertainment, educational, aesthetic or escapist.

Engaging the customer and adding customer experiences is further exemplified by the use of augmented reality (AR), which is a digital way of putting the product in the hands of the users and giving them the opportunity to test the product without paying for it. Consequently, AR is especially effective in the pre-purchase stage of the buying process.

The use of Artificial Intelligence (AI) helps the marketer segment the audience into smaller target groups and it also helps with creating more personalised marketing campaigns and ads for consumers and it also creates more leads in the market. The traditionally crucial manufacturer assets, such as capability and brands, will become less important as consumers' attention shifts to AI assistants, and value of consumer data and AI's predictive ability will be more important.

In contrast to the MOV, which takes the environment as the critical factor determining a categorising strategy, the RBV assumes that the key factors for success lie within the firm itself in terms of its resources, capabilities and competences. The choice of the firm's strategy is not dictated by the constraints of the environment but is influenced more by calculations of how the categorising can best exploit its core competence relative to the opportunities in the external environment.

The MOV is basically about adapting to the market environment by concentrating mainly on customers and their needs.

The VBV integrates elements of both the RBV and the MOV, but it does so without ignoring the costs of performing the activities. The value chain provides a systematic means of displaying and 28 categorising activities. Value activities can be divided in different ways:

- primary and support activities,
- upstream and downstream activities.

At each stage of the value chain, the firm seeks to add value and thus compete with its rivals. The simplified version of the value chain used throughout the book contains only the primary activities of the firm. The value chain is not a collection of independent activities, but a system of interdependent activities. The firm's value chain activities are also related to other actors' value chains. Competitive advantages are created if the firm can either:

- offer better perceived value for customers and/or
- perform the value chain activities at a lower cost level than competitors.

TEACHING NOTES TO CASE STUDIES

Case 2.1: Electrolux

1. **Please discuss and evaluate Electrolux's key competitive advantages in the major appliances market**

Competitive advantage can be achieved either by providing comparable customer value more efficiently than competitors (lower cost), and/or performing activities in unique ways that create more customer value than the competitors are able to offer.

Electrolux's competitive advantage can mainly be explained by its more differentiated offer to customers worldwide than its competitors like Samsung, Haier, Bosch-Siemens and Whirlpool. Regionally, Electrolux has been better able to adapt its product range across regions than its competitors.

The disadvantage of this strategy is that Electrolux does not get the same degree of 'scale economies' as its main competitors, like Samsung and Haier.

2. **Explain and discuss how Electrolux can turn its competences into new worldwide growth for its major appliances**

The key Electrolux competence is its ability to offer different product solutions to different customer needs, across the geographical regions. In order to turn this competence into growth, the company has to get the different employees aligned in regional projects, regarding satisfying local customer needs. So there can be a decentralised strategy from the Electrolux HQ to the regional HQs, and a more centralised strategy from regional HQs to the country subsidiaries in the region.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. **Explain the differences between the RBV, the MOV and the VBV.**

- Resource-based view (RBV):
  An 'inside-out' perspective. The RBV emphasises the importance of internal competences (firm-specific assets and knowledge).

- Market-orientation view (MOV):
  An 'outside-in' perspective. The MOV is basically about adapting to the market environment by concentrating mainly on customers and their needs.

- Value chain based view (VBV):
  In between RBV and MOV. The VBV integrates elements of both the RBV and the MOV, but it does so without ignoring the costs of performing the activities.

2. **What is the connection between the RBV and the RM (relationship marketing) approach?**

There is a strong connection between RBV and RM (relationship marketing).

RBV assumes that the key factors for success lie within the firm itself in terms of its resources, capabilities and competences. A true transition towards a relationship marketing strategy requires a focus on competences and resources in the relationship, because partners in the relationship use each other's resources.

3. What is the purpose of the value chain?

The value chain provides a systematic means of displaying and categorising activities. At each stage of the value chain, the firm seeks to add value and thus compete with its rivals. The value chain is not a collection of independent activities but a system of interdependent activities. The firm's value chain activities are also related to other actors' value chains. A firm can create a competitive advantage if it can either:

- offer a better perceived value for customers and/or
- perform the value chain activities at a lower cost level than competitors.

4. Why is it relevant to make a split between upstream and downstream activities in the value chain?

Upstream activities are basically the firm-internal activities, which have a starting point in the RBV. Downstream activities, on the other hand, are more based in the MOV.

Intuitively, many firms have their strengths/weaknesses either downstream or upstream. Only large enterprises can invest sufficient resources in both the upstream and the downstream sector.

5. Is the value chain also a relevant model for services?

One of the characteristics with services is that production and consumption of the service take place at the same time. Though it appears that the value chain activities are taking place in a sequence, the value chain is also relevant for services, because new service-products also have to be developed and sold afterwards.

6. How can the firm create competitive advantage by the use of resources and competences in the firm?

It is assumed that if resources and competences are special for that firm, and they are difficult for possible competitors to 'copy', then this can create long-term competitiveness.

CHAPTER 3
Development of the firm's competitive advantage

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Define the concept 'international competitiveness' in a broader perspective from a macro level to a micro level.

- Discuss the basic sources of competitive advantages.

- Explain how 'economies of speed' can be used as a competitive advantage.

- Explain how Porter's traditional competitive-based five forces can be extended to a relationship (five sources) model.

- Define the steps in competitive benchmarking and explain how these steps are related to the outsourcing decision process.

- Explain the purposes and motives for outsourcing activities.

- Discuss the advantages and disadvantages of outsourcing.

- Discuss the marketing implications of the 'Sharing Economy.'

CHAPTER SUMMARY

The main issue of this chapter is how the firm develops competitive advantages in the marketplace.

The sources of competitive advantages are:

- economies of scale (scale efficiencies)

- economies of scope (transfer of resources across products and markets)

- economies of speed (time-based competition advantages)

- exploitation of local advantages

- ability to provide global services

- ability to use 'human resources' (HR). (HR is especially important for RM and internal marketing.)

A three-stage model allows us to understand the development of a firm's international competitiveness in a broader perspective.

- *Analysis of national/regional competitiveness*. The Porter Diamond indicates that the home base plays a central role in the firm's international success.

- *Competition analysis.* Here the firm itself is the unit of analysis. Porter's five forces model suggests that competition in an industry is rooted in its underlying industry structure. The state of competition depends on five basic competitive forces, which determine profit potential in an industry.

- *Value chain analysis.* According to the competitive triangle, it can be concluded that firms have competitive advantage in a market if they offer products/services with the following characteristics:

  - a higher perceived value to the customers and/or

  - lower relative costs than the competing firms.

Influenced by core competency thinking, many companies have been attempting to reorganise their value chains and focus on a number of core activities, in which they can achieve and maintain a long-term competitive advantage and outsource all activities where they do not have high relative competence strength.

While the motives for outsourcing are usually specific to the particular situation, some commonly cited reasons are to:

- reduce costs
- improve quality, service and delivery
- improve organisational focus
- increase flexibility
- facilitate change.

The biggest obstacle to outsourcing is that the management may fear that they would lose control. However, the risks associated with outsourcing can be offset and controlled if managed properly.

TEACHING NOTES TO CASE STUDIES

Case 3.1: Nintendo Switch - Is this the 'Blue Ocean' come-back?

www.nintendo.com

www.xbox.com

www.microsoft.com/games

1. What were Microsoft's motives for entering into the games console market?

Until now Microsoft has dominated the workplace in the office. Now they want to dominate the home. There has also been a shift from PCs to video games.

Microsoft hopes to leverage the billions it has spent in developing a software environment for the personal computer to develop a gaming platform, allowing game developers who have created the games for the PC to be able to easily convert those games to the Xbox (use of technology synergies across SBUs).

The Xbox uses much of the same underlying software code that games use on the Windows PC platform.

The chip that is going to be in this console (Xbox) is many times faster than the chip in the PCs, so users are going to get a better game on the console than on the PC.

Also, families make more use of PCs at home and parents would not want children filling the hard drive with games, so they would rather buy them a console. Furthermore, the parents do not want the children to occupy the home PCs all day.

2. What are the competitive advantages of Microsoft's Xbox One and Sony's PlayStation 4?

Until 2005 the battle seemed to be fought between Sony and Microsoft. But the third player in the industry, Nintendo, got a come-back with their Wii, which has been very well received by the market and is now world market leader.

However, the two competitors (Sony and Microsoft) managed to imitate Nintendo's excellent idea about the motion controls and come up with even better solutions:

- Sony launched the 'Move' in September 2010

- Microsoft launched the 'Kinect' in November 2010

With PlayStation Move, Sony claimed to have a controller that offers more accurate motion control than the Wii, and Microsoft's Kinect removed the need for a controller completely. Notably, what these devices offer is motion control combined with more graphic power than Nintendo's Wii.

Today Microsoft's Xbox One and Sony's PlayStation 4 are competing desperately with each other.

3. What are the competitive advantages of the original Wii and the new Switch?

According to the BOS framework, the 'competitive advantage' can be reduced to two simple strategies in order to create 'value innovation':

- increasing customer value,

- reducing costs.

When both strategies are being realised at the same time, the 'overlapping' area in the following figure will be higher = increasing 'Value Innovation'.
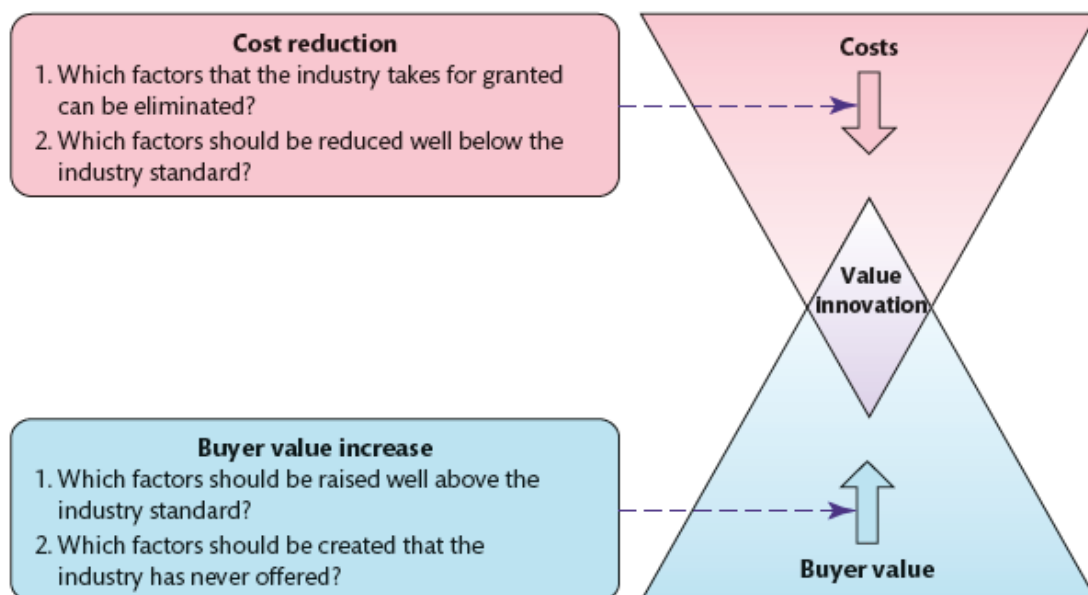
Creating 'Value Innovation' in the Blue Ocean Strategy framework

Source: p. 99 in the Hollensen (2019) textbook

With the original, Nintendo was competing on completely different terms than Sony and Microsoft.

(i) Increase value for many new customers – gaming experience (motion stick etc.).

Nintendo used the conventional wisdom, 'differentiation', product innovation, focus on the gaming experience instead of technological obstacles.

33

(ii) Cost reduction by eliminating features (no HD, no DVD, no Dolby 5.1, low processor speed).

The advantages to Nintendo are firstly that it makes their console cheaper to manufacture. This means that they can sell the base console at a profit whilst their competitors have to subsidise the retail price. It also gives Nintendo far more room to manoeuvre when it comes to using the price mechanism to take on that competition.

Nintendo's answer to these two competitive moves came in November 2012 when Nintendo launched the 'Wii U', which is an attempt to integrate the tablet PC concept (known from e.g. the Ipad) in console gaming.

The GamePad represents Nintendo's attempt to differentiate its new console in the same way it did with its Wii back in 2006. The implementation of a touchscreen allows for what Nintendo terms 'Asymmetric Gaming,' whereby the TV and GamePad touchscreen can simultaneously offer different perspectives on the game at hand, effectively allowing for dual screen gaming. Additionally, the Wii U also has the ability to stream the TV image to the GamePad's screen, allowing gameplay to occur without the need for the TV. This is a feature that is geared towards families, as it allows for the Wii U to be in use even if other family members wish to use the TV for another purpose.

However, if the original Wii represented a shift away from the hard-core gamer market, the Wii U signalled a movement back towards the hard-core market space. The GamePad, although innovative, actually resembled a traditional controller in more ways than the original Wii motion controls.
Nintendo has placed a large amount of emphasis on the entertainment features of the Wii U. The Nintendo TVii service, launched by the end of 2012, is a service that combines TV streaming services, social media, and movie streaming services such as Netflix and Amazon Instant Video.

The Wii U was introduced at such low prices that Nintendo would make a loss on selling the hardware, but as soon as Nintendo could get the consumer to buy one piece of software, then that entire customer relationship became positive, in terms of profits for Nintendo. The purpose of this business model is to drive the install base of hardware, and then to drive a strong tie-in ratio with all the software (games) for the consumer.

The main USP of the new Switch is the flexibility of gaming – it combines a home console with handheld gaming. It is possible to switch from a home console to a portable gaming system in a few seconds. Transitioning from one style of gaming to another lets you continue playing where you left off. A likely use-case is people who want to keep playing when their spouse/parent/roommate wants to watch something on TV.

The Switch is priced at $300, so the Switch has also a *relatively* low barrier to entry regarding its price, compared to the two competitor products.

4. **What do you think are Nintendo's chances of creating a new 'Blue Ocean' come-back with their Switch?**

The launch of the 'Wii U' represented Nintendo's attempt to re-establish its Blue Ocean in game consoles. The sales development in 2013 and beyond did not indicate that Nintendo was able to reach out for a new Blue Ocean, on the contrary.

Nintendo Switch has really good chances of creating a real new '*Blue Ocean Strategy*,' a marketing idea that is based on finding large areas of a market that you can own without having to fight competitors. Right now, Nintendo *has* no real competition in the portable gaming space, which lets it make interesting moves without fear. The Switch is not battling against the Xbox One or PlayStation 4 — at least, not directly. Also, the Switch is equipped with attractive, new games that can be played *only* on the Switch: Super Mario Odyssey, Mario Kart 8 Deluxe and Zelda.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Which sources of competitive advantage are the most important?

From a relationship perspective the ability to use 'human resources' (HR) is extremely important. Also the ability to offer global service is very important as more and more firms will be sub-suppliers to big multinational companies, with cross-national operations.

2. How can analysis of national competitiveness explain the competitive advantage of a single firm?

A firm's competitive advantage ultimately results from an effective combination of national circumstances and company strategy. A firm gains important competitive advantages from the presence in its home nation of world-class buyers, suppliers and related industries. They provide insight into future market needs and technological developments. They contribute to a climate for change and improvement, and become partners and allies in the innovation process. Conditions in a nation may create an environment in which a firm can attain international competitive advantage, but it is up to a company to seize the opportunity. The home base (national competitiveness) shapes a company's capacity to innovate rapidly in technology. The national diamond becomes central to choosing the industries to compete with, as well as to cooperate with.

3. Is it possible to identify not only national competitiveness, but also regional competitiveness? (A region is here defined as more than one country.)

Some writers argue that some kind of regional competitiveness exists, because the national diamonds within regions (e.g. North America and the EU) are interrelated. For example, Canada's national diamond is highly integrated with the United States, and maybe we can discuss North American competitiveness. However, the heterogeneity among countries in, for example, the EU or NAFTA makes it difficult to talk about competitiveness of trading blocs.

4. In which situations should a firm consider outsourcing its activities?

It is important for a firm to decide which competences to keep in-house and which to outsource. The underlying assumption is that a firm should outsource non-core activities to be able to focus more on the core competence. Outsourcing of a firm's activities is relevant if the firm faces one of its value chain activities, which only deliver low customer value, and the firm is also relatively poor in performing this activity (low relative competence strength).

In this situation, it is more appropriate for the company to outsource the activity to external suppliers that are more competent and have a lower cost base.

5.   What are the advantages and disadvantages of outsourcing?

Advantages	Disadvantages
• Offers significant cost savings across a wide range of low-margin, non-differentiated services as well as additional income opportunities.	• Requires a change in management mind-set.
• Outsourcing non-critical functions permits a company to increase its financial resources.	• Requires a new and more complicated level of communication.
• Eliminates investments in fixed infrastructure.	• Introduces a host of new outlooks, personalities, and demands that can produce new problems.
• Allows for greater quality and efficiency.	• Introduces insecurity to the workforce and unions.
• Permits increased access to functional expertise.	• Monitoring and evaluating the performance of vendors is a difficult task.
• Outsourcing provides a competitive advantage and creates new revenue streams by allowing outsourcers to offer services that would otherwise require considerable expense and commitment of personnel.	• Outsourcing functions that have customer contact run the risk of alienating customers.
• Using an outside provider allows outsourcers to test market demand for a product or service in a less risky, more cost-effective way than creating the service internally with service resources.	• Outsourcing benefits may not be realised in the short term.
	• Long-term contracts featuring short-term savings may prove expensive later (resulting in high transaction costs).

PART II
Assessing the external marketing situation

Part II Video case: Müller Yoghurt – Penetrating the US market

1. **What would be the most important external factors that would influence Müller's future sales of yoghurt in United States?**

- Economic and business activity in United States (GDP total, GDP per cap, GDP growth)

- Consumer preference for yoghurt in general – versus other breakfast products (cereals etc.)

- Regional differences in yoghurt preferences

- Other manufacturers' advertising activity for their branded yoghurt can help the whole yoghurt sales category

- Competitive intensity – there are many yoghurt brands on the market – the competition is tough - and that could hamper the Müller Yoghurt sales development

- Market shares of competitor brands

2. **What would be the main reasons why Müller is using a joint venture solution with PepsiCo (Quaker) for the US market?**

Firstly, a few facts about the US yoghurt market: the per capita yoghurt consumption is 3 kg. per year, compared to 17 kg. per year in Germany.

The US market is new to Müller. Also yoghurt is not that high on the menu in the USA. As the USA is PepsiCo's domestic market it is natural to let PepsiCo take care of the down-stream functions (marketing and selling to the grocery retailers on the East Coast), whereas Müller is taking care of the upstream functions (production, good product quality). The most obvious brand identification on the packaging is 'Müller' however.

3. **What were the main reasons for Müller's withdrawal from the US market? Was it a wise decision?**

Müller didn't get the expected sales results with their joint venture. Part of the explanation was that the Müller brand identity and the brand personality were not there. Müller did not stand out on the shelves, and as the price point was the same as the key competitor, Chobani, this brand turned out to be the clear winner in the competitive US yoghurt market.

CHAPTER 4
Customer behaviour

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand why consumers make purchase decisions.
- Identify and discuss the main motives behind buying behaviour on the B2C market.
- Understand how customers make purchase decisions.
- Identify the various types of buyer in organisational markets and determine their distinct needs, wants and motivations.
- Identify different organisational buying situations.
- Describe and discuss the organisational buying process.
- Identify and understand the factors influencing the organisational buying process.
- Evaluate the roles of members of the buying centre.
- Understand the link between consumer demand and business-to-business marketing.
- Understand what is meant by customisation.

CHAPTER SUMMARY

Consumers' decision-making processes are classified largely on the basis of high and low involvement with the product and the extensiveness of the search for information. High-involvement products or services are psychologically important to the consumer. To reduce the psychological and financial risks associated with buying a high-involvement item, consumers engage in a complex decision-making process. The five major steps in the process are problem identification, information search, evaluation of alternatives, purchase, and post-purchase evaluation. The way in which these steps are carried out differs between products and services.

Most purchase decisions are low in consumer involvement. Therefore, consumers do not engage in an extensive search for information or make a detailed evaluation of alternative brands. Such search-and-evaluation behaviour is more likely to occur with products than with services. Buying behaviour is strongly influenced by psychological and personal characteristics that vary across individual consumers and countries. Information and social pressures received from other people influence consumers' needs, wants, evaluations and preferences for various products and brand names.

By definition organisational customers can be grouped into three main categories:

- goods/services producers (raw materials, components, software, office supplies)
- intermediates (resellers)
- public organisations/government.

Organisational buyers purchase goods and services for further production for use in operations or for resale to other customers. In contrast, individuals and households buy for their own use and consumption. These two types of markets also differ in numerous other ways, including their demand characteristics, their market demographics and their buyer-supplier relationships.

The buying task is determined by three interrelated factors: (1) the newness of the problem to the decision makers; (2) the information needs of the people in the buying centre; and (3) the

number of new alternative products and/or suppliers to be considered. Based on these factors, there are three buying situations: straight rebuy, modified rebuy and new-task buying. Organisational purchasing often involves people from various departments.

The individuals involved in the buying process form what is called a buying centre and share information relevant to the purchase of a particular product or service. One of the marketer's most important tasks is to identify which individuals in the buying centre are responsible for a particular product, determine the relative influence of each, identify the decision criteria of each and understand how each group member perceives the firm and its products.

These participants in the buying process can be grouped as users, influencers, gatekeepers, buyers and buy in larger quantities – and purchase more complex and expensive goods and services – than do consumers.

The Internet is playing an increasing role in both B2B and B2C markets. Websites enable organisations to promote brand values, reduce printing costs, attract and qualify prospects and leads and foster customer loyalty. Sites can also expand the customer database, provide customer service and showcase and sell products.

The interactive age is providing businesses with the potential to strengthen relationship marketing and generate new customers. Consumers benefit from the Internet through t h e better possibility of finding relevant information (quality, prices, etc.) when comparing and evaluating product/brand alternatives in the buying process.

TEACHING NOTES TO CASE STUDIES

Case 4.1: Spotify – The online music-streaming company is growing fast but is suffering financial imbalance

1. **What are the main elements of the Spotify's competitive advantage? Do you think that Spotify has real core competences that are more powerful than competitors' competences?**

There are currently many music-streaming competitors like iTunes, Google, Amazon, Jango, Playlist, and Rhapsody. Here Spotify's competitive advantage is mainly seen in comparison with its main competitor, Pandora.

Spotify is a commercial music streaming service that launched in October 2008 and entered the US market last year. Each song is accompanied by a link allowing users to purchase via partner retailers. Spotify differentiated itself from Pandora by encompassing social sharing into their product. Users can create playlists and share them with Facebook friends and Twitter. Whereas Pandora recommends music based on a user's interaction with the platform, Spotify does that, but also layers on music recommendations from the user's friends. Additionally, Spotify bridges users and artists together by creating artist profiles and follow-up features to create a more intimate artist-fan relationship. As of March 2013, Spotify had 24 million users and twenty million tracks in its library.

Pandora is a company, whose main market value is derived from the information it contains and the algorithms that drive its recommendations. The selection the user receives is solely based on the positive or negative feedback they provide for the previous songs chosen by the service. Pandora's original network size has no direct effect on the value individuals receive from the product. Instead, Pandora creates an indirect, cross-side network effects to its current users. A larger customer base increases Pandora's value to labels that in turn are incentivised to release their music to Pandora. This ultimately adds value to Pandora users because they receive a wider variety of music selections.

Spotify's strategy to create network efficacy substantially adds value to the product as the network size grows. One of its most popular features is the ability to create and share playlists with others. Spotify creates positive same-side network effects as it allows users to more easily

discover new music and rediscover old favourites by accessing their friends' playlists. It allows users to be more independent and be their own DJ. In contrast to Pandora, they are not solely limited to selections chosen by the service.

Spotify has added features, which will allow users to not only follow their Facebook friends, but music artists and celebrities. The intimate fan-artist relationship allows artists to send new music directly to subscribers' devices and directly communicate with their fans. With the added features, Spotify is transforming into a two-sided network platform by serving both the music industry and consumers.

When it comes to product differentiation, alliances with music labels define the number of songs in their libraries and the negotiations on terms define revenue share. Both Pandora and Spotify have partnerships with the three corporate labels that control the majority of the market in the United States: Universal Music Group, Warner Music, and Sony Music. Spotify's revenue share is roughly seventy per cent to music labels and thirty per cent to artists. Pandora's revenue share is far less for artists, but revenue to artists is offset by the larger audience of listeners on Pandora.

Metallica, a long time hold out to streaming radio services, signed exclusively with Spotify. Metallica has been skeptical of digital services, in the past suing Napster and leading the charge against digital sharing of music. Metallica has a good reputation amongst artists and this alliance is particularly important to Spotify because it marks Spotify as a friend to music artists. With this leverage, Spotify has the potential to build partnerships with other music labels and artists to further increase the number of songs in its library

In conclusion, Pandora has the advantage of having a larger user base than Spotify; however Spotify is overall more competitive when it comes to establishing good relationships to the music industry. Furthermore, Spotify has a much larger music library (twenty million vs. one million). The competitive advantages that Spotify has achieved are probably not sustainable. The entry barriers are quite low, if you have enough money. All the music-streaming providers have access to the same basic catalogue of music content. Eventually, the winner in the industry will be the company that can spend the most on customer acquisition and afford to wait until the rivals die, and then make good deals with the content owners (record labels).

2. **Please describe the main stages in the consumers' buying process, ending up with a paying subscription of Spotify's music streaming.**

Most consumers will probably be aware of the Spotify service though friends who have tried it or they may have seen some newspaper articles about this Swedish company. Typically, the consumer will have set up a Facebook account, and then the consumer will access the Spotify account from there. The typical consumer will start up with the 'Freemium' model where they accept advertising in-between the music. Then some of the consumers will switch over to a subscription model (with no ads), where they pay $9.99 per month.

3. **What are the main influences on the B2B decision process in order to increase the revenue generated by advertising?**

The main consumer target group for Spotify is in the age group between eighteen and thirty years.

Advertisers who are selling products/brands to this age group could be potential advertisers on Spotify and generate advertising revenue for the company.

One group of potential advertisers on Spotify is the record labels and their artists. For this B2B customer group there is a special two-way relationship and dependency with Spotify because Spotify is buying the music rights at the record labels, but on the other hand the record labels also see Spotify as a possible advertising channel for their music and artists. For record labels

the B2B buying process is mainly influenced by the tendencies in how music is consumed. Obviously, more and more music is consumed in the 'cloud', through streaming channels like Spotify, and therefore it makes sense for the record labels to use Spotify as an advertising channel.

Other types of potential advertisers on Spotify are the manufacturers of other products and services that are consumed by the target age group (eighteen to thirty years). That could be fashion products, soft drinks and other drinks, travelling products (agencies, airlines etc.), IT products (smartphones, apps etc.) and social media.

Spotify's potential advertising revenue generated from these different groups of advertisers is very much influenced by the environmental forces (Figure 4.14):

- *Economic influences*: Because of the derived nature of B2B demand, Spotify must be aware of the strength of the demand in the ultimate consumer market. This demand is influenced by the general economic activity, e.g. measured by GDP, GDP per cap, and GDP growth.

- *Technological and competition influences*: The technological changes and the increasing number of smartphone brands will also increase the need for the different brands to differentiate themselves in this highly competitive market. Consequently the advertisers look at Spotify as a possible advertising channel – but not the only alternative.

4. **Please discuss the two strategic initiatives regarding Spotify's financial imbalance. Which of the two strategic initiatives would you recommend the Spotify management to put highest on the priority list?**

   1. Strategic partnership with Hulu

      In April 2017 Spotify announced a partnership with video-streaming specialist Hulu:

      Advantages: Spotify is broadening its product range, and fulfilling a broader range of customer needs.

      Disadvantage: By broadening its product range, Spotify is also partly erasing its core competence in streaming music.

   2. Spotify is dealing directly with artists

      Advantages: Spotify can make a higher profit by dealing directly with artists instead of paying the record companies to coordinate the payments to the artists.

      Disadvantage: Potential 'war' with the record companies.

   Conclusion:

   As it can be very dangerous for Spotify to have a hostile relationship with the record companies (which have a lot of negotiation power), it is recommended to focus on the partnership with Hulu.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. **What specific factors at the time of purchase may affect the buying decision in the B2C market?**

These factors cover a wide range of elements or stimuli, which are captured by the range of elements in the marketing mix. These stimuli derive from the product or service itself, or from the marketing programme developed by the company to support its products and services. A number of symbolic stimuli derive from the use of media such as television. Stimuli also include many of the conditioning variables discussed above. Chief among these are the cultural and social influences on consumer behaviour and the role of reference groups.

2. **What is the difference between Generation X and Y?**

The generation born between 1965 and 1976 is often called **Generation X**. Generation X is smaller than the baby boom generation (born just after the Second World War). Another group of consumers came into being between 1977 and 1995, when adult baby boomers began having children, creating an 'echo' of the baby boom. The oldest members of this group are in their mid-20s. We will use the term **Generation Y** for this group. They are growing up very accustomed to computers and the Internet.

3. **How does the demand for industrial products differ from the demand for consumer products?**

Demand for industrial products is often derived from the demand for consumer products.

4. **What are the main differences between consumer and industrial buying behaviour?**

Areas of difference between industrial and consumer buying

	Industrial buying	**Consumer buying**
Market structure	Geographically concentrated	Geographically dispersed
	Relatively few buyers	Mass markets (often millions)
	Oligopolistic competition	Pure competition
Size of purchase	Often extremely large	Usually small
Buyer behaviour	Functional involvement	Family involvement
	Rational/task motives prevail	Social/emotional motives prevail
	Stable relationships	Less buyer-seller loyalty
	Professionalism, expertise	Less trained, often inexperienced
Buying influences	Committees, technical experts, and management are all involved in decision-making (buying centre)	The individual, household members, or friends and relatives
Decision-making	Distinct, observable stages	Vague, mental stages
	Often group decisions	Usually individual decisions
Supplier relationship	Long-term contracts and supplier involvement	Many single purchases

5.   How does the buying situation by class of purchase affect the organisational buying process?

There are three buying situations: straight rebuy, modified rebuy and new-task buying. Organisational purchasing often involves people from various departments.

6.   What are the differences between the traditional 'buy grid' model and the 'extended buy grid' model?

The 'extended buy grid'-model supplements the traditional 'buy-grid' model (new task, modified rebuy and straight rebuy) with some portfolio considerations. In modified rebuys, and especially in straight rebuys for strategic and bottleneck items, the interaction between buyer and supplier is likely to be more intense and relationships may have been going on for a long time.

7.   Describe government buying procedures. Why is market orientation less important when selling to governments?

Governmental buying is often an extremely complex and lengthy process with a lot of people involved. It is more influenced by the budgets in the public sector than by anything else.

8.   What is the buying centre in a company? Describe its functions and the implications for the selling organisation.

A group of people in an organisation who make a purchase decision are said to form the buying centre, sometimes referred to as decision-making unit (DMU). The buying centre consists of those individuals who participate in the purchasing decision and who share the goals and risks arising from the decision.

Roles for members of the buying centre have been classified as: users, influencers, buyers, deciders and gatekeepers.

CHAPTER 5
Competitor analysis and intelligence

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Integrate competition into an environmental analysis.
- Discuss competition and competitors at different levels:
  - budget competition;
  - core benefit competition;
  - product class competition;
  - brand competition.
- Specify the levels in competitor awareness.
- Describe how to design a competitor intelligence (CI) system.
- Evaluate the information sources for CI.
- Specify the contents of a competitor audit.
- Evaluate the strengths and weaknesses of competitors.
- Assess current strategies of main competitors.
- Give examples of how to evaluate the strengths and weaknesses of competitors.
- Assess current strategies of main competitors.
- Outline possible response patterns of main competitors.

CHAPTER SUMMARY

This chapter has explored the key issues in analysing competitors and creating a competitive advantage. Firms need to understand their competitors because corporate success results from providing more value to customers than the competition (competitive triangle).

To prepare an effective marketing strategy, a company must study its competitors as well as its actual and potential customers.

Competitor analysis and competitive intelligence (CI) focus on competitor identification, an audit of competitor capabilities (strengths and weaknesses), their objectives and strategies and the prediction of response patterns. The aim is to provide a basis for creating a competitive advantage, anticipating their future actions and estimating how they will react to future actions our company may take.

As for the future, there is no doubt that competitive pressure will continue to intensify in all markets. The forces that are active now are unlikely to diminish in the near future. Increasing numbers of companies will gear themselves up to collect competitive intelligence from internal and external sources and the number of specialists from whom they can outsource will grow.

As important as a competitive orientation is in today's global market, companies should not overdo the emphasis on competitors. Companies should manage a good balance of consumer and competitor monitoring.
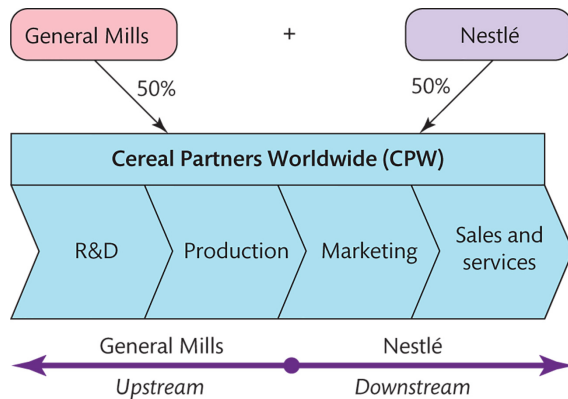
TEACHING NOTES TO CASE STUDIES

Case 5.1: Cereal Partners Worldwide (CPW): the No. 2 world player is challenging the No. 1 – Kellogg

1. How can General Mills and Nestlé create international competitiveness by joining forces in CPW?

Illustrated in this figure:

General Mills has its competences in the upstream part and Nestlé has its competences in the downstream part. Together these two companies can create international competitiveness by specialising in each end of the value chain.

2. Evaluate the international competitiveness of CPW compared to the Kellogg Company.

Kellogg products are largely concentrated towards breakfast cereals. The company specialises in ready-to-eat cereal and grain-based snack. CPW provides a range of products including other packaged foods.

3. What kind of competitive intelligence would you recommend CPW to collect about Kellogg in order to be better in challenging the No. 1 position?

Competitive intelligence (CI) regarding Kellogg could focus on an audit of:

- Kellogg's general capabilities (strengths and weaknesses).
- Kellogg's product range in different markets, price strategy in different markets, use of different distribution channels in different markets, promotion strategies in different markets.
- Kellogg's objectives and strategies and prediction of response patterns as a reaction of CPW's marketing strategies.

The aim of the CI is to provide a basis for creating CPW's competitive advantage by anticipating Kellogg's future actions, and estimating how they will react to future actions that CPW may take.

4. Where and how can CPW create further international sales growth?

Scandinavia is a place where a lot of breakfast cereals are consumed. In new growth regions like Latin America (with Mexico as the dominant market) and India, the cereal category is growing five to ten per cent annually especially in Latin America.

How should CPW penetrate these markets? By establishing customer relationships with leading food retailers in these regions – using personal selling as the main marketing tool.

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PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Why is competitor analysis essential in today's turbulent business environment?

The reasons for increasing competitor intelligence are:

- increasing competition between companies' privatisation
- deregulation
- liberalisation
- globalisation
- periods of economic recession
- reduced product and service differentiation.

2. What are the major steps in conducting a competitor analysis?

The major steps are covered by answering the following questions:

- Who are our competitors?
- How are competitors interacting?
- How do we learn about our competitors? (How do we gather competitor interaction?)
- What are the strengths and weaknesses of our competitors (competitor audit)?
- What are the objectives and strategies of our competitors?
- What are the response patterns of our competitors?

3. How does an industry's structure affect the intensity of competition?

First, it is important to note that competition is defined by the customer, not by the marketing manager. It is the customer who determines whether two products or services compete with each other.

The question can be answered by using Porter's Five Forces model (see Chapter 3). Especially the customers and the number of competitors on the market will affect the intensity of competition. If the number of competitors is very high, the intensity will be very high – especially regarding the price.

4. What are the major sources of competitive intelligence?

The following sources are available:

- gathering information from internal employees and employees of competing companies
- gathering information from own customers
- gathering information from competitors' customers
- gathering information from competitors' suppliers
- gathering information by observing competitors or by analysing physical evidence
- gathering information from published materials and public documents.

5. How would you design a CI system?

Competitive intelligence (CI) is a powerful new management tool that enhances a corporation's ability to succeed in today's highly competitive global markets. It provides early warning intelligence and a framework for better understanding and countering competitors' initiatives. Competitive activities can be monitored *in-house* or outsourced to an *outside* firm.

Within the organisation, competitive information should be acquired both at the corporate level and at the SBU level. At the corporate level, competitive intelligence is concerned with competitors' investment strengths and priorities. At the SBU level, the major interest is in marketing strategy, that is, product, pricing, distribution and promotion strategies that a competitor is likely to pursue. The true payoff of competitive intelligence comes from the SBU review.

When establishing an international CI structure, there are several ways to construct the responsibilities based on geographic information needs, resources available and anticipated demand. When anticipated demand is low, the assignment of international responsibilities could probably fall into an informal organisation. When anticipated demand is high, a more formal CI structure is required.

6. How far is it possible to predict a competitor's response to marketing actions?

In evaluating the response patterns of our competitors, the following questions are important:

- *Is the competitor satisfied with the current position?* If yes, this competitor may allow indirect competitors to exploit new markets without being perturbed. Alternatively, if this competitor is trying to improve its current position then it is important to be aware of the competitor's likely strategic moves. Knowledge of a company's future goals will clearly play an important part in answering this question.

- *What likely moves or strategy shifts will the competitor make*? History can provide some guide as to the way that companies behave. Goals, assumptions and capabilities will also give some guidance to how the company can effectively respond to market changes.

- *Where is the competitor vulnerable*? In a competitive market success is best achieved by concentrating strength against weakness. It is foolish for a firm to attack a market leader in areas where it is strongest.

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- can add value to the relationships with customers. Discuss the reasons and motives why firms go into relationships.

- Describe and understand the concept of the 'value net' model.

- Explain and discuss how horizontal relationships with suppliers and customers can add value in the total vertical chain.

- Describe the phases in the development of a relationship.

- Show and explain which factors determine a possible termination of inter-firm relationships.

- Explain and discuss how horizontal relationships with competitors and complementors can add value to the customers.

- Explain the difference between B2C and B2B relationships.

- Explore how internal marketing relationships

CHAPTER SUMMARY

Relationships, rather than simple transactions, provide the central focus in marketing. It is not enough to discuss the activities that a single firm performs. Relational marketing includes relationships or networks among companies and their suppliers, lateral partnerships among competitors, government, and non-profit organisations, internal partnerships with business units, employees, and functional departments and buyer partnerships with intermediate and ultimate customers. Collectively, these represent complex arrays of relationships among organisations, operationalised through information transfers. In this chapter, we have limited our understanding and analysis to how the activities are linked to the activities of the focal company's suppliers, competitors, complementors, customers and employees (the value net).

A company's activities evolve within its relationships with these actors:

Relations with customers:

The 'always-a-share' customer and the 'lost-for-good' customer represent polar ends of a continuum of exchange situations. The 'always-a-share' displays less loyalty to a particular supplier, whereas the 'lost-for-good' customer remains loyal to a particular supplier for a long time.

Relations with suppliers:

The adversarial approach is derived from a transaction-based theory as it explains how firms try to minimise the total production costs by maintaining multiple sources in order to reduce the power of their suppliers with the cooperative relationships; on the other hand, the company develops a close relationship with a small number of selected suppliers.

Relations with competitors:

Four different types of relationships have been identified taking the trade-off between cooperation and competition into account: competition, coexistence, co-opetiveness and cooperation.

Relations with complementors:

These are based on collaboration between manufacturers of complementary functions and/or products.

Relations with internal employees:

The employees can be viewed as an internal market. Internal marketing is considered to be the process of creating market conditions within the organisation to ensure that the internal employees' wants and needs are met. This will be the best basis for creating relationships with external actors.

The development of a customer relationship can be explained by use of the marriage metaphor: awareness, exploration, expansion and termination (dissolution). The decision to terminate is considered to be due to interaction between a trigger event and the existing state of the relationship.

In addition to providing a cause for termination, the factors that characterise an inter-firm relationship c a n impact greatly on the strategies firms utilise in a relationship termination situation. A model of inter-firm relationship termination was proposed and propositions regarding choice and use of relationship termination strategies explored.

TEACHING NOTES TO CASE STUDIES

Case 6.1: ARM – Challenges Intel in the world of computer chips

1.   Explain the role of ARM as a supplier in the 'chip' value chain

This can be explained by the two business models of ARM and Intel.

The ARM business model:
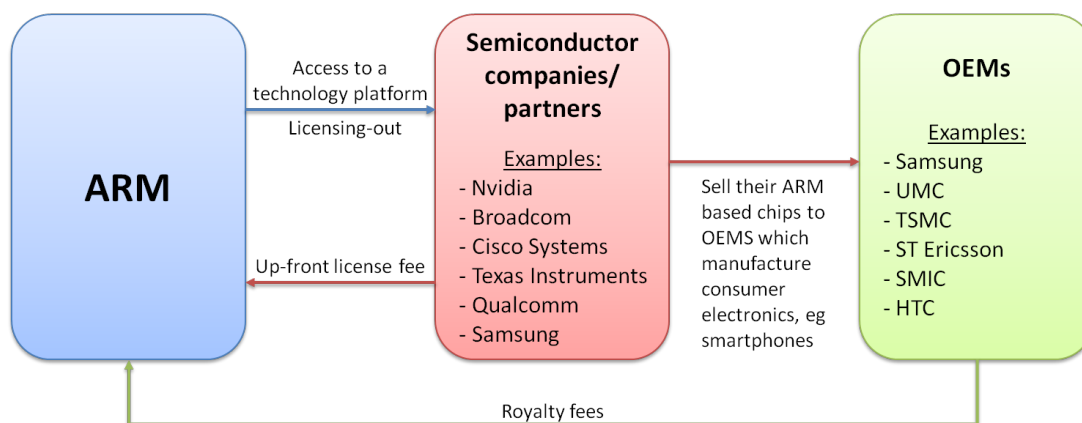
Source: Based on different public data

Somehow ARM is a supplier of a R&D platform (design) that partners can use, in order for them to deliver the right chip solution to the OEMs (e.g. Samsung), which then manufactures the chips for their smartphones and tablets.

2. What are the strengths and the weaknesses of ARM's business model compared to Intel?

The Intel business model looks like this:

Intel	→	**OEMs** Examples: Manufacturer of PCs: -Hewlett-Packard (accounted for 19% of Intel's net revenue in 2011) - Dell (accounted for 15% of Intel's revenue in 2011)

ARM's business model compared to Intel:

Pros:

- ARM is paid an up-front license fee + a small royalty on each chip that is being produced based on ARM's design = steady income.

- ARM is diversifying the risk more than Intel. Intel relies on a few big customers (HP, Dell) that contribute to a big part of Intel's revenues. The majority of ARM's revenues are earned from semiconductor companies based all over the world. These companies then sell their ARM based chips to OEMs producing consumer electronics to all economies and countries of the world.

- By designing once and licensing many times, ARM spreads the R&D costs over the whole electronics industry. Every license represents the opportunity for future royalty streams.

Cons:

- Intel produces the chips themselves and keeps more control (than ARM) with the final product quality of the chips, right to the final OEM customer. Intel has a higher profit margin per produced chip than ARM.

- Intel can develop tighter relationships to their main OEMs than ARM, because Intel's business model represents a vertical integration from initial design concept, through design, to production.

3. In which end-user application market should ARM strengthen its relationships to potential partners and how?

ARM should choose the embedded area (automotive, smart card, microcontrollers etc.), because here ARM does not have a big worldwide market share combined with the fact that there is a high volume in the total market.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. What are the main differences between B2C and B2B relationships?

Table 6.1 Comparison of B2C and B2B relationships

Characteristic	Business-to-consumer B2C	Business-to-business B2B
1. Relationship form	Membership. The individual acknowledges some relationship (though informal affiliation with the organisation).	Working partnership, just-in-time exchange, co-marketing alliance, strategic alliance, distribution channels relationship.
2. Average sale size; potential lifetime value of the customer to the selling firm	Usually small sale size; relatively small and predictable lifetime value of the customer; limit on the amount of investment in relationship with any single customer.	Usually large and consequential; allows for large and idiosyncratic investments in a single relationship.
3. Number of customers	Large number; requires large overall investments in relationship management, but low investment per customer.	Relatively fewer customers to spread investments in relationships over; investments often idiosyncratic.
4. Seller's ability and cost to replace lost customer	Can usually be replaced quickly at relatively low cost.	Large customers can be difficult and time-consuming to replace.
5. Seller dependence on buyer	Low for any single customer.	Varies based on customer size; can be devastating.
6. Buyer dependence on seller	Usually has variable alternatives, low switching costs, and switches can be made quickly.	Viable alternatives can take time to find, switching costs can be high, and changes impact multiple people in the organisation.
7. Purchasing time frame, process and buying centre complexity	Normally a short time frame, simple process and simple buying centre where one or two individuals fill most buying roles.	Often a long time frame, complex process; may have multiple individuals for a single buying role; may be subject to organisation budget cycles.
8. Personal knowledge of other party	Relatively few contact points with seller even when loyal user; seller's knowledge of buyer often limited to database information.	Multiple personal relationships; multiple interorganisational linkages.

9. Communication means used to build and sustain relationships	Dependence on non-personal means of contact; seller's knowledge generally limited to database information of customers.	Emphasis on personal selling and personal contact; customer knowledge held in multiple forms and places.
10. Relative size	Seller usually larger than buyer.	Relative size may vary.
11. Legal	Consumer protection laws unbalanced to favour consumer.	Relationships governed by prevailing contract law as well as industry standard regulations and ethics.

2.   What might be the advantages and disadvantages of creating relationships with end-consumers for a manufacturer?

Advantages:

The new IT and communications technology (e.g. Internet) make 'creating relationships' much easier.

Disadvantages:

Some kind of 'noise' (e.g. represented by the distributor) involved between the manufacturer and the distributor makes communication much harder.

3.   Motorola and Hewlett-Packard compete in some markets, are supplier and customer respectively for each other in various markets, share suppliers in other markets, often have the same customers, and have relationships in yet other markets. What should be done by the firms to achieve joint goals, minimise conflicts and protect their core assets?

If both elements of cooperation and competition are visible, the relationship between the competitors is named co-opetition. These two elements seem to be apparent in this Motorola and Hewlett-Packard example.

A firm with a strong position, but lacking resources held by the competitor must focus on a co-opetitive relationship. This relationship comprises both cooperation and competition and must be regarded as the most useful one, as the companies in some respect help and to some extent force each other to develop. Through long-term co-opetition, actors will learn about each other, and what the other is capable of both by analysing the other actor's patents and products, and by participating in common developmental projects. Consequently, new and creative solutions can be shared and money saved. Through co-opetition, new products can be developed more cost effectively, as each actor contributes with its own core competence. Extended, this means that actors can stay within their core businesses and still offer a wider range of problem solutions to their customers than if the company stood alone.

Within the process, firms develop mechanisms that attempt to deal with competitiveness within the relationship. They may, for example, place limits around the competition, for example, geographical or project boundaries, to contain the competitive arena from the start.

For example, two competitors can complement each other by creating new markets, but will compete when it comes to separating the markets. Hence, organisations may make the same products, but not compete in the same markets or segments or may not compete in the same way.

4. **Some consulting companies argue that by properly incorporating suppliers in their product development process, firms can cut the cost of purchased parts and materials by as much as thirty per cent. Discuss how a buyer–supplier relationship might create these cost savings.**

Suppliers can do much more than deliver reasonably priced items on request. Exploiting some of the potential of a supplier requires that the operations of the two companies become more closely integrated in the various facets of the relationship. The savings through outsourcing activities is only possible by extensive and intense interpersonal interaction, coordination of various activities and mutual adaptation of resources, which entail costs for both companies.

5. **Discuss the possibilities for a manufacturer who wants to integrate end-consumers into the product development process.**

The integration of the end-consumers in the product development process can be done either in a formal way (by conducting e.g. conjoint analysis) or in a more informal way, where the sales representative comes home to the HQ with some inspiration for the new product development.

6. **Explain how 'distance' in cross-cultural buyer–seller negotiations can be reduced.**

The concept of distance is multidimensional in connection with international buyer–seller relationship building. We suggest that the following cultural dimensions affect the distance:

- different understandings of the national and industry culture

- different understandings of the organisational culture

- different personal behaviour because of the different mental programming.

The national culture is only one level in the culture hierarchy that influences the parties' behaviour and perception. The national culture must be seen as the basic, arranging structure for how to handle business activities.

It is possible to reduce the 'psychic distance' by an intercultural learning process. In this learning process, the company transfers knowledge about reduction of 'psychic distances' in different cultures. The company learns which 'reduction tools' across borders are the most effective.

7. **Dell has entered into a relationship with IBM's Global Service Division. Under this agreement, IBM will now provide the service support for Dell's big customers. Evaluate the benefit of the relationship to Dell and IBM.**

Dell may have evaluated its own competences and realised that service support is not its core competence. It is better at PC-manufacturing. Therefore, it has outsourced the service support to IBM, which sees this as one of its existing and future core competences. That is a relationship of value for both partners.

8. **Relationships often involve more than the salesperson and a purchasing agent ('bow- tie' model). Often, both a whole selling team and a whole buying team are involved. Describe the interactions between buyer and seller in the 'diamond' model.**

In the 'diamond' model, the boundaries between buying and selling firms become more transparent. Interactive, cross-functional teams openly exchange ideas for improving efficiency and effectiveness. The goal is to create new value together.

Perhaps, the most important prerequisite for the 'diamond' model is the need for a high level of

'connectivity' between the firm and its strategic suppliers. This implies not just the exchange of information on demand and inventory levels, but multiple, collaborative working relationships across the organisations at all levels. It is increasingly common today for companies to create supplier development teams that are cross-functional and, as such, are intended to interface with the equivalent customer's management team within the supplying organisation.

PART III
Developing marketing strategies

Part III Video case: Nivea – Segmentation of the sun care market

1. Discuss and suggest segmentation criteria for the Nivea Sun Care business.

Some relevant segmentation criteria for the Nivea Sun Care business:

<u>Product type (purpose of the product/benefit sought)</u>: Sun protection, After sun, Self tan, Sun protection & whitening products.

Sociodemographic:

<u>Age</u>: Relevant criterion for example, Children Nivea Sun products. <u>Gender</u>: Women are the main purchasers of sun care for the family.

<u>Race and ethnic origin</u>: This is important for the whitening products, which are very popular in Asia.

<u>Usage occasion/events</u>: The choice of products depends on the usage occasion: holiday, outdoor sports, gardening and working. For example, for holiday events usage occasion might be combined with geographical criteria: the Sun Protection Factor would be higher for a holiday in Egypt than for a holiday spent in the UK.

2. What degree of Globalisation and/or Localisation does Nivea Sun Care represent, based on the following videos?

The video clip following the book's online site – student resources (www.vitalsource.com)

- The video on the book's website represents a relatively high degree of globalisation.
- The Nivea Crème commercial is highly globalised.
- The Nivea Sun Care for the Western World represents a high degree of standardisation across the European borders, but they would probably not be suitable for markets outside Europe, so all in all it is a mid-globalisation.
- The 'Nivea whitening for Asia' represents a localisation strategy.

Overall, the product range of Nivea for most parts of the world (the first listed ones) represents a relatively high degree of globalisation, as the requirements for sun care are quite similar across borders.

3. Discuss the target groups for the different TV commercials in Question 2.

Target groups for:

https://www.youtube.com/watch?v=J0c0BsdhxsU (Worldwide – iconic packaging)

https://www.youtube.com/watch?v=tJ0tq9KR3nQ&featu (Nivea Sun – spray)

The video clip world + Nivea Crème (iconic packaging) + TV commercials for Nivea Sun Care in the Western World

Here the target groups are quite broadly defined (broad age group, broad life style group).

Target groups for:

https://www.youtube.com/watch?v=tJ0tq9KR3nQ&featu (Anti-age)

Here the target group is quite narrow – older age, primarily women.

Target groups for:

https://www.youtube.com/watch?v=qnwzcjDSZok (Whitening Vietnam – for girls)

https://www.youtube.com/watch?v=Cwz8Sn9sguk& (Whitening Vietnam - for men)

The video clips for Nivea whitening for Asia (primarily Vietnam)

Here the target groups are more narrowly defined (woman, younger age group, teenage 'life style').

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CHAPTER 7
**SWOT analysis, strategic marketing planning
and portfolio analysis**

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Describe the stages in strategic market planning.

- Understand the nature of corporate strategy and how it is connected to the SBU marketing strategy.

- Describe and understand the role of SWOT analysis in strategic marketing.

- Understand when and how to use different strategic tools in strategic market planning.

- Describe the two downstream portfolio models: BCG model and GE model.

- Discuss advantages and disadvantages of each model: BCG and GE.

- Explain the different levels of international portfolio analysis.

- Explain the purposes of integrating a supplier portfolio model in a marketing analysis.

- Understand how a supplier can be involved in product development with the manufacturer.

CHAPTER SUMMARY

Development of a successful marketing strategy requires choosing activities that are different from competitors'. The structure of this chapter follows the main phases in the complex marketing planning process, where the end-result emerges from the interplay of different factors.

Corporate mission:

This is the reason why the firm exists. It can be considered as a definition of what the organisation is and what it does: 'Our business is….'

SWOT analysis:

This technique structures the internal and external information into four categories:

- internal: strengths and weaknesses

- external: opportunities and threats.

The SWOT analysis serves as a catalyst for structuring the creation of marketing strategies that will produce the desired result.

The SWOT analysis focuses on creating competitive advantages by matching company strengths to market opportunities. Furthermore, it provides guidance on how the firm might structure its marketing strategy to convert weaknesses and threats, and minimise/avoid those weaknesses and threats that cannot be converted.

Corporate objectives:

State where the firm intends to be at some specific time in the future.

Corporate growth strategy:

A strategy for reaching the long-term objectives. According to the Ansoff product-market matrix there are four options: market penetration, market development, product development and diversification.

SBU marketing strategy:

Concerns how to create competitive advantage in each of the SBUs (combination of products/ markets). The portfolio models (PLC, BCG, GE/McKinsey etc.) guide the development of strategic alternatives for each of the company's SBUs and new business possibilities.

In this way, the chapter forms the 'corporate' input to the later formulation of marketing plans. In order to manage a firm's collection of SBUs, products or markets (countries) three downstream portfolio models were presented.

- The Boston matrix (BCG model), where businesses are positioned in terms of market growth rate and relative market share, is certainly one of the best known.

- General Electric (GE model) pioneered another matrix which is more marketing oriented. In the portfolio model presented by General Electric, each business is rated in terms of market attractiveness and competitive position.

- The international market portfolio is very similar to the GE model in its structure. Furthermore an upstream oriented supplier portfolio was presented. This portfolio approach is a three-step approach to managing supplier relationships. The first step is to classify the components into the different dimensions of the portfolio model. The second step is to classify the suppliers based on their *attractiveness to the focal firm (manufacturer)* and the *strength of the buyer-supplier relationship*. Finally, strategies are drawn up to improve the supplier's strength and/or relationship with the buyer, in order to deliver the desired component in optimal conditions.

Portfolio models have been criticised both for their general structure, in which the different dimensions are only approximate estimations of the parameters that are supposed to be measured, and for their limited applicability in specific fields such as marketing and purchasing. This might be due to the fact that companies focus too much on developing very complex dimensions in order to classify components, customers or suppliers, thus falling into the trap of means-end confusion. The classification is not an end in itself, but an aid in the development of appropriate action plans.

Involving suppliers in product development can result in major benefits in terms of money and time. Supplier involvement in product development holds great potential, both in the short and long run, but few companies seem to be able to realise these benefits. A large part of the unfulfilled potential is due to common problems such as lack of communication and trust, insufficient supplier abilities and internal resistance at the manufacturer. Also, it requires a great deal of thinking and effort. Primarily, it presupposes active management on behalf of the manufacturer, both in the short term and in the long term, supported by adequate organisational and human resources.

TEACHING NOTES TO CASE STUDIES

Case 7.1: William Demant hearing aids

1. Please explain consumer buying behaviour in connection with buying of hearing aids

Chapter 4 explains a consumer buying behaviour model with the following steps:

1. Problem identification

2. Information search

3. Evaluation of alternatives

4. Decision and purchase

5. Post-purchase evaluation

Re. Step 1-5:

Despite the large numbers with hearing loss, only a small share — for example in USA roughly twenty per cent — actually use a hearing aid.

Many factors are responsible for this large gap, including the lack of routine hearing screenings for older adults and social stigma that discourages people with hearing loss from seeking treatment.

The penetration rate in some countries is high because hearing aids are fully (in countries like Denmark, Norway and Switzerland) or primarily (i.e., in the United Kingdom) government subsidised. In such countries people with hearing loss will get help from professional audiologists to get through the buying behaviour steps.

In many non-government subsidised countries, Over-The-Counter (OTC) hearing aids are playing a more important role. OTC hearing aids are defined as products that are safe and effective for use by the general public without seeking treatment by a health professional. By definition, this 'classification' assumes that consumers can self-diagnose, self-treat, and self-manage without professional guidance. In such a case the people with hearing loss will handle most of the buying behaviour steps themselves, or with help from nearest family.

2. Please prepare a SWOT analysis for William Demant's hearing aids

Strengths:

- Strong R&D

- Stable cash-flow

- Strong brand (Oticon)

- Represented on many international markets

- Strong relations to professional audiologists

Weaknesses:

- Relatively weak in the In-The-Ear market segment

- Relatively weak in the OTC market

Opportunities:

- Low penetration of hearing aids in many countries provides a big potential market

- Increasing government subsidies in some countries

Threats:

- New distribution channels (e.g. OTC, Internet) win market share

- Other treatments of hearing problems than hearing aids

- Increasing competition among hearing aid producers

3. How should William Demant react on the Amplifon initiative to develop its own private label brands?

William Demant should continue to invest in the Oticon brand building (long term investments in R&D and Communication), and aggressively communicate the differentiating benefits by the use of Oticon versus private labels.

4. How could a direct marketing communication plan for William Demant's hearing aids look like when involving social media?

Increasing use of Influencer Marketing that should communicate directly to the segment with hearing aid problems (use of Micro Influencers). Also focusing on the need to get help from a professional audiologist.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. How can corporate objectives be derived from the corporate mission?

Corporate objectives state where the firm intends to be at some specific time in the future. It is derived from corporate mission by the use of the SWOT analysis.

2. What is the purpose of a SWOT analysis?

SWOT (strengths, weaknesses, opportunities and threats) analysis is a technique specially designed to help identify suitable marketing strategies for a company to follow. When performed correctly, a SWOT analysis can drive the process of creating a sound marketing plan.

SWOT analysis can be especially useful in discovering strategic advantages that can be exploited in the firm's marketing strategy.

3. How can a SWOT analysis be carried out? What are the critical issues?

A SWOT analysis encompasses both the internal and external environments of the firm. Internally, the framework addresses a firm's strengths and weaknesses on key dimensions such as financial performance and resources; human resources; production facilities and capacity; market share; customer perceptions of product quality, price and product availability; and organisational communication. The assessment of the external environment organises information on the market (customers and competition), economic conditions, social trends, technology and government regulation.

4. What are the differences between marketing objectives and marketing strategies?

Marketing objectives are the positions *where* the firm intends to be in, for example, five years, regarding sales and market shares. Marketing strategies concern *how* to get there.

5. What purpose may a product portfolio serve in the context of a marketing strategy?

The portfolio models (PLC, BCG, GE/McKinsey, etc.) guide the development of strategic alternatives for each of the company's SBUs and new business possibilities.

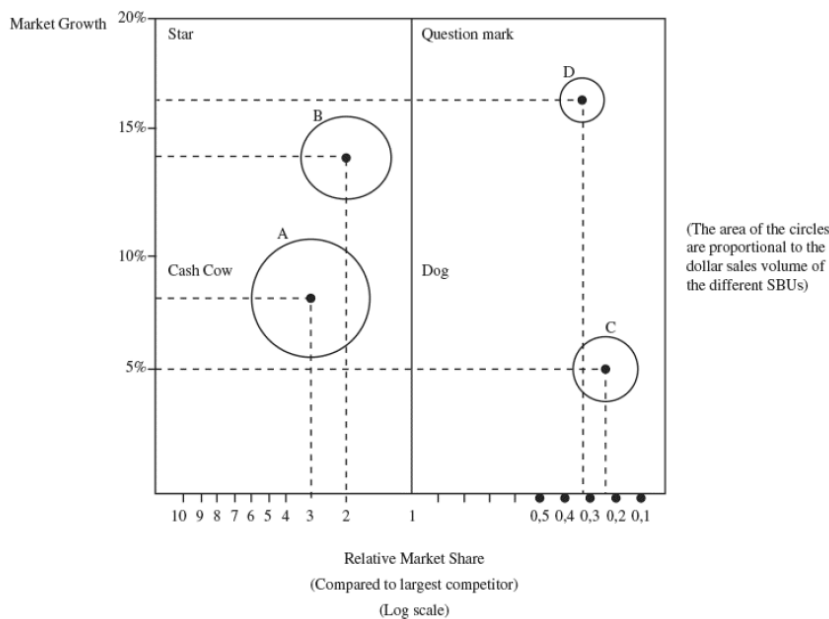**6. What is the meaning of relative market share in the BCG model?**

While market growth rate has been found to be a useful indicator of cash use (or the need for investment), market share is related to cash generation. Higher market share, relative to competitors, is associated with better cash generation because of economies of scale and experience curve effects. The experience curve concept, also developed by the Boston Consulting Group in the 1960s, forms the foundation for this relationship, but further supporting evidence comes from the influential Profit Impact of Marketing Strategy (PIMS) study of the 1970s and 1980s. Relative market share is in effect used as a proxy for profitability; the underlying premise being that dominant share leads to superior profitability.

7. The Ajax company has 4 SBUs, as shown in the table below:

(a) Prepare the BCG (Boston Consulting Group) matrix for Ajax's SBUs

SBU	Ajax SBU market share (%)	Largest competitor's market share (%)	Relative market share	Market growth rate (%)	($ millions)
A	30	10	3.0	8	5.0
B	40	20	2.0	14	2.0
C	10	40	0.25	5	1.0
D	10	30	0.33	16	0.5

BCG chart

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(b) What are the strategic implications of Ajax's BCG matrix?

While market growth rate is a useful indicator of case use (or the need for investment), market share is related to cash generation. Higher market shares (relation to competitors) are associated with better cash generation because of 'economies of scale' and experience curve effects.

The BCG chart indicates a balanced BCG where the cash generated by A should be used primarily for D and secondarily for B. The investments and expenditures for C should gradually be phased out. However, the final decision about C would also depend on its connection to the other SBUs.

(c) What are the general drawbacks of using the BCG matrix in the strategic planning?

- Defining the relevant industry and market served can cause problems. Calculation of market share varies on the definition of corresponding products/markets.

- BCG is an oversimplification of products/markets – only two main variables are represented in the model.

- The model implicitly assumes that all SBUs are independent of one another.

- The BCG model was developed for balancing cash flows. This is not always the most important consideration.

(d) Is there a relevant alternative portfolio-planning model to the BCG matrix?

In the GE model (General Electric), SBUs are evaluated using two factors of 'Market Attractiveness' and 'competitive position.' In contrast to the BCG approach each of these two dimensions is then analysed into a number of subfactors. This means that the GE model is more complex to use, but the analysis is also much 'richer' than the BCG analysis.

8. What are the advantages and disadvantages of using portfolio models in strategic market planning?

The BCG-model is here used as an example.

Advantages:

- It fulfils a human desire for *classifying a complex mix* of different businesses. It is easy to grasp, has an attractive presentation and uses catch phrases and terms that are easy to memorise and have a clear link to strategy.

- Research has provided *some evidence* to support the Boston Box. It embodies simple ideas with the cash flow implications, which are intuitively appealing to managers. The PIMS study has been a particularly fruitful source of support for the Boston Box.

- *Simplicity* is probably the Boston Box's greatest virtue. It brings together a number of very important strategic issues and allows them to be presented and understood quickly.

- One of the most informative uses of the Boston Matrix is to *plot competitors' positions* along with the firm's own. This gives a valuable insight into their position, indicates how they may behave in the future, and shows the relative strengths and weaknesses of the firm's own brands.

Disadvantages:

- *Definition of the served product/market*: Defining the relevant industry and served market (i.e. the target market segments being pursued) can also present problems. Market share varies depending on the definition of the corresponding product/market. Hence, a product may be classified in different cells, depending on the market boundaries used.

- *Oversimplification*: Many critics have argued that the BCG growth share matrix is an oversimplification of product markets and can lead to insufficient management attention to the range of factors that are important in marketing strategy. The matrix is based on only two key factors – market growth and relative market share. While the matrix specifies appropriate investment strategies for each business, it provides little guidance on how best to implement those strategies.

- *The model implicitly assumes that all business units are independent of one another except for the flow of cash*. If this assumption is inaccurate, the model can suggest some inappropriate resource allocation decisions. For instance, if other SBUs depend on a dog business as a source of supply – or if they share functional activities, such as a common sales force, harvesting that dog might increase the costs or reduce the effectiveness of the other SBUs.

9. What is the purpose of integrating supplier portfolio models in a marketing course?

A firm's competitive advantage no longer resides with its own capabilities, but rather with the relationship and linkages that the firm can establish with external organisations, among these suppliers.

The 'Transaction Cost Approach' argues that every 'arm's length' transaction involves transaction costs in search, negotiation and other associated activities. This leads to inefficiencies instead of efficiencies for the firms engaged in exchange transactions.

Relationship marketers, therefore, believe that interdependencies reduce transaction costs and generate higher quality while keeping governance costs lower than exchange marketing. In short, better quality at a lower cost is achieved through interdependence and partnering among the value chain actors.

10. Why is it important to involve suppliers in product development?

Many firms give suppliers increasing responsibilities with regard to the design, development and engineering of products. The overall aims are to better leverage suppliers' technological capabilities and expertise and to improve product development efficiency (e.g. reduction of development lead-time) and effectiveness (reduction of product cost).

Manufacturers may have an interest in collaborating with suppliers in product development to achieve long-term benefits. One common long-term goal involves getting (long-term) access to the technological knowledge of suppliers. Ultimately, manufacturers may even have an interest in influencing supplier decisions with regard to the kind of technologies to invest in, in order to provide the best conditions for future technological collaboration.

CHAPTER 8
Segmentation, targeting, positioning
and competitive strategies

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand the importance and meaning of market segmentation.

- Explain the principle of STP.

- Identify and discuss the various bases for segmenting B2C markets and B2B markets.

- Outline how firms select target segments.

- Explain the differences between various strategic approaches to target marketing, undifferentiated, differentiated and concentrated marketing.

- Comprehend what is involved in positioning a product/service against competitors.

- Explain the difference between positioning on the B2C market and B2B market.

CHAPTER SUMMARY

This chapter has focused on two interrelated decisions that constitute steps toward the formulation of a strategic marketing programme for a product-market entry – market segmentation, market targeting and positioning.

Market segmentation separates potential customers into several groups or segments with distinctive characteristics. Customers within a segment should have similar needs, wants and preferences; they should have similar media habits and buying patterns. The group should be large enough to justify attention, and data about individuals in each segment should be available.

Two common segmenting methods are the top-down method and the build-up method. The top-down method begins by selecting segmentation variables and assigning customers to the category they fit. The build-up method starts with the unique characteristics of one potential customer. Each time someone with unique characteristics is discovered, a new segment is added.

On the B2C market, typical segmentation variables are geographic and demographic factors, ethnic and other diversity-related factors, psychographic and behaviouristic factors and benefits desired.

On the B2B market two segmentation stages may be required. The first, macro segmentation, divides the market according to the organisational characteristics of the customer, while micro segmentation groups the customers by the characteristics of the individuals who influence the purchasing decision. Product usage and geographical locations are examples of macro segmentation variables, while purchase influence, loyalty and area of expertise are micro segmentation variables.

Micro-level bases of segmentation centre on key characteristics of the decision-making unit and require a higher level of market knowledge.

Target marketing focuses on selecting groups of customers so marketers can more clearly understand their specific needs and wants and adjust accordingly.

Market targeting may use a market-attractiveness matrix as an analytical framework to help managers decide which market segments to target and how to allocate resources and marketing efforts.

The three basic target marketing strategies are undifferentiated, differentiated and concentrated marketing.

Undifferentiated marketing treats all customers alike and is similar to mass marketing. In order for this strategy to work, companies generally must have significant cost advantages. Differentiated marketing involves serving several segments but adjusting the marketing mix for each. It usually requires decentralised decision-making. Concentrated marketing focuses on one segment or only a few. Because differentiated and concentrated strategies consider customer needs and wants within a certain group of customers, they are far superior to an undifferentiated strategy.

Positioning creates in the mind of consumers an image, a reputation or a perception of the company and/or its products relative to competitors. It helps customers understand what is unique about a company and its products.

Positioning seeks to maximise a product's performance relative to competitive offerings and to the needs (benefits sought) of one or more targeted market segments.

Marketers can use a positioning map to depict how customers perceive products according to certain characteristics. For business products, a commodity, differentiated or speciality positioning strategy can be used. Products are often positioned by benefit, by price and quality, by the time of use or application.

Positioning analysis can take place on different levels: company, product category and brand levels. The main difference between positioning on the B2C market and the B2B market is that in business markets, company image considerations rather than brand image building are determinants of building positioning strategies.

Successful marketing strategies are often based on differentiation, market focus and lower costs. Firms must identify windows of opportunity and select appropriate attack and defence strategies, if they expect to reach organisational goals.

Military analogies have been drawn upon to identify strategic options under the conditions of conflict and competition. The strategies of frontal, flank, encirclement, bypass and guerrilla attacks provide five options for companies wishing to build sales and/or market share.

Position, flank, pre-emptive, counteroffensive and mobile defences and strategic withdrawal are options for companies defending sales and/or market share against aggressive competitors.

TEACHING NOTES TO CASE STUDIES

Case 8.1: LEGO Friends – the world's third largest toy manufacturer is moving into girls' domain

1. **How would you segment the toys market, especially seen from the general LEGO perspective**

Relevant segmentation criteria:

Demographic criteria that involve dividing the customer market using variables such as gender, age, income, level of education, occupation, socioeconomic status, type of family (traditional family structure with two parents and kids, divorced, single parent), religion, language, culture and nationality.

The most relevant criteria in LEGO's case are: age, gender (toys for boys, toys for girls), type of family (this criteria is important when we discuss buying of toys as a collective decision making, taking place in e.g. the family).

Furthermore the *income criteria (family income)* is also a very important criteria, as LEGO is generally perceived as a relatively high quality/high price product.
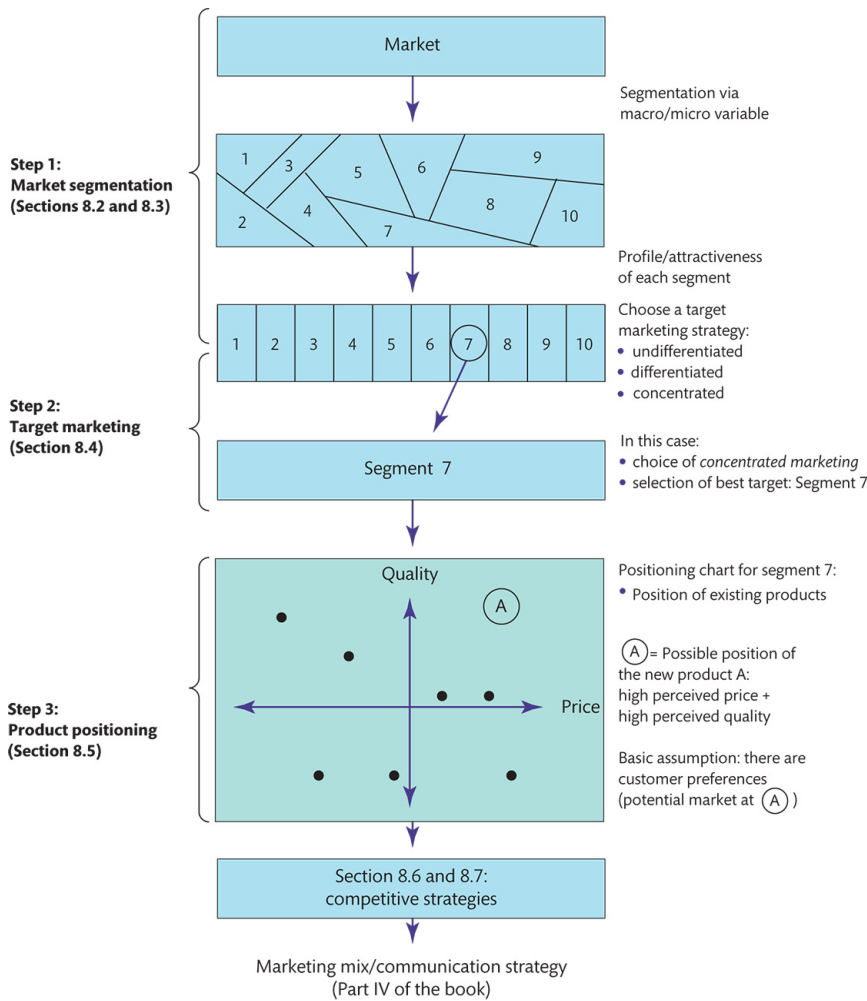
2.   Was it a good idea to launch LEGO Friends? Why/why not?

Yes, it was, until now LEGO sales of toys have primarily been to boys, so LEGO has somehow missed half of the toys market.

3.   Please suggest a STP approach that would lead to the introduction of LEGO Friends

STP = Segmentation, Targeting and Positioning

Please see the next figure (Figure 8.2 in the book):

Figure 8.2: The three-step market segmentation and positioning model

S: The principle is that we start up with the segmentation by using general criteria, like a combination of gender, age and family income. Furthermore behavioural criteria could be important in this case. By doing some market research LEGO came to the understanding that a girl's playing style is different from a boy's playing style. It often involves role-play.

T: Here Segment 7 is chosen as target market: It could be girls, between the age of six and twelve.

P: LEGO illustrates the position A in the product positioning with a relatively high perceived quality/high price compared to the other products in the girls' toys market. In order to fit the girls' preferences Lego redesigned the character figures, and colors as well, in order to let them be integrated in the girls' role-playing.

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PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. **What benefits are to be gained from market segmentation, as opposed to treating the market as a single entity?**

Most often the benefits of segmentation more than offset the difficulties involved identifying individual market segments. These factors favouring segmentation fall into three main categories:

- *Better strategic allocation of marketing resources:* The strategic benefits of segmentation are sometimes overlooked. Targeted plans and programmes, based on identified needs and habits of specific markets, result in better allocation of company resources and higher profits. Segmentation should focus on subdividing markets into areas in which investments can gain a long-term competitive advantage.

- *Creation of more effective marketing programmes:* Segmentation helps in the design of marketing programmes that are most effective for reaching homogenous groups of customers. The seller can create separate marketing programmes aimed at more completely satisfying the needs of different buyers. This creates a competitive advantage.

- *Better opportunities for new product/market development:* The seller is in a better position to spot and compare new product/market opportunities as well as potential threats. Often, a careful analysis of various segments of potential customers reveals one or more groups whose specific needs and concerns are not being well satisfied by existing competitive offerings. Such uncovered segments may represent attractive opportunities for development of new products or innovative marketing approaches.

2. **What stages are involved in identifying market segments?**
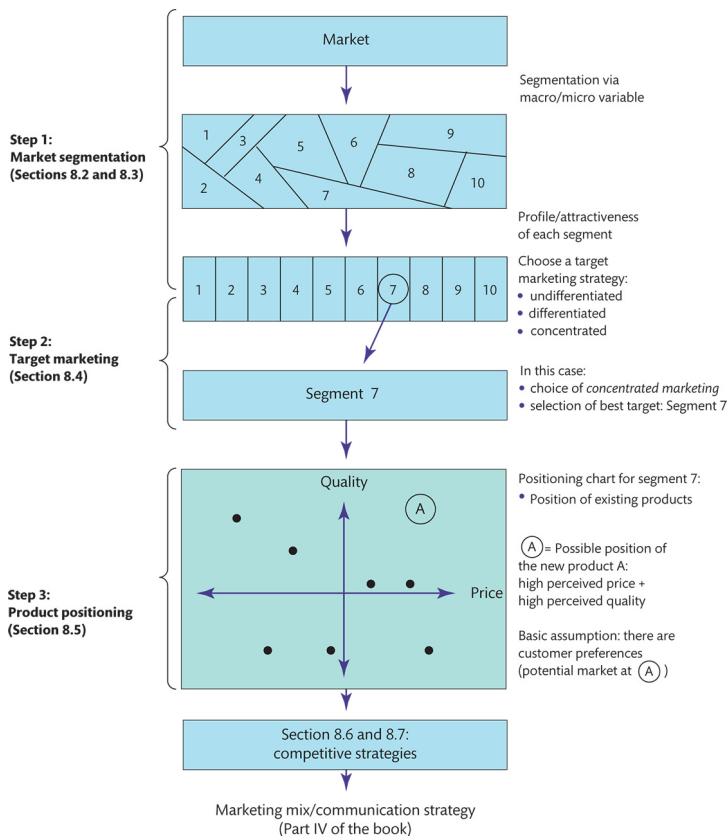
See Figure 8.2 again.

Figure 8.2: The three-step market segmentation and positioning model

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3. **Is market segmentation always a good idea? Under what conditions, if any, might segmentation be unnecessary or unwise?**

Factors disfavouring market segmentation:

- Heavy users/buyers make up such a large proportion of the sales volume that they appear to be the only relevant target.

- The market is so small that marketing to a portion of it is not profitable. Therefore, a brand or product would have to appeal to all segments and levels of users.

4. **Can market segmentation be taken too far? What are the potential disadvantages of oversegmenting a market? What strategy might a firm pursue when it believes that the market has been broken into too many small segments?**

A *market aggregation strategy* (or forming super-segments from micro-segments) is more appropriate where the total market has few differences in customer needs or desires, especially when the product can be standardised. It is also appropriate where it is operationally difficult to develop distinct products or marketing programmes to reach different customer segments; that is, not all segmentation schemes are actionable.

5. **Which variables or descriptors might be most appropriate for segmenting the market for the following products and services? Explain your reasoning.**

(a) Breakfast cereals

Mainly socio-demographic variables:

Family life cycle (determines the appropriate product-mix for the family), age (determines kind of breakfast cereals) and family-size (determines size of packaging).

(b) Personal computers (PCs)

Type of market: business/private markets Business: companies, offices

Private: families, single persons.

Purpose of the PC: use for work, fun (games), Internet, etc. Attitude towards IT: experienced PC-user or beginner.

(c) Software, games for PCs

Same as (b) + age/education (may determine type of software/games).

(d) Lawnmowers

Type of housing: house (with or without lawn)/apartment

Size of lawn (determines kind of lawn mower)

Age of house-owner: could determine if the lawn mower should be motorised and if it should be a mini-tractor.

(e) Photocopiers

Type of market: business/private market

Business market: size of the company (determines size of photocopiers)

Type of jobs performed determines:

- if it should be a combined photocopier/printer
- if it should be a colour photocopier
- if the photocopier should be able to make finished reports/brochures.

(f) Wind turbines

Geographical segmentation according to wind conditions

Type of market: farmers/organisers of wind turbines for parks

Farmers: selling one wind turbine at a time

Wind turbines for parks: organisational buying behaviour

Segmenting by financial situation of potential buyers (because a wind turbine is very expensive)

6. Explain the idea of positioning and why products are repositioned periodically.

Once the segmentation process gives a clear picture of the market and the target marketing strategy is selected, the positioning approach can be developed.

Positioning is the process of creating in the mind of consumers an image, reputation or perception of the company and/or its products relative to competitors.

Positioning is the perceived fit between a particular product and the needs of the target market. The positioning concept must be defined relative to competitive offerings and consumer needs. As competitive offerings and consumer needs can change from time to time, repositioning is a possibility.

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CHAPTER 9
CSR strategy and the sustainable global value chain

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LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Define CSR.
- Understand how value creation goes beyond profit maximisation, according to CSR.
- Identify the most important stakeholder in CSR.
- Identify different levels of CSR.
- Understand how Social Marketing is an integrative part of CSR.
- Explain the most important drivers of CSR.
- Understand how CSR can create international competitiveness.
- Explain how 'value added' may be created through CSR activities.
- Understand how 'poverty' and 'global warming' can create new business opportunities.

CHAPTER SUMMARY

CSR (Corporate Social Responsibility) goes beyond profit maximisation and includes long-term stakeholder needs and expectations. This also includes a different approach on competitiveness, associated with an ethical and socially responsible dimension.

The most important stakeholders in CSR are owners/shareholders, top management, employees, suppliers, customers, competitors, special interest groups and governmental organisations. CSR can increase the firm's international competiveness (bottom line) in two ways, by influencing CSR benefits or influencing CSR costs.

- CRS benefits
- CSR – included revenue increase
- Savings from CSR – induced cost decrease
- CSR costs
- One-time CSR costs
- Continuous CSR costs

A CSR perspective may also imply that the company sees new market opportunities, for example:

1. *Poverty market,* by catering to the 'Bottom of the Pyramid' (**BOP**) market, where micro financing of new business in developing countries is one of the new business opportunities.

2. *Green market,* where for example global warming has brought new business opportunities.

Re. 1: The market of the economically marginalised (people earning less than $2 a day residing in developing countries) can throw up new business opportunities and emerging markets. Certain CSR initiatives can start off as a micro enterprise or new business and can cater to satisfying certain needs of the society. Advances in information and communication technologies have enabled BOP to connect to the global economy. Providing 'marketplace' services and

education are crucial services that enable greater sustainability of BOP marketing. Mobilising community efforts, creative pricing methods, innovative product designs, tapping into cultural and locally prevalent ways of communicating are some of the successful marketing strategies for this segment.

To be effective, the collaboration must be proactive. Marketers wishing to serve the BOP, who recognise the importance of alliances with others, should seek out relationships with both government and NGOs. Early and persistent outreach will be valuable in alerting all of the players to each other's strengths and in creating an accurate picture of the challenges.

Given the economies of the BOP, it is likely that if profits come, they will come later rather than sooner. Organisations need to choose a long-term involvement in order to avoid disappointment and a financially ruinous midterm decision to exit.

Re. 2: The global warming (climate change) will have big implications for energy providers as demand gradually shifts from high- to low-carbon energy. Equipment suppliers using carbon-efficient technologies (such as car engines modified for bio fuels) are becoming increasingly competitive. Most companies, in their role as energy users, will have to follow stricter technical rules and standards, as well as have access to energy-saving technologies. Corporate leaders should consider several ways to benefit from the shift.

TEACHING NOTES TO CASE STUDIES

### Case 9.1: YouthAIDS – Social marketing in a private non-profit organisation

1.   What have been the key competences of YouthAIDS since it started in 2001?

The key competence of YouthAIDS has been their ability to integrate media pop culture, music, theatre and sports to stop the spread of HIV/AIDS.

The founder of YouthAIDS, Kate Roberts, has been really good in selling something by making it trendy. In today's celebrity-driven world, it requires the use of young role models (Justin Timberlake, Christina Aguilera, etc.) to encourage young men to use a condom and to empower young women to insist on it.

2.   How are these competences utilised in YouthAIDS' alliances?

Again, YouthAIDS does what they are good at – see also in the figure below:
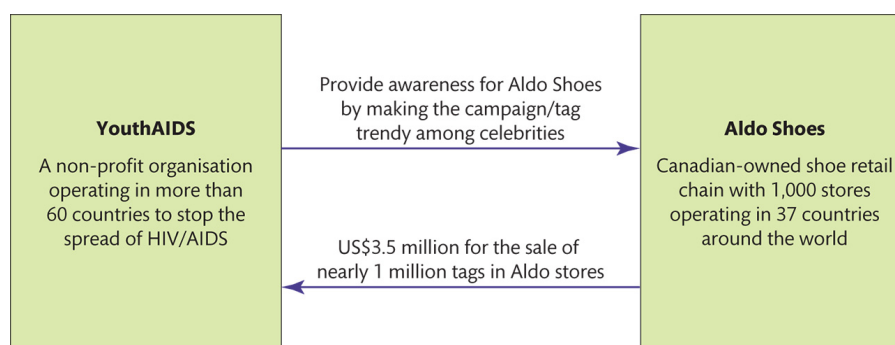
The 'Hear no evil' win–win YouthAIDS–Aldo marketing campaign

For example, in the YouthAIDS/Aldo Shoes alliance YouthAIDS provides awareness for Aldo shoes by making the Empowerment tags trendy among celebrities and as a consequence, also among 'ordinary' consumers. The celebrities act as role models. YouthAIDS provides this value for Aldo Shoes in return for money, coming from the sales of these tags in Aldo stores

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3. What do you think about the YouthAIDS campaigns in Africa, including the message about sexual abstinence? Is that going to be successful? Discuss the pros and cons.

Pros:

- The risks of unhealthy sexual relationships are too high to rely on the men to use a condom.

- YouthAIDS is not the only organisation campaining for sexual abstinence.

Cons:

- Young Africans initiate sexual activity at an early age (sixteen to seventeen years old).

- Dangers of 'sugar daddy' relationships: poverty is one of the reasons why young women become involved in such relationships. The women are financially supported in return for sexual favours, which means that the man in the relationship is 'in power.'

Keeping these factors in mind, it is a tough job to campaign for 'sexual abstinence'.

4. Which future alliance partners would it be relevant for YouthAIDS to cooperate with?

These could be partners with an interest in products/services that appeal to the target group of YouthAIDS:

- Sport equipment

- Apparel

- Music events (e.g. African MTV channel)

- IT-products (laptops, etc.)

- Internet events – Social Media (like Facebook, YouTube)

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. What role do you think cultural differences play in ethical standards?

As more and more firms operate globally, an understanding of the effects of cultural differences on ethical decision-making becomes increasingly important for avoiding potential business pitfalls and for designing effective international marketing management programs.

Culture is a fundamental determinant of ethical decision-making. It directly affects how an individual perceives ethical problems, alternatives and consequences. In order to succeed in today's international markets, managers must recognise and understand how ideas, values and moral standards differ across cultures, and how these in turn influence marketing decision-making.

Some countries, such as India, are well known for 'requiring' small payments if customs officials are to allow goods to enter the country. While this may indeed be a bribe and illegal, the ethics of that country seem to allow it (at least to a certain extent). The company is then left with a problem: do they bribe the official, or do they wait for normal clearance and let their products sit in the customs warehouse for a considerably longer time?

2. List the most important ethical issues to consider in preparing a marketing strategy.

With RM there is a shift away from hard marketing to anonymous masses towards relationships

with customers as 'co-producers' and 'members' of various marketing programmes, where value is created through long-term interactions between equal winning and respectful parties. As companies become more concerned with keeping satisfied customers, it becomes more evident that ethical behaviour is not only the moral thing to do but also good business. By adding more value to the core product, companies try to improve customer satisfaction so that the bonds are strengthened and customer loyalty is achieved.

Moreover, the current emphasis on *internal marketing* is directly associated with more ethical behaviour and attempts to bridge inconsistencies between top management and employees as the market inside the firm becomes equally important to the outside market.

3.   What aspects of ethical behaviour are important to consider in building marketing relationships?

The following framework may be used as an agenda guiding marketing managers to plan and implement ethical behaviour in building 'Marketing Relationships.'

The agenda consists of four parts:

- The ethics of keeping promises and truth-telling
  Truth-telling is an issue often connected with the problems of keeping promises. As a general maxim, it is often stated that you must always tell the truth.

- The ethics of equal treatment of customers
  In relationship marketing operations, the equal treatment of the partner is an essential feature of action principles. The notion of fairness is widely recognised as essential for mutually satisfying exchange.

- The ethics of commitment
  In relationship marketing, participants must be committed. Commitment can be defined as an affective attachment to an organisation, the intensity of which can vary with the nature of the relationship. Thus, commitment is conceived of as the strength of an individual's identification with and his/her involvement in, the organisation.

- The ethics of communication
  Communication is a central element in RM. The basic ideal is that every individual has the right to domination-free action. An application to relationship marketing: every buyer–seller relation should be evaluated and reconstructed on the base of ethics of mutual communication.

PART IV
Developing marketing programmes

Part IV Video case: Tequila Avión – A premium tequila is introduced into the US market and worldwide

1.   Why is a product placement often more effective than a television commercial?

Product placement is a marketing practice in advertising and promotion wherein a brand name, product, package, signage, or other trademark merchandise is inserted into and used contextually in a motion picture, television, or other media vehicle for commercial purposes.

The main reasons for product placement being more effective than TV commercials:

-    In product placement, the involved audience gets exposed to the brands and products during the natural process of the movie, television program, or content vehicle. That is, product placement in popular mass media provides exposure to potential target consumers and shows brands being used or consumed in their natural settings.

-    The product or brand is also seen as a quality of the association with characters using and approving of the product placement

2.   What is the target group and the main 'message' in the Tequila Avión commercial?

Target group (end-users): 21 – 40 year-old men and women. The consumption of Tequila is almost 50/50, male/female. A lot of the consumption is driven by margaritas – it is the number one cocktail in the U.S.

The founder, Ken Austin, calls the commercial 'disruptive'. The key message is that the usual perception of tequila ('Pain has its place') does not fit with Tequila Avión, which has a smoother taste that many women like. Drinking tequila should be fun.

3.   Why is it a good idea to leave the worldwide distribution of Tequila Avión to Pernod Ricard?

The top-management of Tequila Avión wisely realised that it was hard for them (as a small company) to get the tequila brand into global distribution. Tequila Avión has an excellent tequila but how to expand the sales outside USA? Pernod Ricard turned out to be the perfect partner, because they had a solid global portfolio including Jameson, Absolut, Chival Regal, The Glenlivet, Perrier Jouet, Malibu Rum, and other brands, but they didn't have an ultra-premium tequila. Pernod Ricard also had a global sales team, which could bring the product to all corners of the world.

CHAPTER 10
Establishing, developing and managing buyer–seller relationships

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand the stages in the development of a dyadic buyer–seller relationship (acts, episodes, sequences and relationships).

- Explain the importance of loyalty.

- Identify the different categories (segments) of loyalty.

- Describe the steps in building a loyalty-based, relationship-based strategy.

- Explain how to create e-loyalty.

- Understand the importance of customer lifetime value and how it is calculated.

- Develop ideas for creating customer loyalty programmes.

- Describe the stages in the KAM relationship development model.

- Explain the purpose of a customer complaint management system.

CHAPTER SUMMARY

The future cash flow of a firm is generated by purchases from existing customers and purchases from new customers. Hence, if a firm makes sound investments in acquiring only the right customers and in developing existing customers, it should over time, continually enhance its value. This chapter has shown that both acquisition and retention are important for survival, and that marketers who focus only on the former are ignoring exciting opportunities and essential information.

In order to achieve customer loyalty you must start with a holistic picture of the customer. Remember, the customer is a strategic asset, one that is in short supply, one that must be treated with care. Therefore, regard customer information as a strategic asset. Once you have a customer, surround him or her with care. Establish team-based selling as the rule rather than the exception, and use each customer contact as an opportunity to create loyalty.

A loyalty programme is a long-term proposition, not a short-term promotion. Management has to be committed to a programme that will last for years, not months. Such commitment will help develop and maintain a strong lifetime relationship with customers. The result of such a close connection will bring many rewards to both sides.

Key account management is the development towards customer focus and relationship marketing in business-to-business markets. It offers critical benefits and opportunities for profit enhancement to both sides of the seller/buyer dyad.

The scope of key account management is widening and becoming more complex. The skills of professionals involved in it at strategic and operational levels need to be constantly updated and developed.

Customer complaints are latent conflicts between customers and employees. The psycho-sociological dimension of the customer complaint is determined through the personality structures of the partners and the relationship itself.

Internal marketing provides us with a wide range of instruments for supporting the customer complaint management process. Its potential for supporting effective customer complaint

handling is influenced by the ability of giving the right feedback to the employees, thereby improving their performance.

The basic task of internal marketing is to convince staff of the economic benefits to be derived from effective complaint management and to overcome preconceived notions of how to handle dissatisfied customers. The associated business principles can be conveyed through specific internal communications instruments like the employee newsletter, intranet messages or staff meetings.

The goal of internal marketing is to positively influence internal relationships, thereby guaranteeing a positive external relationship experience for the employee and customer. One of the fundamental purposes of internal interactions between management and employees relates to the sensitivity of customer contact personnel to the important role they play in the interface between the firm and the customer.

TEACHING NOTES TO CASE STUDIES

Case 10.1: Dassault Falcon – The private business jet, Falcon, is navigating in the global corporate business sector

1. **Please explain which relationships in the total value chain would be most important for Dassault Falcon to focus on.**

Of course the relationships in the vertical chain (illustrated by Figure 10.9) are all important but the most important are the relations to the direct customers, which are represented by the following operators:

- Fractional ownership companies (e.g. NetJets)

- Charter/Air Taxi

- Jet membership companies (e.g. Marquis Jet Europe)

- Big companies with their own aircraft (wholly owned, e.g. Shell)

2. **Please explain how Dassault Falcon can benefit from a collaboration with a complementor or (in)direct competitor.**

The issue regarding Dassault Falcon collaboration with a complementor or (in)direct competitor can be illustrated in the following way:
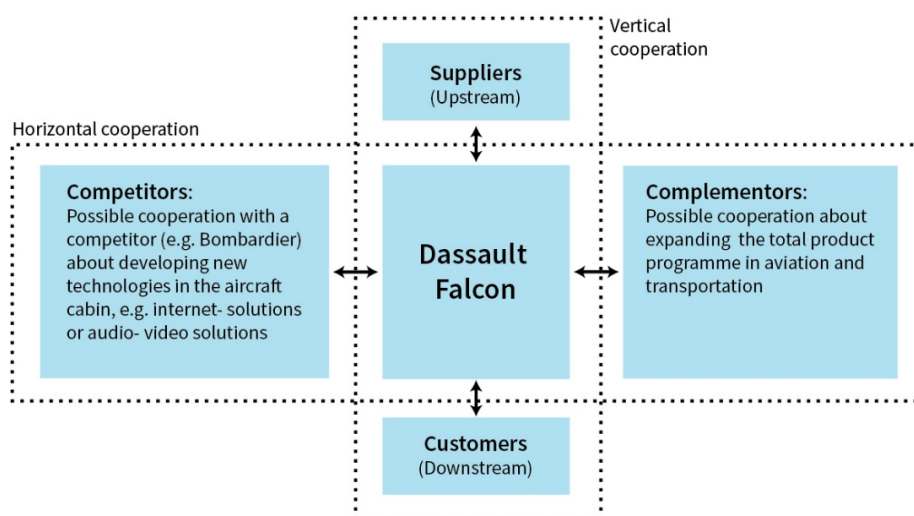
Complementors:

Dassault Falcon could enter into an alliance with a service provider, which would complement the airline service, for example, a limousine service or a hotel business service.

Competitors:

Dassault Falcon could enter into a cooperation with a direct competitor regarding development of new basic technologies regarding Internet, audio or video services for the aircraft cabins.

3.   Is key account management (KAM) relevant to use for Dassault Falcon? If yes, how?

Yes, it is an efficient and direct way of taking care of the customer's needs and problems. Most often only one person (the Key Account Manager) from the selling firm is taking care of that particular customer.
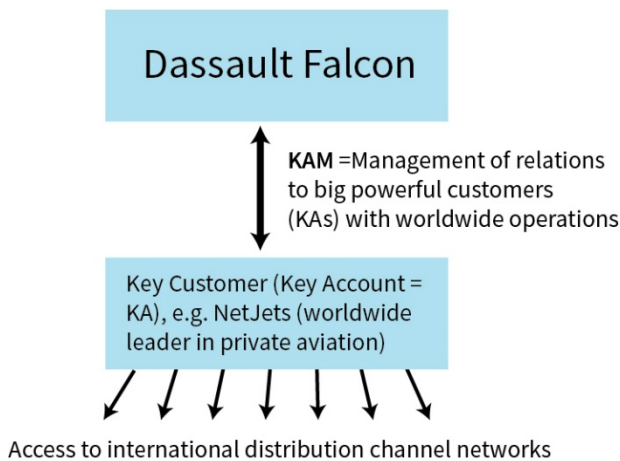
Information exchange between the Dassault Falcon and a key account (e.g. NetJets) is important in KAM. An important relationship-specific task is to search, filter, judge and store information about the organisation, strategies, goals, potential and problems of the partners. However, this mainly depends on the mutual trust and attitudes of the parties, and on the technical arrangements. A key account's trust is something that the selling company has to earn over time by its performance.

The different stages in KAM**:**

If Dassault Falcon might want to implement successful KAM with suitable key accounts (= main customers), they may go through the following four steps:

- identifying the key accounts

- analysing the key accounts

- selecting suitable strategies for the key accounts

- developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships with key accounts.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Identify the measures that can be used to encourage long-term relationships with customers.

The pooling of partners' knowledge may improve market vision. Combining the partners' unique competences and matching them to the most promising value opportunities may enhance customer long-term value.

2. What specific segmentation criteria could be used to categorise different loyalty segments?

Four categories of loyalty

Category	No loyalty	Spurious loyalty	Latent loyalty	Loyalty
Relative attitude	Low relative attitude	Low relative attitude	High relative attitude	High relative attitude
Patronage Behaviour	Low repeat patronage behaviour	High repeat patronage behaviour	Low repeat patronage behaviour	High repeat patronage behaviour
Manifestation	Does not patronise the company, and does not wish to.	Patronises the company, but does not have a high relative attitude. This may be a result of other factors, including location, convenience, lack of alternatives.	In this case, the customer wishes to patronise the organisation, but perhaps is not able to do so – store location may be inconvenient, favourite brands not stocked, etc.	The individual enjoys a high relative attitude, together with high repeat patronage behaviour.
Implications	Management may attempt to generate 'spurious loyalty'.	'Spurious loyalty' cannot be relied upon. The customer is clearly open to better offers.	Managerial efforts are best focused on removing the obstacles to patronage for the customer.	Loyalty must be continually reinforced, and the value offered must remain acceptable.

3. Evaluate the strengths and weaknesses of frequent user programmes.

Strengths:

Frequent user programmes are the selling firm's reward for the customer being loyal. The motive is to have a long-term loyal customer.

Weaknesses:

Frequent usage is only one of many conditions that would characterise an attractive customer. Other important conditions would depend on:

- how much the customer buys a key product or service
- the spread of the customer's purchases
- the customer's potential future purchases

- the customer's actual or potential importance in recommending your services

- how much information the customer gives you.

Furthermore, for the customer there is no fun in being downgraded – as we sometimes experience with the airline's frequent flyer programmes.

4. What are the arguments for spending money to keep existing customers loyal (customer retention)?

From a strategic perspective, the seller wants to keep existing customers loyal because it is generally much less costly to keep an existing customer than to attract a new customer; a long-term customer can provide feedback on existing products and insights into new or re-engineered products; and a long-term customer becomes like part of the selling team because he can provide good word-of-mouth and encourage new business. Also, as time passes and experience steps in, a long-term customer becomes easy to work with because communication channels will usually open and expand, the customer's needs and problems are known, and a comfortable working and sometimes personal relationship exists between personnel in both firms.

5. Put the arguments for and against the statement that 'the customer is always right'.

In principle, the statement is right, because the customer normally can buy his product or service at another supplier.

On the other hand, customer complaints or suggestions often involve a complex psycho-sociological dialogue, and many customers like the fact that the seller goes into this kind of dialogue. So, many customers don't always like to be right.

6. What are the motives for entering KAM?

It is an efficient and direct way of taking care of the customer's needs and problems. Most often, only one person (the Key Account Manager) from the selling firm is taking care of that particular customer.

Information exchange between the selling company and a key account is an important motive in KAM. An important relationship-specific task is to search, filter, judge and store information about the organisation, strategies, goals, potentials and problems of the partners. However, this mainly depends on the mutual trust and attitudes of the parties, and on the technical arrangements. A key account's trust is something that the selling company has to earn over time by its performance.

7. Describe the different stages in KAM.

The selling firm that wants to implement successful KAM with suitable key accounts (= main customers) may go through the following four steps:

- identifying the key accounts

- analysing the key accounts

- selecting suitable strategies for the key accounts

- developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships with key accounts.

8.   What is the purpose of implementing a customer complaint management system?

Complaint management means satisfying the customer who has voiced the complaint and binding him or her to the company for the long term. Many firms have negative feelings about complaints. However, the firm stands to benefit if the personnel in contact with the dissatisfied customer handle the process skilfully, achieve the desired outcome and also themselves derive satisfaction from the relevant tasks.

CHAPTER 11
Product and service decisions

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Explain the mix of product and service elements.

- Explore levels of a product offer.

- Define the categories of service.

- Determine the 'service quality gap'.

- Explore the stages in 'new product development'.

- Discuss different forms of the product life cycle.

- Discuss what it means to develop new products for foreign markets.

- Discuss the term brand equity.

- Define and explain the different branding alternatives.

- Discuss how the Internet might be integrated in future product innovations.

- Discuss the implications of the 'long tail' concept.

CHAPTER SUMMARY

All products, both goods and services, consist of a core element that is surrounded by a variety of optional supplementary elements. If we look first at the core service products, we can assign them to one of three broad categories depending on their tangibility and the extent to which customers need to be physically present during service production.

Basically, the 'perceived' service quality has two dimensions: a *technical* or outcome dimension and a *functional* or process-related dimension. The technical quality of a service process is normally a prerequisite for good quality. It has to be at an acceptable level.

After sales service adds to the product's value and is often treated as an integral part of the product.

The traditional new product development models involve the following stages in product development: Idea generation, screening, concept development and testing, business analysis, product development and testing, test marketing, commercialisation or launch.

Products, like individuals, pass through a series of stages. Each stage is identified by its sales performance and characterised by different levels of profitability, various degrees of competition and distinctive marketing programmes. The four stages of the product life cycle are introduction, growth, maturity and decline.

A new product can have several degrees of newness. A product may be an entirely new invention (new to the world) or it may be a slight modification of an existing product.

Brand equity can be defined as 'a set of brand assets and liabilities linked to the brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm or to the firm's customers'.

A very important issue is the question of branding. Different branding alternatives have been discussed. For example, because large (often transnational) retail chains have won control over distribution, they try to develop their own labels. For the retailer, private labels provide better profit margins and strengthen the retailer's image with its customers. Because of the power shift to

retailers, the percentage of retail grocery sales derived from private brands has increased in recent years.

The basic purposes of branding are the same everywhere in the world. In general, the functions of branding are as follows:

- to distinguish a company's offering and differentiate one particular product from its competitors

- to create identification and brand awareness

- to guarantee a certain level of quality and satisfaction

- to help with promotion of the product.

The products sold over electronic markets/Internet may be roughly grouped into two categories: physical products and purely digital goods and services.

TEACHING NOTES TO CASE STUDIES

CASE 11.1: TINDER DATING APP – THE FAMOUS DATING APP BRAND IS FACING INCREASING COMPETITION FROM E.G. BADOO

1. Why is Tinder such a successful brand?

Tinder did not take out ads on Facebook and they did not use the mass email lists of college students that people offered them. They understood that there is a huge difference between someone who downloads the app because they found it in an ad and then never uses it again, versus someone who downloads the app because their friend had a great experience on it and told them about it. This helped them get the 'right' people to use Tinder.

Instead of simply mass marketing Tinder to everyone with access to the Internet, they instead focused on targeting small societies and launched with the goal of reaching a critical mass within those societies. In order to reach this critical mass, they targeted *key influencers* – or people that have a lot of connections and influence in their respective communities. In Tinder's case they initially targeted colleges students, who hold a lot of influence in the social scenes and student bodies of their respective schools. Once Tinder showed traction in certain markets, they would then go on to start targeting famous people and celebrities in order to copy the growth at college campuses except on a larger scale. This strategy of targeting key influencers helped them grow quickly and allowed them to create self-sustaining networks before it gradually was introduced naturally to other demographics.

The final thing that helped Tinder with their growth is that the signup process for Tinder is extremely simple and quick. Most dating services would require users to fill out a whole bunch of surveys and personal questions to fill out a profile. They noticed that a lot of people wouldn't even get past this initial stage to use the service. To fix this they simply require you to hit a 'signup with Facebook' button and you can already start using the app exactly how it was meant to be used. A lot of people are not willing to take fifteen minutes analysing themselves and answering questions to use another dating website. However, most people are willing to try out an app that takes thirty seconds to download and immediately begin using it.

2. What are the key competitive advantages of Tinder versus Badoo?

Tinder undoubtedly dominates in the US and Canada as the most popular dating app, but the farther south we go, the more the odds change to Badoo's favour. Single app users in the biggest online markets in Latin America: Mexico, Columbia, Brazil, Chile and Argentina favour Badoo over Tinder.

A similarly interesting phenomenon is present in Europe and it looks as though climate or national temperament might have something to do with it. In European countries located in the north and west Tinder dominates, but if you go south or east people will more likely use Badoo for free online dating. Obvious exceptions from this rule are the mid-central Germanic countries: Switzerland, Austria and Germany, where Lavoo takes first place due to its well-devised target marketing.

Badoo was launched in 2006, while Tinder has been on the market only since 2012. From this point of view, Badoo has the advantage of being present and studying the online dating game longer than Tinder.

Badoo can be used in 44 languages, while Tinder connects its users in thirty languages. A wider language pool enables Badoo to attract more people from different countries. Eighty per cent of Tinder users are under the age of 34, while only five per cent are between the ages of 45 and 64. Badoo's user age distribution is more spread out with seventy per cent of users being under 34 years old and fifteen per cent being 44 years old and over. This shows that app users consider Badoo to be more demographically universal than Tinder.

Language is an important factor when filtering dating match searches. Going back to the map it's clear that Badoo is the number one dating app in all the Spanish and both Portuguese-speaking countries. This indicates there is greater fluctuation between people from Latin America and the Iberian Peninsula when looking for possible dating matches.

The dominance of language over geographical factors is evident in North America, where there is a clear switch between Tinder ruling in the majority English-speaking Canada and the USA and Badoo in Spanish-speaking Mexico. Though countries from Eastern Europe are mostly Slavic, the language differences are still too vast to ensure fluent communication. At the same time all these countries prefer Badoo, which indicates a connection other than language and that is cultural background (see https://gfluence.com/people-find-love-global-overview-dating-apps/).

3.   **What are the pros and cons of Match Group's current product portfolio strategy, having different apps covering the same basic needs? Based on this, what are the implications for Match Group's future product strategy?**

Pros:

-   Tinder's broad product portfolio may satisfy a variety of needs among customers.

-   It provides an opportunity to segment target customer groups and maybe charge higher prices in some customer groups than others.

Cons:

-   The strategic role of each brand in the product portfolio becomes muddled when the total product line is over-segmented.

-   The costs of maintaining a broad product portfolio may be very high.

The final choice of the portfolio strategy is a trade-off regarding pros/cons. Currently, I will not recommend that Match Group should broaden its product portfolio further.

4.   **What implications would Facebook's entry into the dating app market have for Tinder's future strategy?**

Facebook enters the dating-service market years after competitors like Tinder and Bumble, but it starts with a huge advantage: most people already have Facebook accounts. And while Dating

works only on mobile phones right now, it doesn't require downloading an additional application to your phone. But in the US at least, younger—and more likely to be single—people say they're using Facebook less. It's not yet clear whether Facebook Dating would be enough to lure them back to the social site preferred by their parents.

Users of Facebook Dating will create separate profiles just for the Dating service. The only information ported over is your age and first name; you will need to manually fill out additional required information including your verified location, gender, and the gender(s) of the people you're interested in matching with. You can also specify your height, religion, job title, where you work, where you went to school, and whether you have children.

Once your profile is set, Facebook will use a unique algorithm to match you with potential dates, based on factors like things you have in common and mutual friends. You won't see anyone you're already friends with on Facebook, nor will you see people you've blocked. Facebook restricts potential matches to people located less than hundred kilometers away.

As part of that mentality, Facebook Dating doesn't have a right-or-left swiping mechanism. To sort through potential matches, you'll need to tap 'Not Interested.' Facebook Dating users won't be able to start a conversation by simply saying 'Hey.' Just like the dating app Hinge, users will instead need to respond directly to one of a potential date's nine photos or questions.

Facebook Dating will be able to hook into other features on the platform. For example, you can choose to match with people who attend the same events or who are a part of the same Facebook groups. To do so, you'll need to 'unlock' each event or group manually.

It is these features that really stand to differentiate Facebook Dating from competitors, like Tinder.

By utilising the large amount of data that Facebook already has about its users, Facebook has the ability to become a powerful player in the online dating space. While Tinder has relied on Facebook data for years - like to login - Tinder has never been able to leverage everything. This dependence may also make Tinder vulnerable as the social giant enters their territory.

What should Tinder do about this threat?

While Facebook tries to foster meaningful relationships, Tinder should differentiate and try to make swiping and chatting on Tinder fun in itself, even if users aren't meeting their future partners. A lot of the gratification itself comes from simply using the Tinder app and playing with it.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. **How would you distinguish between services and products? What are the main implications of this difference for the marketing of services?**

In contrast to 'physical' products, services are characterised by: intangibility, perishability, heterogeneity and inseparability.

Implications: the above-mentioned differences imply problems in marketing services internationally. The international marketer has to consider these difficulties:

- achieving uniformity of the products in remote locations

- pricing is different, because fixed costs can be a large part of the total service costs

- the perception of the services offered varies considerably between markets, which results in different prices.

2. What implications does the product life cycle theory have for product development strategy?

The firm has to continuously develop new products. As soon as a product reaches the saturation stage the firm has to start the development of a new product.

3. Why is the international product policy likely to be given higher priority in most firms than other elements of the global marketing mix?

This phenomenon is especially distinct in SMEs where the owner has created and developed most of the products of the firm. As he feels like the 'owner' of the firm's products, he will be especially committed to this part of the international marketing mix.

4. What are the requirements that must be met so that a commodity can effectively be transformed into a branded product?

Requirements:

- to distinguish and differentiate a firm's product from its competitors

- to create brand awareness

- to guarantee a certain level of quality

- to promote the product towards the customers.

5. Discuss the factors that need to be taken into account when making packaging decisions for a firm's products.

Requirements for effective packaging:

- functioning as protection of its contents

- efficient in home use

- visually distinguished from competition (creating favourable impressions in the mind of the consumer)

- communicating the nature of its contents.

6. When is it appropriate to use multiple brands in (a) a single market and (b) several markets/countries?

 (a) Same market/multiple brands:

- It is possible to segment the market for varying needs.

- The marketer wants to gain more retail shelf space.

 (b) Several markets/multiple brands:

- It is a 'culture-free' product.

- The marketer wants to reduce advertising costs.

- The marketer wants to establish a uniform worldwide image.

7.   What is the importance of 'country of origin' in international product marketing?

'Country of origin' has a considerable influence on the quality perception of the product. Some countries (e.g. Japan and Germany in car manufacturing) have a good reputation. Other countries have a bad reputation (certain eastern European countries).

8.   What are the distinguishing characteristics of services? Explain why these characteristics make it difficult to sell services in foreign markets.

Let us look at the inseparability:

- producing the service is simultaneous with the time of consumption

- the service cannot be separated from its providers.

As the service is provided at a specific point of sale, the training and motivation of the international sales force are crucial issues.

See also the answer to Question 1 in this chapter.

9.   Identify the major barriers to developing brands.

- It takes a lot of marketing (financial) resources to develop brands that are well recognised everywhere.

- The meaning of a brand name is not the same in all countries (e.g. EXXON tried with the name ENCO in Japan, but it meant 'stalled car').

- There are legal constraints, meaning that it is illegal to sell the same brand everywhere.

10. Discuss the decision to add or drop products to or from the product line in existing markets.

There is a need for a systematic review of existing and potential new products in a product line. Criteria for screening new product ideas could be:

- future market potential

- possible gain by modification of product

- their contribution to the sale of other products of the firm.

The same procedure (establishing criteria, rating values/weights) can be used to guide the decision about dropping a product from a product line.

11. Why should customer-service levels differ internationally? Is it, for example, ethical to offer a lower customer-service level in developing countries than in industrialised countries?

The customer-service levels should differ according to the expectations of the customers. If the expectations of the customers are lower in a country, it is OK to offer a lower service level. But the price should also be lower.

12. What are the characteristics of a good international brand name?

That the international brand name is perceived in the same way by the customers, regardless of the country in which they live.

CHAPTER 12
Pricing decisions

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand why an appropriate customer value proposition is a useful guide to pricing strategy.

- Explain how cost-based pricing methods work and what their primary drawbacks are.

- Formulate pricing decisions for services.

- Explain how internal and external variables influence pricing decisions.

- Explain why and how prices escalate in different distribution channels.

- Discuss the strategic options in determining the price level for a new product.

- Undertake a break-even analysis.

- Explain what experience curve pricing means.

- Evaluate reasons why base prices change over time in both business and consumer markets.

- Understand the implications of the Internet for pricing behaviour in the market, particularly price 'customisation'.

CHAPTER SUMMARY

In this chapter, we have considered the role of pricing decisions in overall company and marketing strategies. Price setting is a complex and multidimensional decision. To establish a price, the manager must identify the firm's objectives and analyse the behaviour of demand, costs and competition.

A good deal of basic microeconomic theory is devoted to the relationship between price and demand. While many of the principles that have been developed have relevance to what happens in the real world, there are nevertheless many factors (other than demand and cost) that have to be taken into account.

Pricing strategies must balance the needs of both the customer and the firm. Value-based pricing, which includes the concepts of value in use and value in exchange, is increasingly popular. Since customers seek differing types of value and competition has a broad range of choices in how to price, other strategies are viable as well. In devising a pricing strategy, it is important to identify a customer value proposition that matches the capabilities of the organisation.

Pricing new products offers a different set of challenges. In general, two main opposing strategies are seen:

- *Skimming*: high price, to skim off the short-term profit.

- *Penetration*: low price, to maximise long-term market share.

Practical pricing tactics may include experience curve pricing, product line pricing, price bundling, pricing on the Internet, etc.

TEACHING NOTES TO CASE STUDIES

Case 12.1: Harley-Davidson – How should the pricing strategy be affected by the new EU tariffs in 2018?

1.   Describe Harley-Davidson's general pricing strategy. What does the company's positioning have to do with its pricing strategy?

Harley-Davidson follows a premium price strategy. Of course, the buyer of a Harley-Davidson pays for a bike but he/she also pays for the positioning and the underlying values of the brand.

2.   Should Harley-Davidson alter its price, given that there are strong price pressures from rivals?

Of course, Harley-Davidson should always follow competitor prices, but it would not be wise to alter prices in a downward direction. The typical potential buyer of a Harley-Davidson bike (well-educated, high-income) is not very price-sensitive. Harley-Davidson could use the Buell-bike to attack the Japanese and other Asian bikes in the sports bike market. (Harley-Davidson sold the Buell division in October 2009 – see below.)

3.   What should Harley-Davidson do to improve its market share in Europe – given the new EU tariffs? Has HD made the right decision to move production to new international facilities?

Fundamentally, improving 'market share' is dependent on HD's ability to keep price on a competitive level (here tariffs are playing a big role) and at the same time keep the 'high quality standard' and promote the HD motorcycles further.

With United States sales slowing and Europe an increasingly vital market, the company said it would shift production to its overseas facilities to avoid raising costs. Harley-Davidson believes the cost increase, if passed on to its dealers and retail customers, would have a negative impact on its competitiveness, especially in the European market.

Like many American companies, Harley-Davidson has increasingly relied on overseas markets for sales and has shifted some production as a result. The company now produces some bikes and parts at facilities in Brazil, Australia, India and Thailand, and has shifted production to India and Thailand specifically to avoid high import tariffs in those countries. The company sold about 40 thousand new motorbikes last year in Europe, equivalent to a sixth of its worldwide sales, making the region its most important market after the United States.

Overall, it makes sense to move production overseas, in order to remain competitive. In Europe HD fights against the Japanese manufacturers, and HD will have to stick to its 'high quality' status in order to capture market share there. Maybe it should also search for younger customer groups as target customers.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1.   What is value-based pricing? How does it differ from cost-based pricing?

Value-based pricing recognises that price reflects value, not simply costs. Traditionally, firms assessed the costs of doing business, added a profit and arrived at a price. Once it was set, the marketer's job was to convince customers that the product was worth it.

Value-based pricing begins by understanding customers and the competitive marketplace. The first step is to look at the value customers perceive in owning the product and to examine their

options for acquiring similar products and brands. Although cost-based pricing is easier, it ignores the customer and the competition. Consequently, cost-based pricing is becoming less popular.

2.   (a) What does the economist contribute to the pricing decision?

•   (b) What does the accountant contribute to the pricing decision?

The *economist* is concerned with the following two interrelated questions:

- What will be the quantity demanded at any given price?

- What will be the effect on sales volume of changes in price?

The economist would like to illustrate this in the demand curve. It shows how market demand for a product varies as a function of price change. We normally refer to this as *price elasticity* of demand. It shows how market demand for a product varies as a function of price change. We normally refer to this as *price elasticity* of demand.

In contrast to the economist's focus on demand, the *accountant's* approach to pricing is often based essentially on costs. Break-even analysis is generally viewed as an accounting concept, but it is extremely useful in evaluating the profit potential and risk associated with a pricing strategy or any marketing strategy. The purpose of this last section is to examine, from a marketing viewpoint, the usefulness of break-even volume (the number of units that need to be sold in order to break even, i.e. produce a net profit equal to zero).

3.   What are skimming and penetration pricing?

Skimming (high initial price):

A skimming approach, appropriate for a distinctly new product, provides the firm with an opportunity to profitably reach market segments that are not sensitive to the high initial price. As a product ages, as competitors enter the market, and as organisational buyers become accustomed to evaluating and purchasing the product, demand becomes more price elastic.

Penetration (low initial price):

A penetration policy is appropriate when there is (1) high price elasticity of demand, (2) strong threat of imminent competition and (3) opportunity for a substantial reduction in production costs as volume expands. The viability of this strategy increases with the potential size of the future market. By taking a large share of new sales, experience can be gained when there is a large market growth rate.

4.   What is umbrella pricing?

This is a situation in the PLC where supply is less than demand. As a consequence prices do not fall as quickly as costs. Consequently, the gap between costs and prices widens, in effect creating a *price umbrella*, attracting new competitors. However, the competitive situation is not a stable one. At some point one or more competitors, who reduce the prices in an attempt to gain market share, will fold the umbrella. The result is that a shake-out phase will begin: inefficient producers will be shaken out by rapidly falling market prices, and only those with competitive price/cost relationship will stay in the market.

5.   List three aspects of product line pricing.

As a business adds more products to its product line, it enhances sales growth but also increases the chances of *cannibalisation* of existing product sales. It is necessary to know both

something about a product's price elasticity and the degree to which there is a cross-elasticity with other products. Because the margins may be different for alternative products in a product line, one has to give careful consideration to any price change to ensure that the total profits are increased for the entire product line.

Products with less competition may be priced higher to subsidise other parts of the product line, so as to make up for the lost contribution of such 'fighting brands'. Some items in the product line may be priced very low to serve as loss leaders and induce customers to try the product. A special variant of this is the so-called buy-in follow-on strategy. A classic example of this strategy is the razor blade link where Gillette uses a penetration on its razor (buy in) but a skimming pricing (relatively high price) on its razor blades (follow on).

6.   Why is cost-based pricing particularly problematic in service industries?

A very important distinction between goods and services is that many services have a much higher ratio of fixed costs to variable costs than is found in manufacturing firms. Service businesses with high fixed costs include those with an expensive physical facility (such as a hotel, a hospital, a college or a theatre) or a network (such as a telecommunications company, an Internet provider, a railway). On the other hand, the variable costs of serving one extra customer may be minimal. Under these conditions, managers may feel that they have tremendous pricing flexibility and it's tempting to price very low in order to make an extra sale. However, there can be no profit at the end of the year unless all fixed costs have been recovered.

7.   How does competition affect a company's prices? Briefly describe a major competitor-based pricing approach.

If a business lowers price to gain share, and competitors follow, there is likely to be very little real share gain. And at reduced margins, with a limited increase in volume, total contribution is likely to go down. On the other hand, if a business raises prices to improve margins and competitors do not follow, the business could lose share and lower total contribution, even with higher margins.

In any given market, competitor response to price change is going to depend on a variety of supply and demand forces (see Figure 12.2 in the textbook).

8.   Many firms enter a market as price leaders, but they end up dominating the bottom end of the market. What could be the reasons for this change?

According to the 'experience curve pricing' a firm can be forced to lower its prices concurrently with the lower cost prices along the PLC/experience curve. In this way, the firm can end up dominating the lower end of the market, if it is not currently launching new products in the high end of the price spectrum.

CHAPTER 13
Distribution decisions

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand why relationships occur between manufacturer and distributor.

- Explore the determinants of channel decisions.

- Discuss the key points in putting together and managing marketing channels.

- Discuss the factors influencing channel width (intensive, selective or exclusive coverage).

- Explain what is meant by integration of the marketing channel.

- Define and explain what is meant by logistics.

- Discuss the role of retailing in modern marketing.

CHAPTER SUMMARY

In this chapter, we have examined the management of international distribution channels and logistics. The marketer has a broad range of alternatives for selecting and developing an economical, efficient and high-volume international distribution channel.

In many instances, the channel structure is affected by external factors and it may vary from nation to nation. Physical distribution (external logistics) concerns the flow of goods from the manufacturer to the customer. This is one area where cost savings through efficiency are feasible, provided the decision is systematically made. The changing nature of international retailing influences distribution planning. During the last decade, the balance of power (between manufacturers and retailers) has shifted in favour of the retailers. The manufacturer often has no other choice than to cooperate with large and increasingly concentrated retailers in terms of the 'trade marketing'/'Key Account Management' (KAM) concept.

Mystery shopping is getting a customer's view of the retail business – it is widely recognised as a valuable marketing and customer service tool. Mystery shoppers visit the business, posing as an average customer. They evaluate what they find based on criteria established by the company.

TEACHING NOTES TO CASE STUDIES

Case 13.1: Bosch Indego - How to build B2B and B2C relationships in a new global product market - robotic lawn-mowers

1. **As a supplier of Bosch Indego how should Bosch differ their relationships to the two types of distribution set ups in Figure 3?**
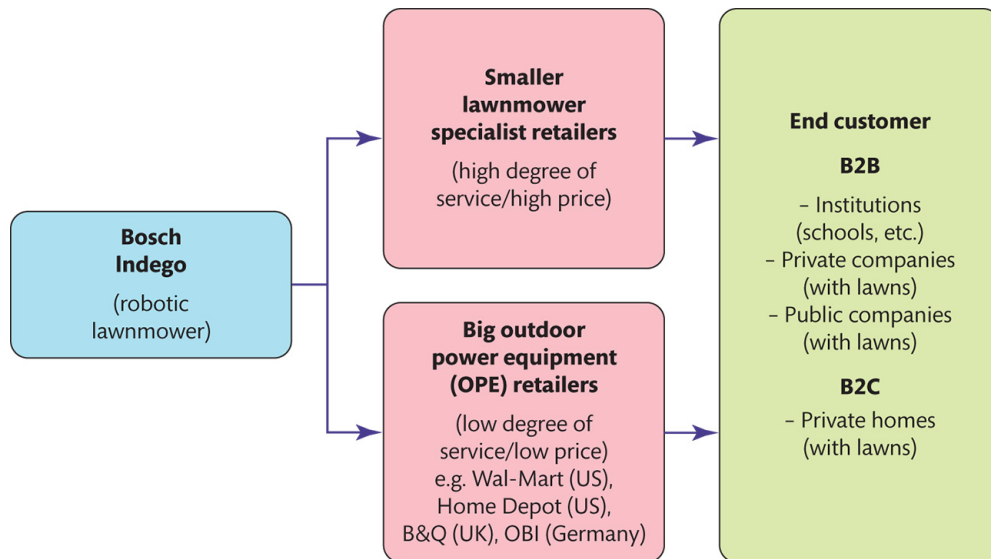
Figure 3 looks like this:

Figure 1: Two different distribution systems for Bosch Indego

Smaller lawnmower specialist retailers:

- More focused on delivering high degree of service but also at a higher price.
- This distribution system is more targeted toward the business B2B customers.

Big Outdoor Power Equipment (OPE) Retailers:

- More focused on delivering good quality at a 'good' (relatively low) price.
- This distribution system is more targeted toward the private B2C customers.

2. Which of the two distribution set-ups should Bosch focus most on?

In the beginning Bosch (with the good image) should focus on the B2B customers, through the specialised lawnmower retailers. This segment is normally less price sensitive. In the longer run they have to focus more on the B2C private customers, where the price level is more important, which means that this segment can provide higher sales volume for Bosch Indego, but at lower prices and lower profit margins per sold unit.

3. Do you also recommend that Bosch build up relationships to the end customer? If yes, which target group should they focus on here?

Yes, Bosch should build up relationships to both the distributors and the end-customers, in order to create awareness and preference for Bosch Indego. In the beginning, Bosch should focus on B2B customers; later on, more the B2C customers.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Discuss current distribution trends in world markets.

Increasing vertical integration with a lower number of intermediaries. An increasing part of retailing activity crosses national boundaries too. A large number of retail chains expand internationally and create international retailing organisations operating in many countries. An

increasing concentration in the retail sector also results in still more negotiating power to the large international retail chains compared with the manufacturers of consumer goods.

2. What are the factors that affect the length, width and number of marketing channels?

- *Factors affecting channel length* (number of levels and different types of intermediaries): product type (longer channels are associated with convenience goods and mass distribution), culture/history (Japan has longer channels than, e.g. USA), price sensitivity of products (more price escalation for longer channels).

- *Factors affecting channel width:* product type, PLC stage, price, etc.

- *Factors affecting number of (different) marketing channels*: breadth of a product programme.

3. In attempting to optimise marketing channel performance, which of the following should a marketer emphasise: training, motivation or compensation? Why?

Not just one of them, but all three methods should be used in an appropriate mixture. By training and motivating the intermediaries, the manufacturer forms the basis for selling his products on the local market. But motivating can be very difficult, because the intermediaries are not employed by the company. The compensation is the reward for achieving the sales goals: for example, financial compensation, two weeks holiday in the Caribbean, promotional allowances, etc. However, the international marketer may offer both monetary and psychological rewards.

4. When would it be feasible and advisable for a company to centralise the coordination of its foreign market distribution systems? When would decentralisation be more appropriate?

If the distribution systems are similar in many countries, centralisation/coordination of the international distribution activities would be relevant, and vice versa.

5. What is the idea behind 'mystery shopping' in retailing?

Mystery shopping is about getting a customer's view of the retail business. Mystery shoppers visit the business, posing as an average customer. They evaluate what they find based on criteria established by the company.

6. Why is physical distribution important to the success of global marketing?

The success of a global marketer depends highly on his ability to deliver products in a good condition and at the correct time.

7. Discuss the reasons why many exporters make extensive use of the services of freight forwarders.

A full-service freight forwarder can relieve the manufacturer of most of the burdens of distribution across national borders. This is especially important for SMEs, which are inexperienced in exporting, and still more LSEs are outsourcing the distribution functions to freight forwarders or third-party logistics providers.

8. Discuss the implications for the international marketer of the trend towards cross-border retailing.

One of the consequences of this development is that there has been a worldwide shift from manufacturer to retailer dominance. The power has become concentrated in the hands of fewer and fewer international retailers. The advantage for an individual member of a cross-border alliance lies primarily in central purchasing from suppliers, where price advantages flow to all members. The implications for manufacturers of this cross-border central buying are the following:

- a starting point for the manufacturer to move towards an international supply network

- implementation of a trade marketing concept

- the advantage of cross-border buying is fewer buyers to negotiate with (central buying process).

The disadvantage is that the manufacturer cannot maintain the differentiated prices across borders.

9. Many markets have relatively large numbers of small retailers. How does this constrain the international marketer?

There are more retailers to negotiate with. This can be more resource-demanding for the manufacturer.

- What services would the manufacturer like to receive from the retailer?

- use of promotional material: in-store, magazines

- payment on time.

Information about:

- development of market share of the manufacturer's brands in the retail chain

- speed of stock-turn

- prices for the consumers, etc.

10. How will the new IT-platforms, e.g. the smartphone change the structure of the marketer's distribution channels?

The distribution environment is changing from single channel – bricks-and-mortar or online – to multi-channel. One of the key factors in this process is the availability of new IT-platforms, e.g. the availability of smartphones.

The number of mobile web sites, mobile applications and mobile applications stores are growing at a staggering pace. This rapid adoption of mobile applications is being fuelled by the increasing selection, brands, capabilities and storage capacity of smart phones.

Consumers are upgrading their ordinary phones to Internet enabled smartphones to make use of the new capabilities offered by mobile applications. Retailers are trying to meet customer demands for information and services, and seek opportunities to generate additional sales across all the channels; at the same time, they need to also understand the value and cost among mobile commerce implementation options, and determine how to best link new mobile initiatives to their overall customer strategy to avoid disjointed mobile efforts.

Technology has been seamlessly melded with physical stores so that consumers can now make cross-channel purchases:

- Order online and pick up in store

- Visit the store and order online via a web kiosk

- Visit the store and shop the retailer's website via their mobile phones

- Visit the store and shop on another retailer's website (showrooming)

- Visit the store, compare prices via a barcode scanner and find the product at another physical store at a lower price.

Right now, there are few, if any, boundaries in the shopping experience and, as such, retailers need to find efficient and effective ways to manage the logistics involved in serving consumers.

To understand the impact of this psychological shift on the retail distribution world, we must delve further into the technological changes at their root and their implications for order fulfilment.

CHAPTER 14
Communication decisions

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Define and classify the different types of communication tool.

- Explain what is meant by 'mass customisation' and one-to-one marketing.

- Describe and explain the major steps in advertising decisions.

- Describe the techniques available and appropriate for setting the advertising budget in foreign markets.

- Discuss the possibilities of marketing via the Internet.

- Discuss which points should be considered when creating a website on the Internet.

- Explain how important personal selling and sales force management are in the international marketplace.

- Discuss how standardised international advertising has both benefits and drawbacks.

- Explain the four categories of social media marketing mix.

- Discuss the different aspects of developing a social media marketing plan

CHAPTER SUMMARY

Mass customisation is the capability, realised by a few companies, to offer individually tailored products or services on a large scale. One-to-one marketing, or marketing 1:1, aims at customising a product offering so carefully that it fits the customer perfectly. Both trends mean that the firm has to communicate more and more directly with customers.

Five ingredients of communication have been presented in this chapter:

- advertising

- public relations

- sales promotion

- direct marketing

- personal selling.

As marketers manage the various elements of the promotions mix in differing environmental conditions, decisions must be made about what channels are to be used in the communication, the message, which is to execute or help execute the programme, and how the results of the communication plan are to be measured.

Personal selling is the marketing task involving face-to-face contact with the customer. Unlike advertising, promotion, sponsorship and other forms of non-personal communication, personal selling permits direct interaction between buyer and seller. This two-way communication means that the seller can identify the specific needs and problems of the buyer and tailor the sales presentation with this background information.

Some communication tools, especially personal selling, have to be localised to fit conditions of individual markets. Another reason for localisation of the personal selling tool is that distribution channel members are normally located firmly within a country. Consequently,

decisions concerning recruitment, training, motivation and evaluation of salespersons have to be made at the local level.

A very important communication tool for the future is the Internet. Any company eager to take advantage of the Internet on a global scale must select a business model for its Internet ventures and estimate how information and transactions delivered through this new direct marketing medium will influence its existing distribution and communication system.

Social media marketing can be understood as a group of Internet-based applications that build on the foundations of Web 2.0 and then allow the creation and exchange of user-generated content. Social media are particularly suited for viral marketing, as the community element in them makes it convenient to transmit the marketing message to a large group of people.

The Social Media Mix should contain elements from four different categories regarding Value play, Value sell, Value share and Value create. Optimisation of the social media mix should also result in an optimisation of the social marketing plan's 'value capture', in the form of maximised net profits.

Viral marketing is by no means a substitute for a comprehensive and diversified marketing strategy. However, viral marketing is a credible marketing tactic that can deliver positive ROI when properly executed as a component of an overarching strategic plan. Marketers should utilise viral marketing when the messaging can coincide with and support a measurable business goal.

TEACHING NOTES TO CASE STUDIES

Case 14.1: Orabrush Inc – How a 'pull' B2C YouTube marketing strategy helped consumers to focus on the 'bad breath' problem

1. What are the main reasons for Orabrush's success?

The success story begins with Dr Bob Wagstaff, the inventor of the Orabrush, a tongue scraper, or a modified toothbrush with a wider head. While it may be effective in scraping bacteria and cleaning the tongue to cure bad breath, Dr Wagstaff had difficulty selling it by conventional methods for eight years. At one point he even spent $40,000 on a TV infomercial to sell about hundred units.

Starting out of a garage in 2009, Orabrush used YouTube as its sole marketing medium, and by 2011 they were in every Walmart store in the US.

When we look at the following figure, we can say that Orabrush started in area 3, indicating that they primarily used viral marketing (funny YouTube videos) to create awareness, but later on they moved to area 4, because they also were good in motivating the users to generate user-generated content in the form of customer video testimonials, which they share on Facebook and on their website. In this way Orabrush has also managed to establish a direct two-way communication with their customers.
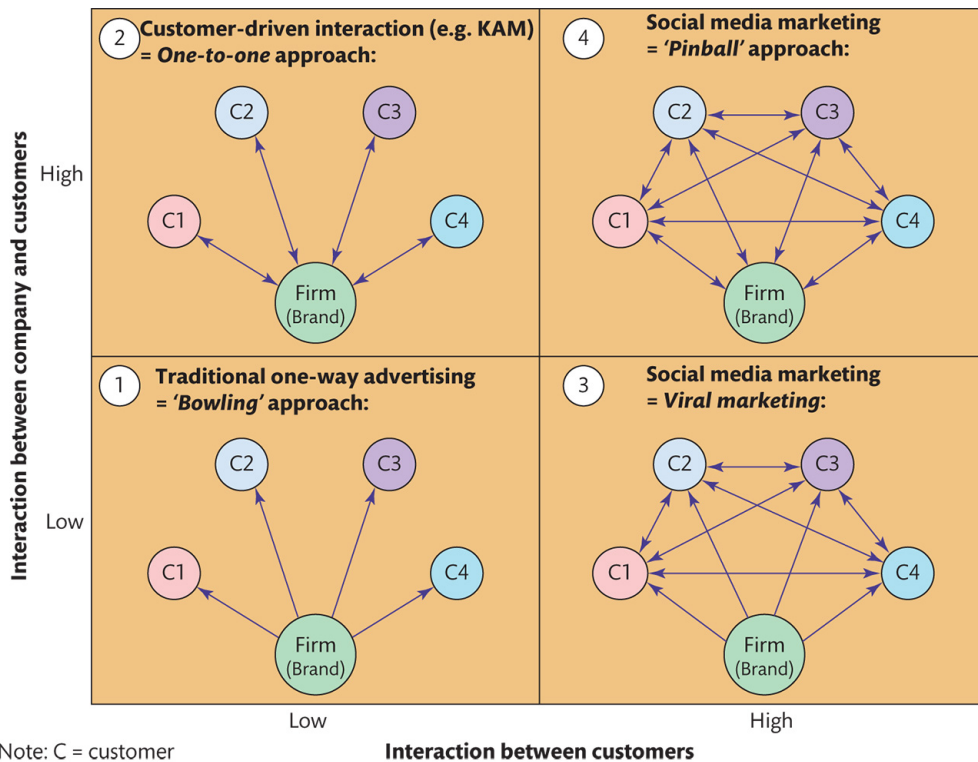
In conclusion: Orabrush's use of Social Media marketing campaigns (primarily YouTube videos) has been the main reason for its success.

2. How are the social media integrated into the overall marketing strategy?

The Orabrush case shows that social media advertising can be very effective when it is used properly, i.e. to create a buzz in the beginning, and later on increase dynamic engagement with the target audience and build the Orabrush brand.

The following two tools are used:

1. **Leverage the Exponential Reach of Social Media**. Using YouTube's social video platform, Orabrush was able to creatively promote its novel tongue cleaner to a broad audience of potential customers. This online direct marketing approach facilitated a quick, intermediary-free sales experience between producer and consumer.

2. **Use Social media to Go into Local Retailing**. Orabrush's YouTube marketing attracted a big prospect, in this case a local Walmart store manager. This is a perfect example of a brand using the global nature of social media to foster a local business relationship. How did they do it? Orabrush credits Walmart for giving its local managers the freedom to pick up local products and run with them. To this could be added the flexibility of Walmart's executive team for its receptiveness to a new digital marketing technology, in this case social video.

3. What is the globalisation potential Orabrush's product and communication strategy under DenTek?

'Bad breath' is a problem for people all over the world. Consequently the globalisation potential is high. The product can (more or less) be standardised all over the world, but the communication must be adapted to the local cultures. What is 'humour' in United States (shown

in their YouTube videos) is not necessarily 'humour' in China or Japan.

As DenTek is a bigger international company, it makes sense to use this company as a platform for the global expansion.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1.   What is the difference between 'mass customisation' and one-to-one marketing?

The phrase 'mass customisation' is a contradiction in terms. Mass production implies uniform products, whereas customisation connotes small-scale crafts. Combining the best of both promises exciting choices for consumers and new opportunities for business. The concept 'mass customisation' is about allowing companies to produce products tailored to customers' requirements.

The ultimate goal of mass customisation is to fit the product and communication to the customer's needs perfectly. This one-to-one (1:1) marketing relationship is difficult to achieve because of its complex nature.

2.   What are the implications of one-to-one marketing for the communications strategy of a firm?

This two-way one-to-one communication means that the seller can identify the specific needs and problems of the buyer and tailor the sales presentation with this background information. This can be done by personal selling or by e-mail on the Internet.

3.   Identify and discuss problems associated with assessing advertising effectiveness in foreign markets.

- Differences in measuring advertising effectiveness across countries.

- Differences in media effectiveness across countries (differences in relative importance of media alternatives across countries).

4.   Compare domestic communication with international communication. Explain why 'noise' is more likely to occur in the case of international communication processes.

Because of language differences, economic differences, socio-cultural differences, legal differences, competitive differences.

5.   Why do more companies not standardise advertising messages worldwide? Identify the environmental constraints that act as barriers to the development and implementation of standardised global advertising campaigns.

An advertising message that is effective in one language may mean something different in another language. Dimensions of culture (religion, attitudes, social conditions and education) also affect how individuals perceive and interpret signals and symbols in advertising messages.

6.   Explain how personal selling may differ overseas from how it is used in the home market.

In particular, personal selling often has to be localised to fit conditions of individual markets. Local distribution channel members are normally located firmly within a country and they hold on to the local cultural behaviour. Consequently, decisions concerning recruitment, training,

motivation and evaluation of sales persons have to be made at the local level.

7. What is meant by saying that advertising regulations vary around the world?

Television is one of the most regulated communications media. Most Western countries have prohibited advertising of cigarettes and alcohol (except beer). However, in many countries of Eastern Europe and the Far East it is still permissible to show television advertising of cigarettes and alcohol.

In some countries (e.g. in Scandinavian countries) it is also prohibited to make commercial breaks in TV programmes.

8. Evaluate the percentage of sales approach to setting advertising budgets in foreign markets.

- *Advantages:* simple method, easy to use.

- *Disadvantages:* it uses historical performance. It encourages the maximising of sales by using the easiest marketing tool: price.

9. Explain how the multinational firm may have an advantage over local firms in training the sales force and evaluating its performance.

Multinational firms have more experience in adapting decisions regarding sales persons to local cultural conditions. Decisions concerning recruitment, training, motivation and evaluation of sales persons have to be made at the local level.

10. Identify and discuss problems associated with allocating the company's promotion budget across several foreign markets.

The size of the promotion budget across foreign markets depends on, for example, the sales objectives in the different countries/markets.

Furthermore, the company has to adapt the promotions mix in the different countries to the relative importance of different media in the individual countries.

PART V
Organising, implementing and controlling the marketing effort

Part V Video case: Pret A Manger – How to control the expansion of an international restaurant chain

1.   How would you define the target market of Pret A Manger?

UK's Pret a Manger chain serves tasty fresh sandwiches fast to customers who want good and fresh food to go. Pret A Manger is aiming at the 'quality' end of the market and therefore consumers are charged slightly more than the average (over £4 for a sandwich and a drink).

Pret's core customers are working/business people (urban professionals) within a short distance of the shops and they typically buy lunch there three or four times a week.

2.   Pret A Manger is using very little on advertising and promotion (under five per cent of the sales). What is the reason for that?

Pret A Manger is a quality – and location – rather than an advertising-driven business.

Pret A Manger builds its reputation on its excellent product (based on a 'green' theme) and service. Instead of having a huge marketing budget, Pret A Manger uses its excellent food, sandwich boxes, bags, paper cups and staff as advertising tools to promote itself to its customers.

3.   How is Pret A Manger using 'mystery shopping' as a way of controlling the marketing effort?

Pret A Manger has introduced mystery shoppers, but not for the reasons that most companies do, which is to score retail outlets and get them to improve, where they are not good enough. The mystery shopper initiation at Pret A Manger has mainly been introduced to catch employees when they do things right. If a shopper has been impressed by the performance of a particular member of the staff that team member was then given a £50 cash, tax paid, on the spot.

4.   How would you characterise the international marketing strategy of Pret A Manger? Standardisation or localisation?

Mainly localisation, but still standardising the overall concept (the fundamental brand values are the same, across borders) = Glocalisation.

5.   Explain some of the problems that Pret A Manger experienced when they established its first restaurant in New York.

- Finding the right suppliers was a big problem in New York. Invariably, goods had to come from outside Manhattan.

- Staffing was another big problem. Pret A Manger did not have the culture needed to deliver their delicious food in New York. Pret A Manger claims it had great difficulty finding New Yorkers to work in the shop who were prepared to offer Pret's required level of friendliness. British staff had to be sent over to run the new outlet.

- Americans like bespoke sandwiches prepared before their eyes (like in Subway, which is also a tough competitor for Pret A Manger).

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CHAPTER 15
Organising and implementing the marketing plan

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand the need for an integrated approach to marketing and the role of marketing planning in that process.

- Explain the background to preparing a marketing plan.

- Explain the stages in the marketing planning process.

- Outline and explain the structure and contents of a marketing plan.

- Understand the important issues in implementing the marketing plan.

- Understand the various ways of organising the marketing department.

CHAPTER SUMMARY

A marketing plan is like a map. It outlines where the business is, its desired destination (objectives) and the conditions it will face in its efforts to reach that destination. The plan helps to integrate activities, schedule resources, specify responsibilities and provide the means for measuring progress.

Understanding the market situation reveals a set of key issues that need to be addressed in order to reach the desired destination. Situation analysis and identification of key performance issues are key inputs to the marketing plan.

In order to construct a realistic plan, managers need to estimate what total market demand might be. The marketing plan has the following framework:

- title page

- table of contents

- executive summary

- introduction

- situational analysis

- marketing objectives and goals

- marketing strategies and programmes

- budgets

- implementation and control

- conclusion.

Implementation of the marketing plan may be around one of the following organisation forms: functional-based, product-based, geographical-based and customer-based.

The development of a marketing plan involves process and structure, creativity and form. If the marketing plan fails to produce desired levels of performance, the marketing strategy needs to be re-examined.

TEACHING NOTES TO CASE STUDIES

Case 15.1: DJI Technology Co. Ltd.

1. What are the main differences in the customers' needs and values in the consumer (retail) and commercial (professional) drone market?

The global **commercial/professional** drone market will take shape around the following applications in these industries: agriculture, energy, utilities, mining, construction, real estate, news media, and film production. The following functions are the most obvious uses of the drones: cinematography and photography, inspection and maintenance, as well as geographic information systems (GIS). Furthermore Amazon and DHL have already begun testing drone delivery, and so has Switzerland's postal service.

The **consumer/retail market** is very different from the commercial market. This segment mainly consists of the *Toy Drones* – millions of these machines are sold and they are somewhat disposable. They are used as pilot trainers and for fun, indoor flying and in the garden. In general, the prices run from $50 to $200. Nothing innovative or new has come out of this segment. These models are fun and very capable – but disposable, unless the consumer has a ready source of spare parts and the capability to troubleshoot and repair them.

2. What are the main reasons for Chinese manufacturers' and especially DJI's competitiveness in the drone market?

Chinese manufacturers are innovating faster than Western-based companies, which have failed to compete with the low cost of hardware and software design, manufacturing and logistic chain that define the broader Chinese economy.

The main reason for DJI's competitiveness is that DJI has achieved 'first-mover' advantages in the drone industry. DJI innovates quicker than any other drone company and integrates their competitors' capabilities quickly, while also developing capabilities needed for safe flight faster than most; enabling better aerial data acquisition, video sharing and user experience. Furthermore, DJI's competitiveness is mainly based on product-related features:

- DJI drones are easy to set up. DJI was the first to put together a 'package' that doesn't require any special knowledge to use.
- DJI's drones are priced competitively. The best-selling Phantom sells for less than $1,000.
- DJI drones are able to shoot professional-quality footage.

3. Prepare a marketing plan for DJI's new potential blockbuster product, Mavic Air, with the purpose of defending DJI's overall world market share in a market with increasing competition?

In the aerial photography drones segment DJI has a very high market share – around seventy per cent. DJI currently 'owns' a large part of the mid-priced and prosumer segment. However, it will be very difficult to maintain this market share with increasing competition from other drone companies.

How to generally defend DJI's current market share:

- Continually introducing new and upgraded models at lower price
- Integrate fast service in the total package, in case of a break-down.

For the specific marketing plan for Mavic Air, let us make the marketing mix our starting point:

Product:

DJI should emphasise these product features, in comparison with its main competitors:

- lighter and more portable
- better video quality than competitors (often a critical feature for filmmakers)
- longer flying time.

Price:

- The price of around $800 for the basic Mavic Air version, is absolutely competitive with similar drone products.

Place (distribution):

- The compact format of Mavic Air makes it perfect to sell through online distribution.

Promotion:

- The online distribution should be supplemented with massive use of social media.

4. How should the combined DJI M600 Pro & Hasselblad H6D-100c product (with a minimum price of $30,000) be marketed?

With such a price tag, this product should not be distributed online. Instead, the product should be sold through direct contact to professional filmmakers in Hollywood etc.

The communication should concentrate on e-word-of-mouth storytelling (on social media) around the iconic Hasselblad camera maker.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Discuss the considerations involved in deciding marketing objectives.

The marketing objectives of the marketing plan should answer the question, 'Where does the organisation want to go?' State precisely the marketing objectives and goals in terms of sales volume, market share, return on investment, or other objectives or goals for your marketing plan and the time needed to achieve each of them.

Make sure that all of your goals and objectives fit together. This is done by adjusting and reconfirming your goals and objectives after you have completed the financial portions of your plan.

Objectives may also include societal objectives. Societal objectives support the organisation's philosophy, and make sure that its marketing efforts should satisfy not only the market and financial objectives but also serve the best interests of society. Societal objectives can be classified as those related to social responsibility (e.g. specific standards regarding minimum age or employees, overtime pay, plant safety and healthy working conditions).

2. What is a marketing audit and what is the purpose of it?

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

The purpose is to identify those existing (external and internal) factors that will have a significant impact on the future plans of the company.

3. What are the principal decisions to be made when preparing the marketing plan?

Decision making should target:

- marketing objectives and goals

- marketing strategies and programmes

- budgeting

- implementation and control.

4. What are the main criteria for the successful implementation of a marketing plan?

Successful implementation of the internal marketing approach requires:

- First, the recruitment, selection and training of employees must be considered an important component of marketing implementation, with marketing having input to the personnel function as necessary. This ensures that employees will be matched to the marketing tasks to be performed.

- Second, top managers must be completely committed to the marketing strategy and overall marketing plan. It is naïve to expect employees to be committed when top managers are not. Simply put, the best planned strategy in the world cannot successfully proceed if the employees responsible for its implementation to not believe in it and are not committed to it.

- Third, employee compensation programmes must be linked to the implementation of the marketing strategy. This generally means that employees should be rewarded on the basis of their behaviour rather than on their work outcomes. In an organisation guided by a strong culture and a shared marketing plan, outcome-based control systems may not adequately capture the effort put forth by employees.

- Fourth, the organisation should be characterised by open communication among all employees, regardless of organisational level. Through open, interactive communication, employees come to understand the support and commitment of top managers and how their jobs fit into the overall marketing implementation process.

- Finally, organisational structures, policies and processes should match the marketing strategy effectively.

If the firm is implementing the internal marketing approach correctly, the organisation can experience more motivated, satisfied and committed employees as well as enhanced customer satisfaction and improved business performance.

5. **Discuss the pros and cons of standardising the marketing management process. Is a standardised process of more benefit to the company pursuing a national market strategy or a global market strategy?**

Pros: mainly concerned with a standardisation of the decision-making process and the standardised cross-country marketing planning. By the standardisation of these activities, a rationalisation of the international marketing process is sought.

Cons: the decision-making processes are so different from country to country that standardisation is not possible.

The standardisation of the marketing management process is therefore most beneficial for the firm pursuing a global market strategy.

CHAPTER 16
Budgeting and controlling

LEARNING OBJECTIVES

After having studied this chapter the student/reader should be able to do the following:

- Understand why customer profitability is important.

- Define the concept 'customer life time value' (CLTV).

- Understand why CLTV is important.

- Describe the key elements of the marketing control system.

- List the most important measures for marketing performance.

- Understand the need for evaluation and control of marketing plans and their implementation.

- Explain how a marketing budget is established.

CHAPTER SUMMARY

Marketing strategies directly affect customers and sales revenues. However, they also affect margins, total contribution and marketing costs. These effects, in turn, lead to the total net marketing contribution. Because operating (manufacturing) costs and overhead costs are beyond the control of marketing managers, net marketing contribution plays the most important role for the marketing department, to determine the profit impact of a marketing strategy.

Traditional accounting systems have viewed customers as sources of revenue. More and more, however, firms are beginning to use their accounting systems to view customers as assets, basing their decisions on customers as much as they would base their decisions on investments. Therefore, we propose *customer lifetime value* (CLTV) to be the central unit of measurement for customer equity. We define CLTV as the net present value (NPV) of the profit a firm stands to realise on the average new customer during a given number of years.

As marketing plans are being implemented, they have to be monitored and controlled.

Control is the process of ensuring that global marketing activities are carried out as intended. It involves monitoring aspects of performance and taking corrective action where necessary. The global marketing control system consists of deciding marketing objectives, setting performance standards, locating responsibility, evaluating performance against standards and taking corrective or supportive action.

In an after-the-fact control system, managers wait until the end of the planning period to take corrective action. In a feed-forward control system, corrective action is taken during the planning period by tracking early performance indicators and steering the organisation back to desired objectives if it goes out of control.

The most obvious areas of control relate to the control of the annual marketing plan and the control of profitability. The purpose of the global marketing budget is mainly to allocate marketing resources across countries to maximise worldwide total marketing contribution.

TEACHING NOTES TO CASE STUDIES

Case 16.1: Huawei smartphones – expanding into the international markets for smartphones

Please note in Table 1, it should be **9.5%** market share for Huawei, instead of 95%, which means that Huawei increased their world market share from 9.5% in 2016 to 10.4% in 2017.

1. **Please discuss and evaluate Huawei's key competitive advantages in the smartphone market.**

Some of Huawei's competitive advantage shall be found in the first years since it was founded in 1987. In the first years Huawei could develop their competences only by focusing on the expanding Chinese market, which contains one fifth of the world's population.

Being primarily a B2B company (with major customers in telephone and Internet operations), Huawei has managed to turn their expertise into the B2C market by providing smartphones to consumers under their own brand name. This movement down the value chain from component manufacturer to self-branded smartphone maker is a major explanation for Huawei's development of competitive advantage.

Another competitive advantage against its competitors is the strong drive into innovation, which is reflected in its worldwide operations and its philosophy of positioning its products as technologically-advanced problem-solvers.

2. **Please select 'Promotion'/'Communication' as one of the four 'Ps' from the marketing mix and argue how it should be designed for the worldwide introduction of the new Huawei P20 Pro.**

In the case of smartphones, there is a tight connection between pricing and communication.

The core of Huawei's general pricing strategy has been to ensure lower prices than most of its Western competitors, without pricing too low so that it would compromise quality or put the quality of its products into question. For consumers in mature markets, like Europe, Huawei should consider communicating a different pricing strategy. Here consumers may use pricing as a quality and reliability indicator where premium pricing implies a premium product. Also, pricing for Huawei is crucial in order to avoid communicating the negative 'Made in China' perception as low-cost and low-quality.

Besides, Huawei should strengthen visibility and awareness of its Huawei P20 Pro smartphone globally by heavy investment in advertising and social media communications, in order to become one of the world's most valuable brands in smartphones.

One of biggest communication challenges for Huawei came up in December 2018 as the result of the arrest of the Huawei CFO, Meng Wanzhou. The US authorities suspected that she broke US sanctions by selling telecom equipment to Iran. If this is true it might exclude Huawei from many of the world's valuable markets. These latest developments are feeding into a climate of growing suspicion and distrust about Chinese technologies and equipment. Therefore, currently (end of December, 2018) communication should be concentrating about 'damage control', like open press conferences where the top people in Huawei invite journalists to open press conferences and 'put all cards on the table', like here where Huawei Chairman held a press conference (18th December, 2018): https://www.huawei.com/en/press-events/news/2018/12/kenhu-expresses-confidence-in-business.

3. Which 'metrics' would you recommend to use, when measuring the communication and financial effects of using 'Helene Christensen' as a celebrity endorser for Huawei P20 Pro?

Among celebrities there exist two general metrics that quantify the star power of celebrities:

- Familarity score: The % of the people who are familiar with the celebrity (or know him or her).

- Q score: The % of those who are familiar with the celebrity who consider him or her to be one of their favorite personalities.

More specifically, in campaigns we can consider using the following metrics:

- Number of online mentions
- 'Press coverage' received
- Lead referrals
- Web traffic generated
- Number of times content is shared
- Extra revenue generated – as a consequence of using a celebrity (can be hard to measure – because usually many factors would influence the total revenue).

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. Why is customer profitability sometimes a better unit of measurement than market profitability?

Customer profitability is a result of customer loyalty and having good market profitability is often a result of having a large market share. But a large market share is not equivalent to having loyal customers. So, if loyal customers are more important to you than a high market share, customer profitability is a better unit of measurement.

2. Why is it important to consider 'customer life time value' (CLTV)?

CLTV can be defined as the net present value of the profit a firm stands to realise on the average new customer during a given number of years. Consequently, loyal customers should be viewed as an asset by the firm, and it should work to create relationships that will maintain their loyalty.

3. How can the firm increase CLTV?

Customer life time might be increased by:

- extending the possible life time of a customer
- increasing retention rate
- membership-based programmes
- loyalty-based programmes
- a high degree of customer contact
- increasing sales to customers
- cutting the costs of serving customers.

4. Discuss why firms need marketing controls.

Firms need global marketing controls to evaluate how the firm has performed compared to its goals. It completes the circle of planning by providing the feedback necessary for the start of the next planning cycle. To meet the goals of the firm, a set of instruments and processes is needed to influence the behaviour and performance of organisation members.

5. What is meant by performance indicators? What are they? Why does a firm need them?

After deciding on objectives and strategies the firm should try to establish some performance indicators, because they provide a review of how well the objectives have been achieved.

6. Discuss the benefits gained by adopting a matrix organisational structure.

This structure seeks to combine two of the following competences on a worldwide basis: geographic knowledge, product knowledge, functional competence or the knowledge of the customer. The matrix structures typically consist of two organisational structures intersecting each other. The typical matrix structure is the two-dimensional structure that emphasises product and geography. This structure creates a dual focus to ensure that conflicts between a product and geographical area are identified and analysed. The structure is useful for companies that are both product diversified and geographically spread.

7. Discuss the problems involved in setting up and implementing a marketing control system.

- 'Control' is often viewed by the people of an organisation as being negative. If individuals fear that the control process will be used not only to judge their performance, but also as a basis for punishing them, it will be feared.

- A key problem is to establish the ideal amount of control.

- Another key question is to determine how to establish a control system capable of early detection of emerging problems.

APPENDIX
Market research and decision support system

LEARNING OBJECTIVES

After having studied this appendix the student/reader should be able to do the following:

- Explain the concepts of 'data warehouses' and 'data mining'.

- Explain the main contents of a B2B customer file.

- Explain the importance of having a carefully designed international information system.

- Link global market research to the decision-making process.

- Discuss the key problems in gathering and using international market data.

- Distinguish between different research approaches, data sources and data types.

- Understand the relevance of the web as an important data source in global marketing research.

PROPOSED ANSWERS TO QUESTIONS FOR DISCUSSION

1. **Explore the reasons for using a marketing information system in the international market. What are the main types of information you would expect to use?**

Reasons for using a marketing information system (MIS):

- to provide managers and other decision makers with a continuous flow of information about company operations

- to establish a decision support system, ensuring that the firm can do better in directing its marketing activities more effectively by fulfilling the requirements of the customers.

2. **What are some of the problems that a global marketing manager can expect to encounter when creating a centralised marketing information system? How can these problems be solved?**

Some subsidiaries are reluctant to engage in global market research, because they feel that a centralised marketing information system does not pay regard to local customer tastes/preferences and local competition.

These problems may be solved in the way that the global marketing manager shows the subsidiary managers how to use the centralised marketing information system in a local environment.

3. **What are the dangers of translating questionnaires that have been designed for one country for use in a multi-country study? How would you avoid these dangers?**

Dangers of translating questionnaires:

- The meaning of words differs from country to country.

- 'Embarrassing' topics like sexual activities are regarded very differently from culture to culture.

How to avoid such dangers:

- The researcher must be sure that the questions are culturally acceptable.

- Select words to avoid biasing the respondent.

- Pre-test the questionnaires in the different countries.

4. Identify and classify the major groups of factors that must be taken into account when conducting a foreign market assessment.

Figure A.1 provides a categorisation of factors (data) for use when conducting a market assessment:

- external/secondary data

- external/primary data

- internal/secondary data

- internal/primary data.

5. What is the difference between 'data warehousing' and 'data mining'?

Data warehouses can be defined as large 'gold mines' of information about the customer, from sources, both internal to the company and from the customer and third sources, such as the government, credit bureaus and market research firms. Data can include buyer behaviour, preferences, lifestyle information, transactional data and data about communications with the firm before, during and after the sale.

Data mining is a process that employs information (from warehoused data) by uncovering previously unknown patterns of buyer behaviour and trends. The focus is on finding, for example, buying patterns that help marketers make better decisions.

6. Identify and discuss the major considerations in deciding whether research should be centralised or decentralised.

One important aspect of the centralisation/decentralisation is the headquarters/subsidiary problem: if the subsidiaries regard themselves as autonomous, this will limit the influence of the headquarters and will also limit the possibilities of implementing centralised research.

7. Distinguish between internal and external validity. What are the implications of external validity for the international marketer?

- *Internal validity* is the question of whether a measurement method is measuring what it is supposed to.

- *External validity* is concerned with the possible generalisation of research results to other populations.

Implications of external validity:

If research results in one country can be transferred to another country, it may be relevant to use the analogy method for estimating market demand in different countries.

8. Would Tokyo be a good test market for a new brand planned to be marketed

worldwide? Explain your reasoning.

It is doubtful that Tokyo would be a good test market, but it depends on the product type to be marketed. If it was a product to be sold only in big cities around Asia, it could be a good test market, but if the product is aimed at the world market a cosmopolitan city like New York would likely be a better option.

9. **If you had a contract to do market research in Saudi Arabia, what problems would you expect in obtaining primary data?**

It would be very difficult to persuade women to participate in a consumer survey, because in the Middle East the cultural/religious habits prohibit communication with a stranger, in particular for women. So the 'refusal to respond' (also among men) would be very high in these areas.

10. **Do demographic variables have universal meanings? Is there a chance that they may be interpreted differently in different cultures?**

Yes, demographic variables may be interpreted differently in different cultures. For example, in the United States and the northern part of Europe, the concept of 'family' generally refers only to parents and children. In the southern part of Europe, the Middle East and many hispanic countries, it may also include grandparents, uncles, aunts, cousins and so forth.

11. **In forecasting sales in international markets, to what extent can the past be used to predict the future?**

The use of regression models (based on historical facts) is commonly accepted to predict future sales development. However, the growing diversity of customer needs in a rapidly changing world has resulted in shorter product life cycles, which have become difficult to predict. Consequently, regression forecast models only have value in industries that are characterised by stable development, without sudden changes (certain degree of 'inertia').

12. **How should a firm decide whether to gather its own intelligence or to buy it from outside sources?**

This decision should be based on a 'make-or-buy' analysis: if the firm has developed a certain competence in doing market research, it should probably do it itself. But if the firm has never tried to gather market research data, then it should probably 'outsource' this task to a professional market research firm. However, the firm should be involved in the market research process and learn from it, so that it would be able to do the research independently next time.

13. **Discuss the implications of Web 2.0 for marketing research and marketing planning.**

The arrival of the participatory web, commonly referred to as Web 2.0, has seen hundreds of millions of people around the world connecting through blogs, wikis, chat rooms, social networking sites and personal broadcasting channels. The Web 2.0 shift signified the progression from static web content delivery to a dynamic platform.

The research approach in Web 2.0 seeks a dialogue with consumers engaging with them continuously, connecting with them through the various platforms that Web 2.0 offers. This new paradigm challenges the traditional 'top-down' research approach. It is now more a bottom-up approach that often challenges the client – researcher – respondent hierarchy. Techniques like blog research, online research communities and social network research have all evolved from the Web 2.0 collaboration imperative. This research paradigm is growing rapidly in Europe and the US.

14. Explain how neuromarketing can be used as input for the marketing planning process.

Neuromarketing may help to increase the level of understanding for the preferences of customers. This understanding is not necessarily exclusively based upon the responses to statements or enquiries made to the consumers, but rather upon collecting the physiological responses. Neuromarketing should rather be understood as the analysis and understanding of human behaviour in relation to markets and marketing exchanges. Researchers use different technologies to measure changes in activity in parts of the brain. The more tests that are established in order to discover consumer moods, preferences, and tendencies, the more companies are able to get inside of the minds of the consumer and manipulate their purchasing preferences.

Neuromarketing is about the ability to measure a consumer's emotional state that focuses on guilt, anger, happiness, and love to name a few. This 'power' can have a heavy impact on the purchasing decisions of customers all over the world, and consequently it should be built into the marketing planning process. For example, brand communication must be carefully planned to ensure that a brand's sensory system shows a specific pattern that reflect preferences and that finally may lead to a specific brand purchase.