Marketing strategy and planning

Introduction

This learning guide was written by Sara Panter, an associate tutor at Ashridge. It is one of a series produced by the Learning Resource Centre. Each guide sets out to give you a quick summary of the main theories on a particular topic backed up by a practical commentary based on Ashridge's long experience of consulting on and teaching management issues. We hope that it whets your appetite for more information. The guide points you in the direction of other sources such as key books, articles and videos.

Overview

Introduction

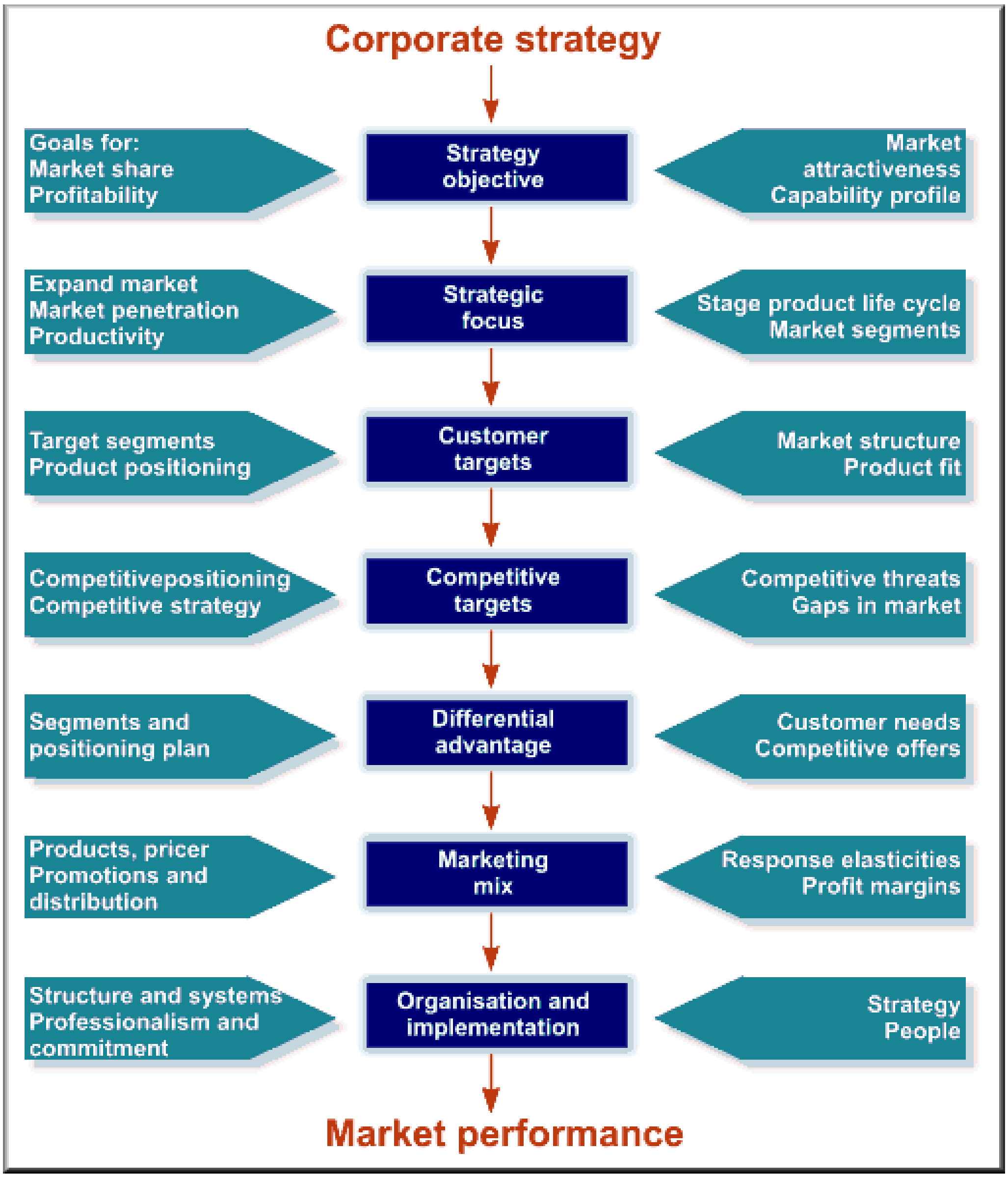
The terms *marketing strategy* and *strategic market planning* are often used interchangeably, which sometimes leads to confusion. We will use the term marketing strategy to mean the overall strategy of an organisation in relation to a particular market. In this learning guide we will explore the process of analysis and decision making which organisations go through as they define and implement their approach to that market. Marketing *plans* will form part of this process, in particular when it comes to implementation.

Key aspects of the process are that it is *cyclical*, ie subject to constant review and reiteration; that it is *dynamic*, subject to changes in the environment (including customers and competition); and that it should be *shared* within the organisation, rather than being the sole preserve of the marketing department, if it is to be wholeheartedly adopted and implemented by the whole organisation.

Two interrelated trends in marketing approaches have changed the emphasis of marketing strategy in recent years. These are *relationship marketing* and *customer economics*. The increased use of sophisticated database information in marketing has helped further the adoption of these two approaches and indeed both require such information in order to be successfully implemented. If you are specifically interested in relationship marketing, there is a further learning guide specifically on this topic.

This overview will introduce a framework for the steps to be followed in a comprehensive marketing strategy process, the information and analysis required at each stage and the decisions to be taken at each stage. There are of course other possible frameworks and approaches which would be equally acceptable, provided all the key steps are included. What is crucial is to see each stage, and the whole process, as dynamic and iterative.

Fig.1 : Components of marketing strategy



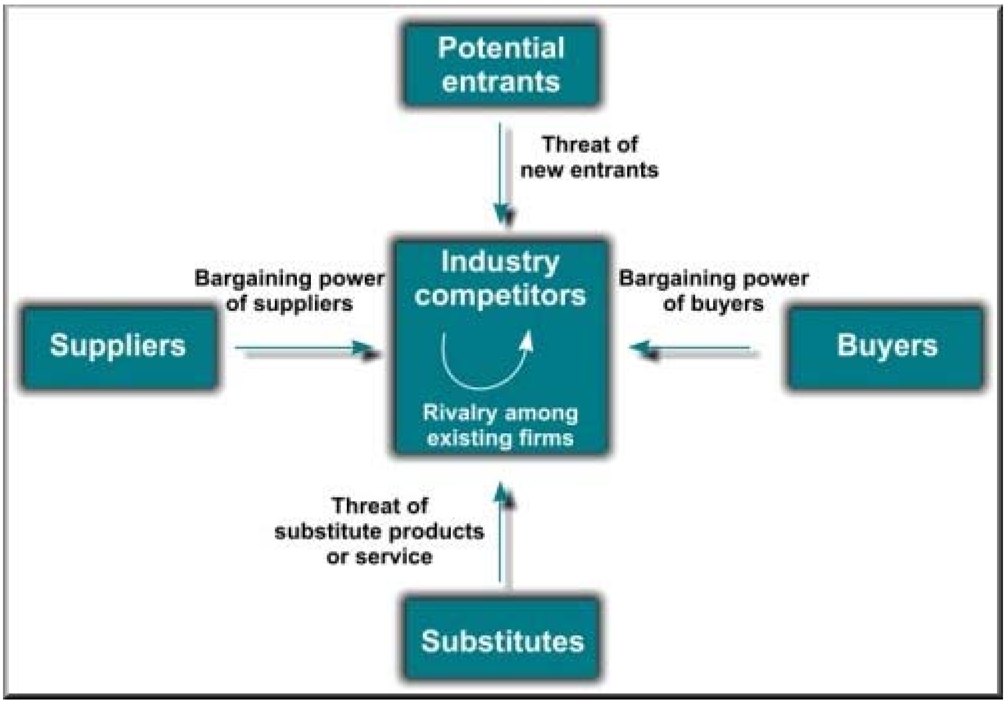
Source: Doyle, P. et al. Japanese Marketing Strategies in the UK: A Comparative study, *Journal of International Business Studies* Vol. 17(1) Spring 1986. Reprinted with permission from Butterworth Heinemann.

Stage one: Defining strategic marketing objectives

These will to a large extent be determined by corporate strategy, and will answer such questions as: which markets should we compete in? what should be our targets, in terms of market share and profitability, in these markets?

The answer to the first question will be determined by the inherent attractiveness of the market and our ability to compete in it. A market may be attractive for a number of reasons: because there are high profits to be made in it; because it is growing; because it fits in well with or fills a gap in our existing portfolio. It is useful at this stage to carry out some structured analysis using a framework such as Michael Porter's *Five Forces of Competition* (see Fig. 2. below) or SWOT analysis.

Fig. 2. Porter's "Five Forces of Competition" analysis



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It is crucial, however, to ask not just whether the market is inherently attractive, but whether it matches our capability profile: in other words, do we have particular strengths which will give us an advantage in the market? A good marketing strategy may be determined as much by those markets we choose not to enter as by those we do.

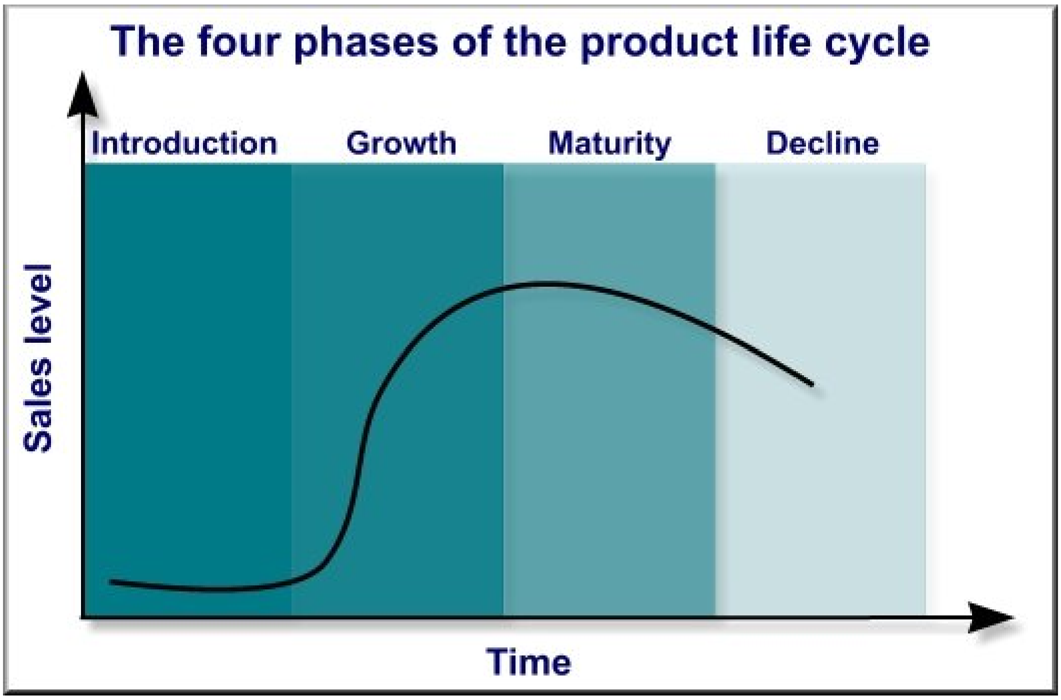
Targets will be expressed in terms of market share or profitability, or possibly both. For example, in an early stage of the stage in the market life cycle, an organisation may concentrate on building share at the expense of profitability, or at a later stage may be content for share to remain static whilst profits are high.

Stage two: Determining strategic focus

Having decided ***which*** markets to compete in, the question of ***how*** to compete can be addressed. Should the focus be on growing the overall size of the market, or on taking a bigger share of an existing market (penetration)? In order to do this, should we be concentrating on getting existing customers to use more of our product, or on finding new customers or even new segments? Or can we only increase share by taking customers from our competitors?

The answers to these questions will depend largely on what stage has been reached in the life cycle of the market for this product. This in turn will determine whether the market is fairly homogeneous or divided into segments or sub-segments. The more mature the market, the more fragmented it tends to be.

Fig. 3.



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The product market life cycle

Total sales in a particular product market will tend to follow the curve shown in Fig. 3 above over a period of time. That period of time may span a hundred years or more (as would be the case for, say, washing powder or banking services) or it may be much shorter, in the case of technological innovations such as the cassette recorder or fashion-related items such as particular types of clothes or music. Each stage in the so called product market life cycle has different characteristics in terms of customers, competition, and company priorities.

1. ***The introductory phase***

Customers:	Unfamiliar with or unaware of product category. Those who do buy likely to be more experimentalist by nature. Sales low
Competition:	Likely to be low
Company priorities:	Encourage trial. Work with customers on product development to improve aspects such as packaging or documentation, or to eliminate "teething troubles"

2. ***The growth phase***

Customers:	Growing in numbers. Segments begin to appear. May be less price sensitive as category benefits more widely known
Competition:	Growing as new entrants appear.
Company priorities:	Build share by concentrating on distribution, creating alliances where appropriate to do this

3. ***Early maturity***

Customers:	Segmentation is now more distinct and customer loyalty established as repeat purchases take place
Competition:	Intense as players attempt to secure their share

Company priorities:	Differentiate to attract and retain customers in specific target segments

4. ***Late maturity***

Customers:	Knowledgeable, may demand low prices and high service levels
Competition:	Intense due to lack of market growth and difficulty of further differentiation. May be price based
Company priorities:	Attempt to lengthen life cycle by innovation, re-inventing product category before decline stage

5. ***Decline***

Customers:	Late adopters, eg first time buyers of microwaves or VCRs
Competition:	May come more from substitute products or services than direct competition, eg plastic instead of steel components; on line services instead of libraries or hard copy journals
Company priorities:	Re-define market whilst milking profits in early part of decline stage.

Stage three: Defining customer targets

The first step in defining customer targets will be to understand the structure of the market in terms of what segments exist and what alternative ways of segmenting the market might be possible. It is important to remember in this context that **segmentation is a characteristic of the market**, not something which marketeers impose upon it. In seeking to gain a better understanding of different customers' perception of value, marketeers may see certain customers with similar characteristics and perceptions as belonging together as a distinct segment, but unless those similarities actually exist, the segmentation and the target will be meaningless. Customers within one segment should be similar to each other in ways which are important for how, when, what and why they buy, and different from customers in other segments. Organisation's which find new ways of segmenting a market may also find new ways of differentiating their offering in response to a particular segment's perception of value, and will therefore gain an advantage over their competitors.

Once we have a clear view of market structure, we need to decide which segment or segments to target. Certain elements will tend to make a segment attractive:

- size.
- growth.
- profitability.
- fit with company strengths.
- relative weakness of competition.

The issue of customer economics, or choosing the right customer portfolio, is vital. Organisation's can waste large amounts of resources pursuing customers who are not sufficiently profitable, or are unattractive in other ways. This is even more important given the recent emphasis on building customer relationships. This is usually an expensive and time consuming business, so organisation's need to be sure that they are building relationships with the right customers. It is not usually possible or desirable to build relationships with *all* customers.

As part of this stage, it will be decided whether to target only one segment, or several segments at once. Clearly this decision will be influenced by such factors as:

- available resources.
- danger of brand contamination.
- opportunity for economies of scale in manufacturing, marketing or distribution.

Stage four: Competitor analysis

In practice, it is clear that the analysis of competitors and the selection of customer targets will go hand in hand, since the one will exert a strong influence on the other. The decisions to be taken at this stage will relate to competitive positioning and competitive strategy.

Competitor analysis is a big topic and has an important role to play at the level of corporate strategy as well as in the marketing strategy process. If you want to look more specifically and in greater depth at competitor analysis, there is a separate learning guide on this topic. In the context of developing a marketing strategy, there are particular areas of competitor analysis to be considered. The *specific* questions which competitor analysis must answer at this market *specific* level are:

- what does the customer buy when he does not buy my product?
- what is his perception of these alternatives and how does it compare with his perception of my product?
- what do I know or what can I infer about my competitors' strategies in relation to their products?

In answering the **first** question, it may help to consider at what level does the competition pose a threat in this market? There are a number of different possible levels of competition:

- **budget level.** The customer is choosing between spending his/her budget in two completely different ways, to meet completely different needs. To use an example from the regional newspaper industry: does the customer buy the local paper or a bar of chocolate?
- **generic competition.** The competitive product delivers the same benefit but in a different way: instead of buying the local paper, the customer listens to local radio.
- **product category competition.** Here the customer may choose between different product categories within the same industry: the customer buys a national daily newspaper instead of the local one, or reads the free local paper delivered through his door, instead going out and buying one.
- **brand competition.** This is the most direct form of competition: does the customer buy one local title or the other?

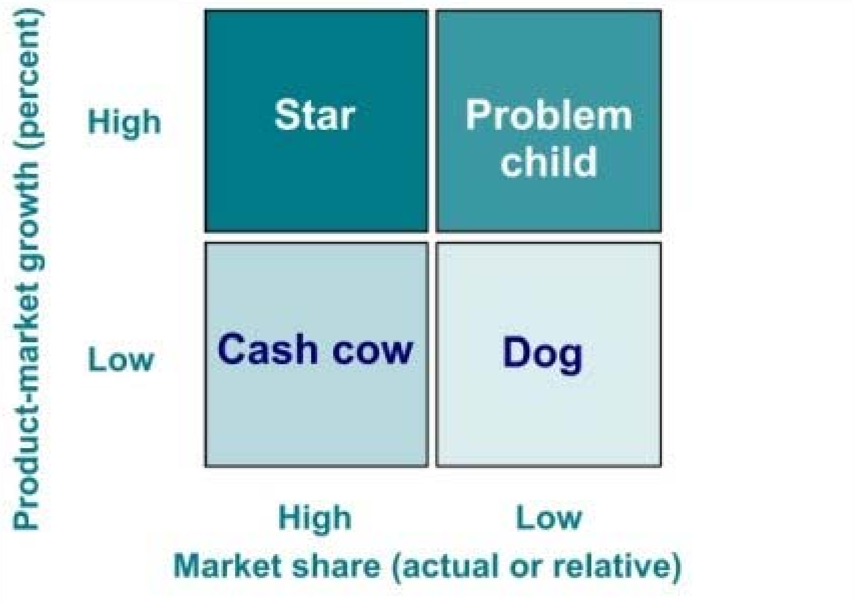
Organisation's will often be aware of direct brand competition, but less knowledgeable about the encroaching threat of competition at a lower level. The level at which the competitive threat is the strongest will obviously have serious implications for the organisation's strategic priorities.

The **second** question relates more to the positioning of competitive products in the mind of the customer. The use of perceptual maps may help. Perceptual maps use the results of market research to map consumers' perceptions of competing brands in relation to attributes they consider important in determining value.

They are a useful tool in determining strategies, because marketeers can see the major threats to their brand as well as the different directions in which they could move. Perceptual maps are discussed in more detail in David Arnold's book, *The Handbook of Brand Management* (1992) Century Business, pp.84 ff.

The **third** question requires some thinking around the role of the particular competitive product in the competitor's portfolio as a whole. Portfolio management tools such as the *Boston Consulting Group Matrix* or the *Directional Policy Matrix* will probably be useful here. They are described briefly below.

Fig. 4. The product portfolio matrix



Source: Perspectives, No.66, "The product portfolio." Reprnted by permission from The Boston Consulting Group Inc. Boston MA. © copyright 1970.

The BCG product portfolio matrix classifies products according to two measures, *market growth* and *relative market share*. According to their position on the matrix, products are known as problem children (or question marks), stars, cash cows or dogs.

Organisation's will tend to have a number of *problem children* at once, products at an early stage of the life cycle, having low market share in a fast growing market. They require a great deal of investment and support, but only some of them will survive to become mature products which can contribute to the organisation's overall revenues.

Once products have succeeded in growing their market share, and whilst the market itself is still in its growth phase, they are known as *stars*. These products still require substantial investment to sustain their high market share position, but they are at the same time generating positive cash flows themselves.

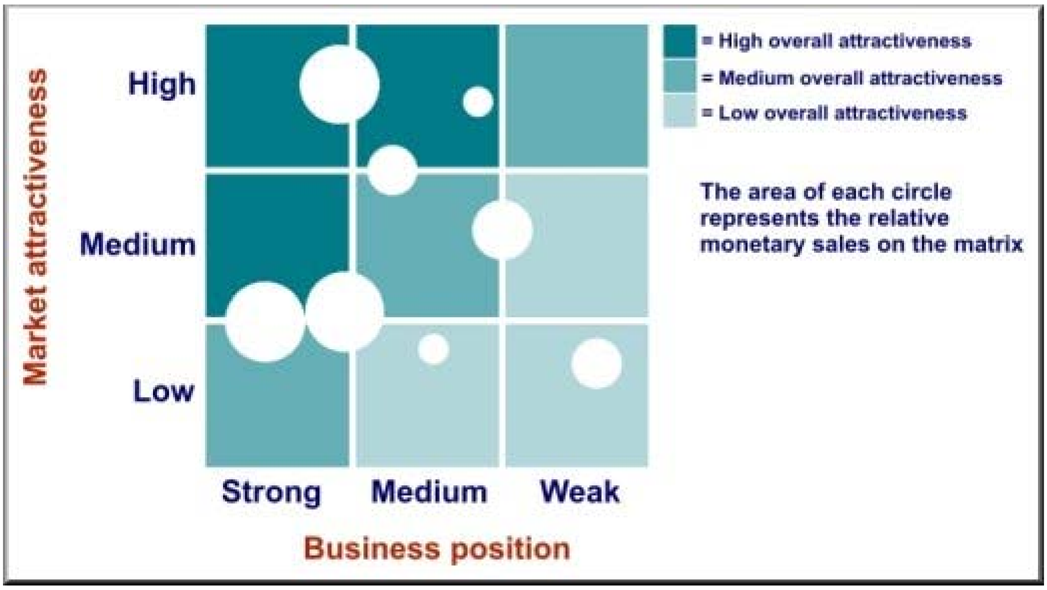
As the market moves into maturity and growth slows down, products with high market share are classified as *cash cows*, able to generate cash whilst requiring less support than before. These cash flows can therefore be used to support other products in the other categories.

Finally, products with low market share in a low growth market are known as *dogs*. They may still generate some cash, but as the market moves into decline, it will not be worth it for organisation's to invest money or effort in them. Instead they are advised to cut back investment as much as possible (harvesting) or, if possible, to move out of the market (divestment).

Clearly, the BCG matrix can be used by an organisation to analyse its own or its competitors' products. Both will be useful for the purpose of competitive positioning.

The *Directional Policy Matrix* is also a two dimensional model but incorporates a number of different elements into each dimension. It is therefore more complex and also more subjective than the BCG model. (see Fig.5) It can be used to plot brands, products, geographical areas or market segments and helps managers to think through their strategy for each element in the company's portfolio (or to make assumptions about their competitors' likely strategy). The size of each circle drawn on the matrix may represent size of turnover or, if known, profit margin.

Fig. 5. The directional policy matrix



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The two axes of this matrix are market attractiveness and relative strength versus the competition. Clearly, an organisation will aim to have as many products as possible in the top left hand corner, ie in a strong competitive position in an attractive market. It will almost certainly have other products in the middle of the matrix (in an attractive market but in a relatively weak competitive position) and even in the right hand corner (a weak product in an unattractive market).

Looking at the portfolio in this way will help with deciding priorities and allocating resources. For example, how much will it cost to keep a product in the top right position ? What other products may threaten it ? If a product is in the top middle square, what resources or tactical moves would it take to shift it over to the right ? And for the product in the bottom left - should it be harvested ? or is it possible to shift it?

Stage five: Differential advantage

Differential advantage, or competitive advantage, describes the ways in which one organisation's offering is different from and better than another's. This gives the company an advantage over its competition. Differential advantage may come from a variety of sources: superior position, superior skills or superior resources.

Superior position

eg lower costs (perhaps due to location); incumbent position (eg distribution network); relationships

Superior skills

eg specialised knowledge, technical expertise, organisational skills such as flexibility

Superior resources

eg financial resources, geographical coverage, exclusive ingredients, experienced people

Whatever the source of differential advantage, it must offer real value to the customer in that it meets his/her needs in a distinctive way, and is in some way better than the competition. It is the meeting point of the three C's of customer, competition and company resources. Differential advantage is at the heart of a marketing strategy and should be based on all of the preceding analysis. It can then be translated into a practical marketing plan covering the four P's of the marketing mix.

Stage six: Marketing mix

The "marketing mix" refers to the various elements of a company's offering in the market place: the *product* or service itself, including its packaging; the *price*, including any discounts or payment terms; the *place*, or distribution method; and the *promotional mix* by which the offering is communicated to the market place.

Fig. 6.

In addition to the traditional "four Ps" (Borden, *The Concept of the Marketing Mix*, Journal of Advertising Research, Vol. 4, June 1964), subsequent writers have talked about the need to include *physical evidence, process* and *people,* particularly where service products are concerned. For example, if buying an intangible financial services product such as a mortgage, the building society's offices, the ease and speed with which an application can be made, and the way in which the society's staff deal with their customers will all influence the customer's perception of the offering.

The *marketing plan* can be produced at this stage, and will include a definition of the target market segment(s), the source of differential advantage, and a list of actions under each of the marketing mix headings, with timings, budget and responsibilities allocated.

The marketing mix approach simply says that all the messages the customer receives must be consistent with each other and help to communicate the differential advantage (sometimes called the value proposition). Some have argued that the concept is outdated, relying too much on the marketing department to implement it, and needs to be replaced by a more company wide approach. It is certainly true that consistency and an integrated approach are vital in implementing marketing strategy.

Stage seven: Implementation

The implementation of marketing strategy demands good communication between the marketing function and the other parts of the organisation. The McKinsey "Seven S" model (Peters, T. & Waterman, R. (1982) "In Search of Excellence" New York, HarperCollins) may be used as a checklist to ensure that all the elements involved in implementing the strategy are consistent with each other and with the strategy itself. The "seven S's" are:

Strategy itself - supported by

Skills - what distinctive core tasks (functional or organisational) is the company good at performing?

Shared values - what is the culture of the company? What behaviour or achievements are rewarded?

Style - what is the management style? How do things get done round here?

Staff - what are the people like? What is their educational or business background? What is likely to motivate them? How is their morale?

Systems - what formal systems are in place that may help (or hinder) implementation? (these could be reward systems, monitoring systems, customer service systems?) What about the informal systems?

Structure - what structures are in place that may help (or hinder) implementation? Is there a flat management structure? Are there (for example) project management teams, or is the organisation structured along purely functional lines?

Stage eight: Monitoring market performance

Ideally a marketing plan should also include performance targets in terms of sales and contribution, customer satisfaction, or any other measures deemed appropriate. There is a trend towards the use of non-financial measures in monitoring company performance. (Kaplan, R. S. & Norton, D.P. (1996) The Balanced Scorecard, *Harvard Business School Press*). The information needed for such measurements is often difficult to obtain, but as feedback mechanisms showing whether or not a strategy is being successfully implemented, they may be more useful than traditional quantitative measures. the learning guide on performance management has more information about the balanced scorecard approach.

Development activities

Cross functional groups will often give valuable insights, as well as helping to improve communication within the organisation. In a cross functional group, work through the marketing strategy process - or take one stage and work through that. Useful frameworks for discussion might be:

- **the directional policy matrix**

Divide the group up into trios and ask each to plot the company's main products onto a flip chart or acetate. Then in plenary, compare the results. This should give rise to some interesting discussion! Then raise the question of what could be done to move the various products across the chart, upward and to the right. Are there some products which should be harvested or markets from which we should withdraw?

- **perceptual maps**

Decide first how to label the axes. What characteristics are important to customers? For example, for cars it might be speed, comfort, reliability, economy. It might help to try to group products together roughly first and then look at what they have in common. Having agreed on the axes, plot where you think customers perceive your products and your competitors' products.

Of course the results of this exercise will be purely subjective and should be tested by market research. But in this case, the results are perhaps less important than the debate, which should be illuminating!

- **levels of competition**

Discuss where the competition is coming from at each level. Where are the real threats? What strategies might we adopt to combat them?

- **segment attractiveness**

Look at the list of criteria and measure each of your segments and major customers against it. Do they pass the test? If not, how much effort and resources is the organisation spending on them? It may be that there are good reasons for selling to these customers. But it is worth checking. By serving these customers, we could be missing opportunities elsewhere which might be more profitable, or fit with our strategy better.

- **marketing mix**

Look at each aspect of the marketing mix for each of the organisation's major products. Do they fit together and send a consistent message?