SMstudy

Targeting success

BOOK 1

SMstudy® Guide

MARKETING STRATEGY

2017 Edition

A Guide to the SMstudy® Sales and Marketing Body of Knowledge (SMstudy® Guide)

SMstudy® Guide

MARKETING STRATEGY

2017 Edition

A Comprehensive Guide to Marketing Strategy

ISBN: 978-0-9899252-2-8

Library of Congress Control Number: 2015942774

Published by:
SMstudy®, a brand of VMEdu®, Inc.
410 N 44th Street, Suite 240
Phoenix, Arizona 85008 USA
Phone: +1-480-882-0706
Fax: +1-240-238-2987
E-mail: smbok@smstudy.com
Website: www.smstudy.com

SMstudy® welcomes corrections and comments on its books. Please feel free to send comments on typographical, formatting, or other errors. You can make a copy of the relevant page of the book, mark the error, and send it to the above address or send an e-mail to smbok@smstudy.com.

10 9 8 7 6 5 4 3 2

PREFACE

The SMstudy® Guide (also referred to as a Guide to the Sales and Marketing Body of Knowledge, or *SMBOK® Guide)* is a comprehensive process-oriented framework for the planning and execution of activities associated with all facets of Sales and Marketing. It can be used as a reference source for experienced Sales and Marketing professionals or as a detailed guide for individuals or students with little prior Sales and Marketing knowledge or experience. The *SMstudy® Guide* can be applied in any organization or industry—from small companies with only a few employees to large, complex organizations with numerous business units, multiple product lines, and thousands of employees across many countries.

The *SMstudy® Guide* series consists of six books for all the aspects of Sales and Marketing: Marketing Strategy, Marketing Research, Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing. Each book addresses a key component of Marketing and can be used as a standalone resource or as part of a more comprehensive program that utilizes any number of the six books as required by the business. In this way the *SMstudy® Guide* series offers a flexible framework that can be tailored to address the specific needs of each organization.

This first book, Marketing Strategy, provides a framework for use in the planning and execution of the Marketing Strategy for a company's products, services, and brands. In addition to offering tools for identifying the core strengths of the organization, models are offered for pinpointing specific needs and marketing opportunities for business growth. Tools for defining market segments, analyzing the competitive landscape, and establishing a differentiated positioning are also provided. Finally, pricing and distribution strategies are discussed followed by guidelines for establishing marketing objectives and key metrics for performance, and setting budgets and targets for other marketing aspects. All processes are discussed with an eye toward integration to ensure the development of a Marketing Strategy that is both comprehensive in scope and aligned with overall corporate goals.

Effective use of the Marketing Strategy framework is expected to lead to greater thought and deliberation in the planning and execution of Sales and Marketing initiatives. Further consideration and practical use of the processes and tools detailed in the *SMstudy® Guide* will in turn contribute to expanding and enriching the Sales and Marketing body of knowledge and consequently lead to future additions and enhancements to this framework.

I would like to thank the 42 co-authors, subject matter experts, and reviewers who greatly contributed to the creation of this body of knowledge. Their combined efforts and collaborations have resulted in a comprehensive, highly effective, and unique approach to understanding, planning, and implementing Sales and Marketing initiatives.

Tridibesh Satpathy
Lead Author, SMstudy® Guide Book 1(Marketing Strategy)

TABLE OF CONTENTS

LIST OF FIGURES

1. INTRODUCTION

A Guide to the SMstudy Sales and Marketing Body of Knowledge (SMBOK® Guide), also referred to as the "*SMstudy® Guide,*" is a series of books that provide guidelines for the Sales and Marketing of products and services. It offers a comprehensive framework that can be used to effectively manage Sales and Marketing efforts in any organization. The objective of the *SMstudy® Guide* is to provide a practical and process-oriented approach to Sales and Marketing that emphasizes how various elements of Sales and Marketing can be integrated to develop a comprehensive and effective organizational Sales and Marketing Plan.

The concepts in the *SMstudy® Guide* can be applied effectively to any company in any industry—from small companies with only a few employees to large, complex organizations with numerous business units, multiple product lines, and thousands of employees across many countries. The term "product" in the *SMstudy® Guide* may refer to either a product or a service of a company.

This introduction chapter includes definitions of key terms, the purpose and framework of the *SMstudy® Guide*, the SMstudy® certification schema, the evolution of Sales and Marketing, an overview of the Aspects of Sales and Marketing discussed throughout the *SMstudy® Guide*, and a general overview of the contents of this first book on Marketing Strategy. This chapter also briefly discusses Corporate Strategy and its relationship to Sales and Marketing. The appendix provides a more detailed description of Corporate Strategy and how Senior Management Direction and Insights integrates with five underlying corporate strategies, namely, Corporate Product Strategy, Corporate Marketing Strategy, Corporate Operations Strategy, Corporate Finance Strategy, and Corporate Human Resource Strategy.

This chapter is divided into the following sections—

1.1 How to Use the *SMstudy® Guide?*

1.2 Why Use the *SMstudy® Guide?*

1.3 Evolution of Sales and Marketing

1.4 Corporate Strategy and its Relationship to Sales and Marketing

1.5 Aspects of Sales and Marketing

1.6 Levels of Sales and Marketing Strategy

1.7 Marketing Strategy Overview

1.1 How to Use the SMstudy® Guide?

The *SMstudy® Guide* can be used as a reference and knowledge guide by experienced Sales and Marketing practitioners, as well as by persons with little prior knowledge or experience in Sales or Marketing roles. Because the *SMstudy® Guide* offers a comprehensive Sales and Marketing framework, many will find value in using this resource to guide decision making and planning across all facets of Sales and Marketing; however, the contents of the Guide are organized to enable quick and easy reference for individuals who may be interested in, or studying, only one or two specific facets of Sales or Marketing. Similarly, the *SMstudy® Guide* provides a valuable tool for individuals already in distinct Sales or Marketing roles (e.g., Digital Marketing Manager), as its design enables such individuals to focus on the specific Aspects that are most relevant to such roles.

1.1.1 Process-Oriented Approach with Defined Inputs, Tools, and Outputs

In order to facilitate the best application of the *SMstudy® Guide* framework, the *SMstudy® Guide* defines a process-oriented approach to Sales and Marketing, which provides specific guidance to Sales and Marketing professionals about how to most effectively and efficiently manage their sales and marketing activities. The *SMstudy® Guide* defines Sales and Marketing in terms of processes that comprise a series of actions that leads to a particular result. Each process requires specific inputs and then uses tools to create specific outputs. To cater to the needs of a diverse audience with varying levels of expertise in Sales and Marketing, the *SMstudy® Guide* has differentiated highly recommended inputs, tools, and outputs from recommended, but optional ones. Inputs, tools, and outputs denoted by asterisks (*) are highly recommended, while others with no asterisks are recommended, but optional. It is suggested that those individuals being introduced to Sales and Marketing focus primarily on the highly recommended inputs, tools, and outputs for each process, while more experienced practitioners should thoroughly understand all of the relevant inputs, tools, and outputs for each process.

1.1.2 Using SMstudy® Guide with SMstudy.com Website and VMEdu® Mobile App

The SMstudy.com website and the VMEdu® mobile app provide additional resources to help individuals better understand and apply the Sales and Marketing framework defined in the *SMstudy® Guide.* The website and app include the following—

- A certification schema, which helps students study marketing subjects in a structured manner, get tested on relevant concepts through proctored certification exams, and gain relevant certifications, which demonstrate their knowledge and experience in different areas of Sales and Marketing (see section 1.1.3 for a description of the certification schema)
- High-quality videos with relevant and interesting examples that help individuals gain a thorough understanding of specific concepts.

- Case studies that illustrate how the *SMstudy® Guide* framework can be used in real-life scenarios.
- Additional resources for students to obtain expert training through physical classrooms, virtual instructor-led sessions, and high-quality online courses.
- A glossary of terms, flashcards, study guides, and more.

1.1.3 Certification Schema for SMstudy® Certifications

The certifications related to the *SMstudy® Guide* are managed by SMstudy.com. The certification schema is outlined in Figure 1-1.

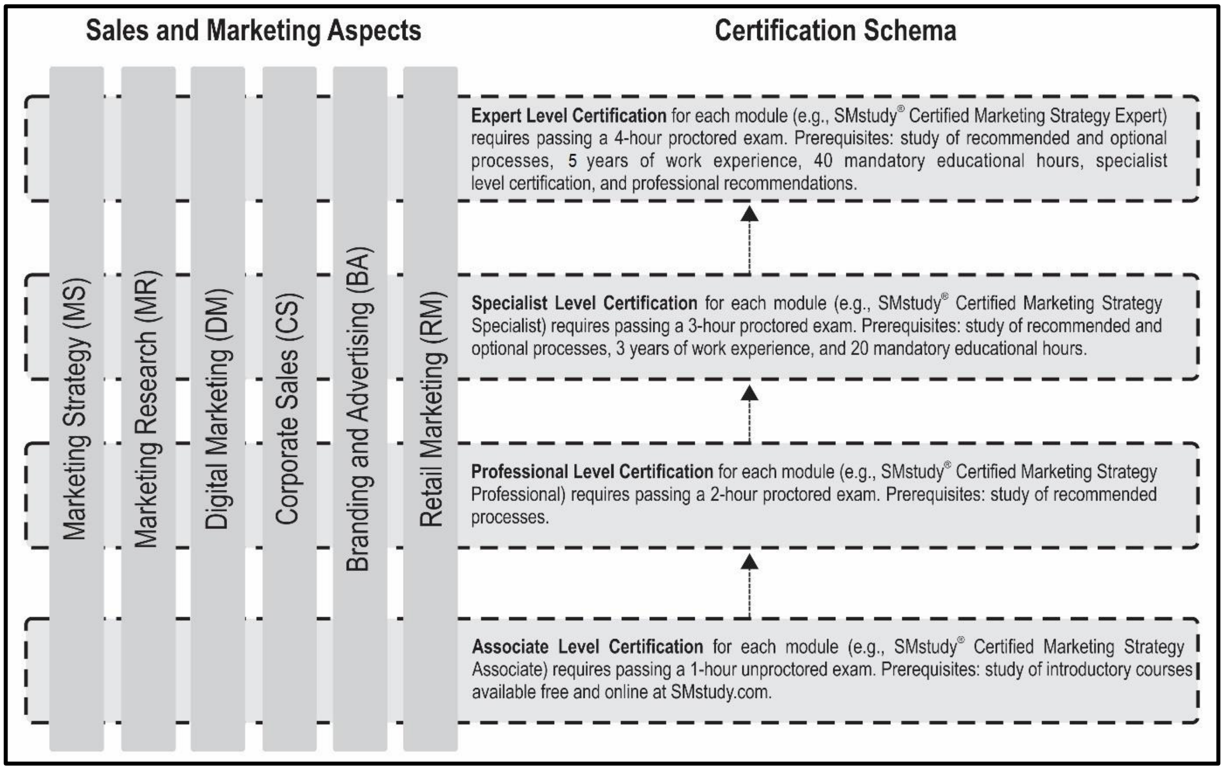


Figure 1-1: SMstudy® Certification Schema

The following is a brief description of each level of certification—

- **Associate Level Certifications**—The introduction modules are available at no charge to interested individuals. All Aspects of Sales and Marketing have an applicable Associate-level certification (e.g., "SMstudy® Certified Marketing Strategy Associate"). The certification exams are free and not proctored; and candidates have one hour to complete each exam. The prerequisite is an understanding of the highly recommended inputs, tools, and outputs for each process relevant to the particular Aspect of Sales and Marketing. There is no work experience requirement and no mandatory educational hours in addition to the recommended study.

- **Professional Level Certifications**—All Aspects of Sales and Marketing have an applicable Professional-level certification (e.g., "SMstudy® Certified Marketing Strategy Professional").The certification exams are proctored and candidates have two hours to complete each exam. The prerequisite is a study of the relevant *SMstudy® Guide* book with more emphasis on the highly recommended inputs, tools, and outputs for each process relevant to the particular Marketing Aspect. There is no work experience requirement and no mandatory educational hours in addition to the recommended study. Individuals who pass the certification exams for three or more Professional modules are awarded an additional certification called "SMstudy® Certified Sales and Marketing Professional."

- **Specialist Level Certifications**—All Aspects of Sales and Marketing have an associated Specialist-level certification (e.g., "SMstudy® Certified Marketing Strategy Specialist"). The certification exams are proctored and candidates have three hours to complete each exam. The prerequisites are a study of all of the relevant inputs, tools, and outputs for each process, three years of related work experience, and twenty mandatory educational hours. Individuals who pass the certification exams for three or more Specialist modules are awarded an additional certification called "SMstudy® Certified Sales and Marketing Specialist."

- **Expert Level Certifications**—All Aspects of Sales and Marketing have an associated Expert-level certification (e.g., "SMstudy® Certified Marketing Strategy Expert"). The certification exams are proctored and candidates have four hours to complete each exam. The prerequisites are attaining the Specialist level certification for that specific Aspect, a study of all of the relevant inputs, tools, and outputs for each process, five years of related work experience, forty mandatory educational hours, and recommendations from two peers and a manager. Individuals who pass the certification exams for three or more Expert modules are awarded an additional certification called "SMstudy® Certified Sales and Marketing Expert."

Other than the certifications mentioned above, SMstudy offers additional certifications in fields related to Sales and Marketing such as Affiliate Marketing, E-mail Marketing, Search Engine Optimization, Search Marketing, Social Media and Web Analytics. Information about these certifications is available in the SMstudy.com website.

1.2 Why Use the SMstudy® Guide?

Some of the key benefits of using the *SMstudy® Guide* are as follows—

1. **Consolidated Expertise**—The *SMstudy® Guide* is developed by VMEdu, Inc., a global certification course provider that has educated over 400,000 students world-wide in more than 3,500 companies. It provides practical, industry-proven best practices, rather than purely theoretical advice.

2. **Process-Oriented Approach**—The *SMstudy® Guide* explains Sales and Marketing concepts through a practical, process-oriented approach. This helps Sales and Marketing professionals understand the specific processes they should follow to be effective in their Sales and Marketing roles. Each process has associated inputs, tools, and outputs that are recommended for use. Highly recommended inputs, tools, and outputs are noted with an asterisk (*) beside the concept in each process box and then again when each process is discussed throughout that section.

3. **Applicable to All Industries**—The many authors, advisers, and reviewers of the *SMstudy® Guide* have worked in numerous Sales and Marketing areas and geographic regions across a variety of industries. Thus, insights provided by them make this body of knowledge industry independent.

4. **Applicable to Companies of All Sizes**—The *SMstudy® Guide* has been written to meet the needs of all companies regardless of size. Small start-up companies with fewer than ten employees, or large organizations with several thousand employees and multiple product lines and business units, can equally benefit from the information in this guide. Additionally, the content provided in the *SMstudy® Guide* is highly relevant to for-profit and non-profit organizations alike.

5. **Comprehensiveness**—The *SMstudy® Guide* is organized into six Sales and Marketing Aspects: Marketing Strategy (MS), Marketing Research (MR), Digital Marketing (DM), Corporate Sales (CS), Branding and Advertising (BA), and Retail Marketing (RM). Each Aspect is detailed in a separate book. Taken together, the series provides a comprehensive and complete understanding of Sales and Marketing. The concepts covered in the *SMstudy® Guide* are further reinforced through videos and case studies available at SMstudy.com.

6. **Applicable to Beginners and Experts**—The *SMstudy® Guide* presents recommended concepts that beginners should know and also highlights advanced concepts for individuals who have more experience and who are on their way to becoming experts in the field. Readers can decide which of the six Sales and Marketing Aspects are most relevant to them and select from the available books accordingly.

7. **Alignment with Job Roles**—The Aspects included in the *SMstudy® Guide* are organized to align with the most common or typical job roles or career fields of Sales and Marketing.

8. **Continuous Improvement**—Concepts related to Sales and Marketing continue to evolve; therefore, the *SMstudy® Guide* will be continuously reviewed and updated to ensure that it remains relevant.

1.3 Evolution of Sales and Marketing

Since Sales and Marketing has evolved significantly over time, it is important to present a high-level overview of the history of the subject in order to understand and appreciate its relevance in the world today.

Figure 1-2 depicts the timeline for the Evolution of Sales and Marketing.

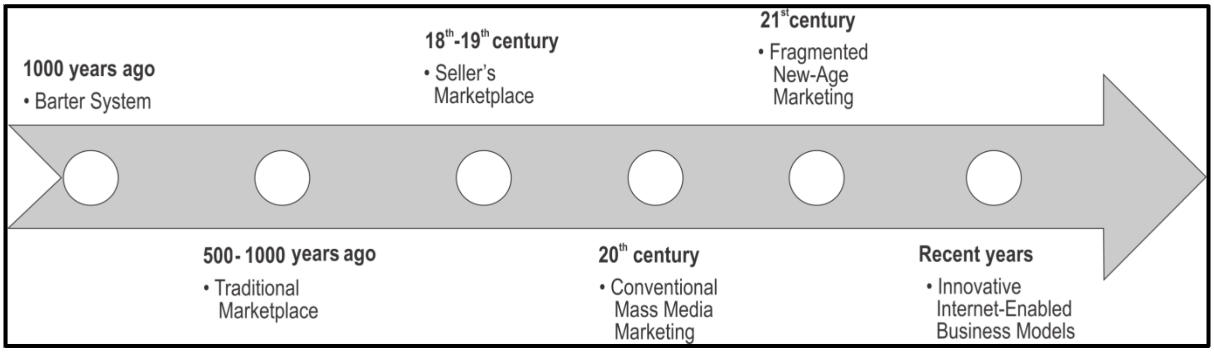


Figure 1-2: Evolution of Sales and Marketing Timeline

1.3.1 Barter System

More than a thousand years ago, when coins and other forms of money were not yet popular, the typical and most common way people procured their products or services was through the barter system—the direct exchange of goods or services without the use of money. For example, a farmer might exchange some of his harvest with a carpenter for some wooden furniture. Sales and Marketing with the barter system is dependent on having access to the appropriate persons with whom things can be exchanged for mutual value to both parties.

Barter continues to be used today—people and countries still exchange some goods and services without the use of money. The barter system may replace money in times of monetary crisis, when the usual exchange currency is unavailable, or when currency is unstable (e.g., due to high inflation).

Examples of Barter System:

- A tradesperson, such as a carpenter or electrician, operating his or her own business, might provide services free of charge to his or her accountant in exchange for professional accounting services.

- Today, many websites provide a space for individuals to offer goods for bartering purposes. An individual planning to recolocate to a crowded downtown location might offer his or her car in exchange for a more appropriate vehicle for downtown transportation, such as a motorcycle or a scooter.

1.3.2 Traditional Marketplace

Five hundred to thousand years ago, coins and other forms of money started becoming popular as a medium of exchange between people. This led to the creation of the traditional marketplace where producers, such as farmers, craftsmen, and carpenters, create products, stay in their shop with their wares, and shout out to a crowd of potential customers in the marketplace in order to promote and sell their products.

Traditional marketplaces are usually small markets where price negotiations and other decisions related to sales are made quickly—often by one or two persons. There may be significant flexibility regarding discounts and additional product benefits. The focus is more on short-term gains and less on long-term transactions and relationships. There is negligible branding and advertising; rather the objective is to sell what has been produced.

Example of the Traditional Marketplace—

- The traditional marketplace is still in use today, in some cases, under unique labels such as the bazaars of Turkey, the haats of India, the floating markets in Thailand, the wet markets in Hong Kong, the flea markets in Germany, the souks of the Middle East, the farmers' markets in the US, and the tianguis of Mexico.

1.3.3 Seller's Marketplace

The Industrial Revolution in the eighteenth and nineteenth centuries marked a shift to mass production in factories (e.g., textile manufacturing). During this time, transportation infrastructure improved significantly with inventions such as the steam engine and more efficient ships. The banking system was further developed and the exchange of money became easier. Communication was also substantially improved through the development of the postal system and the use of telegraphs. Furthermore, goods were produced more efficiently and economically in factories and could be sold to a wider market. This created the seller's marketplace.

The main objective of the seller's marketplace is to establish a supply chain to procure products, and then establish a distribution channel to sell the products to a wide variety of customers, often referred to as "mass marketing." Emphasis on branding and advertising is minimal in a seller's marketplace.

Examples of the Seller's Marketplace—

- The seller's marketplace continues to be used today in some countries where agricultural produce is often procured by the government. The government in turn manages the distribution of the produce to the different markets.
- The seller's marketplace is also prevalent in industries where the government controls the competition of private companies, for example, the distribution of petroleum products, or licenses that allow only a select few companies to manufacture a particular product in the country.
- If a natural disaster or unfavorable weather conditions causes widespread crop failure in a particular region, a seller who has stores of that particular crop in that location could capitalize on a seller's marketplace because there would be more buyers than available product.

1.3.4 Conventional Mass Media Marketing

In the twentieth century, as the number of manufacturers or industries for specific products grew, consumers had the option to buy from multiple manufacturers. Unlike a seller's marketplace where sellers have the advantage over customers, mass media marketing features multiple manufacturers, thus shifting the balance of power in favor of consumers. Manufacturers created differentiated perceptions for their products by developing brands or names for their specific products or services with a specific message or positioning. They also began advertising their products or brands for a wider reach.

Primary channels used for mass media marketing are print advertising (newspapers, magazines, inserts, or run of paper), mass mailers (flyers, postcards), television (network, cable, or syndication), radio (national, local, satellite, or podcast), and outdoor advertising (billboards, bus shelters, stadiums). The viable channels for conventional mass media marketing may be restricted in some instances (i.e., some channels may be cost prohibitive or simply unavailable in some markets); however, a company can reach a wide segment of consumers using one or more channels effectively. For example, a business may choose to use only newspaper advertising and mass mailers to advertise the launch of a new business. It is also important to note that identifying the revenue generated from mass media marketing spend can help assess the success or failure of specific mass media marketing campaigns.

The objective of conventional mass media marketing is for organizations to create strong brands and differentiated brand perceptions so that consumers will desire and purchase their products rather than those available from competitors. Thus, mass media marketing usually uses cumulative repetition over time to influence consumer attitudes and purchase actions. Mass media marketing also involves creating distribution channels and appropriate pricing and positioning strategies to ensure that desirable products are available to customers at specific price points.

In recent years, some of these companies have decreased their budgets for conventional mass media marketing, and have in turn increased allocations towards fragmented new-age marketing and/or innovative Internet-enabled business models. One of the key drivers for this change is the fact that consumers generally spend significantly more time online (i.e., using computers, tablets, and cell phones) than they used to, so targeting them through conventional mass media marketing would be sub-optimal.

Example of Conventional Mass Media Marketing—

- Conventional mass media marketing continues to be used today, particularly by companies with established brands with relatively high marketing budgets and a broad target market. Companies such as PepsiCo, Coca-Cola, Procter & Gamble, Unilever, McDonald's, and Walmart, continue to primarily use mass media marketing for marketing their products and brands.

1.3.5 Fragmented New-Age Marketing

In recent times, the media has become increasingly fragmented with several hundred television and radio channels, as well as a large variety of print media, including newspapers, magazines, and trade publications. Moreover, since the late nineteen nineties, with the increasing popularity of the Internet and, more recently, smartphones, many options now exist for advertisers to reach a global audience using digital media marketing methods such as cell phone apps, Google, Facebook, Twitter, LinkedIn, YouTube, QR codes, gamification, and proximity marketing (e.g., Foursquare). With all of these options, many marketers find it beneficial to use an integrated approach to marketing by leveraging the strengths of various types of media. Companies must evaluate all media in terms of who the target audience is and what media resonates with them best. In many cases, assumptions will need to be made and incorporated into the media-testing framework (e.g., for each planning period a company might allocate a certain amount of its marketing budget to test new methods).

Some characteristics of fragmented new-age marketing are as follows—

- It is a fact that people now spend more time on the Internet using smartphones, tablets, or computers than they spend through conventional mass media, such as television, radio, or newspapers. This is especially true for the thirty-year-old and younger market segment. Since Sales and Marketing is most successful when it meets the demands of consumers, this change in consumer preferences is significantly altering the Sales and Marketing landscape for established companies. Businesses are discovering that conventional mass media marketing has limited effectiveness and some customer segments are not even reachable using these traditional media forms.

- Fragmented new-age marketing generally supports new, small brands with much smaller budgets targeted directly to customers in a global marketplace. This represents a significant distinction from conventional mass media marketing, where achieving a global reach for a small company may have been prohibitively expensive.

- While mass media marketing is less targeted and primarily focused on affecting emotional attitudes about the brand, new-age marketing is data-driven and more focused on driving specific calls to action. Also, while mass media marketing typically involves interruption (e.g., people watching a television program which is "interrupted" by an advertisement), new-age marketing is about engagement (e.g., offering relevant content that is of value to people).

- Unlike older media options where Sales and Marketing communications were primarily uni-directional (i.e., from producers to end-consumers), communications have increasingly become multi-directional (i.e., from producers to consumers, consumers to producers, and consumers to consumers). For example, there are multiple rating websites available where customers can provide independent ratings of a company's products or services, and others, including the company itself, can respond or elaborate on these ratings. Although generally a benefit to both producers and consumers, this trend can make brand management challenging for companies if actual or potential customers perceive that a product does not reflect the brand message intended by marketing efforts.

- Due to the nature of new-age marketing, consisting of multiple media forms and the ability to generate significant information, huge amounts of data (commonly referred to as "big data") are now available to companies. The ability to process this data through proper marketing analytics, and assimilate such data to generate valuable insights, can become a significant differentiator for ensuring that companies engage in "smart marketing" (i.e., to generate greater revenues with relatively smaller marketing budgets).

Examples of Fragmented New-Age Marketing—

- Social media (e.g., Facebook, Google+, YouTube) and company websites allow small companies to showcase their products at a low cost or at times, even for free. Companies can share engaging content, which can go viral, thus promoting their brand and reaching a global audience. Brands can also produce informative, instructional content via blog posts, forums, and so forth.
- Online paid advertising (e.g., Google AdWords, LinkedIn Sponsored Updates, Facebook Ads) allows companies to market their products or services to their target audiences at smaller budgets compared to conventional mass media marketing. For many companies, online paid advertising is replacing conventional mass media marketing. It may be important to note that unlike mass media, which is a one-way broadcast from brand to consumer, new-age marketing involves a two-way interaction between brand and consumer. For example, in the case of Google AdWords, the consumer clicks on an ad that takes him/her to the landing page of the brand's website. At that point, the brand will likely ask that the consumer do something (i.e., a specific call to action to download material or place an order). If the consumer accepts the call to action, the company provides additional information on the product itself. Thus, the transaction is usually a back-and-forth engagement between the company and its potential customers.
- Multi-directional communication is facilitated using fragmented new-age marketing. Customers can provide their own feedback or research what others have to say about particular products through blogs, Twitter feeds, Google reviews, and so on. TripAdvisor provides a forum for travel enthusiasts to share feedback about their experiences staying in particular hotels. Such feedback can significantly impact the buying behavior of future tourists who read customer reviews before deciding their travel options.

1.3.6 Innovative Internet-Enabled Business Models

The growing popularity of the Internet, smartphones, and digital media provide opportunities for a company to not only use fragmented new-age marketing effectively to promote existing products, but also to come up with innovative business models where product demo, customer acquisition, and order fulfillment can also take place online.

Innovative business models may include the following—

- **Online Marketplaces**—Several e-commerce companies have created global online marketplaces for selling books, consumer goods, and other products. In such business models, customer acquisition is usually initiated through the company's website. The company coordinates with its multiple suppliers to source products; samples, demos and product reviews are provided on the website; customers make their purchases online; and items are shipped directly to customers.

Examples of Online Marketplaces—

- Book publishing and retail businesses, which historically gained much success using traditional business models, have been significantly affected by the advent of online marketplaces such as Amazon, eBay, Alibaba, and Flipkart.
- Online payment processors such as PayPal, Stripe, Braintree, and Google Wallet have simplified the way in which payments can be processed by businesses, and have enabled even small start-up companies to sell their products globally.

- **Online Services**—Online services have significantly impacted many traditional product and service industries by transforming existing business models and creating new ways to conduct business.

Examples of Online Services—

- Global Positioning Systems (GPS) and online maps have made physical maps redundant.
- Online learning tools have gained popularity and, at times, can complement or even replace physical classroom training.
- The gaming industry has transformed predominantly to the online community with options for participants to play against opponents from various locations.
- Many travel bookings are now made through online travel portals rather than through traditional travel agencies.

- **Online Networking**—The Internet has made the world a smaller place. People can now have access to their networks at all times. These changes have significantly impacted the way in which people communicate with each other and, in turn, have created new possibilities for innovative business models.

Examples of Online Networking—

- Social media channels such as LinkedIn, Twitter, WhatsApp, Facebook, and Google+, have significantly changed the way in which people communicate with each other.
- Online search engines such as Google, Yahoo, and Bing make it easy to find information and locate businesses globally.
- Internet calling, messaging, and conferencing apps such as Skype, WhatsApp, Viber, and WebEx have made communicating across almost any location much easier and more economical than before.

- **Business Models Using Smartphones**—Smartphones are Internet-enabled cell phones that also allow people to have an ongoing connection to the Internet. Since individuals usually carry their smartphones with them, mobile apps are becoming increasingly popular. Innovative business models based on the use of smartphones can disrupt several existing business models—more so in industries that rely on other forms of communications and networking.

Examples of Business Models Using Smartphones—

- Several airlines and travel portals have mobile apps to facilitate the ability to book flight tickets using smartphones.
- Social media channels such as Instagram, Twitter, Facebook, and LinkedIn provide mobile apps that enable users to easily share photos and updates, or chat with friends.
- Some mobile apps allow users to locate nearby restaurants, read reviews, and also post reviews based on their own experience.
- Banking mobile apps allow customers to view their bank account balances, transfer funds, pay bills, and complete other common banking activities.
- Smartphones can be used to scan QR codes used for various marketing purposes.

1.3.7 Sales and Marketing as a Continuum

It is important for us to note that the fact that we are in the twenty-first century does not make all the earlier avenues of Sales and Marketing obsolete. Some companies marketing consumer goods continue to spend a significant proportion of their marketing budget on conventional mass media marketing. In some cases a seller's marketplace continues to be the reality for certain commodities that have a limited number of producers, or where the production is highly regulated by the government or controlled by monopolies or duopolies. Similarly, in some regions or countries, traditional marketplaces continue to flourish.

Rather than viewing the changes as completely replacing the earlier practices, Sales and Marketing approaches should be viewed as a continuum where recent innovations can co-exist with earlier practices. It is the responsibility of a company's Sales and Marketing teams to make the strategic decisions that will work best to achieve the desired outcomes, given the reality of the markets and particular consumer preferences.

Sales and Marketing students, who read material on the subject, often find it confusing because authors offer varied perspectives that may be difficult to assimilate and comprehend in the present day. Each author's perspective can also vary depending on when the material was written (i.e., where he or she was on the Sales and Marketing timeline), his or her individual or industry preferences and experiences, and other factors. Conversely, the concepts covered in this Sales and Marketing Body of Knowledge (*SMstudy® Guide)* are not limited to the perspective of any particular author or industry. The *SMstudy® Guide* was developed by VMEdu, Inc., a professional education provider which has educated over 400,000 students world-wide in more than 3,500 companies. The fifty plus authors, advisors, and reviewers of this book have worked in multiple marketing environments and geographic regions across an eclectic variety of industries. Thus, the insights provided in this book provide a comprehensive detail of the principles and concepts related to Sales and Marketing. It also articulates an action-oriented process approach that can be used by Sales and Marketing practitioners to gain a better understanding of the subject, and then construct a comprehensive and effective Sales and Marketing Strategy for the company, including all relevant Aspects of Sales and Marketing.

1.4 Corporate Strategy and its Relationship to Sales and Marketing

Corporate Strategy is the overall direction of the company (as defined by senior management) that takes into consideration an assessment of the existing capabilities of the company and external opportunities and threats. Corporate Strategy usually coincides with the immediate future fiscal period or it could be developed with a longer-term view (e.g., a three-year plan). It is important to understand the overall Corporate Strategy and its relationship to Sales and Marketing because the Marketing Strategy works within the direction provided by the overall Corporate Strategy of the company, and also interacts with other elements of the Corporate Strategy.

Corporate Strategy is a combination of the following—

1. **Senior Management Direction and Insights**—This is provided by senior management based on their experience and insights related to the business.

2. **Corporate Product Strategy**—This defines the products or services the company offers, and the research and development (R&D) efforts required to create them.

3. **Corporate Marketing Strategy**—This defines how the company will target, position, market, and sell the planned products, and defines metrics, targets, and budgets for all marketing activities.

4. **Corporate Operations Strategy**—This defines how the company will manage operational activities, manufacture its products (or provide services), and provide the corresponding customer support and warranty.

5. **Corporate Finance Strategy**—This defines how the company will manage its finances, attain funding, and financially sustain its operations. The Finance Strategy should include forecasts and projections and summarize costs, income, and investments.

6. **Corporate Human Resource Strategy**—This maps the human resource capabilities within the company and considers talent management and acquisition needs to sustain growth.

Figure 1-3 shows the components of Corporate Strategy.

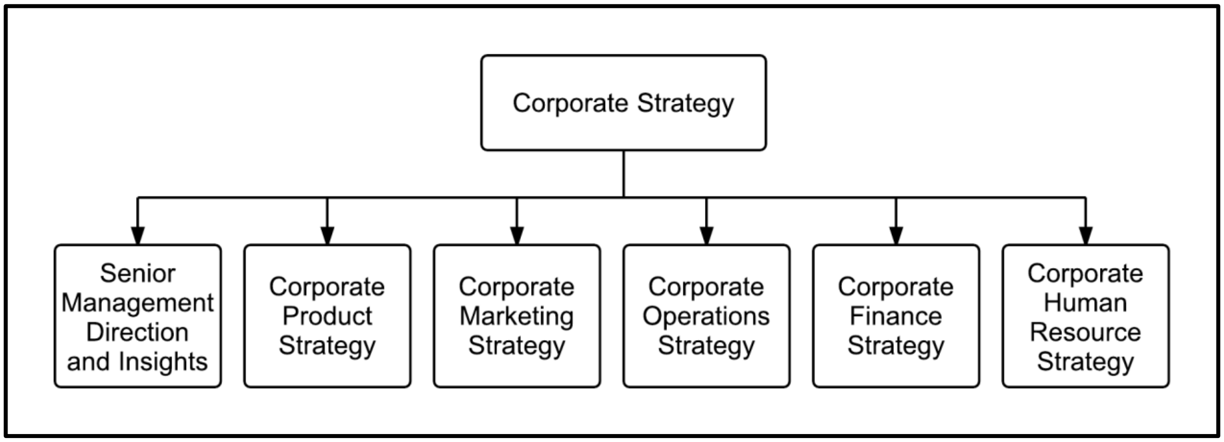


Figure 1-3: Components of Corporate Strategy

Typically, companies have existing documentation regarding their Corporate Product Strategy, Corporate Marketing Strategy, Corporate Operations Strategy, Corporate Finance Strategy, and Corporate Human Resource Strategy; these must be considered in an integrated manner to define a coherent Corporate Strategy. The level and complexity of documentation for these strategies may vary depending on the size of the company and the breadth of its product portfolio and geographic reach. If formal documentation of these strategies is not available (e.g., as with a start-up company), the teams involved in strategic planning should consider the various strategies using the *SMstudy® Guide* framework and decide on an overall Corporate Strategy, which can then become a benchmark to execute future plans.

Finalizing the company's Corporate Strategy can be a time-consuming and rigorous exercise that requires inputs from multiple stakeholders, particularly senior management. It is advisable to execute strategic planning exercises at appropriate and specific time intervals (e.g., once or twice a year), and then finalize a Corporate Strategy on which senior management and the heads of strategy teams agree. Following this process will help to ensure that the leadership team has coherently defined goals and strategies that align with the overall strategic goals of the organization.

Corporate Strategy can in turn be further divided into lower level strategies depending on the complexity of the organization. For example, the Corporate Strategy for an entire company can be divided into strategies for each business unit or geographic region (e.g., country, state, or city), and then subdivided further into a Product or Brand Strategy for each product or brand in a business unit or geographic region. The Product or Brand Strategy is the lowest level in this hierarchy.

Figure 1-4 illustrates the relationship between Corporate Strategy, Business Unit/Geographic Strategy, and Product/Brand Strategy.

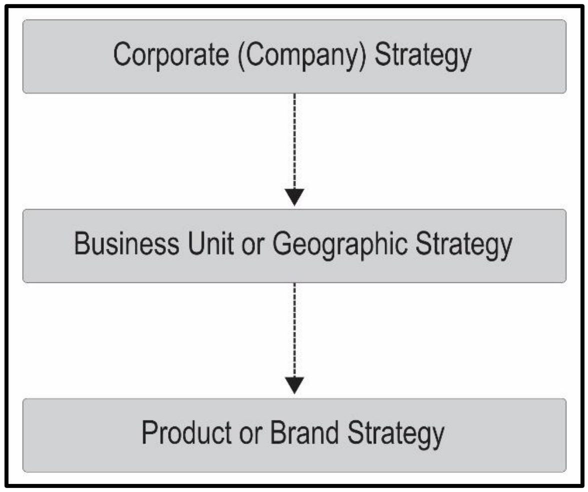


Figure 1-4: Levels of Strategy

Additional information about Corporate Strategy is available in appendix A.

1.5 Aspects of Sales and Marketing

The *SMstudy® Guide* describes six Aspects of Sales and Marketing as follows—

1. Marketing Strategy (MS)
2. Marketing Research (MR)
3. Digital Marketing (DM)
4. Corporate Sales (CS)
5. Branding and Advertising (BA)
6. Retail Marketing (RM)

Since the *SMstudy® Guide* is geared towards Sales and Marketing professionals or those who desire to work in this field, the six Aspects are based on the six most common and often distinct career fields related to Sales and Marketing. Figure 1-5 illustrates the six Aspects of Sales and Marketing and how they interact with each other.

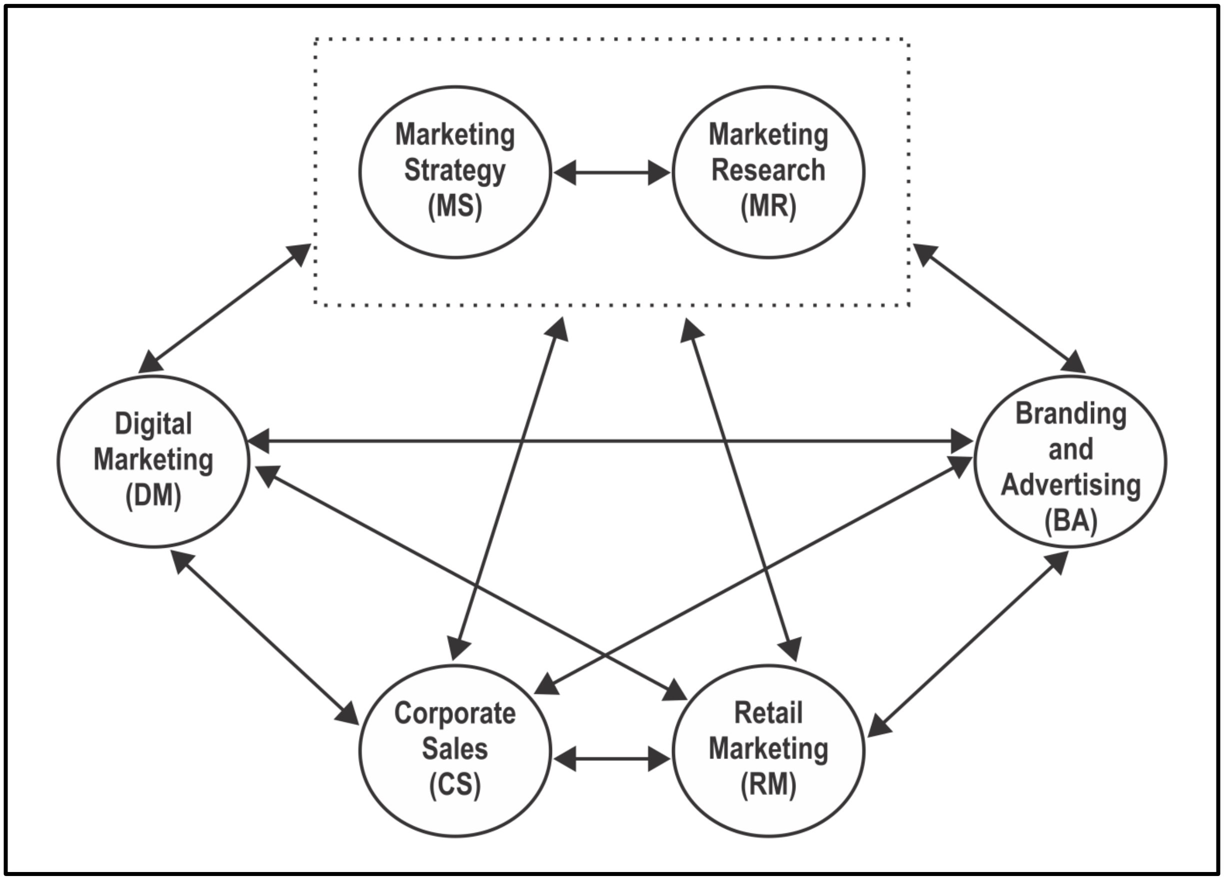


Figure 1-5: Aspects of Sales and Marketing

The two marketing Aspects that are shown in dotted lines at the top of Figure 1-5 (i.e., Marketing Strategy and Marketing Research) are referred to as "Essential Marketing Aspects." Both of these Aspects are mandatory and should be used to define, measure, and provide direction for the overall marketing efforts of a company.

The four remaining Aspects (i.e., Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing) are referred to as "Optional Marketing Aspects" because one or more of them could be used by a company to reach its marketing goals and, in some instances, not all are applicable. For example, a small company creating phone apps or online games may decide to solely use Digital Marketing; another company manufacturing heavy equipment may use only Corporate Sales; and a large consumer goods company or global fashion chain may decide to use all four Optional Marketing Aspects to reach its marketing goals.

Marketing Strategy (MS), which is the focus of this book, describes how the Aspect of Marketing Strategy aligns with a company's overall Corporate Strategy and acts as a unifying framework to define and analyze the other Aspects of Sales and Marketing. It also supports the alignment of all marketing resources among all Aspects. Marketing Strategy includes determining internal organizational strengths and weaknesses, as well as external opportunities and threats; identifying and segregating prospective buyers into market segments based on common needs; defining competitive positioning to satisfy specific customer needs; creating pricing and distribution strategies; and defining the metrics, objectives and corresponding budgets for implementation, evaluation, and improvement of all marketing activities.

Marketing Research (MR) explains the concepts of Marketing Research and provides a framework to conduct marketing research and to analyze Sales and Marketing data. It also demonstrates how marketing research findings can help the marketing team conceptualize and finalize product features and other components of a company's Marketing Strategy. In addition, Marketing Research discusses assessment tools that can be used to measure factors that can help drive better corporate decision making, and in turn more decisive marketing actions. Marketing Research can be conducted for any other Aspect of Sales and Marketing. It is commonly used to test multiple marketing hypotheses in order to better understand consumer behavior, finalize product features, define metrics for measuring marketing efforts, and track and improve marketing activities.

Digital Marketing (DM) includes all marketing activities that use electronic devices connected to the Internet to engage with customers (e.g., computers, tablets, smartphones). These include activities related to creating and managing effective websites and mobile apps as well as promoting a company's products and brand through various online channels that help meet marketing objectives. Some of the tools pertaining to Digital Marketing include Search Engine Optimization, Search Engine Marketing, Mobile Device Marketing, Social Media Marketing, and E-mail Marketing. This Aspect also demonstrates how an effective Digital Marketing Strategy can be a force multiplier for the other Sales and Marketing Aspects.

Corporate Sales (CS) outlines the best practices and processes to be followed for effective business-to-business (B2B) sales. It provides guidance on activities related to building strong business relationships; successfully working with other businesses to help them see the value in the company's products and services; understanding procurement management; conducting effective negotiations with other organizations; and ensuring leads generation, qualification, follow-up, and other related activities. It also emphasizes how corporate sales should interface with the other Sales and Marketing Aspects.

Branding and Advertising (BA) includes concepts of product branding, consumer behavior, marketing communication, and public relations. Branding is the process of creating a distinct image of a product or range of products in the customer's mind. This image communicates the promise of value the customer will receive from the product or products. Branding should remain consistent across all channels of communications with the customer. Advertising is defined in the *SMstudy*® Guide as any paid form of non-personal communications to existing and potential customers that promote the company's products through all types of media—such as radio, television, and print. Internet advertising is discussed in the book on Digital Marketing.

Retail Marketing (RM) presents concepts of all marketing activities related to persuading the end customer to purchase a company's products at a physical retail outlet or store, and efficiently managing the supply chain and distribution channels to improve the reach and sales for a company's products. This Aspect also discusses how Retail Marketing interfaces with the other Sales and Marketing Aspects.

1.6 Levels of Sales and Marketing Strategy

The Corporate Marketing Strategy, which is a component of the overall Corporate Strategy, is further divided into various Business Unit or Geographic Strategies, which in turn is further divided into particular Product or Brand Strategies for each product or brand. Figure 1-6 illustrates the relationship between Corporate Marketing Strategy, Business Unit/Geographic Marketing Strategy, and Product/Brand Marketing Strategy.

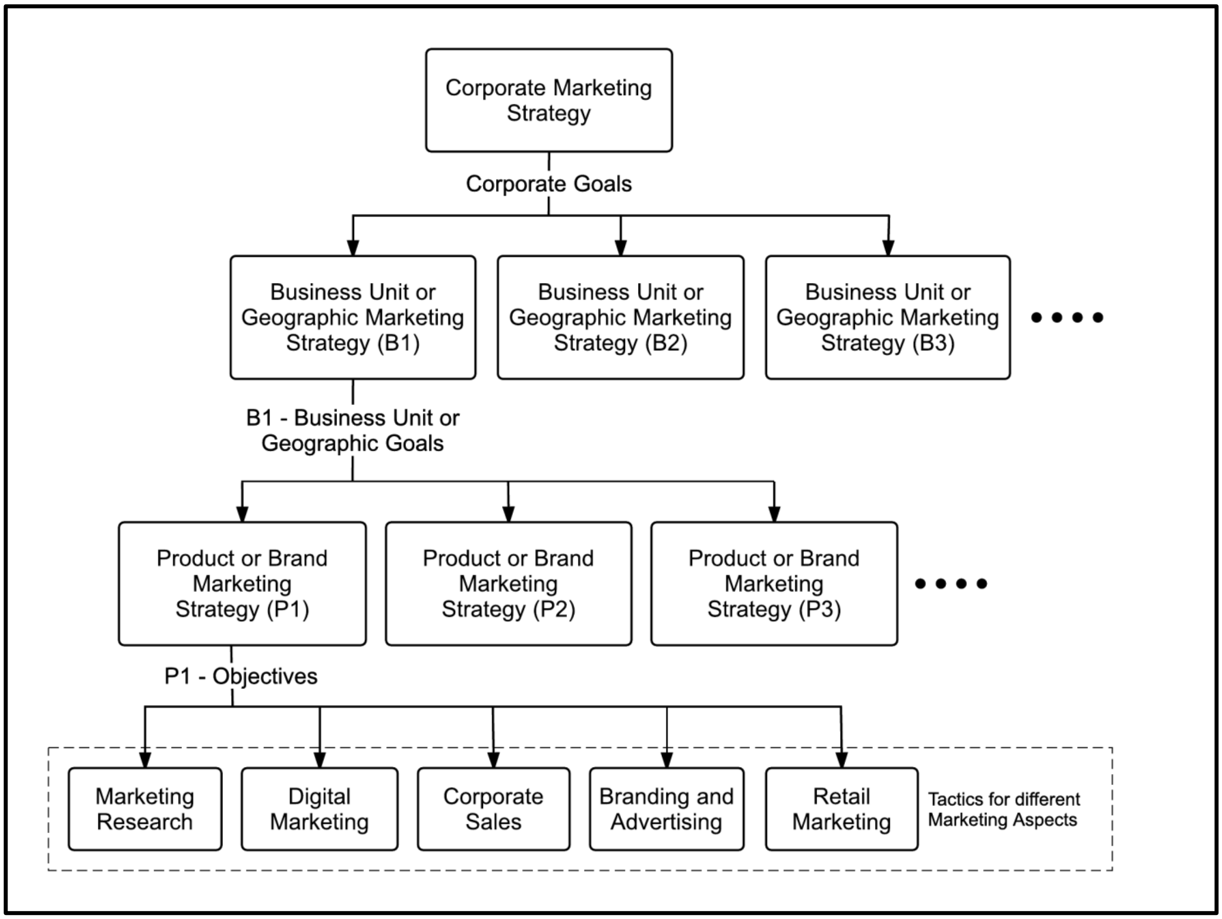


Figure 1-6: Relationship between Levels of Sales and Marketing Strategy

The Corporate Marketing Strategy is defined at a corporate level. It defines the overall marketing goals for the company. These general marketing goals drive more specific marketing strategies for each of the company's business units or geographies. Each business unit or geography in turn defines its own goals, which are relevant inputs for each area's particular Product or Brand Marketing Strategies. Each Product or Brand Marketing Strategy (also referred to as 'Marketing Strategy' in the *SMstudy® Guide*) defines Sales and Marketing objectives for each product or brand, which drive specific tactics that align with and often rely on other Marketing Aspects (i.e., Marketing Research, Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing).

Example of Levels of Sales and Marketing Strategy—

Global Automobile Company

- **Corporate Level**—A global automobile company specializing in manufacturing luxury automobiles has a corporate goal to grow the revenue of the company by 8% in the upcoming year by launching new models of cars in its existing locations and entering new market segments.
- **Business Unit/Geographic Level**—The automobile company has been organized into multiple business units based on geographies where it conducts business. Each business unit has business unit goals that contribute to the company's overall corporate goals. The business unit goals for next year are 5% growth in revenue in the United States, 10% growth in China, 4% growth in the United Kingdom, 12% growth in India, and 6% growth in Germany.
- **Product/Brand Level**—To meet the 10% revenue growth target in China, the marketing team in China plans strategies for the three existing brands in the market (i.e., 'Ceres,' 'Pallas,' and 'Vesta') and also plans to launch a new brand, 'Juno.' Each brand targets a different customer segment. Ceres is an entry-level sedan, targeted at working professionals who aspire to have a luxury car; Pallas is a minivan, primarily targeted at families with children; Vesta is a four-wheel drive sport-utility vehicle for individuals who want both on- and off-road capability and to still be able to go on long drives; the new brand, Juno is a convertible that the Chinese business unit plans to target at young persons who want a stylish and fun car.

  Each brand team creates a Marketing Strategy for its brand. When creating the Marketing Strategy, the team considers the strengths, weaknesses, opportunities, and threats for the brand; defines the market and identifies the different market segments; identifies the brand's competition; finalizes the target market segment for the brand; analyzes the target market to create a differentiated positioning for the brand; and then finalizes the pricing and distribution strategies. Each team then determines the appropriate metrics and objectives that will help reach the team's growth target, and a budget is allocated to each Marketing Aspect. Juno's key metric is sales and its main objective is to sell 25,000 cars in the Chinese market the year after the vehicle is released. The Marketing Strategy team for Juno decides to use Digital Marketing, Branding and Advertising, and Retail Marketing to reach out to its target market segment. Juno's product strategy team sets a budget of $1 million for Digital Marketing to sell 3,000 cars, $10 million for Branding and Advertising to sell 10,000 cars, and $15 million for Retail Marketing to sell 12,000 cars.
- **Marketing Aspect Level**—The metrics, objectives, and budgets allocated to each of the Marketing Aspects become inputs for those Aspects. For example, the Digital Marketing team may decide to create a high-quality website with their budget of $1 million with an objective of selling 3,000 cars.

Example of Levels of Sales and Marketing Strategy—

Land Development Company

- **Corporate Level**—A land development company wants to grow to be among the top three land development companies in its state.
- **Business Unit/Geographic Level**—The land development company operates two business units: Residential and Retail. A goal of the Residential Business Unit is to grow that unit by 12% within one year; a goal of the Retail Business Unit is to grow that unit by 10% within the same time period.
- **Product/Brand Level**—Within the Residential Business Unit, the company sells three products: Condominiums, Town homes, and Singles. The Singles Product Marketing Strategy identifies an objective to grow the sale of single units by 15%. To achieve this objective, the teams responsible for building strategy within the various Aspects of Marketing establish specific objectives that are designed to support the overall product objectives and to align with one another.
- **Marketing Aspect Level**—The Company's greatest strength is the fact that it is an award-winning leader in 'green' sustainable development. Therefore, the Branding and Advertising team builds specific tactics that incorporate an increase in reach of its messaging around sustainable development. One specific tactic is to leverage billboard and newspaper advertising with the objective of increasing reach of 'green' messaging by 30%. The Digital Marketing team incorporates tactics to support the objective of increasing the 'green' sustainable development messaging, stressing the importance of this trend, and positioning the company as a leader in the industry, through the use of various social media channels. One specific tactic is to leverage blogs and online public relations with the objective of increasing the company's rankings in online searches related to keywords, such as 'sustainable development.' The tactics of each Marketing Aspect are aimed at achieving their own specific objectives; however, both support the overall Singles Product Strategy objective of achieving a 15% growth in sales for this product line.

1.6.1 Focus on Product or Brand Level Marketing Strategy

Although the Corporate Marketing Strategy is discussed here and in the appendix at a corporate level, subsequent chapters of this book, and the other related books about the Aspects of Sales and Marketing (that together form the comprehensive *SMstudy® Guide*), primarily discuss Marketing Strategy and its related concepts at a product or brand level. The objective of this approach is to focus on learning these concepts and developing strategies at the most granular level. The concepts, however, can be extrapolated and the knowledge applied to develop strategies at higher levels (i.e., Business Unit/Geographic levels or Corporate levels).

1.7 Marketing Strategy Overview

All successful products or brands need well-planned marketing strategies in place to ensure that they satisfy the goals set by the corresponding Business Unit or Geographic level, and in turn the overall Corporate Marketing Strategy. Marketing Strategy is therefore one of the most crucial Aspects of Sales and Marketing. It defines a product or brand's unique value proposition, target markets, and the specific strategies to be used to connect with defined audiences. It also specifies the pricing and distribution strategies for a product or brand, and outlines the specific metrics, objectives, and budgets for all its marketing activities.

The Marketing Strategy includes a set of outputs from the eleven Marketing Strategy processes described in this book. These outputs are incorporated throughout strategic planning to help provide an overall direction for the marketing initiatives designed to support the promotion of the company's products or the brand.

Figure 1-7 provides an overview of the important processes and outputs related to Marketing Strategy.

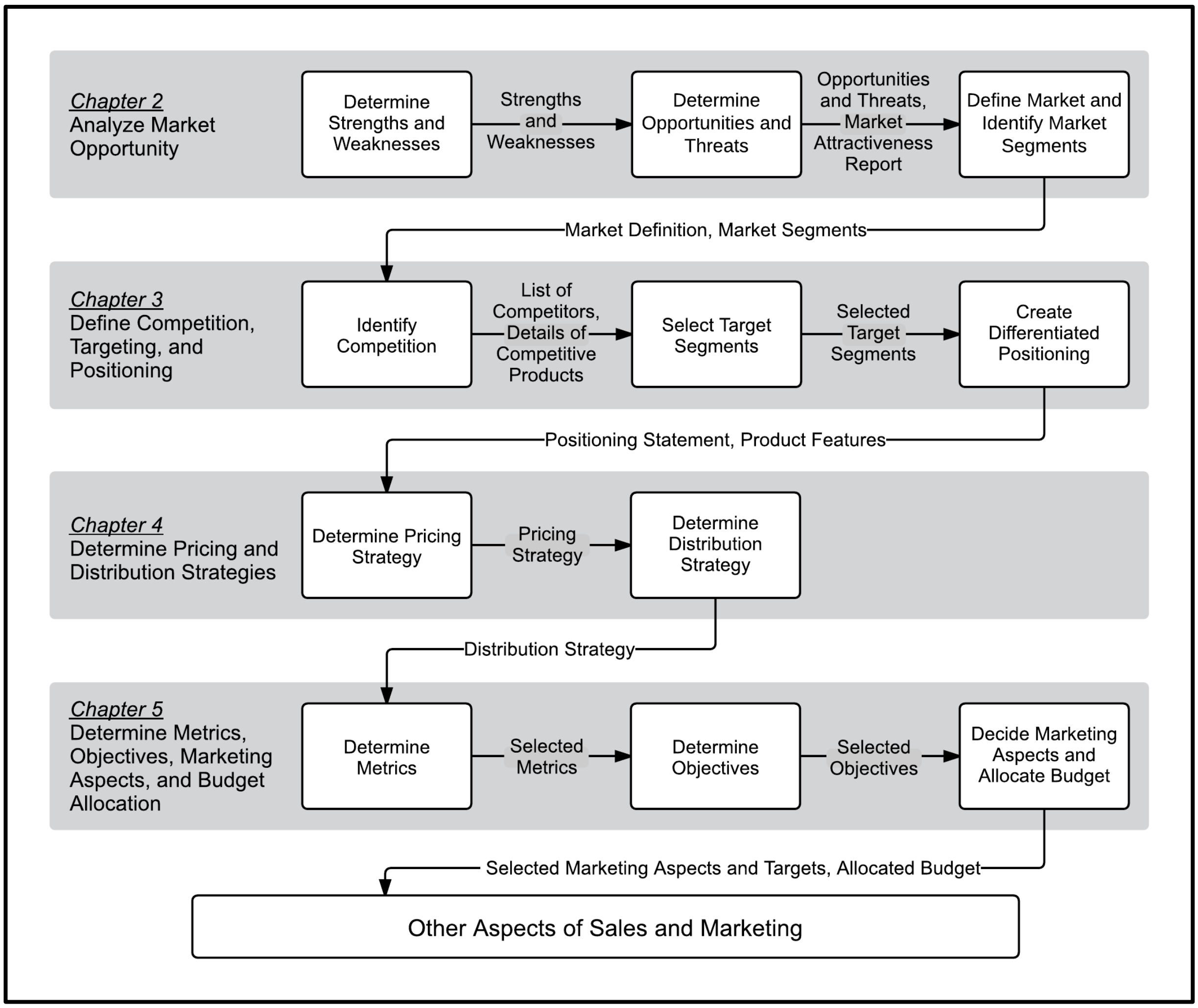


Figure 1-7: Summary of the Marketing Strategy Processes

1.7.1 Analyze Market Opportunity

Analyze Market Opportunity is the second chapter of this book on Marketing Strategy. This chapter discusses the concepts related to analyzing the internal capabilities of a company as well as the factors of the external environment that impact the business. An analysis of market opportunities is important because businesses operate in dynamic and constantly evolving environments, so understanding the changing landscape and trends that are impacting the business helps in developing an effective Marketing Strategy. This chapter also explains the crucial factors to consider while analyzing market opportunity, such as defining the market within which a company intends to operate, and segmenting the market to identify potential customers for the company's product portfolio.

The processes associated with Analyze Market Opportunity are: *Determine Strengths and Weaknesses*, *Determine Opportunities and Threats*, and *Define Market and Identify Market Segments*. Each process is explained in detail using its associated inputs, tools, and outputs. Analyze Market Opportunity helps an organization understand what it can deliver so that it can fulfill customer needs.

Figure 1-8 provides an overview of the processes pertaining to Analyze Market Opportunity, which is discussed in detail in Chapter 2.

2.1 Determine Strengths and Weaknesses

INPUTS
1. Senior Management Direction and Insights*
2. Organizational Capabilities*
3. Assumptions and Constraints*
4. Existing Marketing Research Reports

TOOLS
1. Meetings and Discussions*
2. Product Portfolio Analysis*
3. BCG Growth-Share Matrix
4. Value Chain Analysis
5. Marketing Research

OUTPUTS
1. Strengths and Weaknesses*
2. Marketing Research Reports

2.2 Determine Opportunities and Threats

INPUTS
1. Senior Management Direction and Insights*
2. Assumptions and Constraints*
3. Existing Marketing Research Reports
4. Generic Reports

TOOLS
1. Meetings and Discussions*
2. Porter's Five Forces for Industry Attractiveness
3. Market Analysis
4. Marketing Research
5. PESTEL Analysis*

OUTPUTS
1. Opportunities and Threats*
2. Market Attractiveness Report*
3. Marketing Research Reports

2.3 Define Market and Identify Market Segments

INPUTS
1. Strengths and Weaknesses*
2. Opportunities and Threats*
3. Market Attractiveness Report*
4. Existing Goals
5. Existing Marketing Research Reports

TOOLS
1. Meetings and Discussions*
2. Demographic Segmentation
3. Psychographic Segmentation
4. Behavioral Segmentation
5. Company Characteristics-Based Segmentation
6. Evaluation of Future Market Scenarios*

OUTPUTS
1. Market Definition*
2. Market Segments*

Figure 1-8: Analyze Market Opportunity Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

1.7.2 Define Competition, Targeting, and Positioning

The third chapter of Marketing Strategy is Define Competition, Targeting, and Positioning. This chapter first explores identifying the competition, understanding industry trends, and creating future competitive scenarios that help in selecting target market segments. It then looks at creating a differentiated positioning statement for the company's products or services for the target segments selected. Competitive positioning tools help define how a company can differentiate its product offerings to create value in the market by fully understanding its target segments and the competitive landscape.

There are three processes outlined that help an organization understand market competition, target appropriate market segments, and define product features that help create a differentiated positioning statement for the products or brands of the company. The processes discussed in this chapter are *Identify Competition*, *Select Target Segments*, and *Create Differentiated Positioning*.

Figure 1-9 provides an overview of the processes discussed in Chapter 3: Define Competition, Targeting, and Positioning.

3.1 Identify Competition	3.2 Select Target Segments	3.3 Create Differentiated Positioning
INPUTS 1. Senior Management Direction and Insights* 2. Market Segments* 3. Existing Marketing Research Reports 4. Information Published by Competitors **TOOLS** 1. Competitor Selection Criteria* 2. Future Competitive Analysis* 3. Marketing Research 4. Meetings and Discussions* **OUTPUTS** 1. List of Competitors* 2. Details of Competitive Products* 3. Industry Benchmarks and KPIs 4. Future Competitive Scenarios 5. Marketing Research Reports	**INPUTS** 1. Strengths and Weaknesses* 2. Opportunities and Threats* 3. Market Segments* 4. List of Competitors* 5. Details of Competitive Products* 6. Industry Benchmarks and KPIs 7. Future Competitive Scenarios **TOOLS** 1. Market Segment Attractiveness Matrix* 2. Undifferentiated Strategy 3. Focused or Concentrated Strategy 4. Differentiated Strategy 5. Market-Product Grid 6. Customer Personas* 7. Meetings and Discussions* 8. Marketing Research **OUTPUTS** 1. Selected Target Segments*	**INPUTS** 1. Selected Target Segments* 2. Strengths and Weaknesses* 3. Opportunities and Threats* 4. List of Competitors 5. Details of Competitive Products 6. Industry Benchmarks and KPIs 7. Existing Marketing Research Reports 8. Customer Feedback **TOOLS** 1. Selecting Points of Parity and Differentiation* 2. Perceptual Maps* 3. Product Categories 4. Meetings and Discussions* 5. Marketing Research **OUTPUTS** 1. Positioning Statement* 2. Product Features* 3. Updated Corporate Strategy 4. Marketing Research Reports

Figure 1-9: Define Competition, Targeting, and Positioning Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

1.7.3 Determine Pricing and Distribution Strategies

Determine Pricing and Distribution Strategies is the fourth chapter of this book on Marketing Strategy. A Pricing Strategy properly prices a company's products or services so that the company can sustain profitability while maintaining or growing its market share. Developing a Pricing Strategy involves assessing the value of the company's products based on their features; analyzing the pricing and features of competitive products in the market; analyzing the consumer mindset, which takes into account demand and price expectations for the products; and considering anticipated unit costs, sales, and, in turn, profitability. A Distribution Strategy defines how a company moves a product from creation to consumption in a cost-efficient manner while focusing on end users' needs. The Distribution Strategy is important because, understanding and addressing the needs of the entire distribution channel external to the company, ensures that products or services are delivered and sold to customers in the most efficient and effective manner possible for the business to succeed.

This chapter explains the two processes associated with Determine Pricing and Distribution Strategies. These are *Determine Pricing Strategy* and *Determine Distribution Strategy*. The Pricing Strategy is determined for the various products or services of a company. The end objective is sustainable profitability while growing or maintaining a healthy market share. The Distribution Strategy ensures the most efficient delivery of a company's products or services to the customer and that the selected strategy is based on the company's assessment of several alternative distribution channels. These processes are explained with the help of their associated inputs, tools, and outputs.

Figure 1-10 provides an overview of the processes described in Chapter 4: Determine Pricing and Distribution Strategies.

4.1 Determine Pricing Strategy

INPUTS
1. Market Attractiveness Report*
2. Past Revenues and Cost Data*
3. Positioning Statement*
4. Existing Marketing Research Reports
5. Purchase Timing
6. Existing Warranties
7. Opportunities and Threats
8. Details of Competitive Products*
9. Product Features

TOOLS
1. Marketing Research
2. Price Elasticity of Demand*
3. Total Cost of Ownership*
4. Economies of Scale
5. Experience/Learning Curve
6. Target Costing
7. Break-Even Analysis*
8. Perceived Value Pricing
9. Value Pricing
10. Going Rate Pricing/Neutral Pricing
11. Auctions
12. Gain-Sharing and Risk-Sharing Pricing
13. Variations among Product Geographies
14. Discounts and Offers*

OUTPUTS
1. Pricing Strategy*
2. Marketing Research Reports

4.2 Determine Distribution Strategy

INPUTS
1. Positioning Statement*
2. Product Features*
3. Pricing Strategy*
4. Opportunities and Threats
5. Existing Marketing Research Reports
6. Performance of Existing Channel Members

TOOLS
1. Demand Chain Planning
2. Value Network Analysis
3. Evaluation of Distribution Channel Models*
4. Total Cost of Distribution
5. Marketing Research
6. Meetings and Discussions*

OUTPUTS
1. Distribution Strategy*
2. Updated Pricing Strategy
3. Marketing Research Reports

Figure 1-10: Determine Pricing and Distribution Strategies Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

1.7.4 Determine Metrics, Objectives, Marketing Aspects, and Budget Allocation

This chapter discusses the various metrics and objectives used for Sales and Marketing such as reach, brand perception, product availability, sales, and profitability. It also provides an overview of various Sales and Marketing Aspects, including Marketing Research, Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing, and presents a framework for allocating targets and budget for each of these Aspects.

This chapter describes three processes using their corresponding inputs, tools, and outputs. The processes are *Determine Metrics*, *Determine Objectives*, and *Decide Marketing Aspects and Allocate Budget*. In the first process, *Determine Metrics*, various Sales and Marketing metrics such as reach, brand perception, product availability, sales, and profitability are determined. These metrics help to measure the success or failure of the Marketing Strategy. In *Determine Objectives*, attainable, quantifiable and time-based objectives are determined for all of the metrics selected in the previous process. In the final process, the Sales and Marketing teams select the Marketing Aspects that will help the company reach its overall Sales and Marketing objectives. Subsequently, specific objectives are determined for each Marketing Aspect, and a marketing budget is also allocated for each.

Figure 1-11 provides an overview of the processes discussed in Chapter 5, Determine Metrics, Objectives, Marketing Aspects, and Budget Allocation.

5.1 Determine Metrics

INPUTS
1. Positioning Statement*
2. Pricing Strategy*
3. Distribution Strategy*
4. Industry Benchmarks and KPIs
5. High Level Goals

TOOLS
1. Meetings and Discussions*
2. Product Life Cycle Analysis
3. SMART Framework*
4. Customer Reach Metrics*
5. Brand Perception Metrics*
6. Product Availability Metrics*
7. Sales and Profitability Metrics*

OUTPUTS
1. Selected Metrics*

5.2 Determine Objectives

INPUTS
1. Selected Metrics*
2. Senior Management Direction and Insights*
3. Past Performance Data
4. Market Attractiveness Report
5. Future Competitive Scenarios
6. High Level Goals

TOOLS
1. Meetings and Discussions*
2. Trend Analysis
3. SMART Framework*

OUTPUTS
1. Selected Objectives*

5.3 Decide Marketing Aspects and Allocate Budget

INPUTS
1. Selected Objectives*
2. Senior Management Direction and Insights*
3. Available Budget
4. Past Performance Data
5. Details of Competitive Products

TOOLS
1. Meetings and Discussions*
2. ROI Comparison of Aspects*
3. Analysis of Competition's Marketing Aspects

OUTPUTS
1. Selected Marketing Aspects and Targets*
2. Allocated Budget*
3. Updated Objectives

Figure 1-11: Determine Metrics, Objectives, Marketing Aspects, and Budget Allocation Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

2. ANALYZE MARKET OPPORTUNITY

This chapter reviews the external environmental factors and internal organizational capabilities that impact how a company operates to create a successful product or brand. Since companies operate in dynamic environments, understanding the changing landscape and current trends that are impacting the business helps to develop a sound Marketing Strategy.

An analysis of any market opportunity must include defining the market within which a company intends to operate, and then identifying segments within that market that include key customers for the company's products. While developing the Marketing Strategy, it is important to account for possible risks that can impact the targeted strategic changes, and then pro-actively create response plans to ensure that the company maintains its competitive advantage and success.

Figure 2-1 provides an overview of the processes associated with Analyze Market Opportunity, which are explored in this chapter. These are as follows—

2.1 Determine Strengths and Weaknesses—In this process the company's internal capabilities (i.e., strengths and weaknesses) that allow the company to compete in a market and fulfill customer expectations are identified.

2.2 Determine Opportunities and Threats—In this process the external factors that may impact fulfillment of a company's corporate objectives are identified. The factors that help a company achieve its objectives are considered opportunities; those that can hinder its efforts are considered threats.

2.3 Define Market and Identify Market Segments—In this process a company defines the type of market (or business) in which it plans to operate and then identifies various segments within that market.

2.1 Determine Strengths and Weaknesses	2.2 Determine Opportunities and Threats	2.3 Define Market and Identify Market Segments
INPUTS 1. Senior Management Direction and Insights* 2. Organizational Capabilities* 3. Assumptions and Constraints* 4. Existing Marketing Research Reports **TOOLS** 1. Meetings and Discussions* 2. Product Portfolio Analysis* 3. BCG Growth-Share Matrix 4. Value Chain Analysis 5. Marketing Research **OUTPUTS** 1. Strengths and Weaknesses* 2. Marketing Research Reports	**INPUTS** 1. Senior Management Direction and Insights* 2. Assumptions and Constraints* 3. Existing Marketing Research Reports 4. Generic Reports **TOOLS** 1. Meetings and Discussions* 2. Porter's Five Forces for Industry Attractiveness 3. Market Analysis 4. Marketing Research 5. PESTEL Analysis* **OUTPUTS** 1. Opportunities and Threats* 2. Market Attractiveness Report* 3. Marketing Research Reports	**INPUTS** 1. Strengths and Weaknesses* 2. Opportunities and Threats* 3. Market Attractiveness Report* 4. Existing Goals 5. Existing Marketing Research Reports **TOOLS** 1. Meetings and Discussions* 2. Demographic Segmentation 3. Psychographic Segmentation 4. Behavioral Segmentation 5. Company Characteristics-Based Segmentation 6. Evaluation of Future Market Scenarios* **OUTPUTS** 1. Market Definition* 2. Market Segments*

Figure 2-1: Analyze Market Opportunity Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

2.1 Determine Strengths and Weaknesses

The strengths and weaknesses of a company determine its internal capabilities to compete in a market and to fulfill customer expectations. Strengths provide the company with a competitive advantage and can include factors such as skilled human resources, existing brands, patents, technology expertise, and distribution capabilities. Weaknesses place the company at a disadvantage, for example, factors such as unskilled resources, inflexible organizational structure, lack of updated technology, and inefficient operational processes.

Identifying strengths and weaknesses, together with opportunity and threats discussed in the next process, constitute what is commonly known as a SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis. Such an analysis provides a comprehensive overview of a company's readiness to compete in a particular market and fulfill customer demands. Ultimately, the goal is to take the findings from the analysis and translate them into specific actions that will help the organization achieve success.

An organization should strive to identify and build on its strengths and address its weaknesses. An understanding of its strengths typically uncovers opportunities for the organization to consider exploiting. Examining weaknesses helps identify the threats to eliminate so the organization can successfully compete in the market. Without understanding the strengths and weaknesses, the Marketing Strategy team may end up creating strategies that the company is unable to implement. At the same time, the team may miss opportunities that can arise due to a unique combination of capabilities.

The primary objective of the Marketing Strategy is to fulfill customer needs. A key requirement for achieving that objective is an understanding of what the organization can deliver. Figure 2-2 shows the inputs, tools, and outputs for the *Determine Strengths and Weaknesses* process.

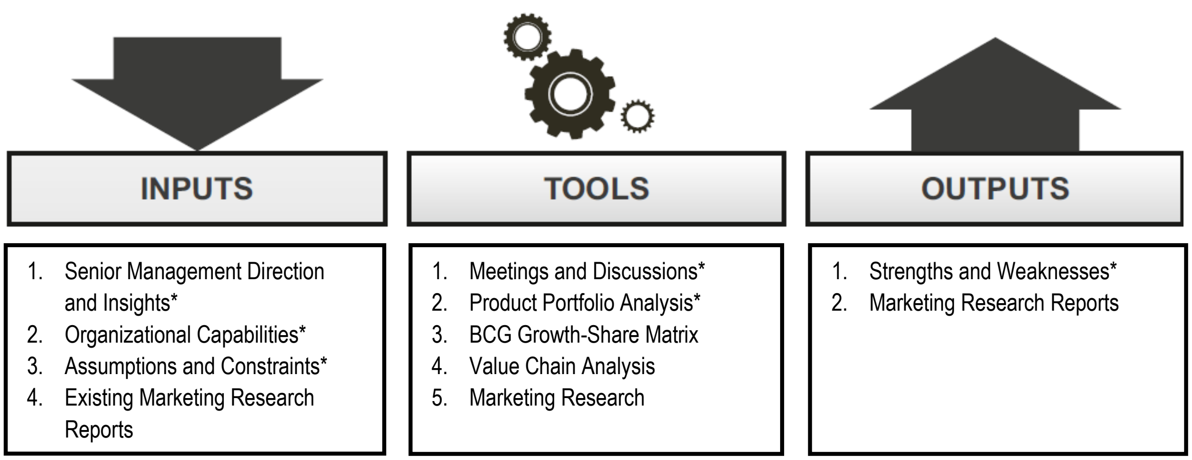


Figure 2-2: Determine Strengths and Weaknesses—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

2.1.1 Inputs

2.1.1.1 Senior Management Direction and Insights*

Since the senior management team regularly receives information from the functional strategy teams, it acquires a comprehensive view of the company and, as a result, can provide insights into the strengths and weaknesses of the company as a whole. These insights allow the senior management team to provide an overall vision for the company, which individual functional teams may not be able to fully recognize. Given their industry knowledge and long-term view of the company's vision, senior management may decide to support products that may be liabilities in the short term, but are expected to be beneficial in the long term. Without senior management's perspective, the marketing team risks overlooking the strengths and weaknesses in other functional areas, may support or start developing capabilities that do not complement the corporate strategy, and/or may move in a direction that is not aligned with the overall corporate goals.

2.1.1.2 Organizational Capabilities*

Organizational capabilities in a company are those that allow a company to achieve its organizational goals and gain a competitive advantage. Capabilities can originate from any function or may already be fundamental to a company. They determine what a company can expect to achieve and, thus, are key determinants of a company's Corporate Strategy, and in turn its Marketing Strategy. For example, a PC gaming company cannot expect to become a leader in the mobile gaming industry unless it develops the technological capabilities to create state-of-the-art mobile games.

Organizational capabilities need to be considered at each strategic level in the company—Corporate, Business Unit or Geographic, and Product or Brand. An example of organizational capabilities that might factor into each level of strategy for a business entering the video game industry is given below.

Example of Organizational Capabilities for a Company Entering the Video Game Industry:

A company's Marketing Strategy for a product or brand takes into account organizational capabilities in all areas of the business. These might include—

- Finance (e.g., obtaining credit at lower interest rates)
- Operations (e.g., achieving more efficient manufacturing and/or customer support processes)
- Human Resources (e.g., hiring skilled employees)
- Location (e.g., occupying a restaurant in a prime location on a busy road)
- Intellectual Property (e.g., owning patents and copyrights that help the company to create superior products)
- Organizational culture (e.g., having an entrepreneurial corporate culture)

Understanding an organization's capabilities is one of the first steps in determining whether or not a company has the ability to fulfill customer demands. Having a thorough knowledge of the specific capabilities available in all functional areas is an important part of analyzing the organization's internal environment. These capabilities may be derived from tangible assets (e.g., manufacturing facilities, machinery and other equipment, raw materials, and people) and intangible assets (e.g., brand image, corporate culture, and employee knowledge and skills). Other areas to consider when evaluating organizational capabilities include a company's ability to develop new products and drive innovation, its ability to respond quickly to customer demands, the strength of customer relationships, and the overall knowledge and sustainability of the workforce. In addition, there may be some capabilities that do not give rise to competitive advantage; for example, if the organization consumes a lot of expensive resources just to sustain itself, these might be considered liabilities. Understanding which capabilities contribute to a company's growth and which ones do not ensures that the company's focus is on the capabilities it truly needs.

2.1.1.3 Assumptions and Constraints*

An assumption can be defined as anything that is considered to be true without proof. For example, there may be an assumption that all of the required skill sets for Sales and Marketing activities are available inside the company, or an assumption that a new product will capture ten percent market share in a particular market segment. Since strategic planning usually deals with inherent uncertainty about future events, it is necessary to make assumptions when considering strengths and weaknesses; however, assumptions related to Sales and Marketing should be clearly thought through and explicitly stated, validated, and agreed upon before deciding on any specific strategy or marketing plan.

A constraint is a limitation or restriction that creates certain boundaries or obstacles. For example, there may be a constraint of six months for launching a product, or creating a product may be contingent on the need for research and design activities. Constraints are particularly relevant when considering weaknesses during the market opportunity assessment as they generally limit the decisions and abilities of the Sales and Marketing team.

Assumptions and constraints can be defined at various levels of strategy. They should be verified and agreed to by the relevant stakeholders at each particular level.

Example of Assumptions and Constraints for a Company's Growth Forecasts:

Sample Assumptions and Constraints
(Used by a global consumer goods company for its growth forecasts)

Strategy Level	Assumption	Constraint
Corporate (Company)	Continued global revenue growth of 3% on core products, which has been a historical trend for the past five years	Global sales and marketing budget of $10 billion
Business Unit or Geographic	Less than 5% turnover among skilled Sales and Marketing team members	US marketing budget of $4 billion
Product or Brand	Launch of Version 2.0 of Product X, on schedule and on budget	Product marketing budget of $250 million for a specific product to be launched in the US

2.1.1.4 Existing Marketing Research Reports

There are two types of marketing research reports that can serve as inputs when analyzing the internal strengths and weaknesses of a company—

1. **Industry Reports**—These reports may contain industry benchmarks that are used to determine the metrics or parameters to measure a company's strengths and weaknesses. They may also contain key success factors in the industry (i.e., areas in which companies need to excel to win customers) and the minimum level of performance a company must achieve in order to trigger customer purchases. Industry reports are typically published by consulting firms or by industry associations and are available to any company, generally at a price.

2. **Company Commissioned Reports**—These are research reports created or commissioned by a company to understand specific areas of the company's strengths and weaknesses which may have significant impact on the decisions to be made by the marketing strategy teams. There may be differing views within the marketing team about the company's capabilities; company-commissioned marketing research helps to test different marketing hypotheses based on a more objective view of the company's strengths and weaknesses.

For additional information about how to effectively conduct marketing research, please refer to the Marketing Research book in the *SMstudy® Guide* series.

2.1.2 Tools

2.1.2.1 Meetings and Discussions*

Meetings and discussions are very useful for gathering insights about a company's readiness to fulfill customer demands—not just from the marketing team, but also from senior management, other functional teams, external consultants, subject matter experts, stakeholders, and industry groups. Each of these entities has its own value—

- Senior management ensures that corporate goals are addressed.
- Other functional teams ensure that internal aspects affecting their respective functions are taken into consideration.
- External consultants may provide an independent, objective view of the company's capabilities.
- Subject matter experts provide depth to the discussions as well as their perceptions on how specific capabilities of the company map to customer demands.
- Stakeholders (e.g., customers, shareholders, and members of the target market) provide unique perspectives, such as local market trend information or recommendations to be eco-friendly.
- Industry groups provide insights into industry issues, challenges, and opportunities.

Meetings and discussions also help the marketing team to synthesize the results of analyses done using one or more of the other tools discussed in this section. In addition, they help the team to compile a comprehensive report on the company's strengths and weaknesses. A useful method suggested by Lehmann and Winer (2008)[1] involves listing the strengths and weaknesses and arranging them into five key abilities—

1. Ability to conceive and design
2. Ability to produce
3. Ability to market
4. Ability to finance
5. Ability to manage

This approach also helps the team identify and compare the abilities of competitors along the same parameters while performing a competitive analysis in the *Determine Opportunities and Threats* process (section 2.2). While listing strengths, it is also useful to consider whether the strengths currently provide, or have the potential to provide, a competitive advantage that cannot be easily duplicated by the competition. A competitive advantage can result from a key point of differentiation. Identifying key points of differentiation (see section 3.3.2.1) is a component of the *Create Differentiated Positioning* process described in section 3.3. Points of differentiation can include the quality of raw materials, operational efficiencies, or superior customer service, among others. Such factors can provide a business with a substantial competitive advantage and can enable a company to compete in the long run.

2.1.2.2 Product Portfolio Analysis*

Understanding the overall product portfolio of a company, and evaluating the current and future product lines is an important component of the Marketing Strategy. Peter Drucker (1973)[2] proposed a classification method for analyzing a company's product portfolio based on each product's current and expected profitability. After the classification exercise, the marketing team is able to pinpoint products that contribute to the company's strengths and those that do not. Accordingly, support and investment for each product can be decided.

Using Drucker's method, products are classified into seven categories—

1. **Today's Breadwinners**—These products are contributing the most to current profits. The company should support these products and, at the very least, maintain current investment levels.

2. **Tomorrow's Breadwinners**—These products represent investments in the company's future. They are not currently contributing significantly to profits, but they have the potential to do so in the future. The company should support these products and perhaps increase investments in them.

[1] Lehmann, D.R. and Winer, R.S. (2008). *Analysis for Marketing Planning*. New York: McGraw Hill/Irwin.
[2] Drucker, P. (1973). *Management: Tasks, Responsibilities, Practices.* New York: Harper & Row.

3. **Yesterday's Breadwinners**—These products have supported the company in the past but do not currently contribute significantly to profits. A minimum level of support and investment should be maintained for these products until the time they resume generating substantial profits. Alternately, a decision may be made to discontinue such products.

4. **Developments**—These products are currently in development and may generate profits in the future, but greater investment is needed to achieve those profits. A decision on whether to invest more resources needs to be made after a thorough analysis of the market potential and Return on Investment (ROI) for these products.

5. **Sleepers**—These products have been around for some time but have failed to establish themselves. The company needs to analyze the reasons for their poor performance and then decide on a future course of action.

6. **Investments in Managerial Ego**—These products, backed by influential managers, have little proven demand in the market and typically waste many functional resources. It is up to senior management to ensure that all products created are viable and fulfill the demands of customers; otherwise such products should be discontinued.

7. **Failures**—These products have failed in the past and have no future in their current form. They should ideally be discontinued unless there is a way to successfully reposition them.

Products in the first three categories, "Today's Breadwinners," "Tomorrow's Breadwinners," and "Yesterday's Breadwinners," are strengths of the company while those in the last two categories, "Investments in Managerial Ego" and "Failures," are weaknesses. The "Developments" and "Sleepers" need to be analyzed in greater detail to classify them as either strengths or weaknesses.

Examples of Product Portfolio Analysis:

A company in the soft drinks and beverage industry does a product portfolio analysis, and categorizes its products as follows—

- **Today's Breadwinners:** Regular sodas
- **Tomorrow's Breadwinners:** Zero-calorie beverages
- **Yesterday's Breadwinners:** Lemonades
- **Developments:** Juices and juice drinks
- **Sleepers:** Still and sparkling water
- **Failures:** Energy and sports drinks

A product portfolio analysis for a company in the phone manufacturing industry might look like this—

- **Today's Breadwinners:** Touch screen cell phones
- **Tomorrow's Breadwinners:** Hybrid tablet-cell phones
- **Yesterday's Breadwinners:** Home phone handsets
- **Developments:** Wearable technology
- **Sleepers:** Imbedded, bio-technology
- **Investments in Managerial Ego:** Extendable keyboards
- **Failures:** In-ear receivers

Categorizing all its products using product portfolio analysis helps a company identify its strengths and weaknesses, and in turn plan its Marketing Strategy.

2.1.2.3 BCG Growth-Share Matrix

The BCG Growth-Share Matrix[3], originally conceptualized by the Boston Consulting Group (BCG) in the late 1960s to evaluate various business units, can be applied equally well to products or services. It consists of a two-by-two matrix containing four quadrants, with the vertical axis depicting market growth rate and the horizontal axis showing market share. The BCG Growth-Share Matrix helps companies evaluate the strengths and weaknesses of their product portfolio and then decide on a strategy for each product within it. It provides a way to determine the appeal of each business unit, which can in turn be used to determine the amount of investment, if any, that should be made in each product.

[3] Henderson, B. D. (1970). "The Product Portfolio." Boston Consulting Group: *Perspectives*, 66.

The matrix classifies products into four categories—

1. **Cash Cows**—These products have high market share, but the growth rate of their markets is low. These are typically market leaders in mature markets. Due to their commanding position in the market, they are profitable and are good sources of cash flow for the company. However, the market share for cash cows should be monitored closely to ensure they do not move from the category of cash cow to the category of products classified as "Dogs."

2. **Stars**—These products have high market share in markets with high growth rates. These are typically market leaders in new and emerging markets. They generate cash flows, but require high investment to create the product and to manage the business operations and marketing activities that support the product. When their growth slows, they normally become "Cash Cows" and thus, are good for long-term survival.

3. **Dogs**—These products have low market share in stagnant or declining markets. At most, these products just break even. Sometimes they provide a benefit to the company, such as being loss leaders to attract new customers. However, if no such benefit is provided to the company, products classified as "Dogs" should be discontinued.

4. **Question Marks**—These products are in markets with high growth rates but currently have a low market share. If they do well, they can become "Stars," and over time, once the market slows, become "Cash Cows." However, if they continue to achieve a low market share, then once the market declines, they become "Dogs." This product category represents a question mark for management because, at some point, a decision has to be made on whether to invest in the product or phase it out.

Figure 2-3 illustrates the four quadrants of the BCG Growth-Share Matrix.

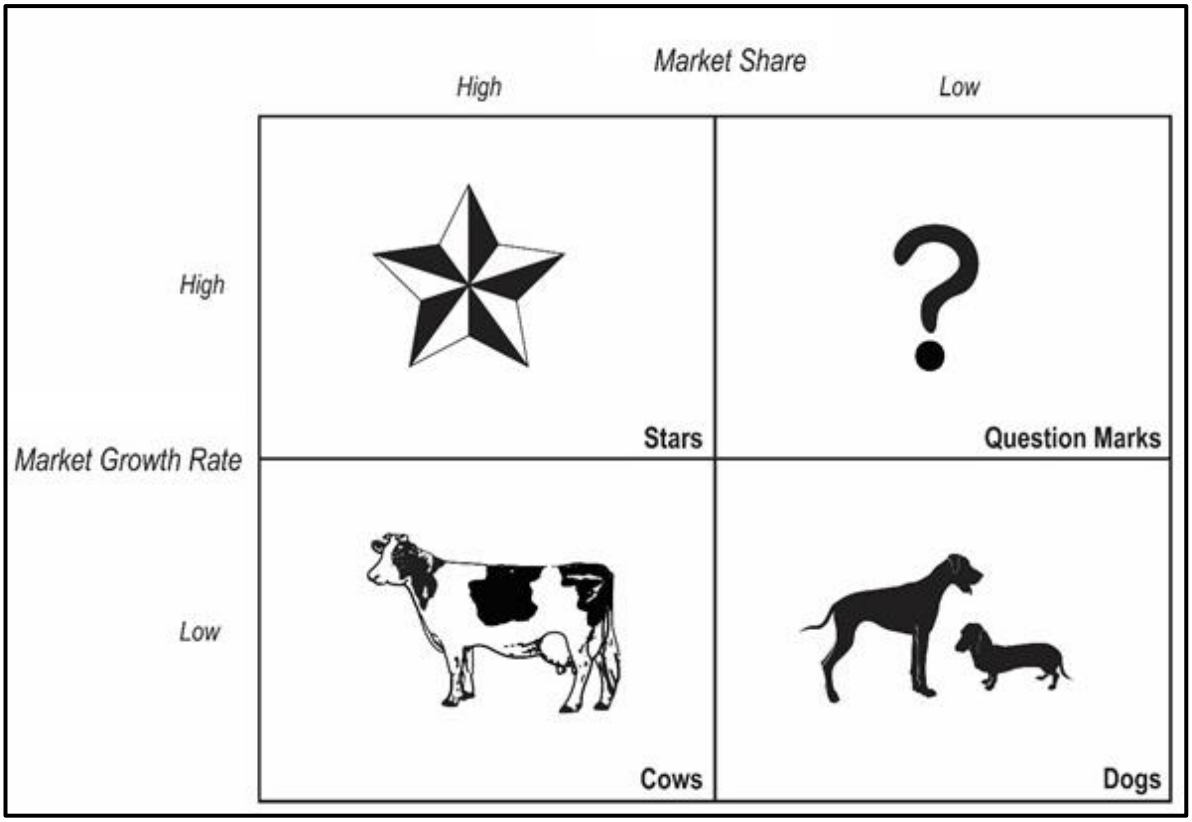


Figure 2-3: BCG Growth-Share Matrix

The Cash Cows and Stars clearly contribute to the strength of the company, while the Dogs are generally weaknesses. The Question Marks need to be analyzed in more detail to determine their classification as either strengths or weaknesses.

Advantages—

- The matrix is easy to understand and provides a good overview of the state of the product portfolio.
- It reveals the sources of cash flow generation and loss and thus aids in difficult decisions such as discontinuing a product line.
- It helps evaluate which products to invest in.

Disadvantages—

- Both market share and market growth rate can be difficult to ascertain accurately in many industries, and especially in new industries.
- Products classified as Dogs are not necessarily bad for the company. They can be loss leaders or they can force a competitor to maintain low prices, which will affect its profitability and reduce its ability to compete on other fronts. Dogs can also be transformed into Cash Cows in certain cases.

- The correlation between high market share and high profitability is not universal. There are many situations where a company with a low market share can still be highly profitable, or alternatively, a company can have a high market share but still suffer losses.
- The progression of a Star into a Cash Cow, or a Cash Cow into a Dog is also far from certain. For example, some companies with strong brands or significant competitive advantage can continue to be market leaders for sustained periods of time without their products becoming Dogs.

Examples of BCG Growth-Share Matrix:

For a leading electronics company, a BCG Growth-Share Matrix is used to categorize products as follows—

- **Cash Cows:** Laptops that have high market share but low growth rate
- **Stars:** Smartphones and tablets with high growth rate and high market share
- **Dogs:** Music players and desktop computers with a low or declining market share
- **Question Marks:** Televisions and home theatre systems that have a low market share, but have the potential to achieve high market share in the future

A small regional airline categorizes its offerings using the BCG Growth-Share Matrix as follows—

- **Cash Cows:** Regularly scheduled regional travel between select destinations
- **Stars:** A few seasonal/holiday tropical destinations promoted heavily during the winter season
- **Dogs:** All-inclusive vacation packages operated by partner airlines and resorts; little revenue is generated but these packages increase the profile of the airline by increasing its visible offerings
- **Question Marks:** Transcontinental flights in a large potential growth market but requiring major investment

2.1.2.4 Value Chain Analysis

Value Chain Analysis is used to analyze the value created by a company's current activities. It explores where more value can be added, as well as where value is not being added throughout the chain of activities. It is a useful tool for internal analysis of strengths (activities that add value) and weaknesses (activities that do not add value).

Value Chain Analysis is a three-step process as follows—

1. **Analyze Activities**—This step consists of identifying all key activities of a company that are involved in delivering the final product or service to its customers. A popular way to do this is to classify activities as either primary activities or support activities.

   Michael Porter, who coined the term "value chain", identified five primary company activities (explained in detail in section 2.2)—Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales, and Service (Porter, 1985)[4]. Primary activities are reinforced by support activities such as procurement, human resource development, technological development, and infrastructure. The list of activities and each activity's classification may be adjusted by the company, if necessary. For example, for purely online businesses, inbound and outbound logistics may not be relevant.

   After all activities are identified, the links between the activities need to be specified. For example, the service function, which supports customers, will have links to the operations function, which fulfills customer support requests, and the marketing and sales function, which analyzes customer feedback to improve offerings. The activities, together with the links between them, form the structure of the value chain.

2. **Analyze Value Created by Those Activities**—This step involves identifying where value is created throughout the chain, and in what form and how much. Value should always be explored from a customer's viewpoint. A product feature or service component that does not benefit the customer does not add any value. Such an activity represents an opportunity for freeing up resources that could otherwise contribute to adding value through some other activity. For example, in a manufacturing environment, each manufacturing process that is involved in changing raw materials into finished product adds value by ensuring that the final product is functional. Quality assurance activities add value by ensuring that the products meet the standards required by customers. The sales team's efforts add value by encouraging more customers to purchase the products. The customer support activities add value by addressing customer questions and concerns and maintaining a high level of customer satisfaction.

3. **Determine How to Create Additional Value**—This step involves generating a number of ideas to add additional value to activities across the value chain and evaluating each of them to determine which are feasible and should be implemented. Brainstorming is a popular tool that can be used to generate ideas for increasing the value of activities. Both improving an activity and lowering its costs can increase value. Thus, evaluating ideas for activity improvements should involve considering whether these actions represent a trade-off, or whether improving an activity and lowering its cost can be accomplished.

[4] Porter, Michael E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Simon and Schuster.

2.1.2.5 Marketing Research

When existing marketing research reports are insufficient for understanding a company's internal environment, the company may choose to conduct new marketing research to fill any gaps in market intelligence. Such marketing research projects generally fall into two categories—primary research and secondary research. Primary and secondary research can be further categorized as being quantitative (i.e., data collected from a sample set of the target population using questionnaires or surveys with scales or rating systems, and then analyzed using statistical techniques to identify trends, conditions, and opinions) or qualitative (i.e., data collected from a small group of participants and not analyzed with statistical techniques but used to define a problem, generate or validate hypotheses, explore an issue, and/or reveal insights or motives).

1. **Primary Marketing Research** about a company's strengths and weaknesses involves developing a broader understanding of the perceptions and attitudes toward the company's products, by using tools such as interviews, focus groups, and survey questionnaires. These research projects are not limited to learning only about customer perceptions and behavior; they may also involve understanding the perceptions of suppliers toward the company's policies and products, conducting an employee survey to better understand existing capabilities and potential training needs, and/or evaluating technology that is being used in the marketplace. The means to gather data on a variety of areas where a company needs to know more is available, but the focus should be on discovering areas of improvement and consolidating areas of strength.

2. **Secondary Marketing Research** involves the use of content and information that is currently available within the company or in the market through primary research that has already been conducted and is readily obtainable through company reports, trade journals, industry publications, and/or the Internet. Secondary research involves gathering this existing information to better understand the company's strengths and weaknesses.

Example of Marketing Research:

A medical supply company is looking to extend its product line in the area of Diabetes testing devices. The company has made an assumption that the average age of onset of Type 2 Diabetes is decreasing from the past average of 55 years and plans to conduct primary market research, as well as gather existing secondary market research, to validate or disprove this assumption.

- Primary market research may include holding a conference and inviting a cross section of family doctors in the area. Information provided by the doctors can help them understand the current trends.
- The company can also consider existing secondary market research by reviewing current medical journals to see if there are recorded trends and statistical analyses supporting the theory of a younger population developing Type 2 Diabetes.

If the research collected suggests that the population is indeed demonstrating an increase in onset of Type 2 Diabetes at a younger age, the new product line could include products that will be marketed to a younger age group through the use of technology more suited to a younger demographic. Cell phone apps, cloud storage databases, and the like may be useful and desired by this emerging group.

2.1.3 Outputs

2.1.3.1 Strengths and Weaknesses*

Understanding a company's strengths and weaknesses with respect to its ability to meet its customers' demands and to face competition helps the Marketing Strategy team determine the competitive positioning of the company's products. A detailed list of strengths and weaknesses should be documented so it can be used as an input to other processes within Marketing Strategy and other functional strategies. The document may also contain a plan on how to address any weaknesses and capitalize on strengths.

Example of Strengths and Weaknesses—

- A general overview of strengths and weaknesses of an established local print shop might be as follows—
  - **Strengths:** Brand recognition, good knowledge of local market, technology, qualified staff in place, experienced management, and good operational procedures
  - **Weaknesses:** Limited ability to support customer requirements for same-day print-on-demand and small-run printing, and lack of infrastructure for online sales and marketing
- The strengths and weaknesses of a retail clothing store might be as follows—
  - **Strengths:** Loyal customer base, exceptional customer service, and differentiated products
  - **Weaknesses:** Weak brand image (as compared to competitors' branding), high costs associated with supply chain, and lack of e-commerce capability

2.1.3.2 Marketing Research Reports

Marketing research reports may be created by the Sales and Marketing team if specific primary or secondary market research is gathered by the company to obtain a better understanding of the company's strengths and weaknesses.

2.2 Determine Opportunities and Threats

A company needs to identify the external factors that may impact fulfillment of its corporate goals. Those external factors that help the company achieve its goals are considered opportunities, while those that hinder the company's efforts are considered threats. Identifying opportunities and threats, together with strengths and weaknesses discussed in the previous process, constitute what is commonly known as a SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis. Such an analysis provides a comprehensive overview of a company's readiness to compete in a particular market and fulfill customer demands. Ultimately, the goal is to not only conduct a SWOT analysis but to take the findings from the analysis and translate them into specific actions that will help the organization achieve success. Organizations should strive to build on their strengths, address their weaknesses, capitalize on opportunities, and avoid or mitigate threats.

A company's ability to build a sustainable competitive advantage depends not only on developing, creating, and delivering products and services as per customer demands, but also on managing and exploiting external factors to its advantage. The external environments within which the factors are classified are the macro-environment and the micro-environment.

Macro-environment

Macro-environmental factors are those over which a company does not have much control or influence. Some of these include political, economic, social, technological, environmental, and legal factors. Together these factors make up the PESTEL Analysis framework, which is discussed in detail in section 2.2.2.5. Companies should consider all of these factors while developing the Marketing Strategy. Although it may be hard to influence these factors, market trend reports and secondary research generally help companies predict the effect they may have on the company's Marketing Strategy.

Micro-environment

The micro-environment of a company consists of environmental factors that have a more direct impact on the operations and success of the business. Some of these factors pertain to customers, distributors, suppliers, and other stakeholders. Companies usually possess a significant amount of control and influence over these entities and should exploit these relationships in order to successfully compete in the market.

Figure 2-4 shows the inputs, tools, and outputs for the *Determine Opportunities and Threats* process.

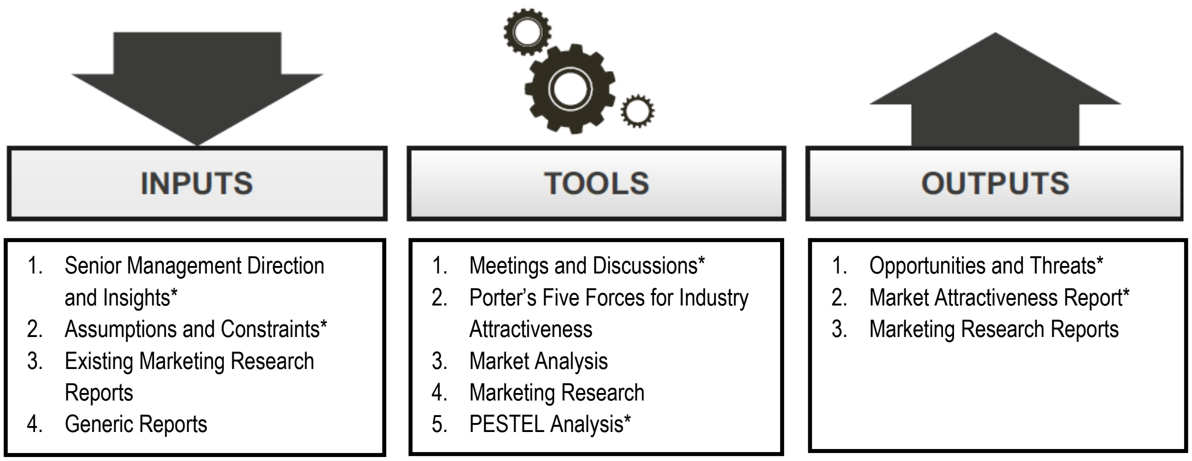


Figure 2-4: Determine Opportunities and Threats—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

2.2.1 Inputs

2.2.1.1 Senior Management Direction and Insights*

Senior management has a comprehensive understanding of a company's business, and this knowledge helps in identifying market opportunities and threats. Senior management may also be able to identify attractive market segments for the company.

2.2.1.2 Assumptions and Constraints*

An assumption can be defined as anything that is considered to be true without proof. Since Sales and Marketing usually deal with inherent uncertainty about future events, it is necessary to make assumptions when considering opportunities and threats.

A constraint is a limitation or restriction that creates certain boundaries or obstacles. Constraints are particularly relevant when considering threats during the market opportunity assessment as they generally limit the decisions and abilities of a Sales and Marketing team.

Examples of Assumptions and Constraints—

- Assumptions—When assessing opportunities and threats, the Marketing Strategy team usually makes assumptions related to the size of the market, the ability of the product to capture a certain percentage of a market segment, competitor's' products and their growth potential, consumer behavior for a target market segment, customer perceptions about any newly released product in the market, and so on.

- Constraints—When determining opportunities and threats, the Marketing Strategy team needs to consider constraints such as limited number of suppliers or raw materials for manufacturing, or a limited market size or demand for a particular product. The Marketing Strategy teams must identify and be able to work within these constraints in order to ensure overall goals are achieved despite such limitations.

Additional information related to assumptions and constraints is available in section 2.1.1.3.

2.2.1.3 Existing Marketing Research Reports

There are two types of marketing research reports that can serve as inputs for determining opportunities and threats—

1. **Industry Reports**—These reports are specific to a company's industry and may contain current industry trends, present difficulties, legal and regulatory norms, and promising future developments. Industry reports are typically published by consulting firms or by industry associations and are available to any company, generally at a price.

2. **Company Commissioned Reports**—These are reports that have been created or commissioned by a company in the past to understand its competition, distributors, suppliers, and customers. They may consist of collated and summarized feedback forms or derived from various internal sources such as customer data or financial reports.

2.2.1.4 Generic Reports

These are research reports that are not specific to a company or its industry. They contain information about political, economic, social, technological, regulatory, and environmental trends that could impact the company's Marketing Strategy. These are generally found in magazines, newspapers, government publications (e.g., census reports), and/or research journals.

2.2.2 Tools

2.2.2.1 Meetings and Discussions*

Meetings and discussions are useful for identifying and discussing external factors and their relative impact on a company. As in the previous process, *Determine Strengths and Weaknesses* (section 2.1), many entities could be involved in these discussions as each of them provides additional value. Such entities include the following—

- Senior management who ensures that corporate objectives are addressed.
- Other functional teams who ensure that the external factors affecting their respective functions are taken into consideration.
- External consultants who provide an independent view of the most important external factors that the company needs to consider.
- Subject matter experts who provide depth to the discussions as well as their perceptions on specific external factors.
- Stakeholders (e.g., customers, shareholders, and members of the target market) who provide unique perspectives, such as the impact that the state of the local infrastructure might have on the company's operations.
- Industry groups who provide insights into industry-related areas such as supply chain, distribution, and regulations.

2.2.2.2 Porter's Five Forces for Industry Attractiveness

Porter's Five Forces model[5] is used to analyze the long-term attractiveness of an industry. Understanding the interaction of these forces with the existing competing organizations helps explain the differences in profitability amongst industries. It also helps a company decide whether or not to enter an industry. If it already has a presence in a particular industry, then using this model enables a company to devise strategies to achieve and maintain profitability. A company should be capable of applying its core competencies, business model, or channel network to achieve a competitive advantage in its industry.

The five forces are described below—

1. **Threat of New Entrants**—New entrants in an industry increase the level of competition as existing players try to defend their market share against them. The higher the threat of new entrants, the lower the attractiveness of an industry. Highly profitable markets tend to attract many new players. However, for new entrants to an industry where established players are taking advantage of economies of scale and high product differentiation, several additional obstacles make entering the industry unattractive,

[5] Porter, M.E. (1998). "The Five Competitive Forces that Shape Strategy." *Competitive Advantage*. New York: The Free Press.

including high upfront investment requirements and the time and cost of establishing distribution channels.

Examples of Threat of New Entrants:

Low threat of new entrants—

- Natural monopolies (e.g., utility services and mining associations) pose high entry barriers for new players to venture into the industry. Such industries require substantial upfront investment, skilled manpower, long gestation periods, and the capability to adapt to local geo-political circumstances.

High threat of new entrants—

- The restaurant industry typically has low entry barriers because it is relatively easy and economical to open a new restaurant. Therefore, new entrants are a significant threat in this industry.
- Companies that succeed in opening up new markets are faced with almost immediate competition. For example, the massive success of the game “Settlers of Catan” rapidly brought dozens of similar puzzle-style board games into the market. Likewise, WebCrawler was one of the first search engines to index all web pages; however, within a year of its release, at least three other major search engines were competing in the same space.

2. **Threat of Substitutes**—Substitutes are those products or services that meet the same need as another product but which belong to different industries or product categories. Substitutes provide consumers with choice in industries where demand exceeds supply and, as a result, limit profitability within the industry. If substitutes offer equal or greater benefits at a lower cost, they can make an entire industry obsolete. Conversely, factors such as high conversion costs and low value perception result in a low buyer willingness to convert, and consequently a low threat of substitutes.

Examples of Threat of Substitutes—

- Aluminum cans and plastic bottles are substitutes for each other as they fulfill the need for packaging, but are manufactured by industries that have completely different raw materials and manufacturing processes. It is important to note from this example that substitutes can belong to different industries or product categories.
- Cell phones with more benefits and cost effectiveness eliminated the pager industry.

3. **Bargaining Power of Customers**—Customers generally demand high product quality, low costs, quick delivery, and personalized customer support, among other things. As a result, competition is created in the industry as players in the market try to satisfy these demands. Customers use this competition to obtain the best value. Conversely, a number of factors can reduce the bargaining power of customers,

for example, high cost of switching to another supplier, low number of suppliers, fragmented customer segments, lack of substitute products, and low threat of backward integration (a situation in which a customer performs the functions of a supplier, eliminating the need for the supplier).

Examples of Bargaining Power of Customers—

- In the food and beverage industry, customers usually have higher bargaining power because they have the choice of easily selecting competitors' products or substitutes. For example, customers may have the option to substitute coffee with tea. Therefore, a significant increase in the price of coffee could result in a decrease in the demand for coffee and, in turn, an increase in the consumption of tea.
- In the manufacturing industry, there are several companies that manufacture nuts, bolts, and studs. Therefore, companies procuring such products have more bargaining power as they can negotiate terms with multiple suppliers to get the best price.
- The low cost of delivery and relative ease of access makes online services particularly susceptible to the bargaining power of consumers. The best example is the music industry, which saw the value in its product plummet with the inception of free music sharing services such as Napster. The perceived value of a song essentially dropped to zero. Copyright laws and the stability offered by services such as iTunes have increased the value perception, but the industry is still struggling to overcome this new consumer-driven marketplace.
- In the same way, legal advice, which was once a controlled and expensive service, has begun to have its value eroded through online legal services. The preparation of wills, personal tax services, and corporate documentation, can all be done online. The ease of comparative shopping has resulted in more choice to the consumer and, in turn, lower prices for these services.

4. **Bargaining Power of Suppliers**—Suppliers can impact the cost of production by changing the prices of raw materials or intermediate goods. A significant increase in raw material prices can force smaller businesses or less profitable firms to exit the market, as they are not as well positioned as larger, more established and more profitable firms to absorb such drastic price changes. In addition, a number of factors can result in low bargaining power of suppliers, for example, availability of low-cost substitutes, low cost of switching to another supplier, low threat of forward integration (a situation in which a supplier directly reaches out to the end customer), and a low necessity for the supplier's product in the organization's final product.

Examples of Bargaining Power of Suppliers—

- Historically, newspapers with a significant distribution reach had a lot of bargaining power to fix prices for classified advertising. However, with the advent of the Internet, this bargaining power has been decreasing over time because customers have the flexibility to post classified advertisements online at much lower prices, or even free of charge.
- Silicon is required for many high-demand products such as semiconductors and solar cells. Although the base element for silicon, sand, is abundant, it must be refined to be usable. Due to the limited number of refineries and the high cost of building new plants, silicon remains a resource that greatly impacts the price of products.
- Fuel is a resource that significantly impacts the price of many services to consumers. The airline industry is particularly at the mercy of fuel price changes; therefore, oil-producing countries have significant bargaining power when fixing the price and quantity of oil supplied in the global market. Increases in the cost of fuel force airlines to increase seat prices and/or add additional surcharges. Since there are no alternative options to replace this commodity, airlines must use other means if they desire to keep costs low for the consumer.

5. **Competitive Rivalry**—This concept refers to the intensity of competition among existing organizations in an industry. A high degree of competition reduces industry profitability, thereby making the industry less attractive for potential new entrants. There are some factors that can result in a low level of competition, for example, high fixed costs, high level of product differentiation, high customer conversion costs, and the existence of a monopoly, duopoly, or oligopoly.

Figure 2-5 illustrates Porter's Five Forces model.

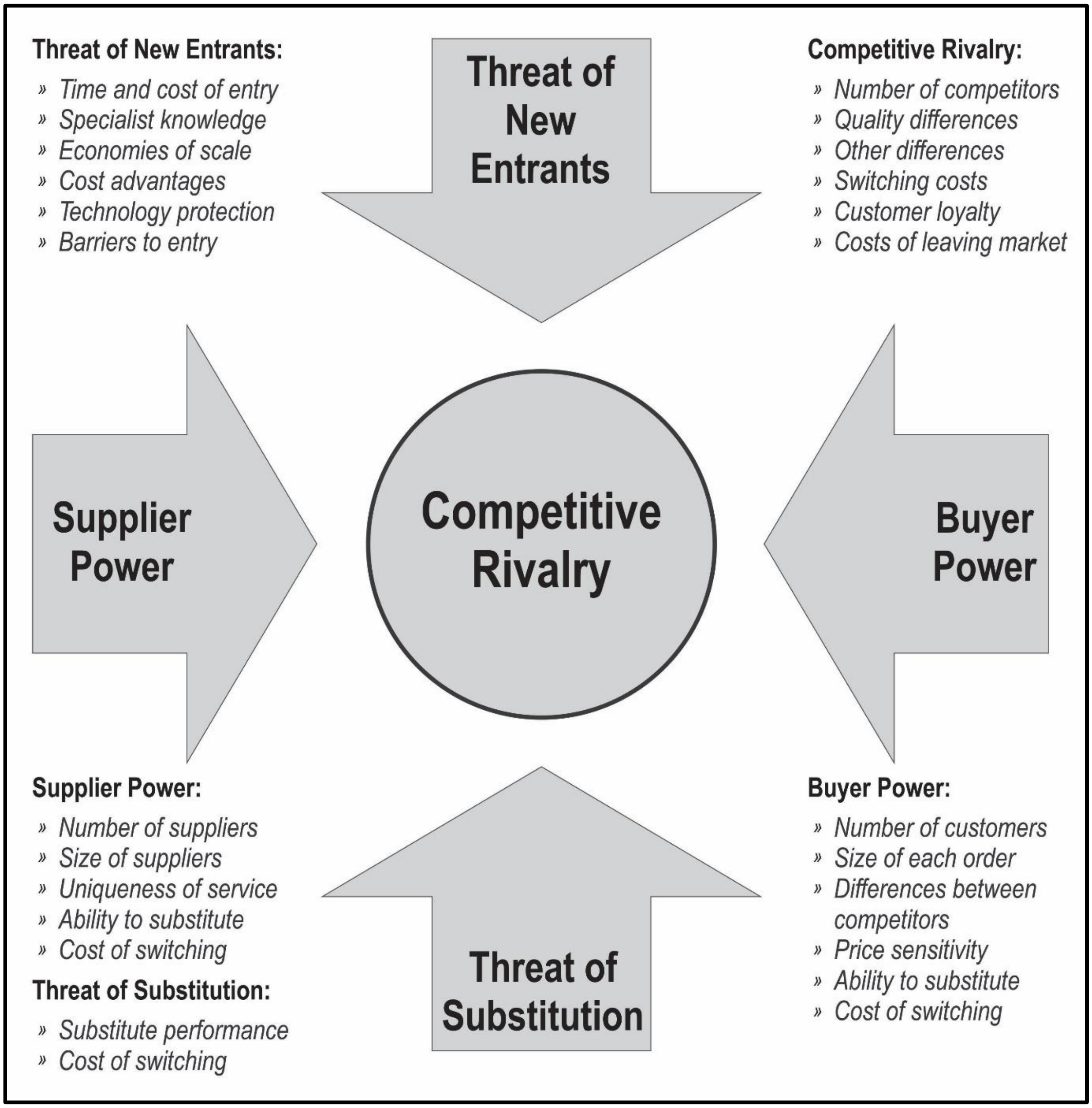


Figure 2-5: Porter's Five Forces Model

2.2.2.3 Market Analysis

Market analysis involves analyzing market data to identify patterns and predict future events. The purpose of performing a market analysis is to understand the attractiveness of a market. David Aaker[6] outlined the following dimensions of a market analysis—

1. **Market Size**—This dimension defines the size and potential of the markets under consideration. Market size is calculated on the basis of current sales volume for the market. Another important consideration for measuring market size is its future growth potential, so appropriate assumptions need to be made regarding market growth rates.

Examples of Market Size—

- The smartphone market has presented a good opportunity for product development companies and electronic firms. Some key parameters used to gauge the market potential include the existing number of cell phone users, the frequency with which users change their cell phones, and the increase in the purchasing power of consumers from different geographies.
- The growth of the taxi aggregator industry can be largely attributed to the growing global demand for taxis and possibilities to innovate using smartphones and the Internet.
- The market for sports equipment typically varies from region to region. In areas with longer summers, the demand for tennis and golf equipment is generally higher. In mountainous regions there is a larger demand for skiing and hiking apparel. The population in regions may be similar, but the market size of each region may vary greatly for each specific product line.

2. **Market Trends**—Trends show the overall growth or decline of a market, competitor activities, and customer behavior over time. Current market trends can also help in predicting future market trends.

[6] Aaker, D. A. (2010). *Marketing Research*. New Jersey: John Wiley and Sons.

Examples of Market Trends—

- It has been observed over the years that consumers prefer computing devices that occupy less space, and that are light and portable. Traditionally, desktop units included separate input, processing, and output devices. Businesses responded by making these units sleek and less space consuming. Then, came the era of integrating many functional components into one. Processing and display units were subsequently integrated and laptops were invented. In recent times, smartphones were developed, which subsequently placed a lot of computing power in the hands of consumers while allowing them to be mobile. Computer and electronic companies are aware of these market trends, and have changed their product portfolio to align with changing consumer preferences.
- The market for orthopedic sports shoes and insoles is increasing in North America as the population ages yet still has the capacity and income for an active lifestyle.
- The timing of major sporting events often results in an increased demand for particular products. For example, branded soccer balls and jersey sales increase every four years leading up to and during the World Cup.

3. **Market Growth Rate and Profitability**—Market growth rate forecasts use previous data and future trend indications to predict the future growth rate of markets. Product diffusion curves are used to predict inflection points in growth projections. Market profitability is evaluated using Porter's Five Forces model (see section 2.2.2.2).

Examples of Market Growth Rate and Profitability—

- Market growth rate and profitability are significant factors considered by energy conglomerates when deciding to enter new business opportunities. Most energy companies are now investing in developing non-renewable sources of energy, which have started becoming economically viable. Extraction of shale gas has become economically viable and profitable because of technical innovations in hydraulic fracturing (fracking) and horizontal drilling.
- As international trade and growth in developing countries increase, it is possible to evaluate the potential acceptance rate of hi-tech features on bicycles in markets traditionally dominated by low-cost versions. For example, observing the patterns of user adoption of ceramic disk brakes in France, may lead to an understanding of similar patterns in other countries such as China.

4. **Industry Cost Structure**—Value Chain Analysis (see section 2.1.2.4) can be used alongside industry cost structure to identify value-adding activities and reduce costs by eliminating those activities that do not add value. Focusing on activities that are critical to the company can help develop a competitive advantage and prevent wastage of resources.

Examples of Industry Cost Structure—

- In the twentieth century, the banking industry typically relied on physical branches for addressing customer needs. However, the cost structure for the industry has changed significantly in recent times, with many customers preferring to do most of their banking transactions online, or through Automated Teller Machines (ATMs).
- Analyzing the marketing activities in the value chain leads to a better understanding of which products to focus on, and in which markets. Cost savings can be found by ensuring advertising dollars are spent on appropriate products. A small online marketing campaign targeting surfers in Australia may be more cost effective than generic advertising of the entire product line in a sports magazine. Similarly, the manufacturing of surfboards may be outsourced to a factory in Indonesia, in order to take advantage of its proximity to the Australian market. This change should result in lower production costs and distribution expenses.

5. **Distribution Channels**—Analyzing the effectiveness of existing distribution channels and identifying emerging channels help a company understand its ability to reach customers and identify new opportunities to gain a competitive advantage. Companies with existing distribution channels may find it easier to launch similar types of products targeted at similar market segments.

Examples of Distribution Channels—

- A global Fast-Moving Consumer Goods (FMCG) firm identified that its distribution channel could be used to launch new lines of food and personal care products. The company that started as a food and beverage company was able to launch new products such as toiletries, batteries, and even packaging material to its customers, using its existing distribution channel.
- As with most other industries, online sales and distribution have greatly impacted the marketing and sale of sporting goods. Online representation of the value of the product is crucial to ensure the customer is comfortable enough with the product to purchase it without actually being able to touch it. Relationships with shipping companies become equally important as the customer expects quick and reliable delivery.

6. **Key Success Factors**—Identifying key success factors helps an organization focus on existing strengths that have contributed to success and seize opportunities that can give it a competitive advantage. Such factors might include accessibility to essential resources, distribution channels, patents, operational efficiencies, technological superiority, and so on.

Examples of Key Success Factors—

- Typically, the airline industry follows a hub-and-spoke model for flights, with most flights from an airline being routed through their central hubs. However, some leading airline companies in America and Asia identified that there was a huge demand for low duration routes and hence changed their flight plans so as to reach out to maximum number of airports possible. This approach resulted in these airlines deciding to move away from the traditional hub and spoke structure of fleet movement to a web structure where flights were not required to come to the central hub. Also these low-cost carriers identified that using only one type of aircraft would reduce the costs of training pilots and support staff, which in turn increased efficiency. Thus, change of flight plans and the use of only one type of aircraft acted as the key success factors for these low-cost airlines to stay profitable in very challenging times.
- The success of an online swimwear provider may be quantified with a few key factors such as the ability of the customer to receive clothing that fits without the benefit of trying it on, the ability of the company to keep shipping costs low enough to compete with brick-and-mortar stores, and the ability to offer a broad range of product choices to maximize the overall appeal of the site.

2.2.2.4 Marketing Research

When existing industry reports, internal company reports, or generic reports are insufficient for understanding the external factors that can impact a company, the company may choose to conduct primary marketing research in order to improve knowledge of the marketplace, reduce risk, and improve marketing decisions. Such marketing research projects generally involve understanding the perceptions of various entities that are knowledgeable about various external factors that may impact the company, through tools such as interviews, group discussions, and survey questionnaires. New markets often require research above and beyond what is available through existing marketing reports.

Examples of Marketing Research—

- When reviewing the feasibility of launching an electric car, it may be necessary to conduct primary research on the quantity and locations of service stations equipped to recharge electric vehicles. The market size may be reduced to geographies with existing or planned electric charging stations.
- Oil field supply companies often use an “oil rig count” to understand the volume of drilling activity in any given geography. The data on rig counts is published by service companies, publicly available and easily accessible. The findings are often updated and can assist in determining trends and anticipating demand levels.

2.2.2.5 PESTEL Analysis*

The PESTEL Analysis[7] (also referred to as 'PESTLE Analysis') framework is used to analyze macro-environmental factors that are sources of opportunities and threats, and therefore positively or negatively impact the organization, its customers, and/or its suppliers.

The six factors of the PESTEL Analysis framework are as follows—

1. **Political Factors**—These factors describe how the government and the political system may influence the company's Corporate Strategy.

> *Examples of Political Factors—*
>
> - Government incentives for industrial development in certain regions may impact decisions related to location of factories.
> - The annual financial budget of the government may significantly impact a company financially. For example, a parts supplier in the rapid transit industry setting revenue projections for a particular geographic region must consider the current political position and the expected government financial support for transportation and infrastructure improvements.

2. **Economic Factors**—These factors are related to the economic structure and policies of an economy and its interaction with other economies. They influence how businesses operate and grow.

> *Examples of Economic Factors—*
>
> - Interest rates for borrowing may impact funding and investment decisions of a company.
> - Inflation rates impact input costs (e.g., salaries, cost of raw materials, property costs) and should be considered when planning the Marketing Strategy.

3. **Social Factors**—These factors reflect the social and cultural state, attitudes, and behaviors prevalent in a market. Changes in these factors may impact the demand for a particular product or product category.

> *Examples of Social Factors—*
>
> - An aging population creates a growing market for products targeting senior citizens.
> - A growing trend toward nuclear families necessitates services such as daycare facilities for children.

[7] Aguilar, F.J. (1967). *Scanning the Business Environment*. New York: The Macmillan Company.

4. **Technological Factors**—These factors describe the technologies and R&D efforts that are relevant to a company and the ecosystem within which such technologies function. They may help the company gain sustainable advantage in its market through product or process innovation.

Examples of Technological Factors—

- A faster mobile network enables real-time video conferencing with the company's field sales force.
- A more fuel-efficient jet turbine engine decreases the cost of air travel.
- An increase in Internet availability and the growth and efficiency of e-commerce and its distribution channels enable more people to shop online.

5. **Environmental Factors**—These factors are related to the ecological environment and include aspects such as climate change, deforestation, and pollution, among others, which may affect how some companies function.

Examples of Environmental Factors—

- The appliance industry manufactures CFC-free refrigerators to prevent further damage to the ozone.
- Automobile manufacturers reduce vehicle emissions in order to decrease air pollution.

6. **Legal Factors**—These factors are related to the legal and regulatory framework of the market in which a company operates, or is planning to enter. Companies need to adhere to the laws and regulations that exist in their markets, irrespective of how restrictive they may be. At the same time, the legal framework may also give rise to additional opportunities.

Examples of Legal Factors—

- Laws that mandate the use of bike helmets provide a boost to helmet manufacturers.
- In several countries, anti-monopoly laws make it difficult for large companies to acquire competitors.

2.2.3 Outputs

2.2.3.1 Opportunities and Threats*

It is important to understand a company's opportunities and threats with respect to its external environment and competition. The objective is to first identify the key strategy-related factors that affect the company and then build on key strengths, address weaknesses, exploit important opportunities, and avert or mitigate threats, and then ultimately create a competitive position that is sustainable in the long term. A detailed list of opportunities and threats should be documented and used as an input to other processes involved in creating the Marketing Strategy as well as other functional strategies. This document may also contain specific plans to exploit opportunities and mitigate threats.

Example of Opportunities and Threats—

- The technology shift to flat-screen TVs opened up an opportunity to produce and sell wall brackets and display mounts. This also presented a threat to the traditional entertainment units for storage. A furniture manufacturer aware of this shift can plan a new product line around this most recent demand.

2.2.3.2 Market Attractiveness Report*

The Market Attractiveness Report contains detailed information on potential markets and their relative attractiveness. It also provides a starting point for the next process, *Define Market and Identify Market Segments* (section 2.3), in which market segments are identified. Some factors that may be identified in the Market Attractiveness Report include market size, market trends, market growth rate and profitability, and key success factors for the market. The Market Attractiveness Report should also include information gathered from the PESTEL Analysis and Porter's Five Forces model.

2.2.3.3 Marketing Research Reports

Marketing research reports may be created by the Sales and Marketing team if specific primary or secondary market research is commissioned or gathered by the company to obtain a better understanding of the company's opportunities and threats.

2.3 Define Market and Identify Market Segments

After a company has analyzed its internal capabilities and the external environmental factors affecting it, it then needs to broadly define the type of market in which it plans to operate. This process includes identifying the type of customers a company plans to target and specific product categories it wishes to explore. This step is essential for defining the scope of the company's marketing activities, determining unmet or underserved customer needs, and creating the boundaries within which the company can search for new opportunities. It is also important to consider how a market may change in the future and create a market definition that is applicable in the long term. If goals are already defined for the company (at a Corporate level or at a Business Unit or Geographic level), then such goals will help in defining the market for underlying products or brands (see section 1.4, *Corporate Strategy and its Relationship to Sales and Marketing* for more details).

Once the market has been defined, the company can then divide the market into various segments based on carefully chosen segmentation criteria. Customer segmentation should be used to help a company tailor specific offerings to segments that provide a distinct competitive advantage. This information is also helpful for determining the allocation of resources for product development, marketing, and other functions throughout the organization. Furthermore, this step facilitates the targeting of only those segments of the market to which the company can profitably sell its products. A discussion of various types of segmentation methods, as well as an explanation of how segmentation differs between consumer markets and business markets, is also included in this section.

Figure 2-6 shows the inputs, tools, and outputs for the *Define Market and Identify Market Segments* process.

INPUTS	TOOLS	OUTPUTS
1. Strengths and Weaknesses* 2. Opportunities and Threats* 3. Market Attractiveness Report* 4. Existing Goals 5. Existing Marketing Research Reports	1. Meetings and Discussions* 2. Demographic Segmentation 3. Psychographic Segmentation 4. Behavioral Segmentation 5. Company Characteristics-Based Segmentation 6. Evaluation of Future Market Scenarios*	1. Market Definition* 2. Market Segments*

Figure 2-6: Define Market and Identify Market Segments—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

2.3.1 Inputs

2.3.1.1 Strengths and Weaknesses*

The strengths and weaknesses of a company are outputs of the *Determine Strengths and Weaknesses* process (discussed in section 2.1). They are important inputs for segmentation and targeting because a company typically seeks to target market segments where it can leverage and build on its strengths and perhaps avoid entering those where it has weaknesses. Strengths and weaknesses can also provide the basis for segmentation, as a company can classify customers according to their alignment with the company's strengths.

2.3.1.2 Opportunities and Threats*

The opportunities and threats of a company are outputs of the *Determine Opportunities and Threats* process (discussed in section 2.2). A company typically seeks to target market segments where it has opportunities for growth and may avoid those where the threats outweigh the potential benefits. Opportunities and threats can also provide the basis for segmentation, as a company can classify customers according to their alignment with the opportunities that have been identified.

2.3.1.3 Market Attractiveness Report*

The Market Attractiveness Report is another output of the *Determine Opportunities and Threats* process (discussed in section 2.2). It is a key document that helps a company determine which of the market segments it should target. The Market Attractiveness Report contains information on the potential of various market segments, including market size, market trends, projected growth rates and profitability, and key success factors for the market. A company should ideally target those segments with the most potential, provided that other factors related to those segments are also favorable.

2.3.1.4 Existing Goals

The Corporate Marketing Strategy (which is a component of the overall Corporate Strategy) is further divided into Business Unit or Geographic Strategy, which in turn is further divided into Product or Brand Strategy for each product or brand. Section 1.4 illustrates the relationships between Corporate Marketing Strategy, Business Unit/Geographic Marketing Strategy, and Product/Brand Marketing Strategy.

For some companies, goals may already be defined at a corporate level, or at a business unit or geographic level. Such goals (if available) form valid inputs for defining the market for a product or brand.

Examples of Existing Goals—

- An automobile company located in Germany has a goal to become the market leader for luxury automobiles in the Asia-Pacific region. This goal is relevant information for all of the product and/or brand teams involved with defining the Marketing Strategy for the products to be launched in specific Asia-Pacific countries, such as China, Japan, India, Thailand, and Indonesia.
- A soft-drinks market leader defines its corporate goal to launch several brands targeted at customers who prefer healthy drinks with low sugar content. This overall corporate goal is important information needed by the brand managers responsible for defining the market segments for each brand.

2.3.1.5 Existing Marketing Research Reports

There are two types of marketing research reports that can serve as inputs for market segmentation—

- **Industry Reports**—These reports are related to the various market segments a company is considering and may contain a wide range of information about those segments—from financial attractiveness to distribution structure. The industry reports are generally published by consulting firms or by industry associations and are available to any company, generally at a price.

- **Company Commissioned Reports**—These are research reports that have been created or commissioned in the past by the company to understand specific information about the markets under consideration that the company is not able to understand adequately through other sources.

Both types of reports are used to understand the various market segments being considered by the company and how they may have changed, which can help the company determine the ideal market segments to consider.

2.3.2 Tools

2.3.2.1 Meetings and Discussions*

Meetings and discussions can be very useful for determining segmentation criteria and identifying the ideal segments for the strategy teams to consider. They bring a variety of perspectives not just from the marketing team, but also from other internal teams (e.g., product team and senior management team) that can add value to the discussions. Meetings and discussions also help to analyze information from various inputs mentioned in the previous section (section 2.3.1). In addition, the marketing team uses meetings to collate the results of analyses conducted using other tools outlined in this section, and also to finalize the market segments to be targeted.

2.3.2.2 Demographic Segmentation

This tool is primarily used for consumer markets. It involves segmenting the market along one or more demographic variables including, but not limited to, the following—

- Age
- Gender
- Religion
- Location
- Ethnicity
- Language
- Occupation
- Income
- Education
- Marital Status
- Family Size
- Family Structure (e.g., single parent, extended family members)
- Presence of Children
- Nationality

Demographic segmentation helps organizations understand customers and satisfy their needs. Because the information can be easily obtained and measured, is objective in nature, and correlates well with customer needs, it is popular among marketing professionals. In addition, using a combination of demographic variables can provide the marketing team with niche segments that can be developed.

Examples of Demographic Segmentation—

- A designer of expensive women's casual shoes segments the market based on gender and income to identify an economically viable segment for a newly designed comfort shoe.
- An automobile manufacturer planning to launch a minivan, segments customers on the basis of income and family size, as it believes that its minivans are more suited for a middle-income family of up to five members.

2.3.2.3 Psychographic Segmentation

This tool is primarily used for consumer markets and involves segmenting buyers along one or more psychological variables including, but not limited to, the following—

- Attitude
- Personality
- Values
- Fears
- Lifestyle
- Lifestage (e.g., early childhood, youth, young adult, newly married, married with young children, married with teens, empty nester, elderly and retired)

Because these variables are subjective in nature, a company generally needs to create categories or labels for each of these on its own, depending on the specific situation.

Examples of Psychographic Segmentation—

- A company planning to launch a social media app might define and segment the market on the basis of potential customers' level of extroversion since the company believes that extroverts are more likely to use the app.
- A premium bicycle maker might define and segment its market on the basis of how adventurous and sports-minded individuals are at different lifestages.
- A superstore chain might analyze geo-demographic segmentation data created using cluster analysis. This statistical technique aggregates demographic and socio-economic consumer data based on particular locations (e.g., by zip or postal code). Geo-demographic clustering assumes that individuals living in the same neighborhood are more likely to have similar characteristics.

2.3.2.4 Behavioral Segmentation

This tool involves segmenting customers on the basis of their consumption behavior or attitude towards a product and also takes into account their lifestyles and patterns of buying and/or using the product. This is a more objective method of segmentation than psychographic segmentation. It is used for both the consumer and business markets. It may also be helpful to consider purchase behavior using RFM segmentation, which looks at the recency (i.e., how recent the last purchase of a particular item was made), frequency (i.e., how often consumers make a particular purchase), and monetary value (i.e., how much consumers spend on a particular purchase).

There are five variables that can be used for behavioral segmentation—

1. **Needs**—Users are segmented on the basis of their needs related to a product. Here it is important to understand the users' category and brand purchasing motives, their value systems, and their perceptions in order to draw a composite image of each user and his or her needs.

> *Examples of Segmentation Based on Needs—*
>
> - In a consumer market, a face cream can satisfy diverse needs by providing different benefits, such as moisturizing, UV protection, blemish removal, and cleansing. A face cream provider therefore segments the market on the basis of these needs.
> - In a business market, paints can provide various benefits such as decoration, rust protection, or moisture or mold protection. The paint industry generally classifies paints at a high level as either "decorative" (used with craft projects) or "industrial" (used with machines) depending on the benefits they provide.

2. **Consumption Behavior**—Purchasers may not be the direct consumers, or may not be the only consumers for a variety of products. Therefore, consumption patterns for these products should be considered separately.

> *Examples of Segmentation Based on Consumption Behavior—*
>
> Consumption behavior may be segmented on the basis of patterns of usage as described below:
>
> - **Daily Consumption**: Consumer market—baby food; business market—staples
> - **Intermittent Consumption**: Consumer market—expensive perfumes; business market—video conferencing facilities
> - **Rare Consumption**: Consumer market—life-saving medicines; business market—backup data disks

3. **Purchase Behavior**— Users are segmented on the basis of their purchasing patterns. Some of the patterns are non-user, potential user, first-time user, one-time user (also referred to as "one and done purchasing"), repeat user, former user, product/brand loyalty-based user, and early adopter.

> *Example of Segmentation Based on Purchase Behavior—*
>
> - A retail chain that plans to introduce a points-based loyalty program segments the market on the basis of purchasing patterns. The loyalty program provides various levels of points and special offers to customers based on whether they make a one-time purchase, intermittent purchases (e.g., once every few months), or regular purchases.

4. **Communication Behavior**—Users are segmented on the basis of how much they communicate about the product with others before, during, and after purchasing. In this respect, opinion leaders are particularly influential as they are knowledgeable about, or are regular users of, particular products; are very vocal about their views regarding such products; and command the attention of other potential customers. In addition to examining how these users communicate, it is also important to understand how they prefer to receive communication. For example, what types of media do they consume?

Examples of Segmentation Based on Communication Behavior—

- In the fashion industry, some designers provide their latest line of clothing and accessories complimentary to celebrities and encourage them to provide their opinion about the products. These celebrities can act as influencers and generate word-of-mouth publicity for the designer.
- Movies are commonly reviewed and discussed among peers. Consumer opinions expressed on peer-review websites may be more influential than critical opinion from celebrity reviewers. Consumers also champion movies on their own social media sites, or in personal interactions with friends and family.

5. **Consumer Purchasing Roles**—Consumers can be categorized based on their roles in the purchasing process. Individuals take on one, several, or all of the following roles in the purchasing process: initiator, influencer, decider, buyer, and user. When segmenting based on consumer purchasing roles, businesses will often target influencers rather than buyers in an effort to connect with those with the most influence on the purchasing behavior of the group.

Example of Consumer Targeting Model—

- For children's toys, while parents or others would be the decider and buyer, the children themselves would be the initiator, influencer, and user. Thus toy companies usually target their advertising at children rather than parents, grandparents, and others who actually make the purchase.

2.3.2.5 Company Characteristics-Based Segmentation

This tool is analogous to the demographic segmentation for consumer markets. Here, the business market can be segmented on the basis of various company characteristics including, but not limited to, the following—

- Industry Type
- Company Size
- Company Location

- Technology
- Level of Centralization
- How Purchasing Decisions are Made

A combination of criteria may also be used to target niche segments. In addition to looking at company characteristics, it is also important for marketers to examine individuals within the company to identify whether they are users, influencers, buyers, deciders, or gatekeepers (e.g., an executive assistant who has the authority to filter information to executives). Marketers should also understand people's positions in the company, decision-making power, career ambitions, fears about their careers, and what would help them advance their careers.

Examples of Company Characteristics-Based Segmentation—

- A manufacturer of office furniture might prefer to target companies whose power structure is decentralized. In such companies, regional offices generally have the authority to buy their own furniture, making it easier for the manufacturer to reach the decision makers in those regional offices.
- A software company that develops customized sales-reporting software may target businesses that have offices in multiple locations with a distributed sales team. The customized software might, for example, allow individual sales persons to record their daily activities, which would be tracked by the centrally located management team—a feature which would be appealing to the target given the company's specific operational needs.
- Multi-national corporations may have multiple divisions requiring businesses to segment such target companies in a way that treats the divisions as though they operate as virtually separate entities. For example, being on the approved vendor list for the engineering department may not result in being on the vendor list for the R&D division. Understanding the corporate hierarchy and targeting management groups at relevant and decision-making levels can help avoid having to reach out multiple times to the same corporation.

2.3.2.6 Evaluation of Future Market Scenarios*

The definition of market and market segments should not be restricted to the present, but should also take into account the most probable future market scenarios, which may be significantly different from the present scenario. Changes might arise due to factors such as structural changes in the market, which might include consolidation of market share among a few players, changes in market demand depending on the lifecycle of the product category, and/or technological innovations that may move the entire market demand to new product categories. A company needs to proactively evaluate all such possible scenarios and create a response plan for the most likely scenarios.

Examples of Future Market Scenarios—

- The banking industry offers a constantly changing range of options; thus, financial institutions are always considering future market scenarios and market services that reflect and predict consumer trends.
- Stock and bond purchases shifted from brokerage houses to individuals as online banking became more trusted.
- Easier access to foreign markets has increased the need for small businesses to conduct transactions in multiple countries and convert funds from one currency to another. Banks can tailor their services to meet this emerging need and market themselves as international, through lower exchange service charges and greater global reach.
- Several forms of virtual currency and online payments may become commonplace in the future. Financial institutions can evaluate this potential trend and expand services and update their marketing strategies to capture this potentially new market.

2.3.3 Outputs

2.3.3.1 Market Definition*

A market is defined as the set of potential customers who have a demand for the product category that includes the company's product. Thus, the definition of market at this stage is not at a specific product level, but at a product category level. It sets the boundaries within which segmentation is carried out. The definition should be broad enough so that the company can reasonably hope to acquire a share of the market within a timeframe that generates revenues commensurate with its corporate objectives. The market definition should also take into account the most likely future market scenarios so that the definition continues to stay valid in the long term.

Examples of Market Definition—

- At the turn of the twentieth century, horse-drawn carriages dominated the personal transportation industry. Companies who had defined their market as customers who wanted horse-drawn carriages were at a disadvantage when automobiles started replacing the carriages, unlike companies who had defined their market as customers who wanted convenient personal transportation. The latter market definition has the strength of including the future possibility of automobiles.
- For many years, the best way to access the latest news was through local newspapers. Many local newspapers were very profitable as consumers purchased daily newspapers for the latest news on their local communities, and marketers, targeting the same audience, used the paper for advertising. However, in the early 1990s the world began to change with the introduction of the Internet. Over time, consumers began to have the ability to quickly access a variety of content and information online. Many newspaper publishers did not prepare themselves for the digital revolution, and soon subscriptions and advertising revenues of these newspapers declined as they lost readers to new electronic publications. Some newspaper publishers defined their market and market segments properly, and proactively addressed the change in consumer habits and technology. With the advent of digital publications, they changed the way they did business, by adapting their business model and embracing technology. Consequently, such publishers have a sustainable business model today.
- A manufacturer of cell phones that wants to sell low-priced smartphones, may define its market as all potential customers of cell phones in the early stages, rather than limiting the target market to low-priced smartphones. This approach allows the company to explore the entire cell phone market for potential opportunities. The company may realize during the market segmenting and targeting process that it can profitably target customers who want smartphones priced higher than the low-priced models. If the company had narrowed its definition of the market in the early stages, such opportunities might have been missed. At the same time, by excluding phones that are not smartphones, the company sets boundaries to ensure product development and marketing efforts are not spread too thin.

2.3.3.2 Market Segments*

The output of using any of the segmentation tools is a description of the various market segments a company wants to consider. The descriptions should contain the characteristics of each segment that differentiate one segment from another. Segments that do not differ significantly from each other may need to be merged or have different segmentation criteria applied to them. It is common practice to display the segments on a graph showing the different criteria on the axes to help understand the differences across all segments.

Example of Market Segments:

A consulting firm wishes to target the Oil and Gas industry in a specific geography. Within each location, there are discrete units with different needs. The chart below illustrates the similarities and differences among these units.

	Major	**Mid-Sized**	**Junior**
Focus	• Development of plays • Acquisition of new plays	• Maximizing existing assets • Sale of plays to majors	• Development of low-cost plays • Uncovering potential of new plays
Business Development Budget	> $10,000,000	> $1,000,000	< $1,000,000
Internal Resources	• Established business units • Formal Business Analysts	• Established business units • Some Business Analysts	• Exploration knowledge; • Few Business Analysts

Based on this segmentation analysis the consulting firm decides it is desirable to focus on the Junior companies. They have a greater need for consulting on corporate direction. Despite the smaller budgets, the Junior companies provide a better opportunity.

3. DEFINE COMPETITION, TARGETING, AND POSITIONING

This chapter first discusses the factors involved in identifying the competition, understanding industry trends, and considering future competitive scenarios that help in selecting target market segments. It then looks at creating a differentiated positioning statement for the company's products or services for those target segments selected. Competitive positioning tools help a company explore how it can differentiate its product or service offerings in order to create a value proposition for those products or services in the market.

Figure 3-1 provides an overview of the processes reviewed in this chapter, which are as follows—

3.1 Identify Competition—In this process, a detailed competitive analysis is conducted.

3.2 Select Target Segments—In this process, appropriate market segments are selected based on their attractiveness.

3.3 Create Differentiated Positioning—In this process, product features that help create a differentiated positioning statement for the products of the company are defined.

3.1 Identify Competition

INPUTS
1. Senior Management Direction and Insights*
2. Market Segments*
3. Existing Marketing Research Reports
4. Information Published by Competitors

TOOLS
1. Competitor Selection Criteria*
2. Future Competitive Analysis*
3. Marketing Research
4. Meetings and Discussions*

OUTPUTS
1. List of Competitors*
2. Details of Competitive Products*
3. Industry Benchmarks and KPIs
4. Future Competitive Scenarios
5. Marketing Research Reports

3.2 Select Target Segments

INPUTS
1. Strengths and Weaknesses*
2. Opportunities and Threats*
3. Market Segments*
4. List of Competitors*
5. Details of Competitive Products*
6. Industry Benchmarks and KPIs
7. Future Competitive Scenarios

TOOLS
1. Market Segment Attractiveness Matrix*
2. Undifferentiated Strategy
3. Focused or Concentrated Strategy
4. Differentiated Strategy
5. Market-Product Grid
6. Customer Personas*
7. Meetings and Discussions*
8. Marketing Research

OUTPUTS
1. Selected Target Segments*

3.3 Create Differentiated Positioning

INPUTS
1. Selected Target Segments*
2. Strengths and Weaknesses*
3. Opportunities and Threats*
4. List of Competitors
5. Details of Competitive Products
6. Industry Benchmarks and KPIs
7. Existing Marketing Research Reports
8. Customer Feedback

TOOLS
1. Selecting Points of Parity and Differentiation*
2. Perceptual Maps*
3. Product Categories
4. Meetings and Discussions*
5. Marketing Research

OUTPUTS
1. Positioning Statement*
2. Product Features*
3. Updated Corporate Strategy
4. Marketing Research Reports

Figure 3-1: Define Competition, Targeting, and Positioning Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

3.1 Identify Competition

The first step in defining the competitive positioning for a company's products or services is to identify the main competitors for those products or services. This entails creating a list of all potential competitors and then analyzing their strengths, key product features, operational excellence, and market share information to best identify the closest rivals from the customer's viewpoint. This information is used to focus the company's energies on competing against only one or a few competitors, rather than trying to compete against all of them.

After identifying the competitors, a list of key and potential future competitive products, including their characteristics, is created. This information is a vital input in developing a product's positioning because it helps in defining a value proposition that offers a sustainable competitive advantage and can, in turn, attract customers from competitors.

While identifying the main competitors and competitive products, a company should also consider product substitutes, potential new entrants, and technological changes that may pose a threat in the future. Companies focusing solely on current rivals in their own industry may fail to react to emerging competition from other areas, and thus lose out in the long run. A future competitive analysis that identifies competitive scenarios is therefore important when identifying the competition.

Figure 3-2 shows the inputs, tools, and outputs for the *Identify Competition* process.

INPUTS	TOOLS	OUTPUTS
1. Senior Management Direction and Insights* 2. Market Segments* 3. Existing Marketing Research Reports 4. Information Published by Competitors	1. Competitor Selection Criteria* 2. Future Competitive Analysis* 3. Marketing Research 4. Meetings and Discussions*	1. List of Competitors* 2. Details of Competitive Products* 3. Industry Benchmarks and KPIs 4. Future Competitive Scenarios 5. Marketing Research Reports

Figure 3-2: Identify Competition—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

3.1.1 Inputs

3.1.1.1 Senior Management Direction and Insights*

Senior Management has a comprehensive understanding of a company's competitors and markets. This knowledge helps in identifying current and potential future competition. Through their understanding of the industry and connections in the market, Senior Management is generally aware of the relative strengths of various competitors and can identify those that pose a threat to the company. Senior management may also be able to identify substitutes, potential new entrants, and technological developments that threaten the success of a company's products.

3.1.1.2 Market Segments*

Market segments are an output of the *Define Market and Identify Market Segments* process discussed in section 2.3. A company need only be concerned with competitors in the market segments that it is considering targeting; therefore, knowing the market segments helps narrow down the list of potential competitors. As discussed in Section 2.3.2, segmentation can be done on the basis of demographics (e.g., age, gender, income level), psychographics (e.g., lifestyles, values, attitudes), behavioral (e.g., needs, consumption behavior, purchase behavior, communication behavior), and/or company characteristics (e.g., industry type, company size, company location, technology). However, it is also important to thoroughly understand the products the target markets are currently using and the benefits that are derived from those products. Understanding the needs of the various segments further allows a company to analyze which of the players in an industry are fulfilling those needs, thus identifying competitors and competitive intensity in each segment.

3.1.1.3 Existing Marketing Research Reports

There are two types of existing marketing research reports that can serve as inputs for identifying the competition—

1. **Industry Reports**—A company can utilize research conducted by external agencies on its target segments to identify current and potential customers and key information about them. These reports are generally published by consulting firms or industry associations, and are available to any company, generally at a price.

2. **Company Commissioned Reports**—A company may have already conducted marketing research on particular target segments in the past. It can utilize that research or commission new primary research in order to understand who the competitors are and review their product portfolios. If

research on previously identified segments is conducted on a regular basis, the company can also identify trends and changes in the competitive environment.

3.1.1.4 Information Published by Competitors

Many companies reach out to their customers through promotional channels that are accessible to the general public, such as television, radio, newspapers, public directories, and company-controlled outlets like their own websites, social media sites, and booths at trade shows. Such information can be used to identify competitors because it presents how others have differentiated and positioned similar products in the target market segments.

3.1.2 Tools

3.1.2.1 Competitor Selection Criteria*

This tool involves selecting and evaluating potential competitors and their competing products through the use of specific objective criteria. The criteria are generally the critical success factors in the industry. Each criterion is given a relative weight to indicate its significance in the typical customer's mind. All competing products are then scored on each criterion, and each score is then multiplied by its assigned weight. The competing products with the highest total weighted scores are the biggest competitors for a company's products.

Example of Competitor Selection Criteria—

Acme Inc. is a retail shoe company planning to launch its store in a new location. The company aspires to attract the most customers in that city and wants to identify its key competitors. Marketing research conducted by the company revealed that the three most important factors accounting for 90% of customer purchase decisions are—

- Variety of Shoes (40%)
- Quality of Service (30%)
- Convenience of Location (20%)

Acme chooses to rate competing companies on these factors in two ways—by performing "mystery shopping" and by asking selected shoppers to complete subjective ratings (a specific marketing research initiative could also be carried out for this purpose). The scale ranges from 1 representing "very poor" through 5 representing "very good". A comparison table is used to determine the weighted scores for each of the competitors on the three parameters. The total weighted scores for the three biggest competitors are shown below.

	Relative Weight	**Competitor 1**	**Competitor 2**	**Competitor 3**
Variety of Shoes	0.4	4	3	2
Quality of Service	0.3	3	5	3
Convenience of Location	0.2	3	4	4
Weighted Totals		(0.4 × 4) + (0.3 × 3) + (0.2 × 3) = **3.1**	(0.4 × 3) + (0.3 × 5) + (0.2 × 4) = **3.5**	(0.4 × 2) + (0.3 × 3) + (0.2 × 4) = **2.5**

Because Competitor 2 has the highest weighted total score, Acme Inc. should focus its resources on determining how to benchmark against, or perform better than Competitor 2. However, it should still be aware of other alternatives available to potential customers (e.g., Competitor 1 and Competitor 3).

3.1.2.2 Future Competitive Analysis*

Performing a future competitive analysis involves actively scanning the industry (or other industries) for new entrants, emerging technologies, and other developments that pose a serious competitive threat to a company or its products in the future. This exercise is critical for the long-term success of the company because the greatest competition could come from outside the industry and, in extreme cases, could make an entire industry obsolete.

Examples for Future Competitive Analysis—

- A camera manufacturer would likely factor cell phones into its future competitive analysis since most cell phones include a camera as well as several other features that traditional cameras do not offer. And while a camera on a cell phone may not produce the same quality photo as the traditional camera can produce, given potential technological advancements, cell phone cameras should be considered a possible future threat for the traditional camera manufacturer.
- The introduction of digital music players in the late 1900s and early 2000s eliminated the portable audio cassette player by offering a more compact alternative with the capability of storing a much greater volume of songs.
- The advent of on-demand entertainment streaming video companies has replaced video rental stores.
- Brick-and-mortar travel agencies for booking flights have become less relevant in recent years due to the introduction of online travel portals and websites that quickly and easily compare and reserve flights.

Future competitive analysis should be performed in a structured manner. One possible method is to create a Probability and Impact Matrix to assess future competitive risk events. In this approach, all possible future scenarios are listed, with a probability of occurrence and a degree of expected impact assigned to each scenario (on a numeric scale—the higher the impact, the greater the number). Multiplying the probability of occurrence with the degree of impact results in a number that indicates the potential threat of that scenario or event to a company—the higher the number, the greater the threat. The threat level is assessed and then categorized as “high,” “moderate,” or “low” for ease of reference and to narrow the focus (e.g., to only “high” threat events). For example, a competitor’s newly released product may threaten to reduce company revenues by five percent. This may be an event with a high probability but low degree of impact, so the overall threat would likely be categorized as “moderate.” However, the commercialization of a proven new technology that is costly to implement, but may threaten the very existence of a company’s main products, would be an event of moderate probability with a high degree of impact; so the overall threat would likely be categorized as “high.”

Example of Future Competitive Analysis using a Probability and Impact Matrix:

An example of how this tool can be used is shown in the table below.

Possible Future Competitive Event	**Probability of Occurrence (P)**	**Degree of Impact (Scale of 1–5, 5 being the highest) (I)**	**Threat Level = P × I**	**Threat Category**
Entry of Company A	0.8	2	1.6	Moderate
Commercialization of Technology B	0.6	5	3.0	High
Launch of Product C in Another Industry	0.4	1	0.4	Low

According to this data, the second event, commercialization of technology B, is the event that the company should try to avoid or mitigate as it is in the "high" threat category. The company may also create a response plan for those events or scenarios in the "moderate" threat category, particularly if those in the "high" category are already addressed. Those in the "low" category are often accepted threats since they pose little threat to the company.

It is important to note that the effectiveness of future competitive analysis as a tool depends greatly on the knowledge and experience of the team conducting the analysis. A mature team with a well-developed perception of what is happening in the external and company environment can usually envision more realistic scenarios and make better predictions of future possibilities. Senior management may also be asked to provide their suggestions and views during this analysis.

3.1.2.3 Marketing Research

Marketing research is a common tool for providing companies with specific competitor information. For example, a company can carry out a marketing research exercise in which it surveys potential customers about products they would most likely choose in order to satisfy the needs that the company is planning to address with its own products. Internet searches of other products in the same product category can also help a company determine which products are its biggest competitors. Marketing research can also be used to identify the specific criteria that customers use to make their purchase decisions. This information is used with the Competitor Selection Criteria tool described in section 3.1.2.1.

3.1.2.4 Meetings and Discussions*

Meetings and discussions can be very useful for identifying appropriate competitor selection criteria, short-listing the competitors of a company, and then determining which competitors should be closely monitored. They may also be valuable for gaining insight from experts on the probability and impact values of future competitive scenarios. Involving senior management in these discussions is highly recommended as the choice of competitors may influence, or be influenced by the Corporate Strategy of the company as a whole.

3.1.3 Outputs

3.1.3.1 List of Competitors*

Every company should identify and monitor its competitors. A list of competitors is useful for determining and tracking how the company is faring against its competition. With the exception of markets in which a company has a monopoly on the market, all markets have multiple competitors; therefore a gain for a particular company (e.g., increase in revenues, market share, profitability) could be at the expense of its competitors. Smart companies usually identify all their competitors and keep a close watch on competition; for example, they should be aware of whether or not their competitors are consolidating (through mergers and acquisitions), expanding into new markets, retreating from other markets, launching new products, or phasing out certain product lines.

3.1.3.2 Details of Competitive Products*

Other than creating a list of competitors as defined in section 3.1.3.1, companies should also explicitly identify and elaborate on all the competitive products associated with their competitors. Thus, a document containing details of competitive products within the various market segments under consideration is created when considering the competition. Details include the performance of competitive products on selected criteria, as well as their target segments; positioning statements; product pricing; and sales volume. Estimates may be used if accurate figures are not available. This information also identifies which products pose the greatest competitive threat and, therefore, need to be monitored more diligently.

3.1.3.3 Industry Benchmarks and KPIs

Industry benchmarking is the process of comparing an organization’s business processes and performance metrics to those of leading companies in the industry. Key Performance Indicators (KPIs) are used to assess and compare current performance levels. KPIs are metrics that reveal how an organization is performing on certain critical aspects that are key to success in its industry. Dimensions typically measured include quality, time, and cost. To establish a benchmark, management identifies the best companies in the industry or in another industry where similar processes exist. It then compares the company's own practices and processes to the best practices and processes of those leading organizations studied. In this process, organizations learn how well the target companies perform and, more importantly, the business processes that contribute to the success of these companies. Industry benchmarks and KPIs are created as a result of the marketing research performed as described in section 3.1.2.3 and competitor selection criteria as described in section 3.1.2.1.

Examples of Industry Benchmarks and KPIs—

- Continuing the example mentioned in section 3.1.2.1, the three criteria—Variety of Shoes, Quality of Service, and Convenience of Location—may be considered industry KPIs for the shoe retailer industry in that city, and the weighted total score for Competitor 2 may be considered the industry benchmark for overall performance.
- In a call centre, KPIs may include average hold time, average handle time, and customer satisfaction ratings.

3.1.3.4 Future Competitive Scenarios

This output identifies the future events or scenarios that pose a serious competitive threat to the company. These events are those that have been labeled as "high" or "moderate" threats as part of the future competitive analysis carried out in section 3.1.2.2. All relevant information related to these events, such as the dates of expected occurrences and factors that might mitigate or favor these events, should also be documented. The details of the scenarios should be monitored and updated on a regular basis to reflect changes in the competitive environment.

3.1.3.5 Marketing Research Reports

Marketing research reports may be created by the Sales and Marketing team if specific primary or secondary market research is commissioned or gathered by the company to gain a better understanding of the company's competition.

3.2 Select Target Segments

Once a company has identified all market segments, explored the competition, and then compiled the details of competitive products, it should then analyze the various segments and the strengths, weaknesses, opportunities, and threats faced by the company in order to identify the target segments in which the business would be most competitive. This process involves identifying the type of customers a company plans to target and the product categories under which it intends to create products. It is also important to consider how the market scenarios may change in the future.

After the market segments have been identified, the company conducts a market attractiveness analysis to identify the relative attractiveness of each segment. The marketing team should also create "personas" of ideal customers in each segment. Then, depending on the market size of each segment and the ability of the company to build products for each persona, the target segments are selected.

Figure 3-3 shows the inputs, tools, and outputs for the *Select Target Segments* process.

INPUTS	TOOLS	OUTPUTS
1. Strengths and Weaknesses* 2. Opportunities and Threats* 3. Market Segments* 4. List of Competitors* 5. Details of Competitive Products* 6. Industry Benchmarks and KPIs 7. Future Competitive Scenarios	1. Market Segment Attractiveness Matrix* 2. Undifferentiated Strategy 3. Focused or Concentrated Strategy 4. Differentiated Strategy 5. Market-Product Grid 6. Customer Personas* 7. Meetings and Discussions* 8. Marketing Research	1. Selected Target Segments*

Figure 3-3: Select Target Segments—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

3.2.1 Inputs

3.2.1.1 Strengths and Weaknesses*

Strengths and weaknesses (identified during the *Determine Strengths and Weaknesses* process) enable a company to identify its internal capabilities and those processes that the company can execute better than its competition. Senior Management can refer to the organization's strengths and weaknesses when considering the types of products that provide the company with a competitive advantage, and thus identify the market segments that the company can target. If the company has already decided to target a specific market, then strengths and weaknesses can also help identify the capabilities and processes that the company needs to build in order to successfully compete within that target segment.

3.2.1.2 Opportunities and Threats*

Opportunities and threats (identified during the *Determine Opportunities and Threats* process) help a company reflect on any changes in market demands or other external factors, in order to highlight ways to benefit from these changing needs. A company should consider areas of potential growth, which can be exploited, as well as potential threats, which should be mitigated or avoided. For a business to remain successful, it must constantly be aware of market opportunities and threats, and may at times need to re-invent itself to stay relevant to changing market needs. Both the external analyses, which identify opportunities and threats, and the internal analyses, which examine strengths and weaknesses, allow a company to make educated decisions concerning the most attractive market segments that best match its capabilities.

3.2.1.3 Market Segments*

Market segments, obtained as an output of the *Define Market and Identify Market Segments* process, contain a description of the various market segments a company should consider when selecting its target segments. The description of each market segment contains those characteristics that differentiate it from other segments. Because this input is an exhaustive list of all market segments, it is used as a reference point for any analysis on the relative attractiveness of each segment for the company. Excluding details of all market segments could result in a company missing a viable opportunity when choosing target segments (i.e., because it did not consider all possible market segments).

3.2.1.4 List of Competitors*

A list of competitors is obtained as a result of the *Identify Competition* process. This list identifies the important competitors for a company, so it is a valuable input to help the company determine the target segments for its products or services.

3.2.1.5 Details of Competitive Products*

A list with details of competitive products is obtained as a result of the *Identify Competition* process. This list identifies the products that a company finds most similar to its own product in fulfilling customer needs. Each competing product is explained in depth with details of its characteristics, targeted customer segments, pricing, and sales information. The company thoroughly analyses this information to help identify the right target segments for its own products. If the details of competitive products are not included as an input to this process, the company may target a segment in which a competitive product provides a better value proposition to customers, leading to non-optimal sales and consequently little profitability for the company.

3.2.1.6 Industry Benchmarks and KPIs

Industry benchmarks represent the typical performance levels in an industry for specific measurable criteria that are important in that particular industry. Key Performance Indicators (KPIs) are metrics that reveal how a company is performing on certain critical factors that are important to success in its industry. They are created as a result of marketing research and evaluation of competitive products. Industry Benchmarks and KPIs help identify the company's relative strengths and weaknesses, which are then considered when determining the optimal target segments for the company.

3.2.1.7 Future Competitive Scenarios

Future competitive scenarios are potential future events that pose a serious competitive threat to a company or its products. These events are those that are categorized as "high" or "moderate" threats as part of the future competitive analysis discussed in section 3.1.2.2. Because competitive scenarios are considered for all market segments, this is an important input that helps the company analyze whether or not a particular segment has a serious competitive threat that may affect its profitability in the long term.

3.2.2 Tools

3.2.2.1 Market Segment Attractiveness Matrix*

After segmenting the market, a company needs to identify the most attractive segments to target. This tool primarily involves mapping a company's strengths against the attractiveness of each market segment, and then selecting only those segments that provide the best prospects for growth of the company.

A two by two matrix like the one in Figure 3-4 is a good way to map organizational strengths with market segment attractiveness.

		Market Segment Attractiveness: High	Market Segment Attractiveness: Low
Organizational Strengths	High	**Best Prospects** Segment aligns well with organizational strengths—target this segment	**Poor Prospects** Think before pursuing this segment
Organizational Strengths	Low	**Possibly Good Prospects** Segment has the potential to align well—build strengths first, then target this segment	**Worst Prospects** Avoid this segment

Figure 3-4: Market Segment Attractiveness Matrix

Using this matrix involves classifying each market segment into one of the four cells. For each of the cells in the matrix, the suggested action related to targeting is indicated and can be summarized as follows—

- **Best Prospects**—The best market segments are clearly those where the organizational strengths and market segment attractiveness are both considered high. These segments should definitely be targeted.
- **Worst Prospects**—Segments where market segment attractiveness is low and organizational strengths are also low should be avoided.
- **Poor Prospects**—Segments where the organization has the necessary strengths, but market attractiveness is low, are generally poor prospects due to low expectations for profitability. If a company has secondary objectives, such as creating a loss-leader product, it may consider targeting these segments.

- **Possibly Good Prospects**—Segments where organizational strengths are low but market segment attractiveness is high need to be investigated further. These segments should be exploited only if the company first builds its strengths to competitive levels.

It is quite common for a company to target multiple segments at the same time, if it has the necessary resources or has a product range that can appeal to multiple segments.

Examples of Market Segment Attractiveness Matrix:

- An attractiveness matrix for a boutique women's clothing designer with a store front in a popular shopping district of Brooklyn, New York might look like this:

		Market Segment Attractiveness	
		High	Low
Organizational Strengths ○ **Trendy** ○ **Competitive Pricing** ○ **Brand Loyalty** ○ **Good Quality** ○ **Reliable Manufacturing**	High	**Best Prospects** 20–45-year-old tourists, and local professional women	**Poor Prospects** Under 18, over 50
	Low	**Possibly Good Prospects** 18–25-year-old students	**Worst Prospects** Men

Examples of Market Segment Attractiveness Matrix:

A well-known pharmaceutical company has an internal competency in the area of drug formulation. The four market segments that the company is exploring are high-end cancer treatment drugs, over the counter (OTC) drugs for curing the common cold, prosthetic limbs, and medical cosmetics. The four segments can be categorized based on the Market Segment Attractiveness Matrix as follows—

- **Best Prospect**—The market for cancer treatment drugs is a very attractive segment with global demand which may also allow the company to charge a premium. Based on market research, the company may decide to place cancer drugs in the best prospects category because the company has the organizational strengths to develop the drugs and the market attractiveness is also very high.
- **Poor Prospect**—OTC drugs for the common cold are relatively quick to develop and have low R&D expenditures. OTC could be considered a poor prospect because the company has the necessary organizational strengths but the market attractiveness is low due to high competition.
- **Possibly Good Prospect**—Medical cosmetic products have high market attractiveness given the increasing demand for such products; however, the company does not have the organizational capabilities in this area. The company should first aim to build internal capabilities in the development of medical cosmetics if it wants to pursue this market.
- **Worst Prospect**—Prosthetic limbs are difficult to synthesize and require specific capabilities to manufacture. The existing technological capabilities of the company are insufficient to develop prosthetic limbs. The market attractiveness of the segment is also low as it is a niche market.

3.2.2.2 Undifferentiated Strategy

If an organization selects an entire market as its target segment for a particular product, it is said to be using an undifferentiated targeting strategy. In an undifferentiated targeting strategy, the company assumes that all customers in the target market for a specific product have similar wants and needs that can therefore be satisfied with a single marketing mix.

In order to utilize an undifferentiated targeting strategy, an organization must ensure that the following two conditions are satisfied—

1. The market must be homogeneous–that is, a large proportion of customers in the entire market have similar wants and needs for the product.

2. The organization must be able to create and execute a single marketing mix that fulfills customer needs, and must, therefore, be able to address the entire market through a single product, pricing, promotion, and distribution strategy.

Organization → Single marketing mix → Entire target market

For most products, customers are generally heterogeneous—their wants and needs differ from each other based on characteristics such as geography, age, income, and other demographic and lifestyle variables. In such cases, a company should use a differentiated or focused targeting strategy.

3.2.2.3 Focused or Concentrated Strategy

When a company directs its entire marketing efforts toward a single market segment using single marketing mix, it is said to be using a focused or concentrated strategy. The main advantage of this strategy is that it allows the organization to specialize and focus all of its energies on satisfying the demands of that one market segment in order to generate large sales volumes. The success of this strategy depends on an organization's ability to identify a single target segment that has sufficient demand for its product, is large enough for the company to concentrate its marketing efforts on, and is also homogeneous in that the entire segment has a similar demand.

In order to select a focused strategy, an organization must ensure that the following two conditions are satisfied—

1. The market is heterogeneous—that is, it is made up of customers with diverse product wants and needs. However, the identified target market segment is homogeneous, so all the customers in that segment generally have similar wants and needs for the product.

2. The organization must be able to reach the chosen segment with a particular marketing mix.

Organization → Single marketing mix → Single market segment

Examples of Focused or Concentrated Strategy—

- Yoga videos for office-going people above 30 years of age who are health conscious but may not have the time or money to take yoga classes, is an example of a demography-based focused strategy.
- Winter tires are generally sold with a very focused strategy. Seasonal television ads are primarily used to remind prospective customers of the value and need for that commodity. The segment is focused on car owners over 30 years of age living in very cold climates because this demographic is typically more safety conscious than younger drivers.
- A term life insurance product may be targeted toward working parents between the ages of 30 and 50 with an annual income of $50,000 to $100,000.

3.2.2.4 Differentiated Strategy

In a differentiated targeting strategy, a company directs its marketing efforts towards two or more segments by creating a different marketing mix for each segment. Each marketing mix for this strategy typically varies depending on product features, distribution methods, promotion methods, and pricing. After successfully using a focused strategy in one market segment, an organization might expand into other segments, therefore switching to a differentiated strategy.

Organization → Multiple marketing mixes → Multiple market segments

An organization with excess production capacity may find a differentiated targeting strategy beneficial as its product sales to additional segments will help in absorbing the excess capacity. On the other hand, operating under this strategy may demand more processes, people, and materials, thereby increasing overall costs that may not be beneficial in the long run.

Examples of Differentiated Strategy—

- Car manufacturers tend to develop different brands of cars targeting different income segments. Thus, they may choose a differentiated marketing strategy with two market segments based on income.
- A film studio generally uses a differentiated strategy by branding specific genres that appeal to different consumer segments (e.g., romantic, comedy, or action-oriented movies).
- Energy drinks were initially marketed with a strategy focused on youth, primarily through sponsorship of extreme sports events. To increase distribution and market reach, both broad television advertising and nightclub sponsorship campaigns were added. Energy drinks, which were once most prevalently distributed in convenience stores, are now available in large grocery stores, liquor stores, and bars. Furthermore, the household and drinking-age market segments are now being directly targeted.

3.2.2.5 Market-Product Grid

A Market-Product Grid[8] is a tool that is used to relate the potential buyers' market segments to product offerings or potential marketing actions. It is particularly useful when a differentiated targeting strategy is being used in a heterogeneous market. A matrix is created with the different market segments indicated on the vertical axis and the various product offerings or options being considered represented on the horizontal axis.

Creating a Market-Product Grid involves the following steps—

1. Identify potential market segments and the products or other options being considered. This information can be derived from the outputs of the *Define Market and Identify Market Segments* and *Identify Competition* processes discussed in sections 2.3 and 3.1.

2. List the various market segments on the vertical axis and the products or options on the horizontal axis.

3. Evaluate each market-product combination and categorize its size as large, medium, small, or insignificant. This categorization can also be represented in numeric terms (0 for insignificant to 3 for large).

[8] Ansoff, I. (1957). Strategies for Diversification, *Harvard Business Review*, Vol. 35 (5), Sep–Oct, p. 113–124.

The Market-Product Grid, once created, helps the company quantify the most attractive target segments for its products or services.

Example of Market-Product Grid:

A real-estate developer has decided to build an entertainment complex. The complex will include two entertainment concepts to be chosen from several possible options: Movie Theatre, Theme Park, Cultural Theatre, Fitness Centre, Shopping Mall, and Basketball Court. The market segments are divided into Children less than 16 years of age, Males 16–30, Females 16–30, Males 31–55, Females 31–55, Males 56+, and Females 56+. Based on research, the developer analyzes the demand for the various entertainment options in each market segment, and categorizes those market-product combinations on a scale of 0–3 with 0 representing insignificant, 1 representing small, 2 representing medium, and 3 representing large.

Below table illustrates the real-estate developer's Market-Product Grid.

Market Segment	Entertainment Options					
	Movie Theatre	Theme Park	Cultural Theater	Fitness Center	Shopping Mall	Basketball Court
Children <16	2	3	1	0	2	1
Males 16–30	2	2	1	3	2	3
Females 16–30	3	2	2	3	3	2
Males 31–55	1	0	2	2	2	2
Females 31–55	2	0	3	2	3	1
Males 56+	3	1	2	1	1	1
Females 56+	2	1	2	1	2	0
TOTALS	**15**	**9**	**13**	**12**	**15**	**10**

Based on the possible market-product combinations, the developer may decide to go ahead with the two most attractive entertainment options (i.e., Movie Theatre and Shopping Mall).

3.2.2.6 Customer Personas*

Personas are highly detailed fictional characters, representative of particular types of users in a market segment. They are created to help the marketing team identify who the potential buyers are, what they are trying to achieve, what they think, what drives their behaviors, how they buy, and why they take certain decisions. In a corporate environment, a persona could include job title, tasks, responsibilities, job requirements, conferences attended, and types of media consumed. With detailed personas, users become more personal and real to the team, so they are better able to understand the particular requirements and goals of a market segment. A market segment can be effectively selected once detailed personas are understood.

Creating a persona involves assigning a fictional name and preferably a picture to a character. The persona should be research based and include highly specific demographic and lifestyle attributes such as age, gender, education, environment, interests, and goals. A quote illustrating the persona's requirements can also be included.

Examples of Customer Personas—

- A persona created for a travel website—

Vanessa, 39 years old, The Backpacker

"My backpack is always ready for me to pick up so I can jet off and explore the world."

Vanessa is a 39-year-old resident of San Francisco. She is pursuing her passion for traveling after having a highly successful career as an attorney. She likes to have options when choosing air travel and accommodation services so that she can select those that are the best and most affordable. Vanessa gets frustrated with slow and cluttered websites.

- A bank launching a mortgage insurance product has identified this persona—

  Adam is 35 years old, has been married for five years, and has two children, ages 3 and 1. He owns a two-story, three-bedroom home in a middle class suburb. Following the birth of their second child, Adam's wife gave up her full-time job, making Adam the primary breadwinner. Adam is concerned about the security of his job as a computer programmer as his employer has been reducing staff as part of ongoing cost-cutting measures. While Adam and his wife have a fairly limited budget, they have prioritized mortgage insurance as a necessary expenditure due to concerns about their lack of available savings to manage their mortgage payments in the event of a job loss or illness.
- A business-to-business workforce management software company has identified this persona—

  Julia is a 45-year-old vice president of human resources for a large accounting firm. She is the final decision maker of all software purchases for her department. Her technical knowledge is adequate for her role but she does not consider herself a very technical person and therefore her software purchase decisions are heavily influenced by the IT department and by HR managers who report to her and who are the users of the systems. In shortlisting software programs for purchase considerations, Julia also attends HR conferences and regularly reads trade magazines to stay updated on new technology.

3.2.2.7 Meetings and Discussions*

After identifying all market segments as part of the *Define Market and Identify Market Segments* process, the marketing team meets to analyze the data obtained on consumer behavior patterns derived from internal information and marketing research. The marketing team also decides if the market is homogeneous or heterogeneous and, based on that information, decides whether the company will proceed with an undifferentiated strategy, a focused strategy, or a differentiated strategy. Relevant stakeholders in the organization meet and discuss the attractiveness of all market segments and, based on the strengths, weaknesses, opportunities and threats, select the target segments.

3.2.2.8 Marketing Research

Besides the Market Attractiveness Report, which provides information on the growth potential of the entire market, marketing research is also conducted to clearly identify the target segments and their associated characteristics. For example, variables such as specific preferences, age group, income level, and geographic representation need to be detailed for the various market segments. Marketing research also helps identify the purchasing behavior and purchasing criteria of customers in the various segments. Once the purchasing criteria are identified, the company can then analyze how well it meets those criteria. Marketing research also helps identify the size of the product-market combinations in the Market-Product Grid.

3.2.3 Outputs

3.2.3.1 Selected Target Segments*

Understanding the target segments is a key factor in determining the positioning strategy and possible changes in the marketing mix for a product. The marketing strategy team should create a document that contains the identified target segments and all relevant information on those segments. The document should include the following—

- the specific needs of each target segment that a product aims to satisfy
- all relevant characteristics of each target segment which differentiates them from other segments; these may be taken from the segmentation exercise carried out in section 2.3, *Define Market and Identify Market Segments*
- market attractiveness attributes for each segment such as size and growth rate
- the personas of typical customers in each target segment
- organizational strengths that help the company compete successfully in each segment
- any of the company's existing products that are most suitable for the various target segments

For consumer market segments, additional information about demographics, geography, disposable income, psychographics, and purchasing behavior may also be included. For business market segments, additional information about locations, revenues, decision-making hierarchy, and stage of technology adoption for the companies in the targeted segments may also be included.

Clearly defining target market segments enables a company to focus its marketing efforts on only those relevant segments and, in turn, helps the company achieve its marketing objectives.

3.3 Create Differentiated Positioning

This process involves creating a positioning statement that clearly articulates, in a succinct sentence, how the company wants the customers in its selected target markets to perceive its products. This exercise helps the company maintain focus on each product and its value proposition while developing the key elements of its marketing mix, pricing, and distribution strategy. In addition, a list of the product features that are most important in helping customers make their purchasing decision is also created during this process.

While creating the positioning statement, it is important for a company to determine how its products are placed with respect to those of the competition in the customers' minds, and also how various target segments differ in their preferences. Taking into account the selected target segments, strengths, weaknesses, opportunities, threats, competitive products, industry benchmarks, and customer feedback, the *Create Differentiated Positioning* process is critical for developing the Marketing Strategy and in turn the Corporate Strategy as a whole.

Figure 3-5 shows the inputs, tools, and outputs for the *Create Differentiated Positioning* process.

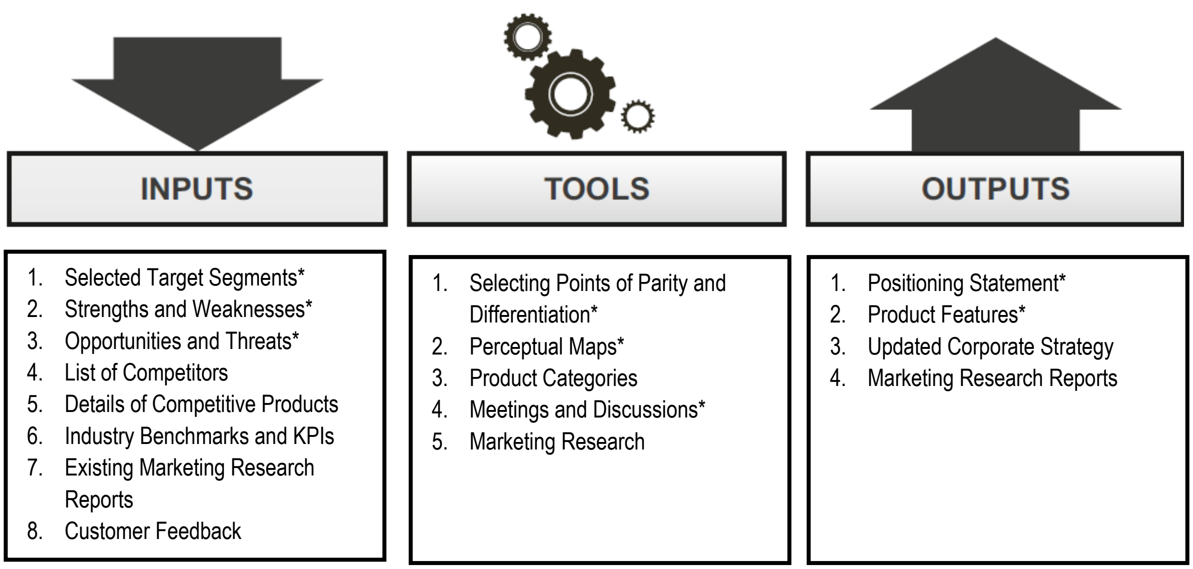


Figure 3-5: Create Differentiated Positioning—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

3.3.1 Inputs

3.3.1.1 Selected Target Segments*

The target segments are determined in the *Select Target Segments* process, discussed in section 3.2. Detailed information about the chosen target segments, such as specific wants and needs, customer personas, segment size, and so forth are described.

A company analyzes the target segment information to determine areas where it has, or can, create a competitive advantage when positioning its products.

3.3.1.2 Strengths and Weaknesses*

Strengths and weaknesses of a company are an output of the *Determine Strengths and Weaknesses* process, described in section 2.1. Internal capabilities can provide a company with key differentiators that help it position its products successfully. At the same time, any internal weaknesses should be avoided, or strengthened, if they are important for positioning the company's products.

Examples of Strengths and Weaknesses—

- A fast food company with strong logistics capabilities may highlight its quick home delivery service as part of its positioning strategy. A competitor to this company cannot guarantee quick delivery but has invested in a wider variety of products, so this company may highlight that it provides more choice to its customers as its positioning strategy. Both these companies may succeed if their positioning strategies highlight their own strengths, rather than trying to mimic the other company's strengths, which could instead expose their weaknesses.
- Camera store chains have the strength of physical locations where customers can see and touch their products, and expert staff can assist customers with selection. With the prevalence of online shopping, the physical location of the traditional store has become a weakness relative to online competitors, since online stores do not have the burden of leasing and staffing costs. In order to remain successful, camera stores have switched their focus to mainly high-end products where customer service and expertise are considered more valuable than price.

3.3.1.3 Opportunities and Threats*

Opportunities and threats of a company are an output of the *Determine Opportunities and Threats* process, described in section 2.2. Taking opportunities and threats into account while positioning products helps the company take advantage of future opportunities and ward off threats. The positioning statement should be applicable to probable future market scenarios, so it is not usually too specific to the current market situation. Companies may also turn a threat into an opportunity through appropriate positioning.

Examples of Opportunities and Threats—

- A cosmetics company has identified a growing trend that customers are becoming more conscious of protecting the environment. The company sees this as an opportunity rather than a threat and consequently decides to reposition its products as being natural and created from raw materials sourced through eco-friendly practices (of course, this is possible only after the company has implemented any necessary changes in its production processes). It decides to stop animal testing with its products and includes that fact in its new positioning strategy. By seeing a potential threat as an opportunity, the company created a new positioning strategy that is relevant for future customer demands.
- There is an opportunity for companies to capitalize on a celebrity's positive public image when marketing their products. Smart companies will seek public figures with rising popularity and positively perceived character traits. However, there is a correlating threat that the celebrity's success or image may decline before or after the marketing campaign concludes. Careful selection of endorsements can help to maximize the opportunity and mitigate the threat.
- A textile manufacturing company may see an opportunity to capitalize on government incentives to expand its operations and open new manufacturing plants in other countries. However, when operating overseas, the company may see currency fluctuations as a threat.

3.3.1.4 List of Competitors

A list of competitors is an output of the *Identify Competition* process, described in section 3.1. Information about competitors helps a business establish its positioning relative to competitors, and can provide helpful insights that can be reflected in the company's Marketing Strategy, such as pricing and target markets. Most importantly, a good understanding of the competitive landscape enables a company to determine key differentiators and, specifically, a differentiated positioning statement for the business among its competitors.

3.3.1.5 Details of Competitive Products

Details of competitive products are an output of the *Identify Competition* process, described in section 3.1. Information about competitive products helps a company understand the current positioning of its competitors so it can create a unique positioning that is appropriately aligned with the company's selected target segments. Details such as pricing, product features, sales, and performance on certain key parameters are some examples of competitive product information that are useful to consider during this process. The company can also analyze information about competitive products to assess any additional differentiation criteria that competitors might have missed, or decide on any parameters it wants to match or surpass, thus negating the competitors' advantage. Furthermore, if a competitor is marketing a product with a positioning statement that it is not living up to, the company may see this gap between what is promised and what is delivered as an opportunity to create a similar positioning strategy focused on fulfilling that promise.

Examples of Details of Competitive Products—

- Opening a new restaurant is a business venture often first defined by competitive products. Existing competition in any locality is reviewed and compared to the proposed establishment. Factors such as menu options, target demographics, and pricing must be considered. A franchise focused on promoting healthy options may decide to lease in a shopping mall, if the competing franchises are predominantly offering high-calorie fast food, despite the pricing and demographic similarities.
- A retail chain looking to enter a market identifies two main competitors, one with a positioning strategy focused on offering products at the lowest prices, and the other with a positioning strategy that highlights its range of premium products. The retail chain should create a positioning that is different from the other two, perhaps focusing on superior and personalized customer service. Or, if the retail chain has a better cost structure than the competitor claiming to offer the lowest prices, it may instead position the business as offering even lower prices than those of the competitor.
- A consumer electronics manufacturer may decide that its newest smartphone cannot compete on the basis of lowest price given its knowledge of its competitor's positioning. However, since the smartphone is more feature-rich than its competitors, it may differentiate based on functionality.

3.3.1.6 Industry Benchmarks and KPIs

Industry Benchmarks and KPIs are an output of the *Identify Competition* process, described in section 3.1. These can be valuable in creating a positioning strategy focused on the key factors that are important for succeeding in a particular industry. Comparing the company's performance against industry benchmarks and KPIs helps prevent a company from focusing its positioning efforts on creating differentiators that are of little importance to customers in the industry. In addition, industry benchmarks provide indicators of the current standards in the industry, and therefore offer a means by which the company can determine whether it can match or exceed those standards. If it can exceed them, then the company can create additional competitive differentiators.

3.3.1.7 Existing Marketing Research Reports

A company may have conducted marketing research in the past about customers' attitudes and behaviors toward its own products and/or those of its competitors. This research can help identify the best possible product features and associated product positioning based on how purchase intentions vary with changes to particular product characteristics. Furthermore, analyzing customers' attitudes toward competitors' products provides additional insights into how well the positioning strategies of competitors are working, and whether there are some gaps in their positioning that the company can exploit.

Example of Existing Marketing Research Reports—

- A manufacturer of formal shirts might have carried out research in the past on which attributes in a shirt customers value the most and the premium they are willing to pay for the most desired attributes. If customers are willing to pay a premium for wrinkle-free shirts, but the manufacturer does not have the technology to manufacture such shirts, it can reconsider including this attribute when the technology becomes available, and can then create a new positioning around wrinkle-free shirts.

3.3.1.8 Customer Feedback

Understanding the customer experience and obtaining customer feedback about a company's existing products (a concept referred to as the "Voice of the Customer") helps a company to determine the positioning of its products. Such customer feedback includes improvement suggestions, compliments, and complaints. Complaints and improvement suggestions highlight areas where a company needs to make changes and adjustments and where its current positioning might not be working as desired. Compliments highlight areas where a company is doing well. If these areas are part of its existing positioning strategy, then the past positioning process is validated and a good baseline for creating new positioning is set. If these areas are not part of its existing positioning, then the company may consider including them in the updated positioning statement.

3.3.2 Tools

3.3.2.1 Selecting Points of Parity and Differentiation*

Points of parity for a product are those characteristics of a company's product that are not unique but are rather on par with competing products. Points of differentiation are those areas on which a company's product outperforms competing products. The company needs to decide which product features and benefits it wants to match with competing products, and those it wants to differentiate from competing products. It is simply not feasible or advisable for a company to differentiate its product on all aspects.

Though points of differentiation provide a company with its competitive edge over the competition, choosing points of parity carefully is also important. Customers should be able to relate the company's product with a certain product category, so they can understand at a broad level the type of need that the product satisfies. Therefore, some basic characteristics of the product must be similar to other products in its category. If the product fails to meet the basic characteristics that customers expect from all products in the product category, then customers may not consider it for purchase, irrespective of how well the product is differentiated on other characteristics. For example, a manufacturer of bottled water needs to ensure that it packs water in transparent plastic bottles as bottled water is predominantly sold in that packaging form. If it packs water in opaque bottles instead, like other liquids, then some customers may not realize that the bottles contain water, even if the water is better than its competing products.

In addition, a company may choose to match a competing product on a point of differentiation, effectively softening that product's edge. Thus, if the company achieves parity on all the basic characteristics and blunts the competition's competitive advantage by targeting its point of differentiation, then even a relatively minor point of differentiation can provide the company with a competitive advantage.

In product categories where there are many differentiation options (such as in the software industry), it makes sense to focus on creating sustainable differentiators rather than on blunting the competition's points of differentiation. Thus, efforts could be better utilized in creating profound points of differentiation. Additionally, differentiation is not always accomplished through product characteristics. It can be created by offering better services or unique packaging, or by implementing more efficient processes that provide a cost advantage.

Examples for Points of Parity and Differentiation—

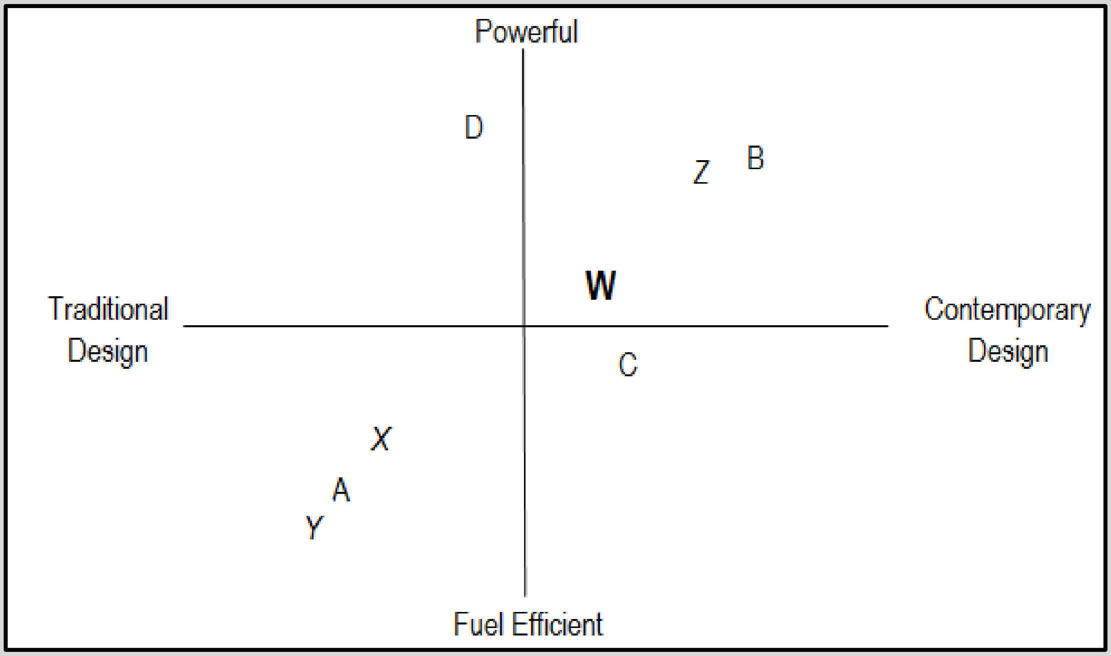
- Competition in the men's razor market has followed a pattern of parity to differentiation and back to parity. Each company adds features to differentiate, until those features become standard and must be delivered by the competition to achieve parity. Some companies in this industry have decided to use a strategy of achieving the minimum level of parity and then differentiating on price, rather than attempting to compete on feature innovation. Other companies compete primarily on innovation, with a strategy of ensuring that a very high-quality product is available to customers, but at a much higher price point.
- In the past, the ability of major retailers to provide options for customers to purchase products online would have been a point of differentiation. However, as online shopping grows in popularity and more companies develop their e-commerce capabilities to match consumer demand, the ability to facilitate online shopping has become a point of parity among major retailers.
- Until recent years, free Internet connectivity through Wi-Fi was a point of differentiation for some coffee shops; however, as increasingly more consumers have come to expect this service, the ability to be freely connected is quickly becoming a point of parity in the industry.

3.3.2.2 Perceptual Maps*

Perceptual mapping is a technique used to visually display the perceptions of customers and examine the positioning of a company's product relative to those of the competition. These maps are two-dimensional, with the axes being two parameters on which customer perceptions of different products are measured. Customer segments are plotted on the same map according to the degree of preference for each of the two parameters. Both parameters are represented on the same map, so that a company can see which brands are closest to meeting the needs of each segment. If a segment's needs are not being adequately met by existing products, an opportunity exists for a differentiated positioning. There may also be segments where a number of products are close to one another on the map, representing a high degree of competition for that segment. In such a situation, the company may choose to differentiate itself on additional parameters that are important for those segments and on which competing products are not focusing.

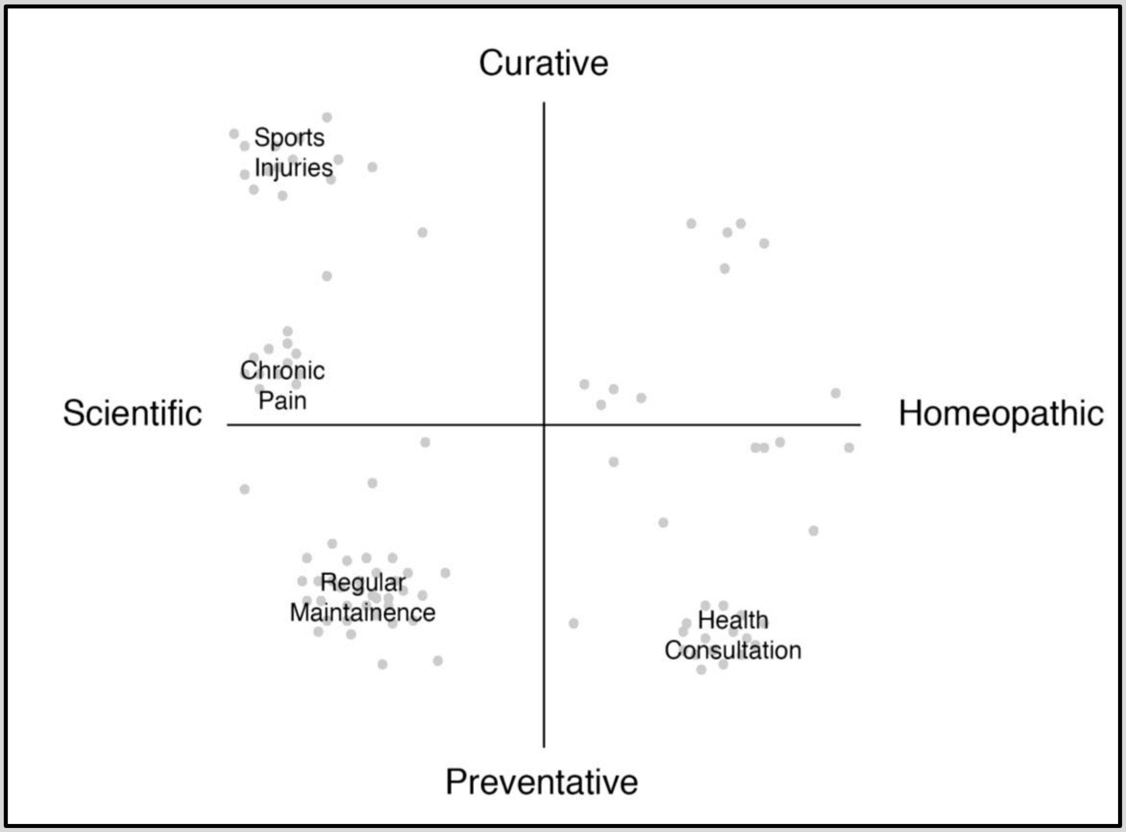
Examples of Perceptual Maps—

- A car manufacturer planning to launch a new car has identified four target segments; A, B, C, and D. It has also identified that the main competitors are cars *X*, *Y*, and *Z*. Its current car, which addresses the needs of the four segments, is W. Two of the key decision parameters for the customers in the target segments are "Design" (Traditional versus Contemporary) and "Image" (Powerful versus Fuel Efficient). The perceptual map for the segments and products on these two parameters is shown below.



As shown in the perceptual map, segment D's needs are not being adequately met by any of the current cars in the market, so this represents an opportunity that should be explored. The car manufacturer can consider bringing in a variant of W, or a new car model, with a more traditional design and with a powerful engine, to move close to segment D's needs on the graph. At the same time, segment A sees a lot of competition between cars X and Y. Targeting segment A would require creating a variant that has a more traditional design and that is more fuel efficient than W, and then positioning it accordingly. This approach may also require additional marketing expenditures due to the higher level of competition already existing with cars X and Y. Segment B can be addressed by launching a variant with a more contemporary design and a more powerful engine. In some cases, the company may not choose to launch new variants but can instead focus on re-positioning its existing products through appropriate marketing communication. For example, to appeal to segment A, the company could highlight the fuel efficiency test results if they are on par or better than the competition.

- A perceptual map can also be used to understand the consumer's ideal mix within each marketing segment. The data points on the grid below show clusters of the desired mix between curative and preventative medicine, and scientific and homeopathic methods. By observing and categorizing the customer mix most dominant in each cluster, the perceptual map can give insight to the marketing message required to attract customers with similar requirements.



A chain of chiropractic clinics wants to determine how to best position their marketing message. They review the perceptual map and decide to focus on a marketing strategy that emphasizes the scientific aspects of chiropractic treatment. They may want to further focus their positioning by highlighting the curative aspects if they believe the sports injury segment is an under-addressed market.

3.3.2.3 Product Categories

It is useful for a company to identify an appropriate product category for each product when defining a positioning statement. Identifying an appropriate product category also helps the company determine its brand message and clearly articulates the value proposition of the company's products.

Examples of Product Categories—

- A high-end Italian automobile company manufacturing expensive cars for a select clientele may not want to categorize its products as “automobiles.” Instead, identifying its product category as “high-end luxury automobiles” helps in drafting a more focused positioning statement for its products.
- Some beauty and pharmaceutical manufacturers categorize their products as “natural” to distinguish themselves from the competition. This marketing strategy focuses on the ingredients in the product, rather than the more stylistic features. For example, lip balm may be categorized by some manufacturers as “all natural beeswax” rather than “cherry flavored.”
- First-class and business-class airline tickets are product categories that command higher price tags relative to coach or economy-class airline tickets. Since the target market for these product categories are different, airlines usually devise different positioning for these two product categories.

3.3.2.4 Meetings and Discussions*

Meetings and discussions are useful when determining the positioning of products. After multiple options for product positioning are explored, positioning meetings can help in deciding the best positioning to use from among the available options. In addition, they can also be used to consider the strengths, weaknesses, opportunities, and threats so the company is able to deliver on the promises inherent in a positioning statement. Furthermore, meetings help determine the benchmarks underlying a positioning statement that a company intends to uphold. For example, a company with a “best-in-class quality” positioning statement needs to ensure that it actually does offer products and services with minimum standards that are better than the existing benchmarks in the industry. Positioning meetings and discussions help in deciding what those minimum standards should be.

3.3.2.5 Marketing Research

If past marketing research reports do not exist or are outdated, then a company may decide to carry out new research on customer perceptions of its existing products and those of competitors’ products. This research can be used with the other tools discussed in this section, such as when selecting points of parity and differentiation and creating perceptual maps. The research tools that are generally used for positioning include factor analysis to condense a large number of variables into key parameters (which can then be used on the axes of a perceptual map), and cluster analysis to group customers into different segments (which can then be plotted on a perceptual map). These tools are discussed in detail in the Marketing Research book.

3.3.3 Outputs

3.3.3.1 Positioning Statement*

The positioning statement is the main output of the *Create Differentiated Positioning* process. It is generally a short sentence or phrase that captures the essence of the value a company's products offer to its target customers. The positioning statement should create an image of the products, highlighting the most important benefits that differentiate them from competitor products and that offer the most value. It should be specific enough that it conveys the key benefits to target customers, yet broad enough that it stays relevant for product variants and for future market scenarios. A well-defined positioning statement should reflect the following—

- the specific product category
- the target segments for which products are positioned, as well as key characteristics of the segments
- the points of parity and points of differentiation for products
- perceptual maps for the product
- marketing research reports which provide additional understanding of customer behavior and perceptions
- the specific benefits of the products as compared to competitive offerings, and particularly those benefits that differentiate the company's products from other products
- any guarantees or warranties with regard to product' qualities

Examples of Positioning Statement—

- If a manufacturer of premium kitchen cutlery wants to launch a range of kitchen knives targeted at customers who love experimenting in the kitchen at home, it may choose to adopt the positioning statement: "XYZ's amazingly sharp knives help kitchen-savvy consumers, who enjoy cooking or preparing food using precision tools, create exotic cuisines in their own homes." Such a positioning statement highlights the most important feature that customers want in any knife, a sharp edge, and uses a superlative word, "amazingly," to emphasize that the knives are much sharper than normal, thus showcasing this as a premium feature. In addition, the positioning statement creates an image of the customer creating various exotic cuisines at home using the sharp knives, thus addressing the specific needs of the target segment. This statement is specific enough to convey very sharp-edged knives suited to exotic cuisines as the key benefit, but it is also generic enough that it does not mention specific knife sharpening technology or a specific cuisine.
- A supplier of educational toys for children may chose a short positioning statement such as, "Kids are curious—let them play their way." This statement identifies the target market, the general type of product and the key differentiator, without being limiting.
- A commercial carpeting company might craft its positioning statement to define the target audience, category of product, value proposition, and promise to deliver. The resulting statement is: "For busy, high-traffic offices, XYZ Carpeting provides aesthetically pleasing, durable carpet products in a variety of colors. Unlike other carpet companies, XYZ Carpeting warranties its product for ten years."
- Resort hotels generally focus on offering a high level of quality or a low price. The following positioning statements focus on the same overall demographic—middle to upper income customers who take annual vacations. The focus of each statement provides the potential customer with different expectations, and an understanding of the expense level of the hotel.
    - "Our resort offers all the amenities your heart desires. Live like a king on vacation. Treat yourself to beachfront activities during the day, and fine dining at night."
    - "Get the most out of your vacation. Stay with us and you'll get the value you deserve. Our affordable suites deliver comfort and reliability within walking distance to the beach."

  Both statements reinforce the hotel's vacation destination appeal, but the first promises luxury and the second economy.

3.3.3.2 Product Features*

The positioning exercise identifies the product features that are most desired by target customers. These features are revealed during the creation of perceptual maps and while selecting points of parity and differentiation. Perceptual maps show the combination of key parameters that a product must have to appeal to a specific target segment. Points of parity and differentiation show the features that a product must have to be identified as part of a product category, and those that it must possess in order to differentiate itself from the competition. These features are the most important inputs for designing the final product.

Example of Product Features—

- After reviewing the competition and the customer's ideal expectations, a chiropractic chain revising their marketing strategy reaches the conclusion that there is a niche in the market for chiropractic clinics serving athletic and active adults. This group is currently being served primarily by physiotherapists and sport clinics. The chiropractic chain will need to reinforce the idea that their service provides all the scientific and results-oriented features of a physiotherapist but, in addition, provides health features to prevent future injuries. They decide to highlight features such as reduced chronic back strain, increased flexibility, and a proven methodology for addressing damage to the body caused by over exertion and injury. These features will also help to differentiate the clinic's chain from other chiropractic clinics that focus primarily on maintenance and general health.

3.3.3.3 Updated Corporate Strategy

The creation of a positioning statement for a company's products and the identification of product features are critical steps for the creation and delivery of products or services to customers. Hence, the positioning statement contributes significantly to the overall Corporate Strategy and, more specifically, impacts the Product Strategy, Operations Strategy, and Finance Strategy.

- **Product Strategy**—Product features are key inputs for the product development and research teams, whose activities are guided by a company's Product Strategy. Therefore, the Product Strategy needs to be updated to reflect any product feature modifications for existing products, or additional features for new products added. In addition, the creation of new products may necessitate retiring existing products, which will in turn change a company's product portfolio. Thus, the product portfolio also needs to be updated in the Product Strategy.
- **Operations Strategy**—Modification or addition of new services that differentiate a company's offerings from its competitors usually necessitates changes to a company's service operations. Also, modification or addition of product features generally requires changes to the manufacturing and customer support processes. Such changes need to be updated in the Operations Strategy.
- **Finance Strategy**—Positioning decisions may impact what customers are willing to pay for a product. Any subsequent price changes to a product will directly impact the financial aspects of that product. Furthermore, any change in expected profits affects the company's financial projections and these projections need to be updated in the Finance Strategy. There may be other associated product costs such as costs for developing and testing new product prototypes, implementing operational process changes, or executing a broad range of marketing research to better understand customer perceptions.

3.3.3.4 Marketing Research Reports

As part of the process of establishing a positioning statement, companies often identify a need for additional research. Among the outputs of the *Create Differentiated Positioning* process, therefore, are the Marketing Research reports that document the knowledge gained through such research. Marketing Research reports can provide critical insights that should be reflected in the product positioning statement. Such details include identified points of parity, established points of differentiation, key target segment characteristics and behavior trends, among others. Gathering such information ensures that the marketing team incorporates key components of the target market and the competitive landscape in crafting the positioning statement, and such reports can serve as inputs to future product development and marketing strategies.

4

4. DETERMINE PRICING AND DISTRIBUTION STRATEGIES

This chapter explores the processes for determining the Pricing and Distribution Strategies for a company's products or services. When a product's price, value proposition, and positioning are optimally aligned, a company is in a position to maximize revenues and profits. A Pricing Strategy properly prices products or services so that the company can sustain profitability while maintaining or growing its market share. Developing a Pricing Strategy involves assessing the value of the products, based on their features; analyzing the pricing and features of competitive products in the market; analyzing the consumer mindset, which takes into account demand and price expectations for the products; and considering anticipated unit costs, sales and, in turn, profitability. A Distribution Strategy defines how a company moves its products and services from creation to consumption in a cost-efficient manner while focusing on end users' needs. It is defined after detailed analysis of a company's supply chain, including the network of relationships within the company that enable the company to deliver value to end users. In addition, understanding and addressing the needs of the entire distribution channel, external to the company, helps ensure that products or services are delivered and sold to customers in the most efficient and effective manner possible for the business to succeed.

Figure 4-1 provides an overview of the processes reviewed in this chapter, which are as follows—

4.1 Determine Pricing Strategy—In this process, a Pricing Strategy is determined for the various products or services of a company. The end objective is sustainable profitability while growing or maintaining a healthy market share.

4.2 Determine Distribution Strategy—In this process, a Distribution Strategy that ensures the most efficient delivery of a company's products or services to the customer is selected based on the company's assessment of several alternative distribution channels.

4.1 Determine Pricing Strategy

INPUTS
1. Market Attractiveness Report*
2. Past Revenues and Cost Data*
3. Positioning Statement*
4. Existing Marketing Research Reports
5. Purchase Timing
6. Existing Warranties
7. Opportunities and Threats
8. Details of Competitive Products*
9. Product Features

TOOLS
1. Marketing Research
2. Price Elasticity of Demand*
3. Total Cost of Ownership*
4. Economies of Scale
5. Experience/Learning Curve
6. Target Costing
7. Break-Even Analysis*
8. Perceived Value Pricing
9. Value Pricing
10. Going Rate Pricing/Neutral Pricing
11. Auctions
12. Gain-Sharing and Risk-Sharing Pricing
13. Variations among Product Geographies
14. Discounts and Offers*

OUTPUTS
1. Pricing Strategy*
2. Marketing Research Reports

4.2 Determine Distribution Strategy

INPUTS
1. Positioning Statement*
2. Product Features*
3. Pricing Strategy*
4. Opportunities and Threats
5. Existing Marketing Research Reports
6. Performance of Existing Channel Members

TOOLS
1. Demand Chain Planning
2. Value Network Analysis
3. Evaluation of Distribution Channel Models*
4. Total Cost of Distribution
5. Marketing Research
6. Meetings and Discussions*

OUTPUTS
1. Distribution Strategy*
2. Updated Pricing Strategy
3. Marketing Research Reports

Figure 4-1: Determine Pricing and Distribution Strategies Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

4.1 Determine Pricing Strategy

Determining the Pricing Strategy for products or services involves an extensive analysis of the features, positioning, and pricing of the products or services relative to those of competitors. In order to develop a comprehensive Pricing Strategy, a company must specifically evaluate and understand the trends and dynamics in many areas such as the following—

- the features and pricing of competitive products in the market
- the company's desired positioning, mapped against that of the competition to identify pricing of similarly positioned products
- the consumer mindset to understand the demand and spending capability for each product
- the cost, projected unit sales, and targeted profitability levels of each product
- the innovativeness of each product
- the capability of the production and operations teams to create high-quality products at reasonable costs
- the knowledge of the current and desired market share for each product

Although it may be possible for a company to enhance its market share by decreasing the price of a particular product or service, its Pricing Strategy should be oriented towards creating a sustainable brand perception and sustainable profitability for the brand while maintaining or growing a healthy market share.

Figure 4-2 shows the inputs, tools, and outputs for the *Determine Pricing Strategy* process.

INPUTS	TOOLS	OUTPUTS
1. Market Attractiveness Report*	1. Marketing Research	1. Pricing Strategy*
2. Past Revenues and Cost Data*	2. Price Elasticity of Demand*	2. Marketing Research Reports
3. Positioning Statement*	3. Total Cost of Ownership*	
4. Existing Marketing Research Reports	4. Economies of Scale	
5. Purchase Timing	5. Experience/Learning Curve	
6. Existing Warranties	6. Target Costing	
7. Opportunities and Threats	7. Break-Even Analysis*	
8. Details of Competitive Products*	8. Perceived Value Pricing	
9. Product Features	9. Value Pricing	
	10. Going Rate Pricing/Neutral Pricing	
	11. Auctions	
	12. Gain-Sharing and Risk-Sharing Pricing	
	13. Variations among Product Geographies	
	14. Discounts and Offers*	

Figure 4-2: Determine Pricing Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

4.1.1 Inputs

4.1.1.1 Market Attractiveness Report*

The Market Attractiveness Report contains detailed information on all potential target markets and their relative attractiveness. It provides an indication of any shift in consumer purchasing trends, which helps a business decide on a solid Pricing Strategy for the target markets selected. If a company does not consider the Market Attractiveness Report, it may not be able to adequately estimate the demand of the target markets and may not price its products at a level that will yield maximum profitability.

4.1.1.2 Past Revenues and Cost Data*

Information on the past revenues a product has generated at particular price points within the various target markets is a valuable input when deciding the future Pricing Strategy. For mature industries, consumer demand as well as the impact of consumer spending typically does not vary significantly from year to year; thus, the selling price is generally similar to past pricing. However, the costs involved in creating and distributing a product are also important factors to consider because any changes in production, raw material, or other supply chain costs are often directly proportional to required changes in price when maintaining a desired profitability level is a key goal.

As mentioned, cost data should include the production and distribution costs of the product as well as the costs associated with servicing and warranties. Distribution costs are discussed in detail in Section 4.2.3.1.

Examples of Past Revenues and Cost Data—

- Real estate developers in mature markets can refer to their past revenues and Pricing Strategy to project future market demand and price their real estate projects accordingly. However, they should also factor in the current costs of raw materials such as cement and steel, labor, and inflation before deciding on the price point for any real estate they plan to develop.
- Manufacturers producing component pieces for a specific industry typically add new variations to their product line on a regular basis. Pricing for these new components is usually based on past revenue and cost data. An oil tools manufacturer may develop one or two new variations per year. Historical pricing, revenue, and production costs of similar products will be factored into the new unit price. Research and development costs are also considered, often allocated as a percentage of business units.
- Publishing houses have a wealth of historical data to help price new books. Product categories are well defined, production costs are predictable, and past revenue data are available. A new cookbook will be appropriately priced due to the maturity of the industry and availability of reliable data.

4.1.1.3 Positioning Statement*

The positioning statement is important to consider when determining appropriate pricing for a company's products. How a company markets a product impacts who buys it and how much consumers are willing to pay to purchase it. A company that desires to cater to a price-sensitive segment typically becomes a mass manufacturer, so its focus is usually on providing the best possible price to the consumer for an acceptable quality. This positioning helps the company gain significant market share and revenues, but the profits per unit sold may be low. Conversely, a company that caters to a wealthier market segment with relatively high disposable incomes, aims to create a premier positioning for the product focusing on the quality of the goods or services, brand messaging, and packaging.

4.1.1.4 Existing Marketing Research Reports

Existing Marketing research reports (i.e., from secondary research) containing past research data conducted on target market segments help a company get a better understanding of the demand in the market and consumer preferences. These reports also help the company understand consumer perceptions of its brand and how the brand compares to that of the competition. Additionally, marketing research reports also help a company benchmark its pricing against the competition, and hence aid the company in determining the appropriate price point to yield desired revenues for the company.

Utilizing secondary research offers the advantage of quick availability and low expense since it often involves using free or low-cost data. If a company analyzes past marketing research reports and recognizes that consumers' value perception of its product is better than that of similarly priced competitors, it may decide to increase a product's price, without significantly impacting demand, thereby improving the overall profitability.

4.1.1.5 Purchase Timing

Timing is an important consideration when creating a Pricing Strategy. For example, festivals, cultural occasions, and other similar events can impact the sales of a product, and are, therefore, important considerations for the marketing team. Such events often provide a good avenue to increase brand awareness, introduce product trials, and improve product sales in the long term. Companies use relevant events as opportunities to increase the sale of their products to new customers who, in some instances, may not otherwise be exposed to their brands. Restaurateurs, for example, purchase booth space at festivals and cultural shows in order to reach the large audiences who attend such gatherings. Companies may provide their products at lower prices or offer complimentary product samples in order to introduce their brands to potential customers, and possibly increase future product sales by growing the total customer base.

Examples of Purchase Timing—

- Although chocolate is consumed regularly throughout the year, chocolate sales typically spike during many festivals and celebrations. Studies suggest that Easter, Valentine's Day, and Christmas account for approximately thirty percent of chocolate consumption each year. During this time, chocolatiers and chocolate distributors launch a variety of new Stock Keeping Units (SKUs) and provide special discounts to attract more customers. They also introduce new product features or trials during this period. For example, during Easter, companies introduce a variety of bunny rabbit and Easter egg-shaped chocolates.
- The garment manufacturing industry is greatly impacted by seasonality. Since heavy winter clothing is worn in cooler seasons and light summer clothing is worn in warmer seasons, clothing retailers and suppliers generally offer pricing discounts after each respective season to clear out their stocks.
- Airlines are also typically impacted by seasonality, though the impact varies by geography. The demand from consumers seeking warmer climates in cold months combined with the increased operational costs during periods of relatively unpredictable weather conditions can affect the price of flights. Conversely, during warm seasons, airlines may offer substantial discounts on flights in order to encourage vacationers to travel during a relatively slow season for the airline.
- Business-to-business vendors often align their sales and marketing campaigns with either the start or finish of the fiscal year. Companies offering office design products or renovation services, which may not be considered necessities, will attempt to capture remaining portions of a company's unused annual budget by marketing their offerings towards the end of the fiscal year. Products or services that are considered to be a part of a business's ongoing operating costs are often marketed at the beginning of the fiscal year. For example, paper suppliers often seek new customers, or re-establish existing supply contracts early in the year.

4.1.1.6 Existing Warranties

Many companies offer warranties on their products or services. A warranty is a guarantee or promise made to consumers regarding the product or service. A warranty can be a simple protection from quality issues with the product, or a full refund on the product if consumers are not satisfied. Offering this type of guarantee for a product can be a significant marketing advantage for a company. For example, a tool producer may have a reputation of "If it breaks, we fix it," or offer a free lifetime warranty, which consumers find advantageous when making their purchase decisions.

Companies that provide warranties with their products must consider the details of such warranties and the average cost involved in servicing those warranties over each product's lifetime. Failure to appropriately understand the cost of product warranties and take such costs into account when pricing a product may decrease the overall profitability for the company. If the overall selling price of the product increases to a level that is greater than the perceived value to the consumer, the company may decide to change the warranty terms in order to reduce the cost to the company and subsequently the price to the consumer, thus aligning the product price with its perceived value.

Examples of Existing Warranties—

- Companies that manufacture electronic consumer goods often provide a full or limited warranty on their products, such as money back, product or parts replacement, and/or free services. The price of the product is established after considering the average cost of the warranty.
- Optional extended warranties on high priced items such as vehicles and household appliances may also be offered for an additional fee to the customer. Extended warranties provide additional protection to those who want it; however, since consumers pay additional fees for extended warranties, businesses can offer them without driving up the base cost of the product. These warranties may be honored by the manufacturer itself or be underwritten by a third party insurer. Extended warranties are also an opportunity for the manufacturer to upsell an additional service and usually yield high profit margins.
- Retailers may offer optional increased coverage warranties to consumers at the point of sale. These warranties are usually not the responsibility of the manufacturer. A car dealership, for example, may offer increased coverage on a car stereo. The car-stereo company will want to understand the terms of the additional warranties being purchased at the point of sale. If the manufacturer determines that consumers are opting into the additional warranties provided by the dealership, they may determine the expense incurred in maintaining their own warranties is unnecessary or can be reduced. This can be taken into account in predicting warranty costs and reflected in product pricing.

4.1.1.7 Opportunities and Threats

Identifying and analyzing opportunities and threats help the company consider the external factors that may influence the costs involved in manufacturing a product or service and subsequently impact its pricing. Information regarding government incentives, the inflation level, and tax policies are some of the external opportunities and threats that may impact a product's pricing.

4.1.1.8 Details of Competitive Products*

Understanding the company's product relative to similar products in the marketplace enables a company to price its product appropriately. Knowing the details of competitive products and the prices at which such products are offered tells a company the price that the market will bear given the specific features that competitive products offer. To effectively price a product relative to its competitors' products, the business should identify the features of competitive products, determine the associated value of such features, and establish a price that reflects the product and its noted features.

For example, a new entrant to a particular product category may provide a simplified version of an existing product offered by a competitor, and offer its product at a lower price point than existing products in the market, thus providing a low-cost alternative to consumers seeking a basic model of the product. Conversely, the market may be willing to pay a premium for a similar product that offers a higher perceived value than that offered by competitors. Pricing above the threshold that the market will bear for a product that offers no perceived value beyond what is offered by the competition is not likely to result in success in the same market.

4.1.1.9 Product Features

Product features are a key input to establishing a product's price as many product features involve not only a production or operational cost, but often reflect a perceived consumer value. Some products, for example feature durability and strength, both of which are attributes that likely require raw materials with the same properties. Such materials may be available in low supply and therefore come at premium prices. Other products boast the latest technology and, in order to be in a position to support this product feature, the company must invest in research and development as well as training to be aligned with advancements in the field and ahead of the competition. In both of these examples, the company must factor the cost of the product feature into the product's price in order to meet desired profitability levels.

In many instances, a product feature may not reflect additional costs to the business, but instead may be a feature that has a high perceived consumer value. For example, a company that annually releases a new 'model' of a similar product will charge a premium for the latest model, regardless of the production or operational costs. The feature in this instance is simply the 'newness' of the model. In fact, the new model may cost the same or even less than its predecessor to manufacture, but the perceived value of the feature dictates the price. Similarly, last year's model, without this feature, is typically offered at a discount.

4.1.2 Tools

4.1.2.1 Marketing Research

If a company plans to launch a new product or substantially change the features of an existing product, and relevant marketing research reports (i.e., from secondary research) are not available, the company may conduct primary research (through surveys, questionnaires, focus group discussions, etc.) to determine the perceived value of the product to target customers. This new research helps the company determine consumer attitudes toward a potential price change and project the anticipated demand for a product at various price points. Primary research may also be carried out to determine competitor pricing, customer perception of the product or brand, consumer purchasing power, consumer purchasing trends, and consumer value perception with respect to pricing. Companies generally conduct marketing research on an ongoing basis to monitor industry innovation and gather information on substitute products. Unlike secondary research, primary research offers the advantage of being very specific to the matter being studied, but it is usually more costly and time consuming to collect than secondary research.

Example of Marketing Research—

- Companies with a known target market in a particular industry can host events to promote a potential new product and simultaneously conduct primary market research. A biotechnology company developing new lab equipment might host a lunch-and-learn event and invite the applicable department heads of all universities in the region. The interactive nature of these events can provide an understanding of the needs and cost expectations of the customer base.

4.1.2.2 Price Elasticity of Demand*

Price Elasticity of Demand (PED) is a measure of the responsiveness of the product's demand to a change in its price. Specifically, it measures the percent change in quantity of product demanded in response to a one percent change in product's price when all other elements that determine demand are kept constant.

Mathematically, PED is calculated as follows:

$$\text{Price Elasticity of Demand} = \frac{\%\text{Change in Quantity Demanded}}{\%\text{Change in Price}}$$

Depending on the degree of elasticity, the demand for a product is categorized as "Elastic", "Inelastic", or "Unit Elastic".

Elastic Demand—An elastic demand is one in which a change in price significantly impacts the quantity demanded for a product or service. Demand for a product or service is said to be elastic if the PED coefficient has an absolute value of greater than one. Products that show elastic demand are typically consumer goods for which customers would either postpone their purchasing decisions or reduce the quantity purchased (e.g., computers and shoes). When the switching cost is low, the elasticity of demand is high because consumers can affordably switch to other similar products. Thus, the presence of substitutes or competitive products increases the elasticity of demand as consumers have alternative options if a company increases the price of its product.

Examples of Elastic Demand—

- If the price of Product A increases from \$20 to \$25 and the quantity demanded drops from 200 to 80 units, the demand is said to be elastic.

  In this example,

  % Change in Quantity Demanded = [(200 – 80) / 200] × 100 = **60%**

  % Change in Price = [(25 – 20) / 20] × 100 = **25%**

  Price Elasticity of Demand = 60% / 25% = **2.4**

- The housing market is usually elastic. If average house prices rise by ten percent and the result is that new sales decrease by fifteen percent, this would be expressed as a PED of 1.5. In this scenario, buyers are likely to delay the purchase of a new home until prices decrease, or they may seek lower cost options like rentals or condominium.

Inelastic Demand—An inelastic demand refers to a situation in which there is no significant change in the quantity demanded due to a change in the price of the product or service. Demand for a product is said to be inelastic if the PED coefficient has an absolute value of less than one. Generally, products that can be considered necessities for a consumer show an inelastic demand. For example, products such as energy, fuel, water, and certain food items are said to have an inelastic demand because these are usually necessary products that consumers cannot avoid purchasing. Since many of these products are provided through government-regulated industries and pricing structures, they generally do not have appropriate substitutes, so customers may not be able to switch to other products to fulfil basic needs.

Examples of Inelastic Demand—

- If the price of Product B increases from $8 to $16, and the quantity demanded decreases from 50 units to 40 units, the demand is said to be inelastic.

  In this example,

  % Change in Quantity Demanded = (50 – 40) / 50 × 100 = **20%**

  % Change in Price = (16 – 8) / 8 × 100 = **100%**

  Price Elasticity of Demand = 20% / 100% = **0.20**

  In this instance, although there is a reduction in demand, the reduction is not proportional to the increase in price.
- In recent years, governments in several countries have increased tobacco taxes to discourage use of cigarettes. However, since most smokers are addicted to tobacco, their consumption has not reduced due to the price increase. It can be said that cigarettes are price inelastic as the demand does not change significantly with an increase in price.
- Gas prices at the pump are inelastic to a point. Small to medium sized increases in the price of gas have little effect on sales. A seven percent increase in price might only result in a one percent reduction in consumption. In this example the PED would be 0.14 and considered inelastic.

Unit Elastic Demand—If the percent change in demand for a product or service is directly proportionate to the percent change in its price, the product or service is said to possess unitary elasticity. The PED coefficient for a product or service with unitary elasticity is exactly one.

Examples of Unit Elastic Demand—

- If a fifty percent reduction in the price of Product C (e.g., from $10 to $5) increases demand by 50% (e.g., from 50 units to 75 units), the product is said to have unit elastic demand.
- Wine and other spirits typically have a unit elastic demand. Restaurants will generally sell twice as many $40 bottles of wine than $80 bottles. The Marketing Strategy for a wine distributor may be to discount a particular label to a restaurant chain by twenty-five percent. This is intended to increase the unit sales of that label by twenty-five percent and increase consumption and public recognition of that particular label. In that case the PED would be 1 and considered unit elastic.

How Price Elasticity Impacts Product Pricing

Companies use past sales data, competitor data, and primary marketing research to analyze the price sensitivity of customers in their target market segments. Price elasticity is a major factor in determining the pricing of a company's products or services. An inelastic demand often allows for a more varied mix of pricing, including promotional pricing and discounting. Marketing research can be conducted using various price points to identify corresponding demands for a product or service. Based on the required profitability and desired market share, the specific pricing for a product or service is then decided.

4.1.2.3 Total Cost of Ownership*

The Total Cost of Ownership (TCO) for a product or service is the net cost incurred by the consumer throughout the product's lifetime. The TCO provides a lifetime cost basis for the financial analysis of an anticipated or actual investment. It involves calculations such as expected rate of return, economic value added, and maintenance costs. Some buyers are influenced solely by the initial price of a product or service and do not account for its total lifetime costs; however, the company selling the product should always account for its total lifetime costs when creating the product's Pricing Strategy.

Examples of Total Cost of Ownership—

- The TCO associated with purchasing a home includes the initial down payment made, mortgage payments with interest, payment of utility bills (e.g., gas, electricity, water), insurance, property taxes, and other maintenance costs.
- Companies outsourcing the manufacturing of their products evaluate the TCO to include production costs, transportation costs (including price changes as a result of fluctuations in fuel), inventory costs, handling costs, maintenance costs, and warranty costs.
- The TCO for any major hardware or software system over a five-year period can be significantly higher than its purchase price. It includes the additional substantial costs associated with installing, deploying, training, operating, upgrading, and maintaining these systems.

How Total Cost of Ownership Impacts Product Pricing

The TCO can influence a customer's willingness to pay the upfront acquisition cost for a product or service. If the product or service requires low running and maintenance costs, the company can increase its initial price without losing a significant share of consumers, and therefore increase the overall profitability of the product.

For example, a large automobile manufacturing company has gained significant market share in the United States by offering extremely reliable cars. Higher reliability helps in decreasing service and part costs over the life of the vehicles, and hence decreases the TCO for customers. Because customers recognize the value of this reliability, the manufacturer may decide to sell its cars at premium pricing. Furthermore, if this reliability affects the resale value over an extended period of time, purchasers also benefit from higher resale prices.

4.1.2.4 Economies of Scale

Economies of scale occur when there is a significant decrease in the unit cost of production with an increase in the scale of operations or production. When a company operates on a large scale, the cost per unit of output is reduced because the fixed costs are spread out over more units of output. Economies of scale may also arise out of other situations, for example, due to the size of a purchase. When a company operates on a large scale, it buys raw materials and consumables in large quantities thus allowing it to receive large discounts from suppliers. These discounts are a direct result of economies of scale at the supplier end and/or increased buying power with large orders. Economies of scale allow some companies to achieve major cost advantages over their competitors.

Examples of Economies of Scale—

- In the printing industry, the producer generally passes some of the benefits of economies of scale onto the customer by offering volume-based pricing. The printer has the same initial set-up costs regardless of the quantity ordered. But once these costs are covered, there is only a marginal extra cost for printing. Hence printing companies offer huge discounts on large print runs.
- In the retail industry, large retailers are able to offer products at a lower price than small retailers because of economies of scale. Large retailers order in bulk from suppliers and thus have more buying power and more control over the distribution channel than small retailers, thereby enabling them to get better discounts from manufacturers.
- Corporate branded items such as golf shirts, marketing give-aways, and coffee cups are commonly priced on this principle. The customer is given several pricing options based on volume. As the upfront costs of the initial design and setup is distributed across greater volumes, the price per unit decreases.

4.1.2.5 Experience/Learning Curve

An Experience Curve (also known as a Learning Curve) explains the decline in the cost per unit due to accumulated production experience. The concept of the Experience Curve was first hypothesized by Bruce Henderson of the Boston Consulting Group in 1966 as a result of observations he made about the semiconductor market. Henderson's[9] theory surmised that a company's unit production costs would fall by a predictable amount—typically twenty to thirty percent in real terms—for each doubling of "experience," or accumulated production volume.

When a company first launches a new product into the market, the initial average cost of the product is high. The average cost per unit of the product reduces over time with an increase in sales as the fixed costs

[9] Stern, C.W. & Deimler, M.S. (2006). *The Boston Consulting Group on Strategy: Classic Concepts and New Perspectives*. New Jersey: Wiley & Sons.

involved for the initial product development and setting up production centers are distributed across a larger volume of sales. With increasing maturity, a company makes improvements to its production processes and finds more economical ways to manufacture a product and deliver it to market. As a result, the cost of manufacturing the product typically drops consistently over time as the company gains experience in manufacturing the product. A graph of this relationship is plotted as a straight line with logarithmic coordinates as shown in Figure 4-3. The decreased cost over time is due to improvements and efficiencies to elements such as R&D, sales expenses, advertising expenses, and overhead. Over time, consumers also benefit because manufacturers typically pass on a portion of these cost savings to the consumer and prices decline as sales volume grows.

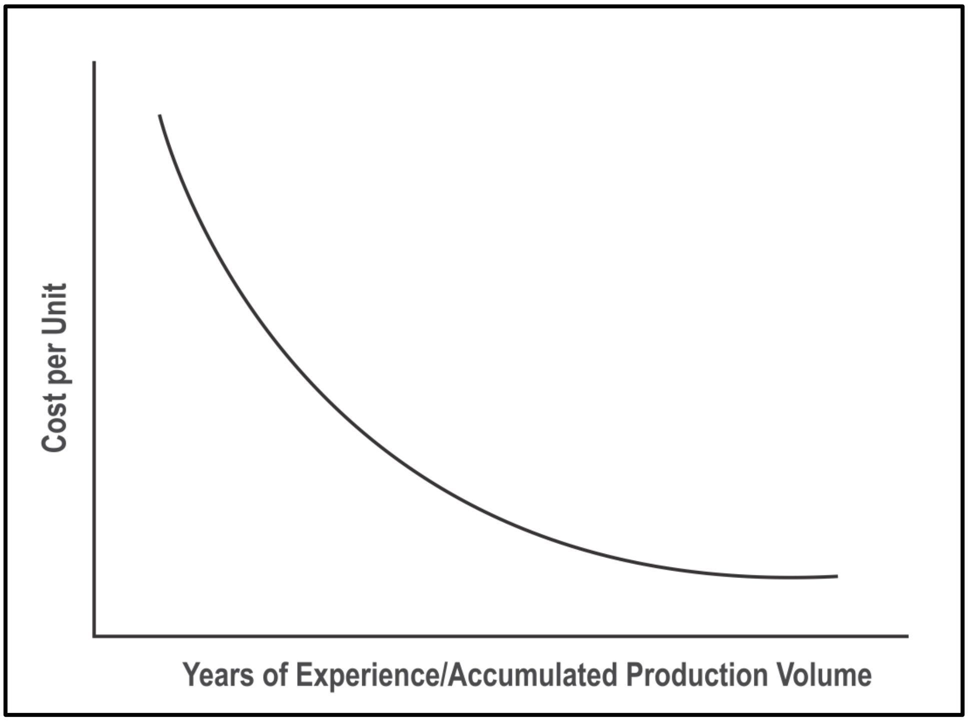


Figure 4-3: Example of an Experience/Learning Curve for a Product

How the Experience Curve Impacts Product Pricing

Mature companies with greater experience often take advantage of efficiencies and low production costs and, therefore, can competitively price their products. These companies, since they are ahead in the Experience Curve, can use low pricing to create a barrier to entry for new competitors and thus protect or gain market share. For a market with an elastic demand, a company can further increase its profitability due to reduced costs and the ability to offer better price points for a product over time.

Examples of Experience/Learning Curve—

- The Experience Curve has a major impact in the soft drinks and beverage industry. Well-established companies in this industry have benefited from the Experience Curve, and have continued to modify their processes, operations, and distribution channels, resulting in efficiencies and cost savings that allow them to offer their products at relatively low prices. It is consequently difficult for newer companies to enter these market segments.
- Technology companies achieve lower costs per unit with time because of increased efficiencies that arise from the learning and experience gained from the repeated activities and improved processes. Hence technology companies are able to decrease the price of their products over time while providing better features and performance levels.
- One of the world's leading furniture manufacturers has used Experience Curve pricing successfully for most of its products. The company has been able to decrease the selling price of various furniture products over time by developing better products at lower cost through the use of better tools, processes, and skills. By lowering the prices of the items offered, the company has managed to compete very effectively in the industry.

4.1.2.6 Target Costing

A target cost is the maximum amount of cost that can be incurred to develop a product while still earning a desired profit margin at a particular selling price. Target costing involves determining the actual cost of a product or service after considering the desired profit margin.

Mathematically, Target Cost is calculated as follows:

Target Cost = Expected Selling Price – Desired Profits

Target Costing is done with two main objectives in mind—

- to identify the cost at which the product must be manufactured so that it meets its target profit margin at the target selling price
- to decompose the production processes and then set cost targets for each production element in order to reach a desired overall target cost

Target costing is a valuable tool to use if a company has already identified its target selling price and must ensure that it optimizes costs to maintain desired profitability.

Examples of Target Costing—

- In the automobile industry, it is a common practice for companies to decide on a price point even before designing a new car. The company then works towards designing the entire production process such that the decided price point can be met.
- Target costing is as relevant in the service sector as it is in the manufacturing sector. For example, when a Business Process Outsourcing firm wins a time and material contract to provide certain services to a client, it needs to deliver the services at the agreed upon cost.
- New entrants to a product category often look to the competitive landscape in order to establish a price point at which they must sell their product to offer a reasonable competitive alternative for consumers. In such instances, the targeted price is established and production costs must remain below the specified threshold to ensure profit margins are met when the product reaches the market.
- Movie production budgets are usually based on a target cost. The expected theatre revenue and DVD sales are measured against the desired profit. The production budget is then based on that differential and the level of effects, choice of locations, and quality of logistics are tailored to meet that budget.

4.1.2.7 Break-Even Analysis*

Breaking even refers to the amount of sales (measured either in units sold or revenue) required to cover the total cost of production (i.e., all fixed and variable costs). The break-even point refers to the point where revenue is equal to cost and profit is therefore zero. Each unit that the company sells beyond the break-even point adds to the profitability of the product.

Break-even analysis helps companies identify the minimum amount of product that they must sell at a given price to cover their costs. Because the primary objective of a business is to maximize profitability, the business team typically simulates various pricing scenarios to estimate the quantities they can sell at respective prices and then chooses the price that is most profitable for them.

Break-even volume is calculated as follows:

Break-Even Volume = Fixed Cost / (Price – Variable Cost)

Examples of Break-Even Analysis—

- If the fixed cost for a car manufacturer to operate a production line each month is $10,000,000, the variable cost for manufacturing a particular car is $10,000, and the selling price for the same car is $15,000, then the break-even point (in terms of units) is calculated as follows:

  Break-Even Volume = Fixed Cost / (Price – Variable Cost)

  = 10,000,000 / (15,000 – 10,000)

  = 10,000,000 / 5,000

  = 2,000

  In this example, the company needs to manufacture and sell 2,000 cars to break-even. For each additional car manufactured and sold, the company will make a profit of $5,000 per car.

- During the great recession, many retailers had to close their businesses, primarily because of their high fixed costs. Consumer spending drastically reduced and the sales of the retailers fell below the break-even point. Those retailers who survived the recession likely had a greater proportion of variable costs to fixed costs. Companies with more variable costs in lieu of fixed costs may be less susceptible to sudden changes in sales volume.

4.1.2.8 Perceived Value Pricing

Perceived value pricing involves pricing goods or services based on the value consumers place on them and the price they are willing to pay, rather than on the costs involved in bringing them to market. Value perception is created in the customer's mind due to factors such as product quality, warranty, customer support, design, packaging, and brand image. Companies use various customer touch points like packaging, advertising, its sales force, and in-store presence to create a desired value perception.

Examples of Perceived Value Pricing—

- Luxury watch manufacturers sometimes release limited edition variations of their brands to provide exclusivity to the owners of the watches and, in the process, create a high-value perception for the specialty product.
- A celebrity line of premium perfumes has a high perceived value due to the association of the brand with the celebrity, coupled with expensive branding and advertising. The high price for these premium perfumes is driven more by perceived value than by manufacturing costs.
- Many sporting apparel manufacturers and retailers benefit from perceived value pricing, as often such items provide the same quality in materials and manufacturing as more economically priced alternatives. However, consumers are willing to pay a premium to wear a particular brand based on the name alone; the perceived value drives up the price.
- Releasing limited editions of a given product can increase its perceived value. A manufacturer of luxury motorcycles might market a limited edition motorcycle every ten years. This limited edition motorcycle can be priced higher based on the perception of rarity.

4.1.2.9 Value Pricing

Some companies acquire customers by pricing their products or services quite low, even if the offering is high quality. Value pricing does not simply mean lowering prices; it involves reengineering operations and reducing costs to become a low-cost provider. Value pricing is generally carried out by companies that are ahead of the competition in the Experience Curve. They have a significant market share in the industry and have worked long enough to optimize their operational processes to minimize costs and also gain from economies of scale. Value pricing is an entry barrier for newcomers in the industry because it is often difficult for them to restructure their operations to offer competitive prices without sacrificing quality.

Examples of Value Pricing—

- Budget airlines can provide tickets at lower prices if they decrease their operating costs. Some examples include:
    - removing non-essential features and services such as food and reclining seats
    - having fewer flight attendants
    - decreasing turnaround and idle time of flights so that flights can be in the air for the maximum amount of time
    - charging for extras such as food, priority boarding, seat selection, and checked baggage
    - operating standardized fleets which help in reducing maintenance costs and staff training costs
    - implementing innovative processes

  Because they have a lower operating cost structure than their full-service counterparts, several budget airlines have been able to capture a bigger market share of the airline industry over time.
- Generic or 'unbranded' grocery and household products enable grocery chains to provide economically priced goods to price-conscious consumers. Such products provide comparable value to similar brand-name products but, given the generic brands' simple packaging, can be offered at significantly lower prices.

4.1.2.10 Going Rate Pricing/Neutral Pricing

In oligopolistic industries that sell commodities—such as salt, steel, or light bulbs—all companies charge approximately the same price because there is not a great deal of product variation, innovation, or options for reducing manufacturing costs. Generally in this case, a small number of producers control the supply of a commodity and are able to influence prices and directly affect the position of competitors. Smaller companies follow market leaders and change their prices accordingly rather than when demand or their own costs change. Some companies may provide a small discount or charge a slight premium for additional value, but the overall pricing in the industry is fairly similar.

Examples of Going Rate Pricing/Neutral Pricing—

- A company selling salt with better packaging than the market leader may price their salt at five percent more than the price offered by the market leader.
- Price of oil in the international market is the spot price of a barrel of crude oil. The price of oil is dependent on global macroeconomic factors and varies constantly. It is considered going rate pricing as the price of oil at any specific time is usually fixed for the industry.

4.1.2.11 Auctions

With the rapid growth of the electronic marketplace for conducting business, auction-type pricing is becoming quite popular. There are three types of auctions—

1. **English Auctions**—In English auctions, there is a single seller and multiple prospective buyers. The seller posts an item with the starting bid amount (which is the lowest price at which the seller is willing to sell the item) and the bidders increase the bid amount to a price they are willing to pay for the item. This process continues until one prospective buyer bids an amount that no other bidder is willing to outbid. The item is then sold to this highest bidder.

Example of English Auctions—

- The English auction is the most commonly used auction in modern times. It often takes place in a closed community and is generally used to sell rare goods such as antiques, artwork, and other products for which there is no decided price.

2. **Dutch Auctions**—In Dutch auctions, there can be a single seller and many prospective buyers or a single buyer and many prospective sellers. In the first scenario, an auctioneer announces the highest price for the product and lowers the price until a buyer is ready to purchase the item at that rate. In the second scenario, the buyer announces the item that he or she wants to buy, and the prospective sellers compete to offer the lowest price.

Example of Dutch Auctions—

- The Dutch auction got its name from the Dutch Tulip auction in the Netherlands. It is traditionally used for selling perishable commodities such as fish and tobacco.

3. **Sealed-bid Auctions**—These auctions have one buyer and many prospective sellers. The seller submits only one bid and has no knowledge about the other sellers' bids. The contract is usually awarded to the lowest bidder who qualifies for the relevant criteria as mentioned in the contract bid documents. Management of large projects is often acquired through sealed-bid auctions. Construction management firms often spend a large portion of their sales budget creating proposals for these open bids.

Example of Sealed-bid Auctions—

- A sealed-bid auction is most widely used by organizations and governments for procurement of goods and services. This procurement process is typically referred to as tendering. Most governments auction infrastructure projects such as projects involving mass transport systems, airports, highways, and bridges, and invite sealed bids from prospective buyers.

4.1.2.12 Gain-Sharing and Risk-Sharing Pricing

In a gain-sharing pricing situation, both the seller and purchaser share in any gains that are made above a pre-determined threshold. Risk-sharing pricing is a strategy that businesses may employ when there is potential for consumers to avoid buying a particular item because of a perceived risk associated with the product. In a risk-sharing pricing scenario, the seller shares some of the risk with the buyer or takes on all of the risk to induce a favorable buying decision.

Examples of Gain-Sharing and Risk-Sharing Pricing—

- In earthquake-prone areas, housing companies can offer to pay part of the annual premium of earthquake insurance for homeowners in order to share the risk associated with the purchase.
- Sellers can structure their pricing to gain some of the benefits if buyers exceed the expected gains from the product. For example, an advertising company creating an advertising video for a client can charge the client a fixed fee for the video, plus an additional one dollar per hundred views once the video reaches 100,000 views on a social media Internet platform. This strategy reassures the buyer of the advertising company's commitment to create a great video that will likely go viral.
- Many media companies are now using a "pay for play" strategy whereby advertisers pay for results instead of paying for the advertising medium up front. For example, if a company runs a print ad which includes a toll-free number for ordering the product, it may pay the ad company based on the number of calls received as a direct result of the ad, or alternatively, based on the number of products purchased.

4.1.2.13 Variations among Product Geographies

For global organizations, the Pricing Strategy varies significantly by geography depending on various criteria, such as the price of competitive products in those geographies, differences in consumer propensity to spend, taxes and other government levies, shipping and related custom charges, and the value of the product to consumers in those locations. At any given time, a product in one geographic region may have a greater value perception to consumers than it does in other regions.

An important concept that needs to be considered when pricing products in multiple countries is "Purchasing Power Parity" (PPP). PPP is based on the premise that the price of identical goods—in the absence of transaction costs, taxes, and trade restrictions—should be the same in different markets when measured using the same currency. Several economists believe that the concept of PPP provides a better indication of pricing of the same product across various countries (and hence should be used) when compared using official exchange rates. Although there are multiple measures for PPP, "The Big Mac Index"[10] is a popular

[10] Woodall, P. (1986). "The Big Mac Index." London: The Economist, September Edition.

standard. This index compares the price of a Big Mac burger in McDonald's restaurants in different countries to determine an appropriate pricing of other products in those countries.

Examples of Variations among Product Geographies—

- For example, winter clothing is of greater value to people living in cold regions than to those in warm climates; therefore, consumers' willingness to spend money on winter clothing in colder regions is higher.
- Multinational pharmaceutical companies sell the same drugs and vaccines at different prices in different countries depending on various socio-economic factors. Thus, low-income areas gain access to essential drugs and vaccines that would otherwise be unaffordable if they were priced uniformly across all countries. In two separate studies, Plahte[11] and Outterson[12] estimated that countries with individuals with relatively higher incomes contributed eighty-two percent of the revenue in the vaccines industry, but represented only twelve percent of the vaccines purchased. The remaining eighty-eight percent of vaccines were represented by countries with more middle and low-income individuals who have access to cheap vaccines primarily because of geography based pricing.
- The prices of some products and services are sometimes higher in expensive urban areas such as New York City or London, where the costs of real estate and employee wages drive up the total cost of doing business in those cities. These higher costs are then passed on to the consumer.

4.1.2.14 Discounts and Offers*

Companies use discount pricing for a variety of purposes. Discounts are generally offered to encourage early purchase of a product or service, to gain new customers, or to promote volume purchases. The discount strategy used depends on the industry, target market, and socio-economic factors. Discount pricing approaches include, but are not limited to, the following—

- **Special Event Pricing**—Companies may provide special promotional pricing to generate additional sales during special events.

[11]Plahte J. (2005). "Tiered pricing of vaccines: A win-win-win situation, not a subsidy." Lancet Infectious Diseases, 5(1): 58–63.
[12] Outterson K. (2006). "Patent buy-outs for global disease innovations for low- and middle-income countries." American Journal of Law and Medicine, 32: 159–161.

Examples of Special Event Pricing—

- Companies provide special event-based pricing to capitalize on the high foot traffic generated during events such as festivals, music performances, or concerts by reputed entertainers, and popular sporting events such as the Olympics and World Cup.
- Retailers offer special discounts during events such as "Black Friday" and back-to-school sales during fall.
- Pre-availability pricing can be used to attract customers before a product is actually available. For example, video game releases are often preceded by a discounted pre-purchase offer.

- **Seasonal Pricing**—Some companies may discount products based on the season of the year.

Examples of Seasonal Pricing—

- During the winter, a winter apparel retail brand may offer discounts on its winter-wear range in order to prompt additional sales during that period. Or, some companies offer after-season discounts at the end of a season to purge their seasonal merchandise and make room for new items. For example, the summer collection is sold at a reduced rate near the end of summer to clear out the summer inventory and make room for the fall arrivals.
- Hotels offer significantly lower off-season rates to increase their occupancy levels.

- **Special Customer Pricing**—Some customers are more valuable and loyal to a brand over their lifetime than others. To reward such loyalty, companies often provide special offers exclusively for their loyal customers.

Examples of Special Customer Pricing—

- Banks provide special offers or rewards to credit cardholders who have excellent credit ratings, or who charge a particular amount of money to their credit cards.
- Airlines offer frequent-flyer programs that allow travellers who regularly use their services to accumulate miles that can be used for future flights or rewards. Also, airlines often forgo the checked baggage charge or allow extra baggage for customers with a high travel card status.

- **Cash Rebates**—Companies offer cash rebates during certain periods to quickly sell their products and clear stock without lowering the list price.

Examples of Cash Rebates—

- Automobile franchises often offer cash rebates on older model vehicles to sell off their existing inventory when new models are introduced. Without such cash rebates, customers may prefer to buy the newer car models and the automobile franchises would be left with a surplus of unsold older inventory.
- Some banks offer cash rebate credit cards that reward consumers for their use of the credit cards, in order to encourage credit card purchases. In some instances, consumers are rewarded as their total annual amount charged to the card reaches certain thresholds, with the percentage rewarded increasing at each spending threshold. In other instances, the percentage of cash returned to the consumer varies based on the type of purchase made with larger charges garnering greater rebates.
- A cash rebate is sometimes preferable to a per-unit discounted price as manufactures know that not all purchasers will actually redeem the rebate. This gives the manufacturer the ability to advertise lower prices but incur less revenue loss.

- **Low-interest Financing**—To enhance sales of products that are at a high price point, companies often offer low-interest financing to customers who prefer to pay in monthly installments rather than a lump sum amount upfront.

Examples of Low-interest Financing—

- Banks often provide low-interest financing offers for credit-worthy, new-home buyers.
- Automobile companies regularly offer low-interest financing to customers who purchase their vehicles.
- Furniture stores offer low- or no-interest options for periods of up to one year on high-value purchases to encourage customers to make large purchases.

- **Psychological Discounting**—Companies may set high list prices on their products, creating the perception of a high-quality product, and then offer huge discounts leading customers to believe that they are getting a great deal.

Examples of Psychological Discounting—

- Retail chain stores often promote offers such as 'Buy One, Get One Free' (BOGO), or 'Limited time offers' to attract customers. Such offers are meant to create a perception of generous but limited-duration discounts in the minds of the customers to expedite the purchase decision.
- Grocery stores frequently offer volume purchase discounts, whereby the consumer will pay full price for one unit but will see substantial savings by purchasing two or more units of the same item.

4.1.3 Outputs

4.1.3.1 Pricing Strategy*

The Pricing Strategy for an organization should be oriented towards creating a sustainable brand perception and sustainable profitability for the brand while growing and maintaining a healthy market share. It typically includes the following information—

- the recommended pricing for products or services over a period of time in different target market segments and a rationale for the price point
- an indication of how the Pricing Strategy aligns with the products' positioning statement and the company's overall Corporate Strategy
- the number of units that must be sold to break even, the projected units the company anticipates it will sell, and the expected profitability of the product
- the strategy to deal with possible changes in the environment, such as changes in prices offered by competitors and increases in production costs
- the strategy for any discounts, special offers, or rebates, and the costs associated with these
- the Total Cost of Ownership, including cost of warranties and after-purchase servicing

A well-articulated Pricing Strategy can help a company 'right-price' a product to maximize profits and revenues, and in turn achieve its corporate objectives.

4.1.3.2 Marketing Research Reports

Marketing research reports may be created by the Sales and Marketing team if specific primary or secondary market research is commissioned or gathered by the company to gain a better understanding of the company's Pricing Strategy.

4.2 Determine Distribution Strategy

The Distribution Strategy for a product or service identifies the key areas involved in delivering the product or service to customers. Formulating a Distribution Strategy includes reviewing a company's entire supply chain and the extended network of relationships that enable a company to deliver the product or service to end customers. The primary objectives of the Distribution Strategy are to ensure that distribution channels are well organized, that the margins and payments to all partners in the supply chain are reasonable and proportionate to the value delivered, and that there are no issues that threaten to disrupt the distribution of the company's offerings. The company also needs to decide on the types and methods of distribution channels to use, and the type of customers to be served by each channel. In crafting the Distribution Strategy, the company must also explore future opportunities that could improve the distribution processes, and consider any obstacles that threaten to disrupt some channels or make them obsolete. The Distribution Strategy must be oriented toward building strong relationships with the company's value delivery partners (including supply chain entities) so that the company can consistently provide customer satisfaction on all delivery-related aspects.

Figure 4-4 shows the inputs, tools, and outputs for the *Determine Distribution Strategy* process.

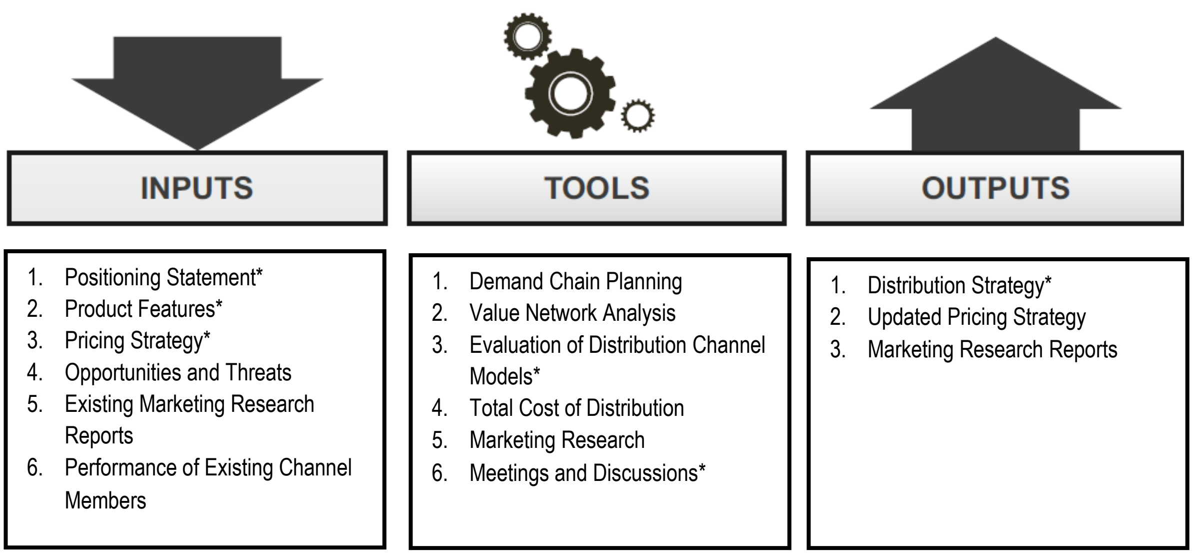


Figure 4-4: Determine Distribution Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

4.2.1 Inputs

4.2.1.1 Positioning Statement*

The positioning statement is an output of the *Create Differentiated Positioning* process, described in section 3.3. The *Determine Distribution Strategy* process helps determine the ideal number of intermediaries that should be present in the distribution channels. The structure of the distribution channels may be captured in the positioning statement itself. In this case, the success of the positioning could be determined to some extent by how well the Distribution Strategy is able to design the distribution structure so it supports the positioning. A premium positioning may necessitate having a high degree of control over the intermediaries and fewer numbers of intermediaries so that the quality of service and purchase experience are consistent with the positioning. Positioning for the mass market, on the other hand, will require a company's product to be present in as many distribution outlets as possible. For example, an online apparel store might have a positioning statement that expresses that customers can ship back any product within thirty days if they are not completely satisfied with the product. Such a positioning will require that the ability to handle the return of products is built into the Distribution Strategy.

4.2.1.2 Product Features*

The nature of a product and the specific product features are significant inputs to the Distribution Strategy. Heavy physical goods such as industrial machinery require special arrangements for transport during delivery, which is not the case with light goods such as office stationery. Furthermore, a product with sensitive components that may be damaged during transit needs to be handled more carefully than non-fragile items. In the case of services, the nature of a service and its target market determine the distribution channels used by a company. Whether a service is designed for a select group of premium customers, or for all customers, determines the number and type of distribution intermediaries. For example, a financial services company may prefer to communicate directly with its most valuable customers through a dedicated relationship manager when selling its premium services. However, it may prefer selling its generic services, targeted at high volume and smaller ticket sizes to other customers, through a centralized call center or an online portal.

4.2.1.3 Pricing Strategy*

The Pricing Strategy takes into account the estimated costs for distribution. Therefore, the Distribution Strategy needs to consider such costs when defining the specific distribution channels. Without considering pricing, the Distribution Strategy may propose the use of a high-cost distribution channel that can adversely affect profitability, or the Distribution Strategy may propose an economical intermediary that does not offer the desired level of service, thus affecting total revenue and, in turn, profitability. Discounts must also be considered in establishing the Distribution Strategy. If discounts are offered for bulk orders, the Distribution

Strategy should ensure that distributing bulk orders costs less than distributing individual orders. For example, if the Pricing Strategy for a product allocates only ten percent of the price to cover distribution costs, but the distribution channel ships the products through a courier partner that charges fifteen percent of the product price, the profitability of the product will be adversely impacted. Aligning the Distribution Strategy with the Pricing Strategy will ensure that both revenue projections and profitability goals are met.

4.2.1.4 Opportunities and Threats

A company must be aware of laws, industry norms, and existing relationships pertaining to the structure of distribution networks. Exclusive relationships between large manufacturers and large distribution companies may be questioned under anti-monopoly laws. Industry norms may also determine how easily a company can establish a certain type of distribution network. In some industries, there are a few intermediaries that carry out distribution activities for well-entrenched companies, and a new entrant needs to be aware of such relationships to break into such a distribution network. There can be opportunities for a company if the target segment in a certain industry is open to the idea of direct selling, which can increase profitability for the company by eliminating the need for intermediaries. There may also be political forces at play, favoring or opposing a certain method of distribution. For example, in the retail sector, some might argue that large retail chains pose a serious threat to small retail stores. A company needs to evaluate the prevailing situation to decide whether it should focus on large retail chains or a number of small retail stores to distribute its products.

Increasingly, e-commerce is enabling companies to sell their products or services directly to end-consumers without the need for any intermediaries. E-commerce can be very disruptive to existing companies that have invested significantly in setting up elaborate distribution networks with multiple intermediaries. For example, established book retailers with physical stores and franchise networks have seen their revenues and profitability decrease in recent years. Well-funded online book companies, which sell directly to customers and provide better discounts because they do not have to pay multiple intermediaries or physical stores to stock their books, significantly disrupt the traditional book publishing distribution model of selling books through multiple physical retail store locations.

4.2.1.5 Existing Marketing Research Reports

There are two types of secondary research reports (i.e., marketing research conducted in the past) that may be available within the company and that can serve as inputs for determining the Distribution Strategy—

1. **Industry Reports**—A company can utilize reports published by consulting firms or industry associations to help it understand the distribution elements from the industry's perspective. This may include studies conducted on particular distribution issues or concerns, or insights into the current distribution structure and any anticipated structural changes for which companies should prepare.

2. **Company Commissioned Reports**—A company may commission new research studies or may use research conducted in the past to explore the relative costs of different distribution channels, to gather specific feedback on existing channels, or to better understand key channel-related features desired by customers (e.g., convenience, quick processing, and particular service options). The company may use these reports to determine if changes are needed in the current Distribution Strategy as well as leverage them to plan effectively for the future.

4.2.1.6 Performance of Existing Channel Members

A company usually collects information about its channel members through the existing financial and operational transactions it has with them. This information may include data on quotas, inventory levels, delivery times, and response to sudden changes in supply. This information, which is generally contained in the company's Supply Chain Management or Enterprise Resource Planning systems, helps to determine which existing channel members should be retained, which members can be entrusted with critical products, and which members may need to be replaced.

Example of Performance of Existing Channel Members—

- A catering company specializing in corporate events may focus on the preparation and quality of the food it provides and overlook the performance of distribution. Catering delivered late, cold, or with poor presentation will result in decreased customer satisfaction. Regularly reviewing the performance of this distribution channel will minimize issues.

4.2.2 Tools

4.2.2.1 Demand Chain Planning

Demand chain planning involves reviewing details of the supply chain with customers and then working backwards to ensure that customers' demands are adequately met. A key necessity for this review is a thorough understanding of the demand for the product; thus, information contained in the Market Attractiveness Report is very helpful when using this tool. Demand chain planning plays a vital role in the company because it impacts all production and sales activities. If adequate planning is not conducted, then situations can arise whereby a company is either producing more product than what is in demand—resulting in surplus inventory—or producing less than the demand—resulting in potential loss of sales. In service industries, similar circumstances may result in the hiring of excess staff relative to demand, or a short staff situation when demand surges.

Because the demand chain involves external parties, such as raw material suppliers, it highlights where the greatest value is created and enables a company to decide if it wants to integrate backwards and assume the functions of some of its suppliers. In situations where the customer of a company is not the end customer, then the company may also consider integrating forward and assuming the functions of its current customer, thus distributing directly to the end customer.

Through proper demand chain planning, it is usually easy to identify gaps in fulfilling demand because checks and balances are placed at multiple stages throughout the chain. Many leading companies in different industries use online tracking of all their relationships with different entities in the demand chain to ensure that instant communication takes place and issues are addressed as soon as they are discovered.

Examples of Demand Chain Planning—

- Some Fast Moving Consumer Goods (FMCG) and pharmaceutical companies use online and offline Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) tools to effectively manage demand and distribution. These software tools are used at major partner points including distributors and suppliers to get ongoing feedback on factors such as sales, customer demand, and inventory.
- Most large companies have dedicated procurement departments that evaluate suppliers and negotiate supplier contracts. As these contracts come up for renewal, the procurement department may solicit bids from multiple suppliers who compete for the contract on the basis of overall value. Overall value not only includes actual cost to deliver the service, but also may include process efficiencies and the ability to add future value.

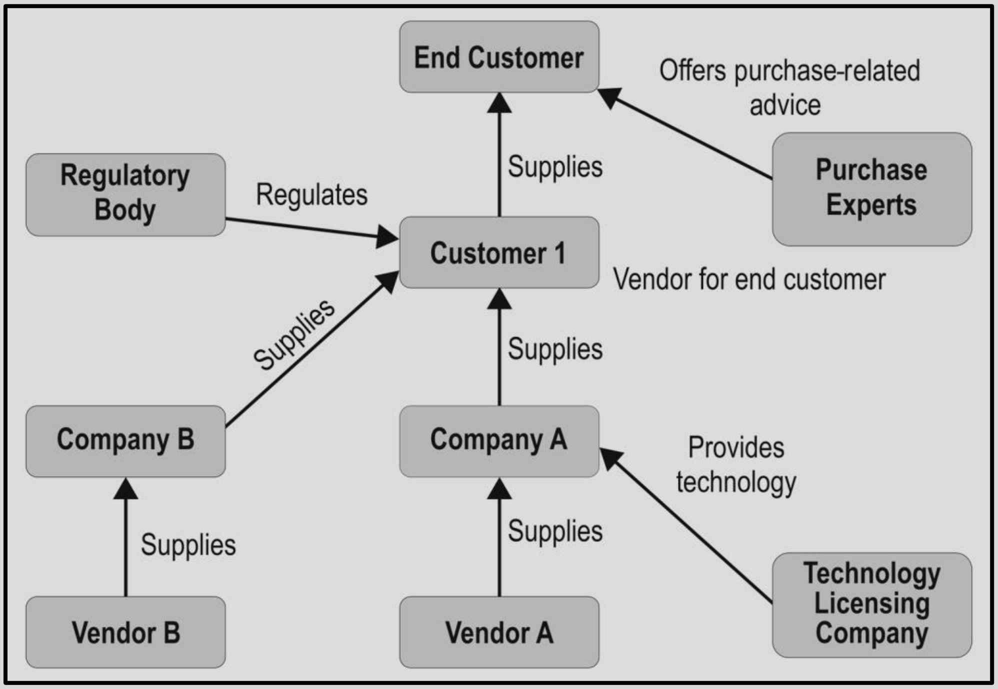
4.2.2.2 Value Network Analysis

Value Network Analysis involves looking not only at a company's supply chain and its customers, but also at the supply chains of the company's vendors and their customers. Value for the end customer is created through the inter-relationships of these entities and all these relationships together make up the value network. In graphical representations, a value network is depicted by nodes representing members, and arrows representing relationships. During Value Network Analysis, the company identifies all of its networks and relationships and then analyzes where, how, and how much value is created at each node in the network.

These types of beneficial relationships are difficult to develop if each entity only looks at its immediate relationships in the distribution chain. Value Network Analysis provides a holistic view of how value is created for the end customer. If entities are aware of how they fit into the overall network, they can create more value than they can by operating in isolation.

Example of Value Network Analysis:

A value network is shown in the diagram below:



In this value network, Company A shares direct relationships with Vendor A, its Technology Licensing Company, and Customer 1. It has further indirect relationships with other entities such as Company B, which is another supplier for Customer 1. By analyzing the value network, Company A can understand how its business may be impacted by relationships throughout the network.

For example—

- If Vendor B is facing major manufacturing issues, then Company B's supplies to Customer 1 may be adversely impacted. Customer 1, in turn may reduce demand from Company A until the issues with Vendor B are resolved. Company A proactively analyzes the network and may decide to reach out to Vendor B directly to offer help with its manufacturing issues.
- There is an indirect relationship between Company A and the Purchase Experts who advise the end customer. If Company A believes that the Purchase Experts advise customers on the use of emerging technology, Company A may try to license the technology from its existing Technology Licensing Company or contact another company that can provide the required technology. This way, it can strengthen the relationship with Customer 1 by providing products that have the technology desired by its end customers.

So by utilizing a value network, companies can identify actual or potential problems in the network and proactively offer to solve them, as well as unearth opportunities to create value not just for their immediate customers, but also for the end customers.

4.2.2.3 Evaluation of Distribution Channel Models*

If a company has options of multiple distribution channel models, it needs to decide which distribution model is the ideal model for its business. The company can choose from different levels of intermediaries between itself and the customer, or decide whether it should use an intensive, exclusive, or selective distribution model. Each of these models is defined below—

- **Intensive Distribution** is a strategy whereby a company places its products and services in as many outlets or distribution channels as possible. For example, soft drink manufacturers or large consumer goods companies usually use an intensive distribution strategy.

- **Exclusive Distribution** is a strategy whereby a company uses only one distribution partner to sell its product in a certain market. This is the opposite of intensive distribution and may be used for specialty type products and services such as a high-end perfume or a well-known, reputable brand.

- **Selective Distribution** is a middle of the road approach whereby a company uses a few delivery channels to distribute a moderate volume of products. For example, a computer manufacturer may decide to sell its computers through a few, select big box retail stores.

The company's evaluation and selection of an appropriate distribution strategy for the business requires examining the business and choosing a strategy that aligns with the specific strengths and needs of the business. The company should consider the following three factors as they relate to the business and its potential distribution channels—

1. **Level of Sales and Profitability**—This involves mapping various types of customers to the appropriate distribution channels. Different distribution models may have specific costs associated with them. For example, a company may determine that having a direct sales team is more expensive but more effective than selling through online advertising. Thus, a direct sales team should ideally be used only for those customers who account for the most revenue (and in turn profit), and online advertising can be used for those customers who account for less revenue.

   Similarly, a selective distribution model with few outlets and limited channel members may be more suitable for niche, high-end products such as expensive medical equipment or specialized mountaineering gear. Conversely, an intensive distribution model with wide reach and multiple channel partners may be more suitable for mass-market products such as consumer goods, beauty products, and soft drinks.

   A useful tool to analyze the level of sales and profitability is break-even analysis. Break-even analysis (described in detail in section 4.1.2.7) determines the minimum revenue that needs to be generated from each channel for the channel to be profitable. An example is shown in Figure 4-5.

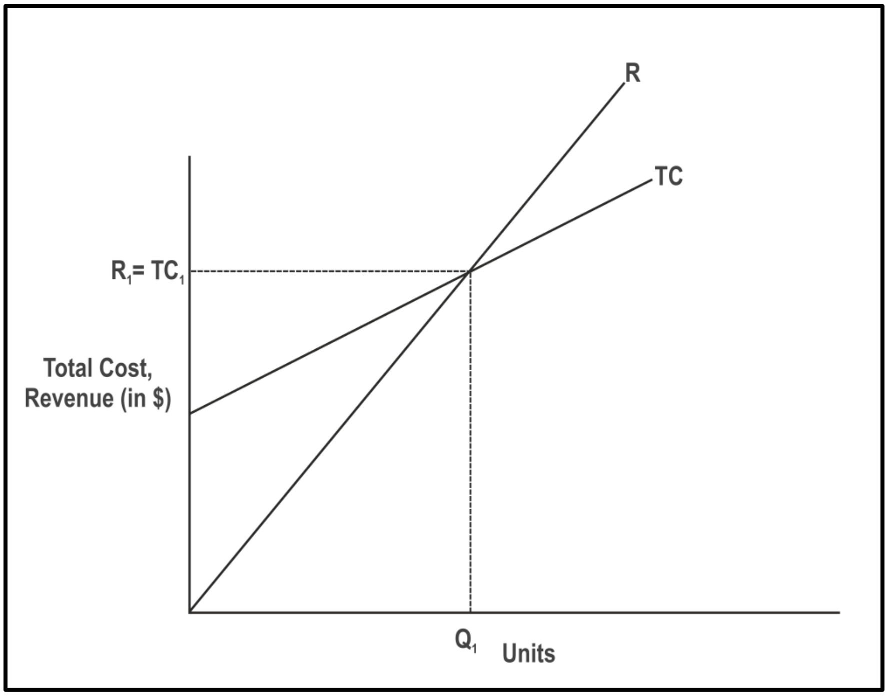


Figure 4-5: Break-Even Analysis

The total cost (which includes fixed costs and variable costs) and the revenues associated with selling a certain number of units of a product are represented together on the Y-axis. Total quantity of units sold is shown on the X-axis. The diagonal line represented by R depicts how revenue changes with the number of units sold. The line represented by TC depicts how total cost changes with the number of units sold. As shown in this example, the R and TC lines intersect when the number of units sold equals Q_1. Thus at $Q_{1,}$ the total cost represented by TC_1 equals revenue represented by R_1. The channel becomes profitable only at the levels of revenue and cost beyond quantity Q_1.

Break-even analysis can also be used to compare the profitability of various channels at different revenue levels so that a company can determine the appropriate channel to use based on revenue projections. An example is shown in Figure 4-6.

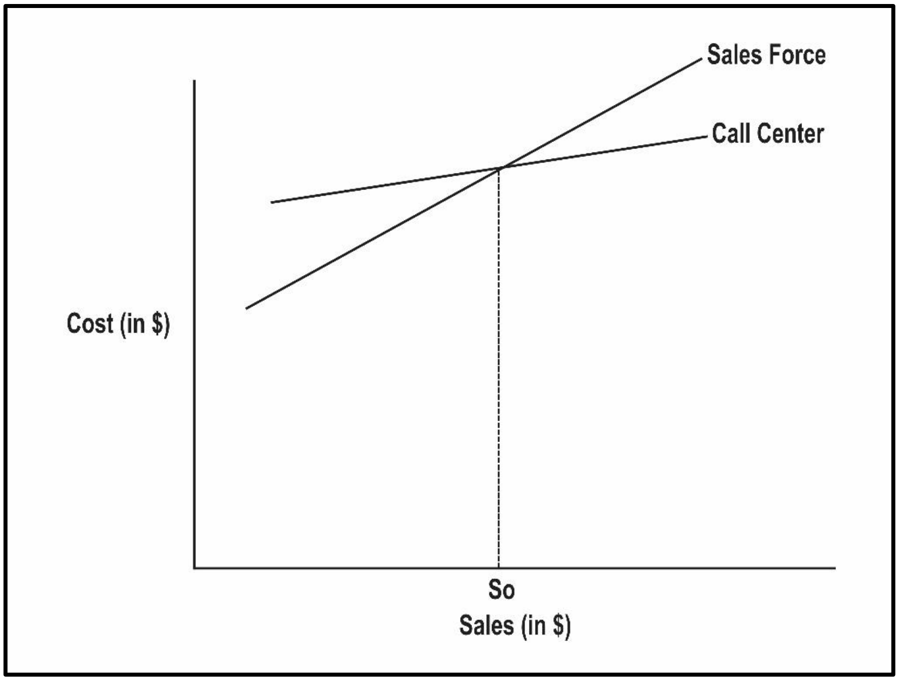


Figure 4-6: Comparing Profitability of Different Channels at Different Revenue Levels

The total cost for each distribution channel associated with a certain level of sales is represented on the Y-axis. Sales are represented on the X-axis. The diagonal line labeled "Sales Force" represents how the total cost associated with using a sales force as a distribution channel changes with adjustments in sales from this channel. The line labeled "Call Center" represents how the total cost associated with using a call center as a distribution channel changes with increases or decreases in sales from this channel.

Figure 4-6 also depicts that for low volumes, a direct sales force might be a better distribution channel as the fixed costs for setting up a call center may be high and not beneficial for low sales volumes. But, above a certain sales volume, a call center would be a better choice because its incremental costs are far less than those of a direct sales force.

This analysis also evaluates the impact of various sales commission percentages on the profitability of each channel, guiding the decision on the exact amount of commission to be assigned with each channel.

2. **Level of Control**—Different distribution channels also allow for varying levels of control. A company may need more control over a distribution channel in some situations, such as when the service component of the offering is key to the sales process, or when the company is launching a new product and requires more control over the outlets participating in the launch.

3. **Level of Flexibility**—The ease and speed at which a distribution channel can adapt to changes in supply and demand are also important factors in evaluating different distribution models. Online

channels are generally more flexible than physical channels, as changes on a company's website or to online advertising campaigns can be made relatively quickly. Flexibility may be a key factor in uncertain market environments where supply and demand can change suddenly and the channels must scale up or scale down accordingly.

4.2.2.4 Total Cost of Distribution

The total cost of distribution should include all the costs incurred to deliver the company's product or service to the end user. If there are multiple channels of distribution for a product or service, the total cost for each of the different distribution channels should be calculated. This will help the company determine the most efficient distribution channel, and ensure that the pricing of the company's products includes distribution costs.

4.2.2.5 Marketing Research

If existing secondary research reports related to distribution channels do not exist, or are outdated or not relevant, the company may need to conduct primary marketing research. This research is conducted to determine the relative costs of different distribution channels, obtain specific feedback on existing channels, and identify key channel-related features desired by customers (e.g., convenience, quick processing, and particular service options). The company may also carry out research to uncover specific challenges being faced by its distribution partners, or to discover additional opportunities. Some tools used for such primary research may include interviews, focus group discussions, and surveys.

Examples of Marketing Research—

- Retail companies and food product suppliers conduct interviews and surveys to understand consumer needs and buying behavior, and to decide possible distribution channels, including online avenues, to sell directly to customers.
- Prior to product releases, some companies conduct focus groups composed of individuals who match the demographic and psychographic characteristics of the target market for the product. Focus groups could be asked to blind taste test food and beverage products. In other situations, they could be asked to use a certain product for a period of time and subsequently answer survey questions about their experiences with the product.
- In the consumer electronics and technology manufacturing industries, usability testing is conducted with a representative sample of users to ensure that products are user friendly. Such research not only improves product design, leading to higher customer adoption and loyalty, but also reduces the number of technical support inquiries that the company has to deal with post sale.

4.2.2.6 Meetings and Discussions*

Meetings and discussions help assimilate information from the inputs and different tools mentioned earlier to create a comprehensive Distribution Strategy. They help in evaluating and finalizing the distribution channel model to ensure effective delivery of the company's products or services to the end customers. Several factors need to be considered in these discussions, such as the past performance of existing distribution channels, the profitability and revenue potential, and the desired level of control and flexibility. The performance of existing channels is evaluated on various aspects such as revenue and profit, response to supply and demand fluctuations, and feedback received from customers. Meetings and discussions are also used for determining whether the distribution model should be intensive, exclusive, or selective. The choice depends on a number of factors such as production capacity, brand perception (e.g., consider premium versus mass market), and demand in the target market, amongst others.

4.2.3 Outputs

4.2.3.1 Distribution Strategy*

The Distribution Strategy for a company's products or services should ensure that the products or services are delivered to customers on time, in the best possible manner, and with costs that are aligned with the Pricing Strategy. The Distribution Strategy should contain the following information—

- the specific distribution model to be used—whether it will be intensive, exclusive, or selective
- the levels of intermediaries that will exist between the company and each of the target markets
- the specific distribution channels that will be used for each of the target markets
- the stages in the distribution channel where any external channel members will be used
- the entities in the value network that have the most impact on the Distribution Strategy and the measures that need to be taken to minimize any negative impacts and maximize any positive impacts that result from the use of those entities

A well-defined Distribution Strategy positively impacts revenues and costs by achieving a targeted level of customer satisfaction based on the needs and requirements of the target market at reasonable costs.

4.2.3.2 Updated Pricing Strategy

The Distribution Strategy impacts the Pricing Strategy for products or services because different distribution channels have different costs. A company may decide, for example, to provide incentives in the form of discounts or special offers to customers for using a particular channel. Some banks, for example, impose a charge to customers if they use a physical branch to perform a transaction that can be performed through the bank's online or automated teller portals. Such charges are often required because the cost of servicing a customer in person at a physical location is higher than those incurred through the bank's online or automated portals. These costs need to be taken into account and updated in the Pricing Strategy.

4.2.3.3 Marketing Research Reports

Marketing research reports may be created by the Sales and Marketing team if specific primary or secondary market research is commissioned or gathered by the company to gain a better understanding of the company's Distribution Strategy.

5. DETERMINE METRICS, OBJECTIVES, MARKETING ASPECTS, AND BUDGET ALLOCATION

This chapter deals with the selection of the metrics to be used for Sales and Marketing efforts, such as customer reach, brand perception, product availability, and sales and profitability. It also discusses the process of determining objectives for each of these metrics and provides an overview of the various Sales and Marketing Aspects that an organization should consider in determining the overall Marketing Strategy, namely, Marketing Research, Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing. Also included in this chapter are details regarding setting targets and allocating budgets for each of the chosen Aspects.

Figure 5-1 provides an overview of the processes described in this chapter. These are as follows—

5.1 Determine Metrics—In this process, various Sales and Marketing metrics that assess customer reach, brand perception, product availability, and sales and profitability are determined. These metrics help to define Sales and Marketing objectives and measure the success or failure of the Marketing Strategy.

5.2 Determine Objectives—In this process, attainable and time-based objectives are determined for all of the metrics selected in the previous process. The aim of this process is to quantify the desired results from various Sales and Marketing activities.

5.3 Decide Marketing Aspects and Allocate Budget—In this process, the Sales and Marketing teams select the Marketing Aspects that will help the company reach its overall Sales and Marketing objectives. Subsequently, specific targets are determined for each Marketing Aspect, and a marketing budget is allocated to each.

5.1 Determine Metrics

INPUTS
1. Positioning Statement*
2. Pricing Strategy*
3. Distribution Strategy*
4. Industry Benchmarks and KPIs
5. High Level Goals

TOOLS
1. Meetings and Discussions*
2. Product Life Cycle Analysis
3. SMART Framework*
4. Customer Reach Metrics*
5. Brand Perception Metrics*
6. Product Availability Metrics*
7. Sales and Profitability Metrics*

OUTPUTS
1. Selected Metrics*

5.2 Determine Objectives

INPUTS
1. Selected Metrics*
2. Senior Management Direction and Insights*
3. Past Performance Data
4. Market Attractiveness Report
5. Future Competitive Scenarios
6. High Level Goals

TOOLS
1. Meetings and Discussions*
2. Trend Analysis
3. SMART Framework*

OUTPUTS
1. Selected Objectives*

5.3 Decide Marketing Aspects and Allocate Budget

INPUTS
1. Selected Objectives*
2. Senior Management Direction and Insights*
3. Available Budget
4. Past Performance Data
5. Details of Competitive Products

TOOLS
1. Meetings and Discussions*
2. ROI Comparison of Aspects*
3. Analysis of Competition's Marketing Aspects

OUTPUTS
1. Selected Marketing Aspects and Targets*
2. Allocated Budget*
3. Updated Objectives

Figure 5-1: Determine Metrics, Objectives, Marketing Aspects, and Budget Allocation Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

5.1 Determine Metrics

In this process, the Sales and Marketing teams determine the appropriate metrics that will be used to quantify the objectives or outcomes after executing the Marketing Strategy. The inputs to the *Determine Metrics* process include the positioning statement, which describes the value a product or brand offers to its target customers; the Pricing Strategy; the Distribution Strategy; Industry Benchmarks and Key Performance Indicators (KPIs); and the goals that are defined at the corporate and/or business unit or geographic levels. Metrics for measuring the effectiveness of Sales and Marketing activities can be broadly classified into four categories: customer reach, brand perception, product availability, and sales and profitability. In addition to these category metrics, the Product Life Cycle Analysis is also an important tool in this process since it identifies the metrics that are important at each phase of the Sales and Marketing timeline. The metrics selected may depend on the size and complexity of the company, type of industry, preferences of the Sales and Marketing teams, and other factors.

There are many possible metrics that can be used to measure the effectiveness of a Marketing Strategy. However, the objective of the *Determine Metrics* process is to select and prioritize only a few important metrics that can appropriately determine the success or failure of the objectives outlined in the Marketing Strategy. If a company defines an unnecessarily large number of metrics to use, then a substantial amount of time may be wasted on collecting and analyzing data produced by too many metrics, which may not add value to the final analysis of the Marketing Strategy. In addition, having too many metrics to track performance can cause confusion because some metrics may create conflicting end-results or outcomes. For example, a consumer goods company may define revenue and profitability as metrics for measuring the sales performance for a particular product. However, an increase in profitability that occurs as a result of a price increase may have the effect of decreasing overall units sold(and hence lower revenue) if fewer customers buy the product at the higher price. Using both of these conflicting metrics may be difficult for the sales team to understand and manage. So, the company may resolve this issue by selecting revenue as the sole metric for measuring the performance of the sales team, and assigning the metric of profitability to another business unit (e.g., Operations or Finance teams).

At the same time, various business units or departments within the company must work together to ensure that their selected metrics are aligned. For example, if the Sales and Marketing team uses revenue as a metric, and the team is successful in meeting revenue targets, but manufacturing costs have increased, then profitability will be impacted. To address this, the production team may have an objective of reducing manufacturing costs in order to meet profitability objectives. At times, Senior Management may be involved to ensure that metrics are appropriately aligned for various business units or departments within the company so that it helps the company reach its overall corporate objectives.

Ideally, the number of metrics used to measure the effectiveness of the Marketing Strategy for any product, brand, or service should be less than five. At times, a company may select as few as one or two metrics to measure the performance of the Marketing Strategy. The key to success is to have all impacted areas of the company aligned to reach the defined objectives and to implement processes that easily track and measure performance. When a marketer chooses too many metrics as key performance indicators, the results often become diluted and it is consequently difficult to gauge success. It is acceptable to have a lot of information, but there needs to be a clear hierarchy to understand the value of the metrics. Essentially, it is preferable to have a few key metrics, and other secondary metrics are designed to simply support and influence the selected key metrics.

Another factor to be considered in the *Determine Metrics* process is the ability of the Sales and Marketing team to control the metrics and their ability to influence the possible results. For example, a direct sales team in a call center is responsible for promoting a particular credit card. The team members proactively call and try to convince customers to apply for the new card, but they do not have any control over the profits made by the use of the card by customers; profit is dependent on the marketing, operations, and finance teams, and other areas within the company. Thus, one of the metrics for the direct sales team should be the number of cards for which customers submitted applications, since the team can influence and control this metric; however, it does not have any control over profits.

In large organizations, there may be multiple marketing teams for different activities pertaining to a product; thus, there may be separate metrics to track performance of the various marketing activities. For example, the Marketing Strategy team in a consumer goods company may have metrics such as profitability and market reach for a particular product, but the Retail Marketing team may have metrics such as sales and number of distributors for the same product.

In companies that have multiple business units or multiple divisions defined by geographic region, metrics are usually defined hierarchically. Typically with such structures, senior management determines the metrics of the overall Corporate Strategy. Leaders of each business unit or geographic region create the strategies for their business unit or geographic region and ensure that the corresponding metrics align with the metrics defined in the Corporate Strategy. In a similar way, the leaders for each Product or Brand create a Marketing Strategy that incorporates the metrics for their specific product or brand to ensure that they align with the metrics of the business unit or geographic region.

Figure 5-2 shows how metrics could be defined at different levels in the company hierarchy.

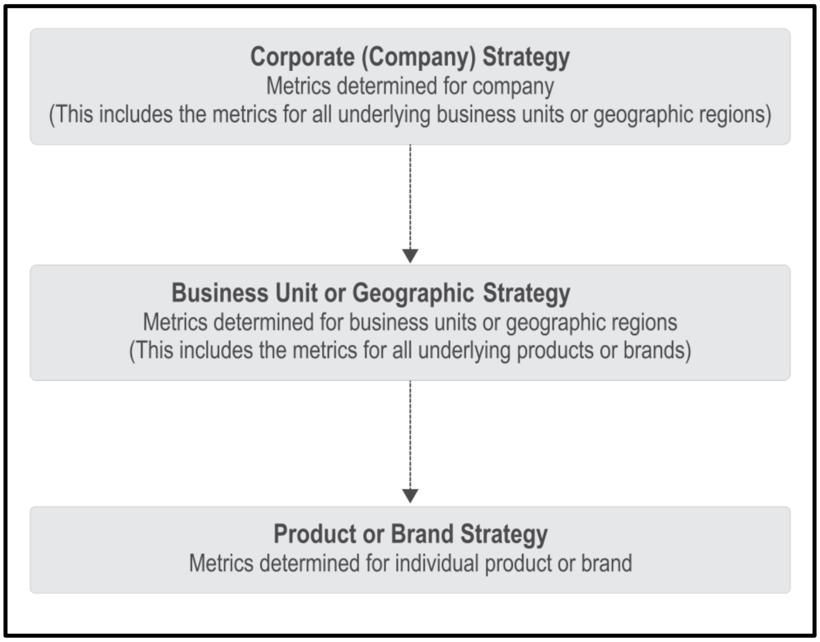


Figure 5-2: Metrics at Different Levels in a Company

Figure 5-3 shows the inputs, tools, and outputs for the *Determine Metrics* process.

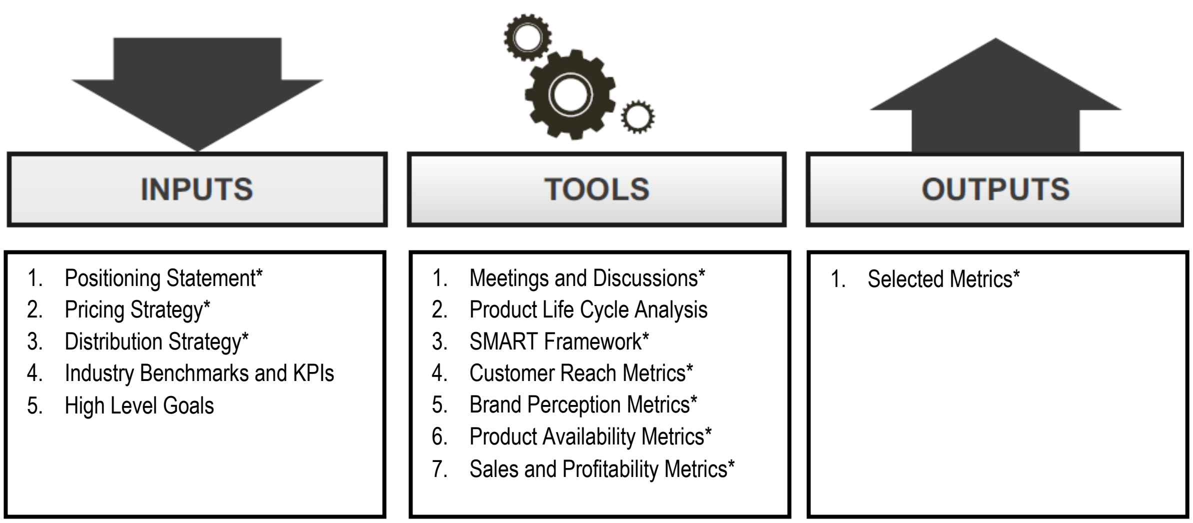


Figure 5-3: Determine Metrics—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

5.1.1 Inputs

5.1.1.1 Positioning Statement*

The positioning statement is an output of the *Create Differentiated Positioning* process, described in section 3.3. It describes the value a product or brand offers to its target customers, and thereby sets the context for selecting metrics that reflect the success of the product's performance relative to the intended product positioning. The metrics should be aligned with what the positioning statement intends to achieve for the product or brand.

Examples of How the Positioning Statement Helps Determine Metrics—

- If the positioning statement indicates that a product is a 'niche luxury product', then the most important metrics may be brand perception and profit.
- If the positioning statement defines the product as having the basic features of a white-labeled product and should therefore appeal to a variety of business customers, then the most important metrics may be the number of business customers and sales.
- For a well-funded social networking brand where the positioning statement targets working professionals, the most important metric during the initial stages of the product life cycle may be the number of registered users from reputable companies; so sales might not be a metric at all.

5.1.1.2 Pricing Strategy*

The Pricing Strategy is an output of the *Determine Pricing Strategy* process, described in section 4.1. As the pricing of a product determines profitability and influences factors such as sales, brand perception, and market reach, it is a key consideration for the selection of metrics that will be used to measure the effectiveness of the Marketing Strategy. The metrics should align with the objectives of the Pricing Strategy.

Examples of How the Pricing Strategy Helps Determine Metrics—

- If the Pricing Strategy involves providing discounts to customers to try a product, then a key metric may be sales and number of new customers acquired.
- If a product's pricing is based on perceived value and is intended to achieve higher margins through a better perception of value, then key metrics may be profit and market share.
- A small sporting goods retailer that introduces a seasonal Pricing Strategy to clear seasonally sensitive inventory may choose metrics for the number of customers acquired, revenue, inventory turnover, and so on.

5.1.1.3 Distribution Strategy*

The Distribution Strategy is an output of the *Determine Distribution Strategy* process, described in section 4.2. A company needs to monitor the performance of its distribution channels to ensure that its offerings are delivered in a way that maximizes customer satisfaction. Hence, the metrics used should align with the objectives of the Distribution Strategy so that any issues in the distribution channels can be identified and resolved quickly. In addition, such metrics help in the comparative performance evaluation of different channels.

Examples of How the Distribution Strategy Helps Determine Metrics—

- If a company sells its products directly to customers through a website and through retailers, then the performances of the two channels can be compared on metrics such as average inventory levels and incidence rates of stock-outs.
- If a bank wants to expand its distribution network by setting up Automated Teller Machines (ATMs) in new locations, then some key metrics may include the number of ATMs set up in a month and the number of transactions for each ATM.
- Cable providers often require in-home installation of receivers. Customer satisfaction is based on appointment availability and the quality of the service experience. Metrics based on the installation service might include wait time, speed of installation, and number of complaints or positive feedback regarding this service.

5.1.1.4 Industry Benchmarks and KPIs

Industry benchmarks and KPIs indicate the metrics used by a company's industry to measure performance on parameters that are important for success in that industry. A company should measure its own performance on these metrics so it can compare itself to other companies and take corrective measures if necessary. Industry benchmarks and KPIs can be especially useful if a company is new to an industry and does not have the expertise, resources, or time to determine the ideal metrics to measure performance.

Examples of Industry Benchmarks and KPIs—

- Customer expectations regarding online hosting are usually very high. Generally a hosting site is expected to have an average uptime of greater than 99.2%. Perfect uptime only occurs for approximately 85% of sites. A company whose marketing focus is on reliability can use these industry KPIs to measure its uptime performance.
- The call centre industry uses standard metrics that enable such businesses to track the effectiveness of the company's service over time. Such KPIs may include call volume, wait times, and call resolution rates. In service industries, benchmarks are quite common, and customers come to expect businesses to meet or exceed such benchmarks to retain their business.

5.1.1.5 High Level Goals

When establishing the metrics against which to measure the success of the Marketing Strategy, the Marketing team must work with Senior Management and with other departments in order to ensure that appropriate and relevant data is being collected and that success criteria are consistent with the overall goals of the organization. Failure to take into consideration the high level goals of the business can result in the team focusing on metrics that do not contribute to the overall success of the business or that conflict with metrics at other levels and in other divisions or other functional areas of the business. A company, for example, may identify an opportunity to position itself as a leader in innovation and technology, establishing research and development as a key success criterion for the future sustainability of the business. If the marketing team instead focuses its efforts and its budget on revenue growth, rather than product development, the team may fall short on overall product development expectations for the business.

5.1.2 Tools

5.1.2.1 Meetings and Discussions*

Meetings and Discussions are an essential tool for determining metrics. They can be used to define and agree upon key metrics; to determine which metrics can be easily tracked, controlled, and influenced by the Sales and Marketing teams; and to ensure the alignment of metrics and objectives with the various divisions of the organization and with the overall Corporate Strategy. It is recommended that these discussions involve management and personnel from the appropriate levels of the business (corporate, business unit/geographic region, or product/brand). The metrics of each product or brand marketing team must align with those at all levels of the business, and with those in other departments and business units, in order to ensure the success of the Marketing Strategy.

5.1.2.2 Product Life Cycle Analysis[13]

Product Life Cycle Analysis is a useful tool to determine metrics and objectives that align with the current stage of the product in its life cycle. A product life cycle is divided into four stages of development, as shown in Figure 5-4.

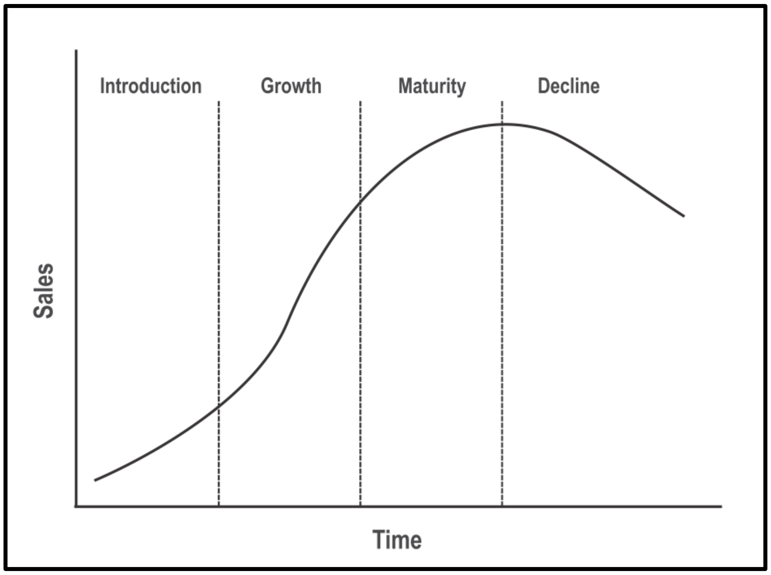


Figure 5-4: Product Life Cycle

Each of the stages in the product life cycle, namely, Introduction, Growth, Maturity (or Saturation), and Decline (or Termination), has challenges and benefits that must be considered by the Sales and Marketing teams as they establish the appropriate metrics for performance success.

1. **Introduction Stage**

   The Introduction stage is the product life cycle stage in which the marketing team emphasizes the product's promotion and initial distribution. Launching a new product is often the most expensive life cycle stage for a company. Product sales are relatively low during this stage, although sales should increase over time. If it is an innovative product or the product belongs to a new product category, the product may have few or no competitors during this stage.

   Challenges—

   - Low sales
   - High costs due to increased spending for Sales and Marketing, promotion, and investment initiatives, as well as the costs associated with research and development

[13] Wasson, C.R. (1978). *Dynamic Competitive Strategy and Product Life Cycles*. Austin, TX: Austin Press.

- Losses or low profits

Benefits—

- Limited competition for innovative products
- High prices—new products are usually priced higher than the long-term market price for established products

2. **Growth Stage**

In the Growth stage of the product life cycle, the market accepts the product, and sales begin to increase. This growth makes it possible for the company to invest more money in distribution, promotion, and advertising to maximize the potential of this stage in the life cycle. The company may also choose to make improvements to the product to stay competitive. At this point, there may continue to be relatively few competitors, but other companies may start introducing similar products. The focus at this stage is on maintaining existing buyers so a company may incorporate discounts and unique sales promotions to consumers as well as possibly sponsor events in the marketplace to help maintain customer loyalty.

Challenges—

- Increased competition
- Low prices—as more competitors enter the market, product pricing decreases

Benefits—

- Increased awareness, which may lead to increased sales
- Reduced costs—through economies of scale
- Increased profits

3. **Maturity Stage**

In this stage of the product life cycle, sales reach their peak. The product is well established and the aim for the company is to maintain a sizeable market share. The company also needs to consider any further product modifications or improvements to the production processes that may give the product a competitive advantage. At this stage, some competitors may still be entering the market with alternative solutions, making the market even more competitive.

Challenges—

- Maintaining market share—increased competition and availability of alternatives make it difficult for a company to maintain market share
- Market saturation—growth in the overall market slows down

Benefits—

- Continued reduction in costs due to production efficiency and economies of scale

4. Decline Stage

In the decline stage, the product reaches its saturation point and its market and sales begin to decline. At this stage, most of the products are phased out because of decreased sales, increased competition and the availability of new and innovative products to which the customers can migrate. Although this decline is inevitable, the companies can still make profits on these products by using innovative and cost-effective production methods or by using less-expensive raw materials. Also, as competing companies exit the market, there may be opportunities for the remaining companies to increase their market share.

Challenges—

- Declining sales and profits
- Reduced demand in market

Benefits—

- Lower production costs—by this time, maximum production efficiency has been achieved

Examples of Product Life Cycle Analysis:

Companies engaged in the development of innovative products tend to use specific metrics for different stages of the product life cycle.

1. **Introduction**— During the introduction stage, companies focus on promotion and the product's initial distribution. Reach, advertising effectiveness, and market coverage are commonly used metrics during this stage.
2. **Growth**—At this stage, companies spend more money on promotion and distribution and usually decrease the product price. Reach, advertising effectiveness, gross margin, revenue, cost of customer acquisition, and market coverage are key metrics during this stage.
3. **Maturity**—As sales reach a peak, companies start spending more on research to augment the existing list of features of the product. At this stage, market share, gross margin, revenue, and share of mind are the most important metrics.
4. **Decline**—During this stage, companies generally reduce costs and try to increase efficiencies to sustain in the market. Revenue, profitability, and market share may be used as relevant metrics at this stage.

An electronics company launching a wireless speaker line into the market knows that consumer electronics have relatively short life cycles so the company plans for this in its Marketing Strategy.

1. **Introduction**—This stage focuses on mass media advertising to develop public awareness of the product. This stage may precede actual product availability in order to generate demand. Pre-availability orders or availability requests at select distributors can be used to measure customer recognition and desire for the brand.
2. **Growth**—As demand increases the company focuses on distribution channels to ensure that the product is easily available. Limited distribution at this point results in lost revenue. Mass marketing can increase if production and distribution capacity is less than demand.
3. **Maturity**—New sales are harder to find as the market is saturated, thus the focus is now on feature innovation to entice upgrades or replacements. The Marketing Strategy is similar to the mass media of the Introduction stage, but is now focused on the new features rather than the overall brand recognition. Market share and profitability are used to determine the level of product line innovation and associated marketing. Pricing strategies and promotions become important as competition increases.
4. **Decline**—As technology changes, the core features of the original product line become less desirable. The company now makes decisions based on the brand perception. It must decide either to discontinue the line or use the existing brand to launch a new line.

5.1.2.3 SMART Framework*[14]

The SMART framework is a method that can help determine the appropriate metrics and objectives to measure performance of the Marketing Strategy. SMART is an acronym for **S**pecific, **M**easurable, **A**ttainable, **R**elevant, and **T**ime-bound. Figure 5-5 shows the five components of the SMART framework.

Figure 5-5: SMART Framework for Determining Metrics

Specific, Measurable, and Relevant are attributes of the SMART framework that relate to metrics. These will be discussed here, whereas Attainable and Time-bound are attributes associated with objectives, which will be discussed in section 5.2.2.

Specific—The metrics chosen should be specific, meaning they should be clearly defined and able to measure the desired area of marketing performance. Vaguely defined metrics create confusion and can be detrimental to the company's Sales and Marketing initiatives. The process by which metrics are monitored must also be determined. For example, the marketing strategy teams need to determine whether a chosen metric will be measured by a specific person within the organization or by an external agency.

Examples of Specific Metrics—

- A company that wants to know its competitive position in the market needs to determine some specific metrics for this purpose. The business may choose to assess its positioning using brand perception metrics, such as share of mind and share of heart, as well as sales metrics, such as market share.
- Publically traded companies commonly use share price increase as a primary indicator of success. The chosen marketing metrics will reflect this, using revenue growth as a specific metric. Revenue growth metric is most effective for established companies where there are few other variables. It is easily monitored and can be directly correlated to the effectiveness of any specific marketing activity.

Measureable—Metrics must also be measureable, allowing the Sales and Marketing team to gauge performance with relative ease and without incurring significant costs. There are some metrics that a business may want to measure but obtaining underlying data for the metric may prove to be difficult or expensive. In such cases, it may be preferable to replace the metrics with ones that are more easily measureable.

[14] Meyer, P. J. (2003). "Attitude is Everything: If You Want to Succeed Above and Beyond." *Attitude & Motivation*, 2.

Examples of Measureable Metrics—

- A company that needs to measure the percentage volume market share for its product needs to know the overall industry sales for the calculation. However, in many industries, data about industry sales are not readily available (or are available only as estimates), and collecting such information may be time-consuming and expensive. Determining revenues of all competitors in an industry may be difficult and expensive, so the company may consider replacing this metric with another metric that is easier to measure and where the data is more readily available. For example, the company may instead use growth in the number of product units sold by the company each month.
- Television advertising reach can be measured by reviewing the ratings for the entertainment programming surrounding a television ad. The success of television shows can be measured by comparing the share of viewers a show gets out of the total number of viewers. This metric makes it possible to measure reach for the television advertising done by a company.

Relevant—Metrics must also be relevant. Specifically, the Sales and Marketing teams should choose metrics that are appropriate for the objectives that need to be measured. Teams should be tracking data that are both indicative of performance and useful for current and future decision making. Measuring irrelevant variables wastes time and resources and does not contribute to improving product performance.

Examples of Relevant Metrics—

- A telemarketing team selling retail products at fixed prices via the phone may consider the ratio of actual converted customers to calls made as a relevant metric. However, the profits of the products sold may not be a relevant metric for this team because the telemarketing team may have no control or influence over the profits that are made through the sales of the products.
- The viewer rating systems for regular television programming would not be considered relevant for late night infomercials. While infomercials often have an entertainment content in addition to the sales aspect, user share is not as relevant as metrics such as volume of orders placed during broadcast.
- A large media company may focus on revenue generation and number of units sold as its key metrics but if the sales staff has the ability to negotiate rates at their discretion, then the company should also consider incorporating profitability as a relevant metric to ensure that the company is growing profitably.

5.1.2.4 Customer Reach Metrics*

A product needs to reach the right number of potential customers in the specific target market and at the right frequency to be able to generate the desired level of sales. Customer reach metrics are an indicator of how many existing customers and potential new customers a Sales and Marketing initiative is able to reach through Marketing Aspects such as Branding and Advertising, Retail Marketing, Corporate Sales, and Digital Marketing.

Once potential customers are exposed to the marketing communications of a product they may move on to the next stage, which is typically a desired action such as trial, purchase, or registration to receive product information. Reaching too few customers results in sales that are less than targeted. Reaching too many customers, or customers who are not in the preferred target market, may result in product or service unavailability, which leads to a waste of valuable Sales and Marketing budget and unnecessary costs.

Frequency of customer reach is also an important metric to consider. Reaching customers infrequently may result in customers forgetting about the product by the time they are ready to make a purchase, thus affecting sales. Reaching actual or potential customers too often might be perceived as annoying and may cause a negative brand perception. Hence, a company should adopt an appropriately balanced strategy for customer reach, and the success of such a strategy can only be determined if important customer reach metrics are continuously monitored.

Some of the most widely used customer reach metrics are as follows—

1. **Reach**—This metric represents the percentage of unique customers or number of customers in the target market who have been exposed to communication through any of the Marketing Aspects (i.e., Branding and Advertising, Retail Marketing, Corporate Sales, or Digital Marketing). Reach may be referred to by other names depending on the particular Marketing Aspect and industry type (e.g., “followers” provide a reach metric for social media marketers). It is important to note that when a person views or is exposed to an advertisement more than once, only its frequency is increased not its reach.

Examples of Reach—

- In online advertising, each exposure of an online ad to the target market is generally referred to as an impression, which provides an indication of reach.
- For e-mail marketing, the number of e-mail subscribers is an indicator of reach.
- For television advertising, target rating points (TRPs) is a relevant metric to quantify its reach among targeted individuals within a large population.
- A company selling dental equipment is aware that there are 500 dental practices in a given geography. Key contacts expressed as a percentage of all practices would be a specific metric, and an indicator of reach.
- In newspaper or magazine advertising, the number of subscribers combined with the estimated ad-hoc sales of a publication is an indicator of reach.

2. **Frequency**—This metric represents the number of times a specific communication has been viewed by consumers in target markets through any of the Marketing Aspects. Generally, customers do not remember advertisements or other promotional messages if they are exposed to them just once. Also, not all potential customers in target markets will access or view the communication the first time. Repeating marketing communication messages to the target markets helps in reaching more consumers and in reinforcing a product's positioning. Increased frequency can be attained through repetition of ads during a campaign. It is also important to ensure that there is sufficient gap between each exposure. A high frequency of exposures may be unnecessary, and may result in a company chasing fewer and fewer new potential customers with each additional exposure, thus resulting in diminishing returns and wasted resources. Such exposure may also result in potential customers becoming irritated, which may have a negative impact on the consumer and affect brand perception.

Examples of Frequency—

- In e-mail marketing, sending promotional e-mails too frequently may prompt prospective customers to mark such promotional e-mails as spam. On the other hand, frequency in moderation can be beneficial in that it exposes customers to the company's advertising several times allowing the message to sink in, build awareness, and grow brand equity.
- A plumbing business that has decided to implement a direct mailing campaign to locate residents must decide whether to send mails to the entire city at the same time or in batches.
- Since some frequency is necessary for successful marketing campaigns, a company planning a direct mail campaign would likely have a better result by mailing 2,500 people four times rather than mailing 10,000 people only once.

3. **Number of Product Outlets**—This metric represents the number of physical retail or online outlets for a product. It can be used to estimate reach when accurate data are not available. Online outlets may include the company's own shopping website or a vendor's online distribution website which sells the company's products. It may also include mobile apps, which allow customers to purchase a company's products or services. As there are relatively high costs involved in maintaining physical outlets, many companies are investing more in online portals and mobile apps as these avenues enable the companies to reach a much larger customer base at significantly lower costs.

Examples for Number of Product Outlets—

- Many banks have launched mobile apps that allow customers to carry out most of their needed transactions without visiting a physical bank branch. In fact, some banks have implemented disincentives in the form of a fee, which is levied on customers who visit a branch rather than use other modes of completing transactions, such as banking over the phone, on the Internet, or through mobile apps.
- A software development company may count the number of websites where its software is available for download as a metric.

4. **Social Media Coverage**—This metric represents the number of times any activity or content related to a product is shared on various social media channels. It may also include the number of customers who have subscribed to a company's social media channel. The specific metric to be used will depend on which specific social media channel is being examined, as each channel measures social media coverage differently. Social media channels offer a plethora of easily available metrics, which sometimes make it difficult to choose the right one. Hence, it is important to carefully consider the most appropriate options to measure performance in determining the most relevant social media metrics.

Examples of Social Media Coverage—

- A company using Facebook for its social media marketing may count the number of page "likes" or the number of times people have shared its updates; a company using Twitter may count the number of followers, retweets and number of times it was favorite; a company using LinkedIn updates could track likes, shares, and number of impressions.
- Online videos are a popular way to reach a target audience. A company promoting an underwater camera may ask users to post videos of their diving experiences in the hopes that some of these videos will have widespread audience appeal. A video of a rare fish or beautiful coral reef will highlight the features of the camera and promote them to a large audience at a low advertising cost. Video viewer numbers are easily tracked and can be used to measure social media coverage.

5. **Media Coverage**—This metric represents the number of mentions, articles, or stories about a product in the media, including newspaper, radio, magazines, television, and digital sites. Companies often choose to outsource media-related activities to public relations agencies who also use appropriate media reach metrics to help define their own performance objectives. The coverage should be aligned and be relevant to the marketing objectives of a product. Media coverage usually results from press releases that the company issues through a newswire service that prompts journalists to cover the subject matter. Alternatively, the company or its public relations agency may approach journalists directly with a story idea or pitch. In other cases, media coverage may not be positive or desired by the company as is the case with adverse events such as facility closures, layoffs, financial losses, bankruptcy, or product recalls.

Examples for Media Coverage—

- Media coverage metrics will often examine both the quantity and quality of activities aimed at building awareness in a specific market. News about a pharmaceutical company's latest drug research may not appear on mainstream news channels on television but may appear in trade magazines that cover the pharmaceutical industry, which may be perceived as a more valuable target audience for the company's media messages.
- A chemical company may establish media coverage metric focused on a very specific media topic such as chemical reuse and safe chemical waste disposal, with a goal of ensuring that the business is delivering key messages on issues that have been identified as significant to consumers. At the same time, the business may use a public relations agency to keep the business out of the media on other significant topics such as the production of greenhouse gasses.
- Industry experts often publish industry-specific lists showcasing qualities such as leadership or innovation within the industry. Some businesses will set, as a media coverage metric, endorsements by such industry experts or rankings on such recognized lists.

5.1.2.5 Brand Perception Metrics*

Brand perception refers to how prospective and current customers react to seeing or hearing about a company's product or brand and how the company is perceived within the market. Leading organizations across industries realize that a powerful brand is one of their most important business assets, so they work hard to maintain a positive brand perception as it helps to increase sales and improve profitability.

Brand perception can be measured using a variety of approaches, but is mainly measured via research surveys that question participants about the perceptions of the company and/or its products. Surveys typically gather quantitative and qualitative data. They are conducted to help companies understand how their brands are viewed in the market and to identify the brand attributes that are preferred by customers.

Surveys also help to determine how customers view the company's products or services relative to competing products. Customers may associate positive attributes with a company such as reliable, innovative, fast, secure, and friendly, or they may perceive a company or a product in a negative fashion and provide attributes such as inconsistent, frustrating, slow, or mediocre when describing their perceptions. Brand perception determines whether customers purchase a product, recommend the product or the company to others, or choose a competing product. Accurate data related to brand perception can help a business take corrective actions to strengthen a product's competitive positioning over time.

Brand perception needs to be measured from the point of view of both existing customers and potential customers. Brand perception is not an outcome of a single interaction between the company and the customer but is created over a number of interactions—before and after a purchase or even when no purchase is made. The various types of interactions include, but are not limited to, visiting the company's website, visiting its stores or offices, meeting an employee, talking with customer support, experiencing or trying a product, or viewing an advertisement. By measuring and quantifying these individual interactions, or touch points, a company can determine how its brand is perceived as compared with the brand perception of its competition.

Along with the traditional methods to measure brand perception, feedback from customers is increasingly available through social media (e.g., Facebook, Twitter, Google Plus, discussion forums, blogs, and rating websites). However, the data available through social media forums may not be well structured and, hence, proper use of marketing research, marketing analytics, and other tools are required to measure and gather insights from these platforms.

As brand perception measures the overall impression of a product's brand in the minds of customers, it serves to alert the marketing teams to potential major issues, which may arise as a result of an accumulation of minor issues that may not have raised any alarm had they been effectively monitored individually. For example, a small increase in customer complaints, website errors, and the number of delayed deliveries may not indicate that there is anything wrong if these are monitored and addressed individually. However, for customers, an accumulation of these issues can result in a significant amount of negative brand perception, which, if not rectified, can adversely impact sales.

Some of the most popular brand perception metrics are described below—

1. **Brand Recall**—This metric is an indicator of how many customers or prospective customers mention a brand when a relevant cue is provided to them. The brand need not be the only one mentioned— competitor brands can also be mentioned. The cue could be the product category, the needs that the brand fulfills, or any other cue that is relevant to the brand. The most common way of measuring brand recall is to carry out surveys amongst the target market after the market has been exposed to promotional marketing messages for a particular product or brand. A company can also measure brand recall by measuring the increase in online searches for that brand during and after the period when a particular marketing campaign was running. This method can be used for both online and offline marketing campaigns. Brand recall can also be measured when an increase in sales is noted during and after the period in which a particular marketing campaign was running, provided that other factors remained constant.

However, this method works most effectively for products where purchase decision-making time is short and the products are relatively inexpensive.

Examples of Brand Recall:

To measure brand recall, companies in the automobile industry often use focus group discussions where moderators gather information using “unaided recall” and “aided recall” questions.

- **Unaided Recall:** Here, the moderator asks respondents to recall information without the aid of a cue or prompt. Unaided questions are always asked before aided questions to minimize bias. For example—
    - “Please name all the car brands you can think of.”
- **Aided Recall:** Here, the moderator provides specific prompts to respondents and then asks questions. For example—
    - “Are you aware of brands A, B, C, and D?”
    - “What are brands A, B, C, X, Y, and Z associated with?”
    - “When you purchase a car, what are the most important factors you consider; for example, price, features, specifications, quality, warranty, service, and so on?”

Such questions help companies’ measure brand awareness and recall.

2. **Brand Loyalty**—This metric is reflected by how many customers purchase a brand repeatedly. It indicates the commitment that customers have towards a brand and is the basis of a strong relationship between the brand and its customers. The underlying metrics for brand loyalty may be the percentage of repeat customers out of total customers, the frequency of repeat purchases, and the degree to which other brands are also purchased along with the brand under consideration. A high degree of purchase of other brands reveals a low brand loyalty for the brand under consideration. Another way to measure brand loyalty is to examine customer response to situations where a particular product is unavailable. If customers are loyal to a brand, they will either wait until the product becomes available or buy a product variant (e.g., a version of the product that was released earlier), rather than switching brands.

Examples of Brand Loyalty—

- Some automobile manufacturers have loyal customers who book their vehicles in advance and are willing to wait several months for their orders to be fulfilled.
- Retail e-commerce companies measure brand loyalty by examining frequency and consistency of customers' visits to their websites and also by the number of goods purchased directly from the websites.
- Some luxury watches manufacturers have loyal customers who are willing to pay a very high price for a luxury watch due to its perceived uniqueness and status. These consumers tend to be very brand loyal and will not accept substitutes.

3. **Share of Mind**—This metric, also referred to as "top-of-mind recall", is an indicator of how many customers or prospective customers mention a brand first when a relevant cue like industry, product category, usage situation, or customer need, is provided to them. Although similar to brand recall, here, the brand must be mentioned first to be considered as having share of mind. In some cases, brands with high share of mind become synonymous with the entire product category. The most reliable way to measure share of mind is to conduct surveys. These surveys can be online, over a telephone call, or in person.

Examples of Share of Mind—

- Understanding share of mind is critical for Consumer Packaged Goods (CPG) companies as purchase decision timing is very short and the customer usually buys the product that is the first one on his mind. CPG companies often do mail intercepts or online surveys to understand share of mind of their products. If such a company conducts a survey and results show that consumers think about the company's brand more frequently than a competitive brand when considering a purchase of a specific type of product, the brand has successfully achieved a greater share of mind. This company should continue to protect and enhance share of mind through effective positioning and communication.

4. **Share of Heart**—Similar to share of mind, this metric is an indicator of how many customers or prospective customers mention the brand first when a relevant cue, such as industry, product category, usage situation, or customer need, is provided to them. In addition, however, share of heart indicates the number of consumers who identify the brand in consideration as the one they will buy. This metric indicates a much stronger connection between the brand and its customers as compared to share of mind. A high share of heart indicates that the Marketing Strategy is effective at communicating and delivering the value needed by its customers. Share of heart is built not just through the marketing communications of a company, but more importantly, through how strongly existing customers recommend a company's product to others. Thus, a good indicator for measuring changes in share of heart is to measure changes

in customer referrals and recommendations. Customer referrals can be measured by launching a referral program. In some industries, external forums or entities collate customer recommendations about products and services from various companies.

Examples of Share of Heart—

- In the travel and tourism industry, there are a number of well-established websites where travelers post reviews, photos, and advice on places where they have visited and stayed. Thus, an increase in positive reviews for a hotel usually leads to increased bookings, indicating a higher share of heart.
- A performance shoe manufacturer and distributor may focus on driving share of heart by developing ad copy that triggers emotions in order to persuade potential customers to buy their products. When people become emotionally attached to a product, they will often purchase it automatically and will not settle for a substitute. They are also likely to recommend the products to others.

5. **Net Promoter Score**—Net Promoter Score[15] is a metric used to measure customer loyalty that was developed by Fred Reichheld of Bain & Company in association with Satmetrix in 2003. It is measured by asking customers their likelihood of recommending a company's product to a friend, relative, or colleague. Customers respond on a scale of 0 to 10 with 10 indicating a very high likelihood of recommendation. Based on their response, customers are grouped into three categories—

   - **Promoters**—Those who give a score of 9 or 10. These individuals are the most likely to promote a company's product.
   - **Passives**—Those who give a score of 7 or 8. These individuals can be assumed to be ambivalent about a product or do not have strong enough feelings to either promote or detract from a product. They are not counted in the calculation of the Net Promoter Score.
   - **Detractors**—Those who give a score of 6 or below. These individuals are most likely to communicate negative aspects of a product to others in their social circles.

The Net Promoter Score (NPS) is calculated using the following formula:

$$\text{NPS} = \text{Percentage of Promoters} - \text{Percentage of Detractors}$$

NPS, though calculated as a percentage, is expressed in absolute units by omitting the percent sign and then indicating whether the score is positive or negative. For example, if the percentage of promoters is thirty, the percentage of passives is forty five, and the percentage of detractors is twenty five, then the NPS is calculated as:

[15] Reichheld, F. (2003). "One Number You Need to Grow". *Harvard Business Review*, December.

NPS = Percentage of Promoters – Percentage of Detractors = 30% – 25% = +5

Based on this formula, the NPS ranges from -100 to +100. A high positive NPS indicates a higher level of customer loyalty and brand perception, and vice versa.

The NPS score is widely used across industries as an indicator of how a company is perceived by its customers. However, this metric also has its drawbacks, which should be considered in its application. Some of these are as follows—

- It is calculated only by surveying actual customers, however there may be a lot of non-customers who may also act as promoters or detractors and they may be as influential about the brand perception as actual customers.
- It groups customers giving a rating of 0 and those giving a rating of 6 in the same category. It is expected that there would be a lot of differences in how these two groups feel, and in turn react about a product. A group of detractors with a higher percentage of customers giving a score of 0 is likely to impact a company more negatively than one with a higher percentage of customers giving a score of 6.
- It is generally more effective in evaluating the impact of customers' perceptions on a company in industries and product categories where referrals and recommendations play a major part in the decision to purchase a product.
- It is a high-level metric and does not include the cause and inter-relationships between various factors that contribute to the overall NPS score.

5.1.2.6 Product Availability Metrics*

Product availability metrics indicate whether a product is available for purchase at the time and place customers are looking to purchase the product or other competing products from competitors. It is not enough that a product is stored in an outlet—the product should be easily visible and accessible to a customer in an area of the outlet where the customer is most likely to search for it. Outlets can be physical, such as retail stores, or can be online, such as e-commerce websites. For e-commerce websites, product availability refers to whether the product is listed in relevant categories, whether it appears in search results, whether all product information is correctly displayed, and also, whether it is available for purchase. For physical outlets, a number of important choices with respect to inventory levels, placement of a product in the outlet, and shelf space need to be made. For a service, product availability refers to whether the human resources, technology, and physical elements of the service are functioning properly to deliver the service to customers.

Some of the most commonly used product availability metrics are as follows—

1. **Average Inventory Level**—This metric represents the average amount of inventory available during a certain period of time. It is calculated as:

Average Inventory Level = (Inventory at start of period + Inventory at end of period) / 2

An average inventory level that is lower than the average demand for a period indicates lost sales. Conversely, an average inventory level that is significantly higher than average demand for a period can result in storage costs and possibly wastage, which could have been avoided.

Examples of Average Inventory Level—

- In the retail industry, fast moving goods have a higher average inventory level than the slow moving ones.
- In apparel shops, the average inventory level of winter wear is higher during winter than in summer.
- In situations in which a retail store has excess inventory of a particular product (e.g., a perishable food item in a grocery store or a trendy accessory or apparel item), the excess inventory may trigger a necessary discount in order to reduce the inventory and decrease potential product waste.
- Small businesses and businesses with perishable goods use a Just-in-Time (JIT) inventory fulfilment model in order to keep the average inventory level low and manage storage and wastage costs. Some businesses, such as those offering print-on-demand services, choose to completely eliminate inventory costs by providing product only when orders are placed.

2. **Number of Stock-outs**—A stock-out refers to an event where the current inventory level is not sufficient to meet demand. A company should aim to minimize or eliminate the number of stock-outs in a period. However, eliminating stock-outs completely may not be possible in cases where demand cannot be estimated accurately and/or where storage costs are high, making it very expensive to keep high levels of inventory to manage the demand uncertainty.

Examples of Number of Stock-outs—

- In the hotel industry, there are often stock-outs during the busy season when many hotels have a one hundred percent occupancy rate. Since the availability of hotel rooms is limited for each hotel, some control over stock-outs is managed by offering discounts and special packages during the off-season, and increasing prices during the busy season.
- In the airline industry, overbooked flights are an example of stock-outs. Airlines often manage stock-outs by offering discounted or free flights to individuals who are willing to change flights on short notice.
- In retail, stock-outs typically occur due to poor inventory management or shortages from suppliers, but most stock-outs can be avoided. For retailers, stock-outs are not good for business as most consumers, when faced with stock-outs, typically do not wait until stock is replenished in order to make their purchase. They take their business elsewhere. Fortunately, inventory management software can provide businesses with the necessary tools to assist in minimizing the occurrence of stock-outs.

3. **Fill Rate or Demand Satisfaction Rate**—This metric refers to the percentage of demand (represented by customer orders) that is fulfilled by the stock on hand. It indicates the ability of the current inventory to fulfill demand. A company should target a very high, or even a one hundred percent fill rate, but it should not stock too much excess inventory as this may result in high storage costs.

Examples of Fill Rate or Demand Satisfaction Rate—

- Fill rate is an extremely important metric in the advertising industry. In advertising, fill rate is calculated as the number of ads delivered against the number of ads requested.

  Fill Rate = Number of Ads Delivered / Number of Ads Requested
- Low fill rate for an ad publisher means that a larger number of ad requests are being sent to an ad source or ad network than the number of ad requests that are being returned with an ad. Low fill rate implies loss of revenue. To increase fill rate and maximize revenue in the advertising industry, ad publishers work with a wide network of ad delivery partners and use different algorithms for requesting ads. A perfect algorithm will forward ad requests to those networks that are most likely to return with ads capable of fetching the best revenue.
- In the airline industry, overbooked flights are an indication that the current availability of flights is not fulfilling the demand, while near-empty flights are a representation of lost profits. As a result, airlines offer lower-priced flights at less desirable times in an effort to achieve a near 100% fill rate on all of their flights.

4. **Resource Utilization Rate**—This metric measures the time that people spend working on projects and tasks. Resource utilization measures resource allocation on a specific set of work, including client and internal work (which directly affects efficiency of client work). It does not include "on-the-bench" time during which people are neither working on billable nor non-billable work. Knowing the resource utilization rate of the company can help senior management make more informed and better decisions with respect to product availability. Very high resource utilization rates may negatively impact service or product availability, as there may not be sufficient resources available to deliver the service or product. A decision could then be made to hire or reallocate resources appropriately.

Examples of Resource Utilization Rate—

- In the Business Process Outsourcing (BPO) industry, companies use a utilization and availability metric to optimize resource requirements. Usually the following variables are measured in a people-oriented business process:
  - **Utilization:** AMH / SMH
  - **Availability:** (AMH – Total loss) / AMH
    - SMH represents Standard Man Hours—that is, how much a person is expected to work in a day (8 hours in most companies).
    - AMH represents Actual Man Hours—that is, how much a person has actually worked in a day.
    - Total loss refers to meetings, trainings, administrative work, and so forth (lunch break of one hour may not be included).
- An engineering consulting company bills clients based on resource utilization. In order to keep the project on budget and on time, resource utilization must be optimal. Otherwise, the project may be under-resourced, and team members may be overworked, or the project may be over-resourced, and the client may end up paying for the underused resources.

5. **Maximum Capacity**—This metric refers to the quantifiable units of service in a given time frame that a company can handle at a one hundred percent resource utilization rate. Some examples of how it can be measured in different situations are as follows—

   - Total number of possible orders per day for a company's e-commerce website
   - Total duration of video content creation possible per month for a video production company
   - Total number of phone calls that can be answered each day by a call center

   Knowing the maximum capacity of any service setup can be useful when compared with actual units of the services billed during a particular time frame.

Examples of Maximum Capacity—

- The London Underground transit system increases maximum capacity during peak hours by operating more trains during peak hours compared to off-peak hours.
- A parts manufacturing company must examine maximum capacity in order to ensure it can meet the demands of its customers and partners, particularly if the company is one in a long string of contributors to a particular manufacturing process, where timing is critical to production.

6. **Downtime**—Companies may rely on some system or technical infrastructure to continue providing a service. “Downtime” refers to periods when a system does not provide or perform its primary function or is unavailable. Unavailability is the duration of time that a system is inaccessible or offline. Downtime is usually the result of a system failing to function because of an unplanned event, but it may also be due to a planned event such as routine maintenance. The term is commonly applied to networks and servers. Common reasons for unplanned outages are system failures (e.g., crash) and communications failures (generally called a “network outage”).

Examples of Downtime—

- For radio taxi companies, which fulfil customer requests either through a website or via telephone, unavailability of any of these channels due to technical problem results in a downtime of service and loss of revenue.
- Downtime for e-commerce company websites usually results in lost sales and profits. These companies spend significant resources to ensure zero or minimal downtime by creating redundancies and effective disaster management.
- In retail stores, a failure of the point-of-sale debit and credit machines results in downtime as many customers are not prepared to pay for their purchases in cash.
- In the construction industry, in extreme wet or cold conditions, downtime is anticipated. Land development companies, therefore, factor downtime into their production targets during the winter season.

5.1.2.7 Sales and Profitability Metrics*

Generating profits is the primary objective of any for-profit company. Sales and profitability metrics are used to ensure that a product is generating the requisite level of sales and profits for the company. These metrics are monitored by all companies across industries as sales and profits are the end results of all marketing activities of a company and generate the necessary financial resources to fund the company’s operations and growth.

Some of the most commonly used sales and profitability metrics are as follows—

1. **Sales Growth**—This metric represents the growth in revenues for a product during a certain time period. It can be represented either as a percentage growth or in absolute terms. It is one of the primary metrics used by marketing teams to determine the success of the Marketing Strategy and is also the easiest to measure. If it is difficult to allocate costs accurately to different products, then sales also acts as a proxy metric for profits assuming that the company is profitable overall—in such companies, the finance, operations, and marketing teams will

finalize pricing, and the sales teams will focus on sales (and not profits) as a relevant metric to measure their performance. In addition, sales growth needs to be observed for different products within a company to determine the relative growth of products with different levels of profitability, and take corrective action if needed. When examining sales growth, marketers must consider all factors that can impact sales. For example, factors such as price increases, new product releases, and seasonality can have a significant impact on sales, and the marketing team must ensure that such factors are accounted for in understanding the source of sales growth (e.g., whether growth can be attributed to successful marketing campaigns or simply to a price increase).

Examples of Sales Growth—

- Car manufacturing companies calculate the sales growth of a particular car model by comparing quarterly sales figures with the sales figures for the same quarter in the previous year. It is usually not calculated by comparing the revenue from the last quarter with the revenue from the previous quarter because of seasonality factors that affect car buying.
- If a highly anticipated new version of an existing product is released, sales growth will likely be impacted. Since marketing efforts for a new product launch are often unique and separate from the marketing efforts for the existing product portfolio, often businesses will carve out sales growth that is considered a direct result of the product launch in order to assess the success of the new launch and also understand the impact of other marketing activities on the sales of the existing product line.
- Businesses often implement a price increase from year to year, which will typically result in sales growth (unless prices are set at a level that is too high for the market to bear). If the percentage sales growth from year to year is equal to the percentage price increase, the company must determine better ways to generate growth, as sales growth based on a price increase is not a sustainable strategy.

2. **Market Share**—This metric is typically reflected by the ratio of sales of a product to total sales in the target market. It reflects the relative position of the product and its brand in the minds of the target customers. A higher market share increases the bargaining power of a company with respect to its suppliers and customers, and makes market entry more difficult for new entrants.

   Market share can be measured in terms of volume or value. Volume market share refers to the number of units of a product sold as a ratio of all products sold in that product category. Value market share refers to the revenues generated by a product as a ratio of the total product category revenues. A company that has a higher value share than volume share is generally regarded as more profitable than its competitors since the assumption is that it is selling a lower volume at a higher price. A company with a higher volume share than value share, though less profitable than the competition, may consider the option to increase prices once it has garnered enough market share.

Examples of Market Share—

- In the banking industry, banks carefully plan strategies to improve their market share by attracting new customers and by ensuring the retention of existing customers through the provision of stability and security. Banks primarily focus on building a strong brand and constantly improving the relationships with their customers in order to capture market share.
- Volume market share can be used for wholesale agricultural products like grain seed. Hectares of permanent cropland can be determined and used to measure total saleable quantities of seed applicable to those areas. Published crop cost and return data can be used to calculate average hectare costs for seed, which can then be used to determine value market share.

3. **Profitability—**This metric is calculated as a ratio of profits to sales and is represented as a percentage. A company needs to decide on a desired level of profitability for each of its products and then work towards achieving that level. Each product need not generate high profitability, but it is important that the planned profitability is reached. Profitability can be calculated differently depending on whether net profits, gross profits, net sales, or gross sales are used. Other variations are possible depending on whether tax, depreciation, amortization, and interest components are included or excluded from profits.

Examples of Profitability—

- Profitability is a key metric to consider when comparing multiple products in a product line or multiple product lines in a portfolio. For example, an optical company sells frames, reading glasses, and sunglasses that cater to all age groups. On average, the company sells 1,000 frames, 100 reading glasses, and 300 sunglasses each day. The average price for a frame, reading glass, and sunglass is $70, $50, and $100, respectively. The average production, distribution, and sales cost for a frame, reading glass, and sunglass is $50, $30, and $50, respectively.

  The profit margin per day for each of the product lines is as follows:

  - Frames = 1,000 × ($70 – $50) = $20,000
  - Reading Glasses = 100 × ($50 – $30) = $2,000
  - Sunglasses = 300 × ($100 – $50) = $15,000

  These profit figures do not indicate that the “Frames” product line is the most profitable one. Although Frames provides more profits, the profitability of the “Sunglasses” line is more in this case.

  - Profitability of Frames in terms of revenue = ($20,000 / $70,000) × 100% = 29%
  - Profitability of Reading Glasses in terms of revenue = ($2000 / $5,000) × 100% = 40%
  - Profitability of Sunglasses in terms of revenue = ($15,000 / $30,000) × 100% = 50%

  Profitability is therefore important as it reflects the actual health of a product or product line.

4. **Customer Acquisition Cost**—This metric represents the total cost that a company incurs in convincing a single customer to purchase its product and the cost of repeat purchases within a specific time period. The cost to convert a customer to purchase for the first time is generally more than the cost to convert for a repeat purchase if the experience of the customer was positive the first time. However, winning back a dissatisfied customer may involve significant costs. Customer Acquisition Cost should not exceed Customer Lifetime Value (both values discounted to the present day for comparison) as the gap will result in a loss for the company.

Examples of Customer Acquisition Cost—

- Acquisition costs for first-time customers are usually a primary expense in business-to-business (B2B) models. An IT firm trying to attract new clients spends the largest portion of its budget identifying, marketing, and bidding on proposals. After the initial business relationship is established, however, the cost of retention for each client is much lower.

5. **Customer Lifetime Value**—Customer Lifetime Value places an upper limit on how much a company should spend on acquiring a new customer. Customer Lifetime Value represents the total profits that a customer generates for a company or a product over a certain time period. It looks at customers from a long-term perspective and unearths opportunities, which may not be apparent if customer profitability was judged on a transaction basis. For example, if a customer is expected to generate a profit of $100 every month for five months totaling $500 in profits, then a company can spend up to $500 (which represents the Customer Acquisition Cost) for acquiring that customer in order for the company to break even. Any spend exceeding $500 represents an overall loss for the company on that customer. All profits and costs related to a customer should be discounted to present day amounts using an appropriate discount rate before calculating whether a customer is profitable over time. Generally, the discount rate is the weighted average cost of capital for a company.

   Customer Lifetime Value also helps determine which categories of customers are more profitable for a company and which are less profitable. Making this distinction helps the company classify prospective customers into categories to determine the cost needed to acquire and retain such customers.

Examples of Customer Lifetime Value—

- In many industries, analysis of customer acquisition and retention costs alone does not indicate the effectiveness of the marketing programs. This metric provides better clarity when it is combined with Customer Lifetime Value. Consumer goods stores consider the value of a customer in his lifetime interaction duration in relation to the cost incurred to acquire him. In some cases, the cost of customer acquisition is high but the company may derive more lifetime value. Hence, companies try to create ways to lower the cost of customer acquisition. This also helps them in evaluating the performance of various marketing campaigns.
- Customer Lifetime Value is different for different groups of customers and is often an important factor in a company's marketing segmentation strategy. For example, a retail bank will always have some low-value customers who do not carry balances on their credit cards or make high-interest mortgage payments. At the other end of the spectrum, banks will also have high-value customers who make significant interest payments on a monthly basis. The latter group has a higher Customer Lifetime Value and may receive more product offers and discounts as well as more incentives to remain loyal to the bank.
- IT service companies need to determine average lifetime value of their service. There are often maintenance and service contracts, which provide revenue exceeding the initial IT installations or products. This overall expected value can then be used to determine the appropriate acquisition budgets.

5.1.3 Outputs

5.1.3.1 Selected Metrics*

The output of this process is a list of selected metrics for each of the four major categories under which a company's product or brand's marketing activities can be measured. These are customer reach, brand perception, product availability, and sales and profitability. As previously mentioned, it is important that the selected list of metrics remain manageable—neither too many nor too few—so that only the most relevant metrics are evaluated. The metrics chosen should be clearly defined and there should not be any ambiguity about the meaning of each metric. Each of the metrics selected should have the following characteristics clearly defined—

- **Purpose**—Metrics should assess only those aspects that are relevant to achieving a company's marketing and in turn corporate objectives. Clearly explaining the purpose of each metric helps ensure that irrelevant metrics are not being used.
- **Measurement Method**—Companies should identify the tools or data sources that are needed to assess each metric and determine the availability and cost of these tools and data sources.
- **Measurement Responsibility**—A specific person or team should be assigned for tracking each metric and held accountable for the accuracy and validity of the data collected as well as the assumptions made during the measurement process.
- **Time Period**—Metrics need to be measured with respect to specific time periods. The duration of the time period should ideally be kept constant between each measurement so appropriate comparisons can be made and trends identified.

The selected metrics should be in complete alignment with all other aspects of the Marketing Strategy for the product or service under consideration as well as with the overall Corporate Strategy.

Examples of Selected Metrics—

- E-commerce companies use metrics such as customer acquisition cost, average order value, buying frequency, growth in buying frequency, loyalty, volume of business, and so on to measure the efficiency and effectiveness of their marketing efforts. They also consider several other metrics such as total number of website visits, page views, time spend, downloads, bounce rates, and so on, which are mostly activity-based metrics. These metrics do not link marketing activities to business objectives or outcomes. Instead, metrics such as market share and profitability offer a better correlation to the desired business objectives.
- An established chain of garden centres may decide that its volume share is large enough that gains in that area are unlikely. Thus, it chooses to focus on value share to increase profitability and brand perception to assist in enabling pricing increases.

5.2 Determine Objectives

Once the metrics on which product performance will be measured are decided, the next step is to determine the respective objectives for each of the metrics. Determining objectives is an essential activity in any Marketing Strategy as the success of the strategy is judged based on how a product's performance in its market compares against the objectives. Thus, objective setting needs to be done carefully to ensure objectives are realistic and aligned with the Marketing Strategy. Furthermore, objectives, if set correctly, can act as motivators and guide posts for the marketing team while implementing the Marketing Strategy. On the other hand, objectives that are poorly set can demoralize the team, cause confusion, and lead to underperformance of a product in the market.

Figure 5-6 shows the inputs, tools, and outputs for the *Determine Objectives* process.

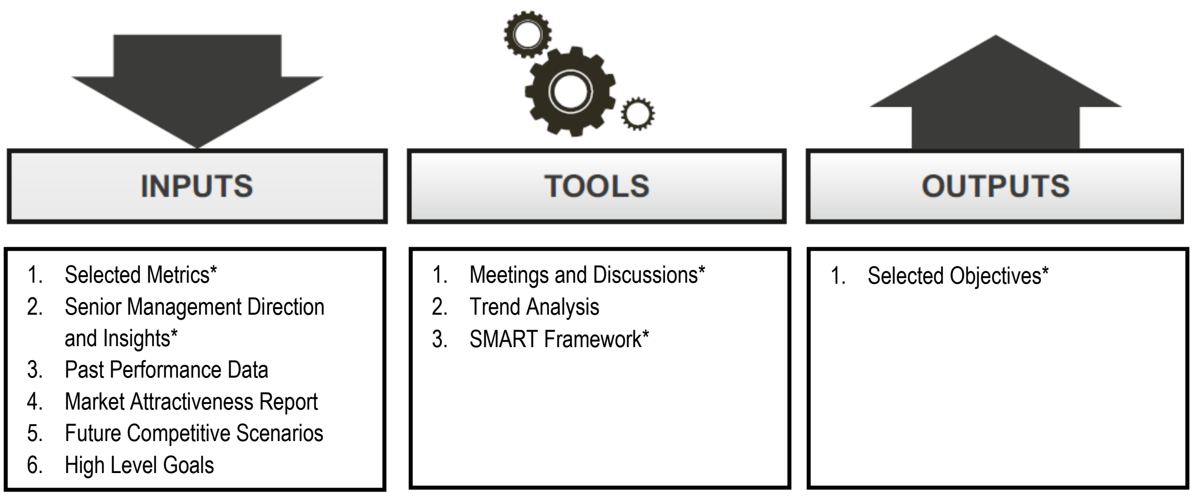


Figure 5-6: Determine Objectives—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

5.2.1 Inputs

5.2.1.1 Selected Metrics*

The list of selected metrics is an output of the *Determine Metrics* process, described in section 5.1. The list of selected metrics contains specific metrics for each of the four major categories under which a company's marketing activities will be measured. These categories are customer reach, brand perception, product availability, and sales and profitability. The selected metrics must be aligned not only with all Aspects of the Marketing Strategy, but also with the overall Corporate Strategy, and must take into consideration other divisions and departments that contribute to the success of the Marketing Strategy. The marketing team must have a comprehensive understanding of the selected metrics and their impact on all areas of the business and must determine reasonable and appropriate objectives for each of these metrics to monitor the company's ability to reach the marketing objectives and to ultimately contribute to the success of the business. Without understanding the details of the selected metrics, the Sales and Marketing teams would not be able to assign well-defined, long-term objectives that are aligned with all areas of the business and that address all areas of the brand's connection with customers.

5.2.1.2 Senior Management Direction and Insights*

Senior management provides insights on the current market, the current and future competitive landscape, and consumer preferences. Marketing teams rely on the knowledge and experience of the senior management team when determining realistic objectives for the defined metrics. In a scenario where the company decides to launch a new product, for example, senior management can provide an understanding of the market and consumer trends, as well as knowledge of the competitive landscape, all of which can help the team projecting future market share objectives. Furthermore, senior management has a comprehensive understanding of the entire business and the contributions, activities, and limitations of the various departments, all of which must be factored into the process of setting objectives. For example, in setting a profitability objective, the marketing team must understand anticipated manufacturing costs. Without senior management's direction, businesses may not have a clear and accurate understanding of the competitive landscape or of the resources at hand, which may in turn result in the setting of incorrect or unattainable objectives.

5.2.1.3 Past Performance Data

Past performance data includes information such as past objectives set for a product, actual sales and profitability for the product, and market share acquired. In most markets, unless a competitor introduces a significant technological or service innovation in the product category, past performance is a good indicator for setting the future sales objectives of the company. Past performance data also serve as the basis for a "lessons learned" document, which explains what the company did well in the past, and where and why it was not able to reach its objectives. Past performance data are not available when a company is launching a new product. In such a scenario, the company will rely more on senior management's direction and insights as well as the Market Attractiveness Report, described in section 2.2.3.2. It is important for companies to have an awareness of the industries within which they operate so that they can make the best use of available data. For example, in technology-driven industries like the cell phone market, which is characterized by a high rate of innovation driven by fast-changing consumer needs, past performance data alone may not be a good indicator of future sales as a competitor may launch a breakthrough product that may significantly increase its market share.

5.2.1.4 Market Attractiveness Report

The Market Attractiveness Report is an output of the *Determine Opportunities and Threats* process, described in section 2.2. The Market Attractiveness Report contains information on market shares of different players, expected growth rates of different market segments, and the level and type of competition in the different segments. These inputs are key to setting realistic objectives for a company. For example, in a market segment where there is an oligopoly, it might be very difficult for a new entrant to gain a large market share in a short period of time. Hence, market share objectives for such a segment would be significantly lower than in a segment where there is more competition. Similarly, in a market segment where the estimated annual growth rate is thirty percent, a company that wishes to stay ahead of the competition would ideally need to achieve more than this thirty percent annual growth rate. Hence, growth rate objectives for the company would need to take into account this higher market segment growth rate.

5.2.1.5 Future Competitive Scenarios

Future Competitive Scenarios are an output of the *Identify Competition* process described in section 3.1. This output identifies the future events or scenarios that pose a serious competitive threat to the company. All relevant information related to these events, such as the dates of expected occurrences and factors that might mitigate or favor these events, are documented during this process. When setting objectives, the marketing team must take into consideration such events in order to set reasonable and appropriate objectives. Failing to consider future competitive scenarios in the establishment of marketing objectives can result in the team's failure to meet objectives due to unforeseen factors such as a technological innovation by a competitor or a new market entrant. The details of the scenarios should be monitored and updated on a regular basis to reflect changes in the competitive environment.

5.2.1.6 High Level Goals

When determining the objectives for the Marketing Strategy, the Marketing team must work with Senior Management and with other departments in order to ensure that the marketing objectives align with the overall goals of the organization. Failure to take into consideration the high level goals of the organization can result in marketing efforts failing to meet key objectives that are designed to contribute to the overall success of the business.

In situations where revenue growth is a key criterion for success, if the high level goals of the organization include, for example, ten percent revenue growth, and the Marketing Strategy reflects an objective of eight percent revenue growth, the organizational goals will likely not be met despite the perceived success of the marketing team.

An understanding of the high level goals, therefore, enables marketing teams to align their objectives with other departments and divisions as well as those of the business as a whole in order to ensure that all areas of the business are moving the business forward in accordance with the overall goals of the organization.

5.2.2 Tools

5.2.2.1 Meetings and Discussions*

Meetings and Discussions involving experts and senior management can be useful in determining brand, distribution, and sales-related objectives for a product. Key stakeholders in an organization meet to analyze the company's product or service, compare competitor products or brands, and project future market segment growth. Based on this understanding, management projects the expected market share. Discussions are also held to review how the business had previously projected objectives and if the competitive scenarios have changed. This may lead to management re-evaluating the process of projecting objectives. The business may also conduct interviews and focus group discussions with some customer prospects to determine their willingness to buy a product or service; this information may directly impact the projected objectives for the product or service.

5.2.2.2 Trend Analysis

A market trend analysis is an analysis of past and current market behavior and dominant patterns of the market and consumers. An important aspect of conducting a trend analysis for an organization is to obtain insights on the market scenario, consumer preferences, and the macroeconomic environment. Marketing research methods, such as surveys, interviews, and observations of consumer behavior, help in understanding the trends and behavior in the market. Trend analysis is a subset of the PESTEL Analysis—an examination of the Political, Economic, Social, Technological, Environmental, and Legal implications of the market as they relate to consumer trends. This analysis provides an all-round perspective of the external factors that impact the business. The PESTEL Analysis is discussed in section 2.2.2.5.

While determining future objectives for a product or service, trend analysis is used as a basis on which future market projections are made. Market trend analysis involves analyzing the following areas—

- **Trends in Consumer Needs and Behavior**—A business that is able to identify a specific trend in changing consumer needs and behavior may be able to cater to these needs and project higher growth rates.

- **Shifts in Consumer Perception of Value—**Trend analysis involves timely analysis of consumer needs and positioning of the product or service in the consumer's mind. An aspect of a product or service, which would at one point in time have contributed to the consumer's perception, may later lose value if the competition replicates it. For example, if Shop A in a particular town was the only department store providing free home delivery for customer orders, it may hold a better perception in the consumer's mind due to this additional service. However, if competitors start providing the same service, the value perception for Shop A would likely decrease.

- **Trends in Industry Cost Drivers—**Businesses need to be aware of changes in composition of the cost drivers and also innovations that lead to lower cost alternatives. Companies that are able to find better alternatives, which are more economical or offer additional features, can gain a competitive advantage and achieve higher objectives.

- **Change and Evolution of the Industry—**Companies continuously analyze trends in terms of product innovations, competitor product features, and new operation and delivery methods. Such analysis helps the business stay ahead of the curve to understand changing market trends and project objectives accordingly.

Trend analysis is a very common strategic tool for understanding the market maturity (i.e., whether the market is in a growth or decline stage) to gauge future market potential and the overall position of a business in the market. As mentioned earlier, since market trend analysis involves understanding past market behavior and expected future market innovations, a major effort in conducting trend analysis is dedicated toward collecting relevant data. The authenticity of this data determines the accuracy of the projections, which subsequently impacts the objectives set for a particular product or service.

Example of Trend Analysis—

- A manufacturing company may recognize a decline in fuel prices, which will result in a decline in production costs. There may also be a lower exchange rate predicted for the next fiscal year. These factors will have an impact on the objectives of the company. For example, the company may decide to increase production capacity and explore foreign markets.

5.2.2.3 SMART Framework*

As discussed in section 5.1.2.3, the SMART Framework provides a model for discussing metrics and setting objectives. In the process of setting objectives, both the Attainable and Time-bound components of the model are relevant. Figure 5-7 shows the SMART Framework model.

Figure 5-7: SMART Framework for Determining Objectives

In setting objectives, management must ensure that all objectives considering company resources, product distribution, and customer reach are attainable. Although objectives must be competitive, they should also be realistic. Senior management sets objectives after considering the competitive landscape; macro-environmental factors; segment potential; and company strengths, weakness, and capabilities. Setting unrealistic objectives can demotivate the workforce and lead to greater losses in the long term.

When objectives are said to be time-bound, they are linked to a timeframe that creates a practical sense of urgency. Ensuring objectives are time-bound helps senior management monitor whether a product is on course to meet its objectives, and whether any corrective adjustments may be needed in order to achieve the projected objectives.

Examples of SMART Objectives—

- Given market forecasts and assumptions and the dynamic nature of the smartphone industry, a smartphone manufacturer may set a conservative revenue growth target of three percent revenue growth in mature markets where growth of the market size is slowing and revenue is driven primarily by replacement sales, and a more challenging but attainable objective of fifteen percent revenue growth in emerging markets which show much more opportunity for growth.
- Most businesses will set revenue objectives that have a quarterly or annual timeframe, but monthly or sometimes weekly updates ensure that the team is focused and on track to meet quarterly and annual objectives and to enable the team to make adjustments to address any shortfalls.
- Media release objectives will typically coincide with publication dates for targeted publications or with annual special events or conferences. A pharmaceutical company may set as a media release objective the submission of a specific number of press releases to an industry publication during specific months throughout the year to showcase the business as at the forefront of research on key topics in pharmaceutical research.

5.2.3 Outputs

5.2.3.1 Selected Objectives*

The output of this process is a list of objectives for each of the four major categories under which a company's marketing activities can be measured. These are customer reach, brand perception, product availability, and sales and profitability. As mentioned in section 5.2.2.3, the selected objectives should be attainable based on an understanding of existing resources and time-bound in order to provide the marketing team with a tool for monitoring progress and determining the need for adjustments.

These objectives determine how resources are allocated to the various Sales and Marketing Aspects. They serve as reference points against which the performance of a product or brand's Marketing Strategy is measured. Hence, it is important that they align with the overall long-term Branding Strategy for every product or service as well as with the overall Corporate Strategy of the company.

Examples of Selected Objectives for a CPG (Consumer Packaged Goods) Company Using Various Metrics:

Customer Reach	• Increasing the number of distributors and retailers by a certain percentage or number • Increasing the number of exclusive retail outlets by a certain percentage or number • Increasing website visits by a certain percentage • Increasing social media presence in terms of number of followers, connections, company page likes, and memberships of company-owned groups or forums • Writing a certain number of press releases each quarter and ensuring they appear in a certain number of industry journals
Brand Perception	• Increasing the brand-loyal customers by a certain percentage • Coordinating the development of a new ad campaign with an advertising agency with the goal of increasing brand recognition to a certain amount by a certain date
Product Availability	• Increasing the average inventory level at a retail outlet by a certain percentage • Maintaining 0% stock-outs in all exclusive retail outlets • Reducing inventory costs by a certain percentage
Sales and Profitability	• Meeting or exceeding the quarterly sales target • Increasing the overall market share by value of a certain product line by a certain percentage • Increasing the market share for a certain product by a certain percentage by a certain date

5.3 Decide Marketing Aspects and Allocate Budget

After objectives for the selected metrics are established, a company decides which particular Marketing Aspects will help it to reach those objectives. The remaining five Marketing Aspects (apart from Marketing Strategy) are explained in detail in their respective books, which are part of the *SMstudy® Guide* series. They are briefly described below.

1. **Marketing Research**—explains the concepts of Marketing Research (MR) and provides a framework to conduct this research and to analyze sales and marketing data. Marketing Research can be conducted for any other Aspect of Marketing. It is very commonly used to test different marketing hypotheses, and to gain knowledge related to understanding customers, finalize product features, define metrics for measuring marketing objectives, and track and improve marketing activities.

2. **Digital Marketing**—Digital Marketing (DM) includes all marketing activities using electronic devices that are connected to the Internet (e.g., computers, tablets, and cell phones) to engage with customers. It examines concepts related to creating and managing effective websites and mobile apps, to promoting a company's products and brand through various online channels that help meet the marketing objectives. An effective Digital Marketing Strategy can be a force multiplier for the other Marketing Aspects.

3. **Corporate Sales**—Corporate Sales (CS) includes the best practices and processes to be followed for effective corporate sales. It provides guidance on activities related to persuading other businesses to purchase a company's products; understanding procurement management; conducting effective negotiations; and ensuring lead generation, qualification, and follow-up. It also emphasizes how corporate sales should interface with the other Marketing Aspects.

4. **Branding and Advertising**—Branding and Advertising (BA) includes concepts of branding, consumer behavior, marketing communications, and public relations. Branding is the process of creating a distinct image of a product or range of products in the customer's mind. This image communicates the promise of value the customer will receive from the product or range of products. Branding should remain consistent across all channels of communication with the customer. Advertising, as defined in the *SMstudy® Guide*, is the set of communications to existing and potential customers, which promotes the company's products, through all media, such as radio, television, and print. Internet advertising is covered in Digital Marketing.

5. **Retail Marketing**—Retail Marketing (RM) discusses concepts of Retail Marketing including all activities related to persuading the end customer to purchase a company's products at a physical retail outlet or store, and efficiently managing the supply chain and distribution channels to improve the reach and sales for a company's products.

Companies must decide how relevant each of the Marketing Aspects is to their businesses and determine how they should be utilized for marketing their products. Some products are more suited for one Aspect as compared to others.

Examples of Suitability of Marketing Aspects to Meet Marketing Objectives—

- Heavy engineering products rely primarily on Corporate Sales for key marketing activities and much less on Digital Marketing. Consumer goods, on the other hand, rely on a mix of Retail Marketing, Digital Marketing, and Branding and Advertising for promotion and sales, and use Marketing Research extensively to understand consumer behavior. The reliance on Corporate Sales in this latter example would be minimal.
- A construction company whose marketing objective is to expand reach will likely focus on a mix of Branding and Advertising to increase brand awareness and Corporate Sales to build relationships. While they will require an online presence, this might not be as important; so, Digital Marketing will have a lower budgetary priority.

In addition to a qualitative analysis of the relative importance of the various Marketing Aspects, a quantitative analysis also needs to be conducted to determine how the marketing budget should be allocated across the various Aspects. This allocation is what the tool “ROI Comparison of Aspects” achieves. It should be noted that there may be overlap between multiple Aspects, which must be kept in mind while allocating budgets. For example, an online demo for a product targeting business customers is part of both Digital Marketing and Corporate Sales, so the budget ideally needs to be shared by the teams responsible for executing the activities of both Aspects.

Figure 5-8 shows the inputs, tools, and outputs for the *Decide Marketing Aspects and Allocate Budget* process.

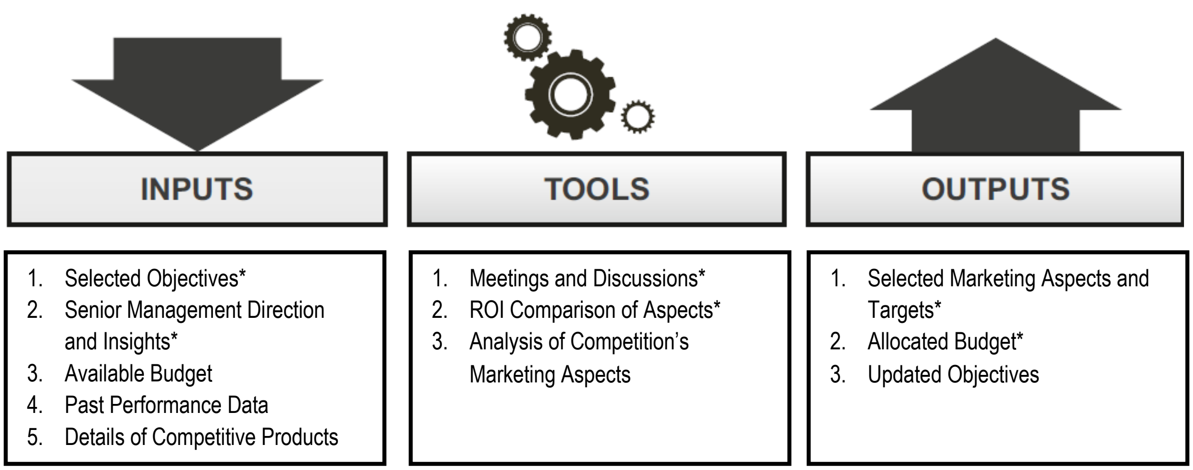


Figure 5-8: Decide Marketing Aspects and Allocate Budget—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding process.

5.3.1 Inputs

5.3.1.1 Selected Objectives*

The selected metrics and objectives enable businesses to develop a better understanding of the various Marketing Aspects that a company would like to utilize to monitor its brand success or failure. Once the objectives for the metrics are established, the business team maps these metrics to the relevant Marketing Aspects and allocates budgets accordingly. In some instances, marketing metrics involve a combination of Marketing Aspects that have to be managed simultaneously to achieve the objectives for the corresponding metric. For example, in order to fulfill the objectives related to Sales and Marketing, a company manufacturing aircrafts may have to invest in the Aspects of Branding and Advertising, Digital Marketing, and Corporate Sales. Without knowledge of the selected objectives, a company may struggle to decide on the right allocation for the various Aspects and may end up investing more in an Aspect that generates a lower Return on Investment (ROI).

5.3.1.2 Senior Management Direction and Insights*

Senior management has significant knowledge about the industry and can therefore provide insights on the changing presence of target consumers across the various Marketing Aspects. For example, if a company decides to change its positioning to become more youth-centric and senior management recognizes that the new target consumers spend more time online, the company would allocate a relatively larger portion of their marketing budget towards Digital Marketing to engage with their target audience more effectively.

5.3.1.3 Available Budget

In most instances, marketing teams have a fixed available budget within which they must execute all marketing activities and achieve marketing objectives. This budget, therefore, is a necessary input for determining appropriate and adequate allocation of budget to the various Aspects of Marketing and the various efforts and activities within those Aspects. Failure to consider the available budget in executing the Marketing Strategy can result in expenses exceeding acceptable limits, thus impacting the profitability of the business.

5.3.1.4 Past Performance Data

Past performance data reports include information on the company's past performance with respect to identified objectives such as customer and distribution reach achieved, revenues to date, and target revenue percentage reached. This information helps businesses understand the effectiveness of their previous

Marketing Aspects in reaching their objectives. This information assists in the budgeting process, which includes activities such as—

- Identifying whether a particular Marketing Aspect should be allocated a higher or lower budget
- Providing information on the Aspect mix and past objectives set by the business
- Determining the ROI and the effectiveness of different Aspects for each metric
- Gathering lessons learned in terms of the best Aspect mix for a metric
- Defining best practices for each metric and Aspect combination

Without past performance data, businesses lose out on valuable information, which can be analyzed and mapped against future trends to identify the right Aspect mix for each metric.

5.3.1.5 Details of Competitive Products

Information about the competition's spend on the different Aspects of Marketing may be useful for a company to continuously benchmark the effectiveness of its own Aspect combination and implement industry best practices. This exercise enables companies to position their products or services more effectively, which ultimately helps them reach their objectives in the best possible manner. Competitive information is especially important when a company is launching a new product, particularly in a segment that the company is not familiar with. In this case, the company may not have its own past performance data to rely upon. If the company is able to identify similar competitive products, it can use competitor information to help map its own Aspect-metric combination in a manner that is best suited for the target market segment. For example, a company launching a new product in the market could map its new product or service to competitor products with a similar positioning and target metrics. Competitor information also keeps the organization aware of the latest trends in marketing the product or service. These trends may be adopted by the company in order to help negate any potential sales loss.

5.3.2 Tools

5.3.2.1 Meetings and Discussions*

The marketing team meets to analyze past performance data and consider the effectiveness of the Marketing Aspects utilized for marketing the product or service. It also determines the objectives for each of the selected Aspects and ensures that they align with the overall objectives specified in the *Determine Objectives* process, described in section 5.2. Another key discussion in these meetings is the allocated budget for each of the selected Aspects. There may be other factors apart from ROI that influence budget allocation, such as the future potential of a particular Aspect. The team also considers competitors with similarly positioned products and compares the company's budget allocation with an estimate of budget allocation of different aspects for their important competitors.

5.3.2.2 ROI Comparison of Aspects*

Past performance data for a product is analyzed to determine how effective each Aspect was in helping the product to achieve its past objectives. If a product is new, then similar products can be evaluated for the effectiveness of the different Aspects.

The Return on Investment (ROI) for each Aspect is calculated by doing the following—

- Analyzing the most relevant metrics
- Examining spending
- Understanding the budget allocation
- Examining the contribution to a primary metric such as sales or profitability—this primary metric is determined based on factors such as the specific product-market combination and the stage of the product in the product's life cycle.

Examples of ROI Comparison of Aspects—

- The following example of a comparative ROI calculation has the primary metric of sales:

	Digital Marketing	**Retail Marketing**
Sales	$100,000	$300,000
Spend	$20,000	$100,000
ROI	= $100,000 / $20,000 = 500%	= $300,000 / $100,000 = 300%

Assuming that the target customers were split between the two Aspects of Digital Marketing and Retail Marketing, and can switch freely between the two, 100% of the budget should be allocated to Digital Marketing as that has a higher ROI. If, however, customers for Digital Marketing and Retail Marketing are different and cannot switch between the two, then the budget should be allocated so that all of the Digital Marketing customers are reached and the balance should be allocated to Retail Marketing. This ensures the best overall ROI.

- Company selling light consumer durable goods, such as cell phones, printers, and cameras, may discover through past performance data that Retail Marketing provides a greater ROI than Digital Marketing and therefore decides to invest more money in Retail Marketing.
- A company selling an online educational course may infer from past data that Digital Marketing provides a better ROI than Branding and Advertising and thus the company decides to allocate a larger budget towards Digital Marketing.
- A consulting company focused on corporate services may consider increasing its Digital Marketing budget. The company compares sales revenue generated from online leads versus revenue from leads gathered by cold calling. The consulting firm finds that the leads from Digital Marketing are lower by volume, but have a higher ROI due to lower staffing costs.

5

5.3.2.3 Analysis of Competition's Marketing Aspects

Businesses continually analyze competitors' marketing efforts to ensure that they are knowledgeable of the latest innovations in marketing similar products or services. The marketing team compares the competition's products and identifies the similarly positioned ones. These would then be further analyzed to understand the following—

- their Aspect-metric combinations
- the budgets allocated to each Marketing Aspect

- the effectiveness of each competitor in reaching customers and influencing purchase behavior
- the ROI of each competitor's Aspects

Although all this information about competitors may not be readily available, an estimate for such information by the marketing teams can be a valuable input in finalizing the company's marketing aspects. Since each company needs to create a unique positioning in the market to appeal to its customers and be successful in the long term, it may not always be possible or feasible to find a product with the same or similar positioning and target customers, so past performance data of the company may at times be a better indicator than competitor data. However, competitor data are useful in cases where the company decides to launch a new product in the market and has no past data to reference.

Gathering information on competitors' Marketing Aspects is an important step in understanding the marketing efforts of the competition. Davidson (1997)[16] grouped data sources into three categories—

Recorded Data—consist of published data that are readily available. Annual reports, government data, and press releases are some examples of recorded data.

Observable Data—include data that are not readily available, so effort has to be made to collect this information from several sources. Competitor pricing and advertising campaigns are some examples of observable data.

Opportunistic Data—require the most effort and planning to collect. Discussions with various stakeholders, such as customers, suppliers, distributors, and so on can yield opportunistic data. Trade shows may be attended both to seek out customers, as well as view the competition's Marketing Aspects. Pamphlets handed out can provide information regarding pricing and advertising messaging. Discussions with trade show participants and the competition staff can provide useful opportunistic data.

[16] Davidson, H. (1997). *Even More Offensive Marketing: An Exhilarating Action Guide to Winning in Business*. London: Penguin Business.

5.3.3 Outputs

5.3.3.1 Selected Marketing Aspects and Targets*

The Sales and Marketing Aspects that are considered most relevant and effective at achieving the objectives defined for a product or brand are documented, in addition to the respective targets for each Aspect. When selecting the appropriate Marketing Aspects and targets, the following must be considered and documented for each—

- **Rationale for Selection**—Each of the selected Aspects needs to be supported by proper rationale for its selection. Selection should not be based solely on personal opinions and preferences, or just because an Aspect team needs to be given work. Noting the rationale ensures that there is correct justification and that an Aspect is actually going to be useful in helping a product or brand achieve its performance objectives. In some cases all Sales and Marketing Aspects are selected and in such instances the rationale should still be documented for each.

- **Targets**—After overall objectives are defined in the *Determine Objectives* process, described in section 5.2, it is important to assign specific targets to each of the selected Aspects and ensure that they are in alignment with the overall objectives. For example, if a company selects Corporate Sales and Digital Marketing as the Aspects to help it to achieve a target of one million dollars in sales, then it also needs to decide on specific sales targets for both Corporate Sales and Digital Marketing. Neglecting to define the targets for the selected Aspects may result in confusion and lack of focus. It is also possible that there are overlaps in the activities of selected Aspects. In this same example, if the company has a corporate inquiry form on its website, through which the Corporate Sales team generates ten percent of its revenues, then the company needs to account for this overlap of revenues between Digital Marketing and Corporate Sales.

5.3.3.2 Allocated Budget*

This output provides details on the budget allocated to the various Marketing Aspects for achieving their respective targets. The following need to be considered and documented clearly for each Aspect—

- **Amount of Budget Allocated**—This represents the financial resources a Sales and Marketing Aspect is allocated in order for objectives to be achieved. It is generally a specific figure but sometimes, tolerances may be defined to account for changes. It is very important to identify areas and levels of overlap between different Aspects so that the budget can be allocated correctly. Neglecting to take overlaps into account may result in an Aspect being assigned additional budget for work that needs to be carried out by another Aspect, resulting in inefficiencies.

- **Rationale for Budget Allocated**—It is important to allocate budgets based on sound rationale. Budgets determine the nature and amount of work to be done by the various Aspects of Marketing, and thus impact the achievement of the product or brand objectives. Noting the rationale reduces the possibility of irrelevant factors like personal preferences or politics playing a key role in budget allocation.

- **Availability of Allocated Budget**—It is also important to define in what manner the budget will be allocated and available to a particular Aspect. Many details, including the process for accessing funds, the approvals needed for obtaining funds, and the increments in which the budget will be made available during a time period, need to be specified.

5.3.3.3 Updated Objectives

As the marketing team gains a better understanding of its ability to achieve the desired marketing objectives during the *Decide Marketing Aspects and Allocate Budget* process, it may have to update its marketing objectives for the product or brand.

APPENDIX A. CORPORATE STRATEGY

The Corporate Strategy is defined by the company's senior management team. It provides the guiding principles for the organization as a whole and takes into consideration an assessment of the existing capabilities of the company, as well as any external opportunities or threats to achieving the business objectives. The Corporate Strategy addresses key questions, such as Where are we now?, Where do we want to be?, and How do we get there? It is important to note that the Corporate Strategy is not static in nature; rather it includes a feedback loop whereby execution efforts are continuously monitored and results are used to guide the next wave of strategic planning.

Figure A-1 illustrates an overview of Corporate Strategy, which is a combination of the following—

1. **Senior Management Direction and Insights**—This is provided by senior management based on the availability and allocation of resources, a thorough assessment of the company's internal strengths and weaknesses, an analysis of the external environment in which the organization operates, and their experience and insights related to the business.

2. **Product Strategy**—This defines the products or services the company wants to pursue. It details how each product or service will be initially created through research and development and provides plans for manufacturing and servicing each product for its target markets. The Product Strategy includes information on each product's target market, projected market share, and expected profitability.

3. **Marketing Strategy**—This establishes the company's unique value proposition, target markets, and strategies to connect with defined audiences. It specifies the overall pricing and distribution strategies of the company and outlines the targets, metrics, and budgets for all marketing activities of the company.

4. **Operations Strategy**—This defines how the company will manage operational activities and manufacture its products (or provide services). It ensures that the company's resources are aligned with the overall Corporate Strategy and identifies how, where, and when to build physical operations. It also identifies the technologies that will be used to run the business.

5. **Finance Strategy**—This defines the financial approaches that will be used by the company to pursue its economic goals and objectives. It focuses on the management of overall finances, taxes, payments, attaining funds, planning for debt and equity, and so on.

6. **Human Resource Strategy**—This details the human resource capabilities required to meet the objectives defined in the Corporate Strategy. The Human Resource Strategy considers plans for talent management and acquisition of skilled human resources. It outlines specific initiatives

designed to attract, develop, and retain staff so that the organization can effectively compete in the market and ultimately meet the overall corporate goals.

Typically, companies have existing documentation regarding their Product Strategy, Marketing Strategy, Operations Strategy, Finance Strategy, and Human Resource Strategy, and acknowledge that these must be considered in an integrated way to define a cohesive Corporate Strategy for the company. The level of detail and complexity of the documentation regarding these strategies may vary, depending on the size of the company and the breadth of its product portfolio and geographic reach. If formal documentation of the specific strategies is not available, as with a start-up company, the respective teams should consider creating them using the framework discussed here and then formulate an overall Corporate Strategy that can then become a benchmark to execute future plans.

Developing the company's Corporate Strategy is a time-consuming and often rigorous exercise that requires inputs from many stakeholders, particularly senior management and the heads of various teams within the business. Strategic planning activities should be performed at appropriate and specific time intervals. The leadership team should clearly define specific strategies that align with the overall strategic goals and vision of the organization. Eventually a comprehensive Corporate Strategy on which all involved parties agree on should be finalized. From time to time (e.g., once or twice in a year) and certainly when significant internal or external change occurs or is foreseen, it is important for the strategy team to revisit the existing Corporate Strategy. This effort includes reviewing progress and gauging the significance and impact of any major changes—either those that have already occurred or those foreseen—and refining the Corporate Strategy accordingly.

While Corporate Strategy is defined at a company level, strategy can also be formulated at lower levels depending on the size and complexity of the organization. For example, the Corporate Strategy for an entire company can be divided into strategies for each business unit or geographic region (e.g., continent, country, state, or city) and then divided further into specific product or brand strategies for each product or brand in a defined geographic region. The Product or Brand Strategy is the lowest level of this hierarchy.

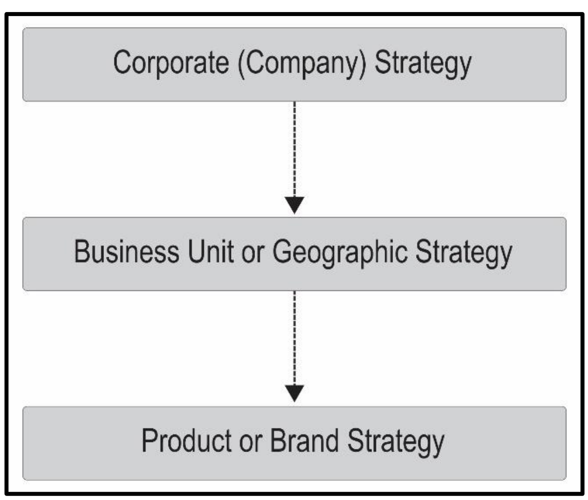


Figure A-1: Levels of Strategy

Corporate Strategy is described at a high level in this appendix, and therefore only a summary of concepts related to the subject is provided. Inputs, tools, and outputs of Corporate Strategy discussed in this appendix are not discussed in great detail—the objective is to provide a general overview of the concepts and elements of Corporate Strategy. For a more detailed look at the specific inputs, tools, and outputs of Corporate Strategy, individuals can refer to the specialized books in the *SMBOK® Guide* series that offer a more in-depth examination of strategy and how it relates to each particular Aspect of Sales and Marketing.

Figure A-2 presents an overview of the components of the Corporate Strategy, as well as the inputs, tools, and outputs for the various strategies that must align with it.

A.1 Senior Management Direction and Insights

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. Environmental Scanning
3. External Strategic Consultants
4. Prioritization Techniques

OUTPUTS
1. Updated Corporate Strategy*

A.2 Product Strategy

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. BCG Growth-Share Matrix
3. GE-McKinsey Matrix
4. BCG Advantage Matrix

OUTPUTS
1. Updated Corporate Strategy*

A.3 Marketing Strategy

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. SWOT Analysis
3. Market Segmentation
4. Competitive Analysis
5. Product Positioning
6. Pricing and Distribution
7. Metrics and Objectives
8. Budget Allocation

OUTPUTS
1. Updated Corporate Strategy*

A.4 Operations Strategy

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. Analyzing Strengths and Weaknesses
3. Hill Framework for Formulating Operations Strategy
4. Product-Process Matrix
5. Value Stream Mapping
6. RATER Model

OUTPUTS
1. Updated Corporate Strategy*

A.5 Finance Strategy

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. Discounted Cash Flow
3. Return on Investment
4. Decision Tree Analysis

OUTPUTS
1. Updated Corporate Strategy*

A.6 Human Resource Strategy

INPUTS
1. Corporate Strategy*
2. External Factors
3. Organizational Capabilities
4. Assumptions
5. Constraints

TOOLS
1. Meetings and Discussions*
2. Gap Analysis

OUTPUTS
1. Updated Corporate Strategy*

Figure A-2: Corporate Strategy Overview

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.1 Senior Management Direction and Insights

Senior Management Direction and Insights, which can be provided by the founder(s), CEO, and others in senior management positions, provide direction to employees with regard to strategic vision and future goals. The complexity of the business environment, innovation in the industry, the competitive environment, and changes in the internal capabilities of the company make it very challenging to capture the essence of Corporate Strategy using traditional business models or commonly used quantitative tools. Usually, such tools offer a good guide to extrapolate from what has happened in the past, but they do not provide a crystal ball to gaze into the future. Senior management, through their insights, can help determine market shifts or envision new market segments or customer needs, even before such needs can be articulated through market research or consumer behavior studies.

Figure A-3 shows the inputs, tools, and outputs for Senior Management Direction and Insights.

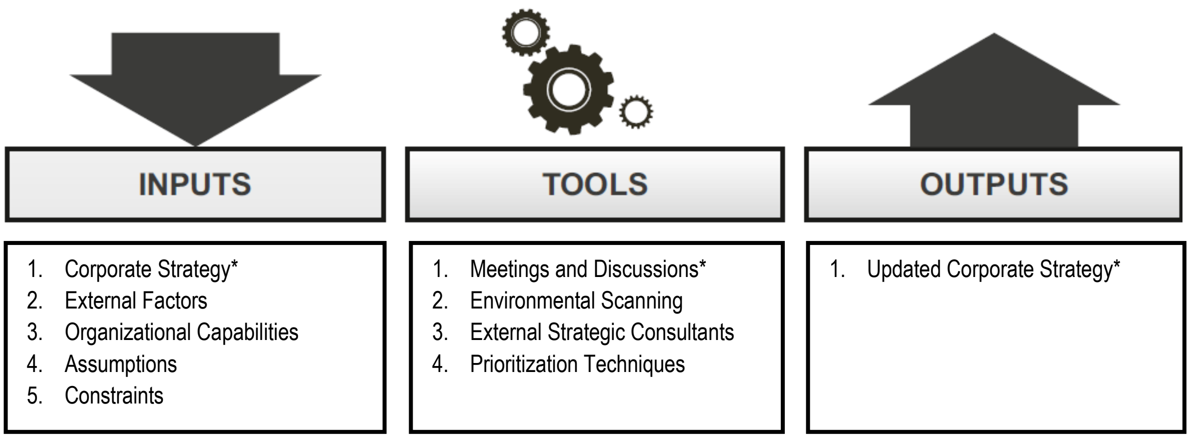


Figure A-3: Senior Management Direction and Insights—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.1.1 Inputs

A.1.1.1 Corporate Strategy*

1. Product Strategy

The existing Product Strategy, knowledge of products currently manufactured by the company, patents, trademarks, and research and development (R&D) capabilities, combined with an external view of competition and possibilities for innovation can provide senior management with significant insights about the future of the business. Without the involvement of senior management and their leadership, insights, and vision, it is possible for a business-as-usual mindset to prevail and for past products to be continued into the future simply based on the history of past successes. However, there are numerous examples of companies launching innovative products that were ahead of their times, but which eventually became highly successful, even though traditional market research studies could not have envisioned a need for such products. Continuously examining the existing Product Strategy can provide senior management with significant insights into building and supporting a sound Corporate Strategy and ensuring all activities are aligned to ensure overall business objectives are met.

2. Marketing Strategy

The existing Marketing Strategy of the company, market research, consumer behavior surveys, and past marketing successes, as well as successes and failures of competitors can help senior management decide the future course of the company's overall strategy. The Marketing Strategy could include exploring new markets, developing new products, or extending existing products. Without a comprehensive review of all marketing information by senior management, a company may be in danger of launching products based solely on intuition or belief—and this can expose the company to significant risks if products are not embraced by consumers. For example, the decision to diversify a business and enter new markets with new products is in most cases driven by senior management through insights provided by the existing Marketing Strategy.

3. Operations Strategy

The existing Operations Strategy, as well as an understanding of the main challenges faced during production or delivery, feedback or complaints from customers regarding customer support, and operations-related technological changes in the industry can help senior management devise innovative approaches and solutions to existing bottlenecks or redesign key operational processes. Without senior management's active involvement, major opportunities for improvement in the general operations of the company may be overlooked in favor of smaller, incremental changes.

4. **Finance Strategy**

   The existing Finance Strategy, projected investment needs, investment trends in the industry, financial regulations, cost of borrowing and equity, and shareholder expectations can help senior management understand important financial variables that can impact short-term and long-term corporate objectives. Senior Management provides guidance in determining key financial targets, optimum debt-equity ratio, and viable funding options. Without insights from senior management, a company runs the risk of focusing only on sustaining its business with existing resources and may miss out on financial opportunities such as tapping into investment streams to fund innovative new projects.

5. **Human Resource Strategy**

   The existing Human Resource (HR) Strategy, current employee skill sets, workforce trends in the industry, and labor regulations can help senior management address current and future human resource requirements, for example, creating or updating policies for flexible work hours and professional conduct or plans for employee training, development, and acquisition. The ability to initiate major structural human resource changes, such as adjustments to the senior management team or restructuring the organization to be more effective, is also considered. Senior Management is also responsible for establishing company culture and providing a vision for the organization as a whole. Without insights and approval from senior management, the HR strategy team may be reluctant to make significant changes to existing HR policies, even when change may be exactly what the company needs.

A.1.1.2 External Factors

External factors play a major role in developing a solid and comprehensive Corporate Strategy. Examples of external factors that play a role in strategic planning include government regulations, market conditions, emerging technology, regional culture, demographic changes, and the global economy. The senior management team shares insights on a variety of external factors, provides guidance on the impact to the business, and makes decisions on how to deal with them.

A.1.1.3 Organizational Capabilities

The objectives of the Corporate Strategy can only be met if the organization has the necessary organizational capabilities to achieve them. The senior management team determines whether the company possesses the required capabilities to meet the objectives of the Corporate Strategy, identifies any gaps, and then determines the feasibility of acquiring them. A strategy that incorrectly assesses organizational capabilities can result in an organization failing to capitalize on opportunities that could have been exploited, or pushing the company into areas where it may not have a competitive advantage.

A.1.1.4 Assumptions

The senior management team makes several high-level, reasonable assumptions about the various elements of the Corporate Strategy and the environmental factors that shape the expectations for the future performance of the company. Ideally, all such assumptions are explicitly stated, validated, and approved.

A.1.1.5 Constraints

A number of constraints generally exist at the corporate level. These constraints factor into the scope of what the senior management team hopes to achieve through the Corporate Strategy. While these constraints do pose limitations to strategic planning, they also help focus the energies of the senior management team on only those projects or activities that are within the defined constraints, thus ensuring efficient decision making and the establishment of realistic and attainable strategic goals.

A.1.2 Tools

A.1.2.1 Meetings and Discussions*

The senior management team communicates with others within the organization on a regular basis, for example, to discuss how to create better products, improve the Return on Investment, enhance operational efficiencies, train and develop employees, and recruit and promote high-quality talent.

A.1.2.2 Environmental Scanning

Environmental scanning consists of performing a thorough assessment of external environmental factors, gathering relevant information, and considering opportunities and threats that can impact the company. Environmental scanning refers to the utilization of information about patterns, trends, and relationships with an organization's external environment. Using this data, senior management can forecast the future path of the organization and implement activities to keep the business on course. Such activities might include attending conferences and seminars and holding discussions with various partners, competitors, and other relevant stakeholders in order to gather as much information as possible about the economy, government, laws, competitors, and demographic factors. Once enough data are gathered, the company should then be in a position to respond by refining its strategies as needed.

A.1.2.3 External Strategic Consultants

External strategic consultants are commonly hired by senior management to help with strategic planning. In addition to organizing and leading sessions, third party consultants may also provide expert, unbiased opinions about key strategic decisions. Consultants are expected to provide thorough research data in addition to their expert knowledge during the strategic decision-making process. If using consultants, a company must allow time for them to learn the business, develop conclusions, formulate recommendations, and then present them to senior management.

A.1.2.4 Prioritization Techniques

There are a number of prioritization techniques that can be used by senior management when deciding which initiatives or activities are the most important and thus should be implemented first. Some of the most frequently used prioritization tools are as follows—

1. **Multi-voting technique**—Members of senior management vote on a list of initiatives in multiple rounds. In each round, the initiative that receives the least number of votes is removed. After a few iterations, only the most important initiatives remain.
2. **Strategy Grid**—A two by two grid is created with “feasibility” and “need” on the two axes and “high” and “low” as the two categories on which initiatives are rated. The initiatives are then plotted on the grid and the ones that fall under “high need” and “high feasibility” are addressed first.
3. **Prioritization Matrix**—Criteria and weighted ratings are used to determine the relative importance of different initiatives. Each initiative is assigned a rating for each criterion and then the weights are applied. The initiatives with the higher total weighted scores are assigned higher priority.

A.1.3 Output

A.1.3.1 Updated Corporate Strategy*

Senior management takes into account inputs from all existing strategies and adds further insights during the strategic planning process. The directions they decide to take impacts all elements of the updated Corporate Strategy as follows—

- **Product Strategy**—Decisions impacting the existing product portfolio, such as diversification or repositioning of products, can be made as a result of senior management's insights and guidance when updating the Product Strategy.
- **Marketing Strategy**—Decisions regarding changes to existing sales channels; setting and reviewing marketing metrics, such as Key Performance Indicators (KPIs); and determining marketing targets and budgets are typically made at a corporate level after a high-level analysis has been completed by senior management.
- **Operations Strategy**—Decisions made at the senior management level that involve entering new geographic territories, starting or ending a business unit or product line, updating customer support or warranty policies, and improvements to existing technologies can significantly impact the existing Operations Strategy. Changes might involve setting up a new production plant, sourcing new vendors, or implementing specific operational changes that impact the way the company conducts its daily business.
- **Finance Strategy**—Major financial decisions, such as those involved in attaining funds, issuing stock options to employees, or acquiring a new company, are made by senior management and can have major repercussions on the financial status of the company. Therefore, the Financial Strategy needs to be updated to consider such situations.
- **Human Resource Strategy**—Major strategic decisions made by senior management invariably impact the workforce, be it new hiring, training, restructuring, or downsizing. Such decisions by the senior management team are key variables impacting the Human Resource Strategy for the company.

A.2 Product Strategy

The Product Strategy provides a product roadmap that defines the products the company should pursue or discontinue, the research and development capabilities of the organization, how to manufacture the company's products or deliver the company's services to the target markets, and the direction of the product vision.

The Product Strategy should define the products at a very high level with additional details, such as specific features, defined later when finalizing the Marketing Strategy. For example, a cell phone manufacturing company may, at a high level, decide on a specific line of cell phones for a market during the next two years, but the detailed product features would be determined later after considering market research into desired functionality and features, the ability of the operations teams to manufacture to the chosen specifications, and other production considerations.

The specific industry in which the company operates can be a determining factor in how the Product Strategy is formulated and whether the company should be primarily considering minor upgrades to existing products or looking into significant innovations. Typically, Senior Management Direction and Insights play a much more important role in industries where there are frequent product changes due to innovation and industry trends since past history or consumer behavior may not necessarily be good predictors of the future. There may be some intrinsic characteristics in certain industries that make them more innovation-driven than others. For example, Moore's Law—named after Intel co-founder Gordon E. Moore, who described a particular trend in his 1965[17] paper, which continues to be generally applicable—is the observation that the number of transistors on each integrated circuit doubles approximately every two years and, therefore, exponentially improves the computing power available to consumers at lower costs (Moore, 1965). Such a rapid change is an intrinsic characteristic for constant innovation in the semi-conductor industry. Similarly, rapid changes in the Internet, e-commerce, telecom, social media, and clean technologies can be very disruptive for existing companies in these fields, but can also generate significant opportunities for innovation. Likewise, rapid advances in the field of medical science may create opportunities for significant research, development, and innovation in the pharmaceutical industry.

Market research and analytics play more prominent roles in defining a Product Strategy in industries with relatively stable products (e.g., grocery chains, consumer goods, construction, and automobile manufacturing) where analysis of consumer behavior and market research can help in defining a Product Strategy for a future market. For example, grocery chains conduct extensive market research and consumer behavior studies to determine an appropriate Product Strategy when they enter a new market, area, or country. This helps determine the perfect recipe to match consumer food preferences, which usually vary depending on geographic location. Similarly, automobile manufacturers use regular customer surveys to establish customization options that align with customer needs and preferences.

Figure A-4 shows the relatively higher level of Senior Management Direction and Insight required in industries where there is a lot of innovation.

---

[17] Moore, G. E. (1965) "Cramming more components onto integrated circuits." *Electronics*: 114–117.

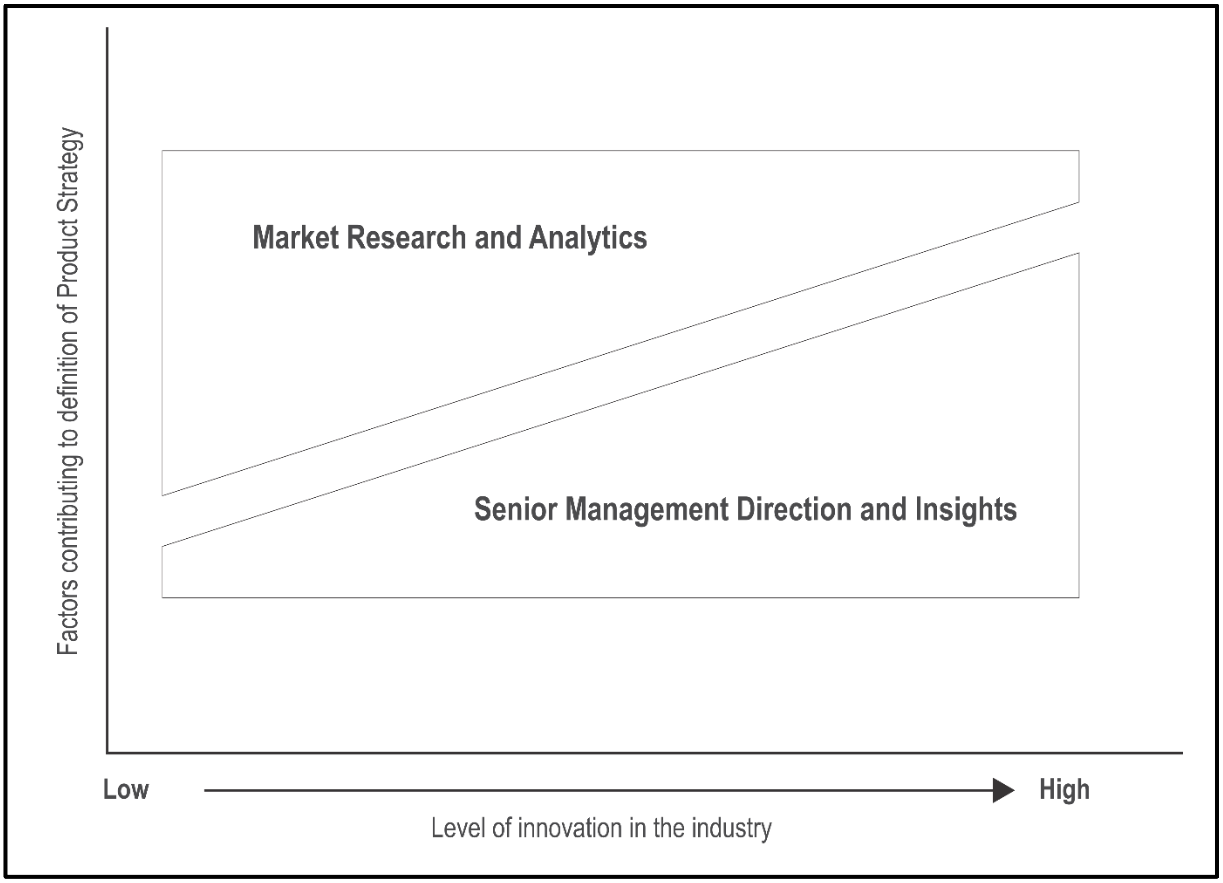


Figure A-4: Product Strategy vs. Innovation

For new products or new markets, some companies also use calibrated or pilot launch programs where the product is exposed, for a limited time, to a select sample of the population in order to ascertain consumer reaction. This experimental approach helps companies gain a better understanding of customer acceptance of their products before significant effort and resources are spent on mass producing them.

Figure A-5 shows the inputs, tools, and outputs for Product Strategy.

INPUTS	TOOLS	OUTPUTS
1. Corporate Strategy* 2. External Factors 3. Organizational Capabilities 4. Assumptions 5. Constraints	1. Meetings and Discussions* 2. BCG Growth-Share Matrix 3. GE-McKinsey Matrix 4. BCG Advantage Matrix	1. Updated Corporate Strategy*

Figure A-5: Product Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.2.1 Inputs

A.2.1.1 Corporate Strategy*

1. Existing Product Strategy

The existing Product Strategy, as well as the existing product portfolio serve as a baseline for future decisions. Depending on the current performance of various products in terms of market share, volume, growth, and other parameters, the product team decides the future course of action for each product. When there is a gap that a current product portfolio is not able to address, the product team makes a decision about extending its product line, creating a new product line, or repositioning the existing one. For example, declining sales coupled with low market share for a formerly popular car model may result in an automaker deciding to discontinue the model or design and develop an upgraded version.

2. Senior Management Direction and Insights

Senior Management relies on inputs from various teams throughout the company and utilizes past experience and knowledge of the industry to define a vision for the company's future products. Without Senior Management Direction and Insights, the company may struggle to establish a cohesive, well-articulated Product Strategy. Good examples of this exist, particularly in innovation-driven industries such as smartphone manufacturing and social media, where senior management teams have successfully defined product strategies that were ahead of their time, or which could not have been envisioned by their customers.

3. Marketing Strategy

The marketing team—primarily through marketing analytics, market research, and consumer behavior studies—provides inputs about the types of products customers want and the potential sales for those products in their applicable markets. Without these insights, the company may create products that customers do not appreciate or desire, or the company may create an exceptional product, but lack the ability to market or sell it. Successful companies producing consumer goods usually conduct significant market research to determine the appropriate marketing mix and a Product Strategy that appeals specifically to their customers in the applicable markets.

4. Operations Strategy

The Operations team should have the capability to create and service the organization's products to the targeted markets. It is not enough to just visualize a great product or service; the company must be able to create the product or service for the target market and also provide effective customer services to support it. The Operations Strategy can include establishing a manufacturing or sourcing strategy for the identified products or services, setting up a supply chain to sell the products, and identifying customer support or warranty requirements. A strong Operations Strategy ensures successful execution of the Product Strategy and also drives significant cost savings with improved quality and efficiencies. For example, in the 1970s and 1980s, Japanese car manufacturers pioneered the concepts of Just-in-time (JIT) production and Kanban, which significantly helped improve product quality and decreased the costs of manufacturing, making them competitive with much larger US companies.

5. Finance Strategy

Establishing a sound Finance Strategy enables the company to allocate appropriate funds to develop and support the overall product portfolio and to calculate the expected Return on Investment (ROI) for a specific product or combination of products. The Product Strategy of the company should not be so ambitious that it cannot be supported financially. The financial capability and resources of the company and the company's ability to attain funds to implement its various plans should be considered when developing the Product Strategy.

6. Human Resource Strategy

Human Resources (HR) refers to the people whose knowledge, skills, and abilities are used to develop and deliver products and services on behalf of the organization. Without the necessary organizational HR capabilities, a product can only be conceptualized. An appropriate HR Strategy enables the company to develop capabilities to innovate, create, and service the company's products by recruiting, hiring, training, and retaining an effective and skilled workforce.

A.2.1.2 External Factors

The Product Strategy team must be aware of external factors that can impact the Product Strategy, such as the latest industry technologies, the lifecycle stage of the product category, and changes in consumer perceptions toward certain products in the industry. Deciding on a Product Strategy without considering the impact of such external factors can result in either losing opportunities to develop useful product features, or overlooking technological innovation that can render current products obsolete. For example, pharmaceutical companies need to be constantly aware of new and more effective drugs being developed as the introduction of new drugs can quickly render existing products obsolete in this industry.

A.2.1.3 Organizational Capabilities

The development of new products or the addition of product features depends to a large extent on the organizational capabilities of the company. The Product Strategy team must first identify and obtain approval for pursuing such opportunities and, second, ensure the capabilities exist in the company to design and coordinate such activities. For example, the superior technical skills of the product development team of an online consumer goods vendor might enable the company to introduce, test, and implement customer-focused features on its website at a faster rate than that of its competitors, thus attracting more customers and in turn driving more sales.

A.2.1.4 Assumptions

The Product Strategy team makes certain assumptions regarding various aspects of the product portfolio, such as the future performance or the market attractiveness of products. This can be especially challenging in rapidly evolving technologies. For example, the product team for a cell phone manufacturer makes assumptions about how consumers will perceive certain new functionality. Often the technology is changing so quickly, and the competition is so intense that new features and functionality are released to the market without time to conduct significant research. The validity of these assumptions can make or break a product's success.

A.2.1.5 Constraints

There are a number of constraints within which the Product Strategy team must work. Product development constraints can include the lack of available technology for creating particular product features or the economic viability to manufacture and service a product at price points that consumers are ready to pay. For example, smartphone manufacturers are constrained by the average size of a human hand when designing a smartphone. At the same time, they must include a number of minimally required features. Their goal, therefore, is to include all the features customers demand within the established dimensions.

A.2.2 Tools

A.2.2.1 Meetings and Discussions*

The initial thoughts about Product Strategy are provided by a combination of Senior Management Direction and Insights and guidance from the marketing teams based on their understanding of consumer behavior and preferences through market research and analytics. This initial conceptualization should be followed by discussions with the Product Strategy and R&D groups regarding the capability of the company to create the product or establish the service; the operations team, regarding their ability to manufacture and service the product; the HR team, regarding existing HR capabilities and the ability to build or acquire the talent required; and the Finance team, regarding financial support for the Product Strategy.

A.2.2.2 BCG Growth-Share Matrix[18]

The BCG Growth-Share Matrix helps companies evaluate their product portfolios and decide on strategies for each product within them. The vertical axis depicts market growth rate and the horizontal axis represents market share. It classifies products into four categories—

1. **Cash Cows**—These products have high market share, but the growth rates of their markets are low. They are typically market leaders in mature markets.
2. **Stars**—These products have high market share and are in markets with a high growth rate.
3. **Dogs**—These products have low market share and exist in stagnant or declining markets.
4. **Question Marks**—These products are in markets with high market growth rates but currently have a low market share.

The BCG Growth-Share Matrix is discussed in detail in the chapter 2, Analyze Market Opportunity (section 2.1.2.3).

A.2.2.3 GE-McKinsey Matrix[19]

The GE-McKinsey Matrix was developed in response to the shortcomings of the BCG Matrix, which does not account for a number of factors. It was originally used for a visual representation of GE's 150 business units to determine which business units were doing well, which needed support, and which should be discontinued. However, the matrix can also be applied to a product portfolio. It evaluates each product on two parameters, market attractiveness and product position, which are the labels of the axes on the matrix. Market attractiveness and product position are determined by a weighted score for all the relevant factors that contribute to each. There are three levels for each parameter—high, medium, and low—giving the

[18] Henderson, B. D. (1970) "The Product Portfolio." *Boston Consulting Group: Perspectives*, 66.
[19] Kotler, P. (1994) *Marketing Management 8th ed*. Englewood Cliffs, NJ: Prentice Hall: 72–75.

matrix nine boxes in total. The placement of each product on the matrix determines the strategy to be used for the product. Figure A-6 shows the GE-McKinsey Matrix.

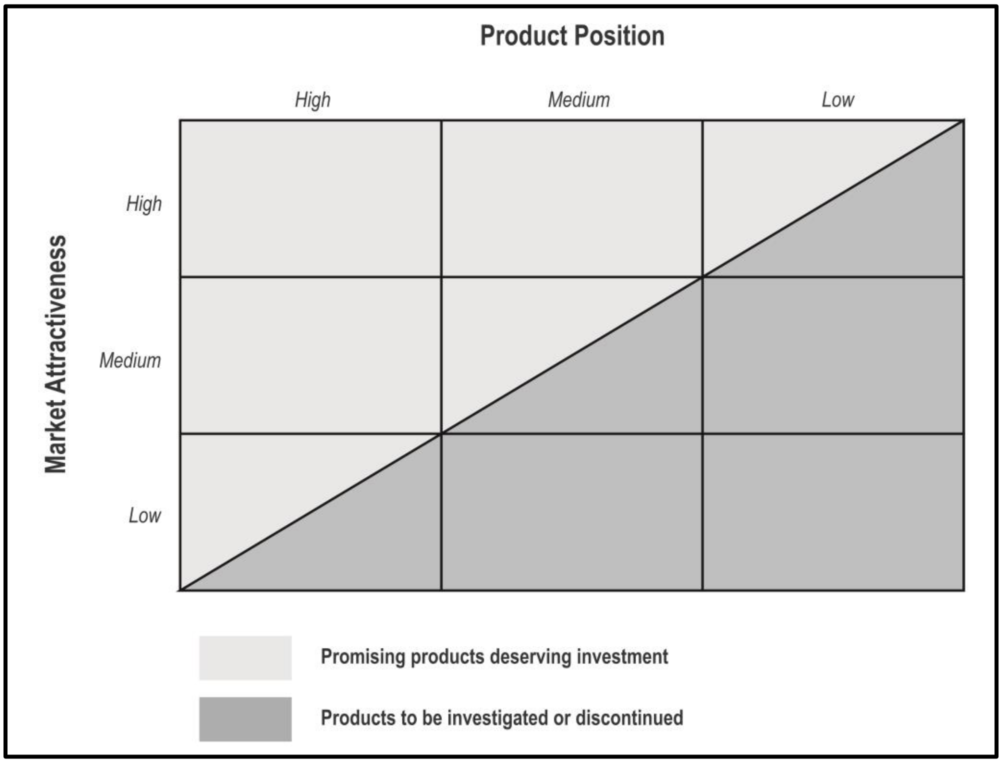


Figure A-6: GE-McKinsey Matrix

Products that fall above the diagonal line are high performers, or are those with potential for either growth or cash flow. These are the products on which a company should focus. Products that fall below the diagonal line are those that typically drain a company's resources, with small returns and little potential for growth. These products should be analyzed thoroughly to determine which can benefit from selective investment in order to move them above the diagonal, and which need to be discontinued.

The factors used to determine market attractiveness are market growth, market size, opportunity to differentiate product and/or services from others in the market, profitability, intensity of competition, risk to returns, pricing trends, entry barriers, demand variability, distribution structure, and technological developments. The factors involved in determining product position are strength of assets and competencies, customer loyalty, cost position relative to competitors, distribution strength, record of technological or other innovation, relative brand strength, market share, and access to financial and other investment resources.

Several notable advantages and disadvantages regarding the GE-McKinsey Matrix exist—

Benefits—

- This matrix takes into account a number of factors that the BCG Matrix does not.
- It is visually easy to understand and provides more options to place a product as compared to the BCG Matrix, due to the inclusion of the “low” level on both axes.
- It is conceptually similar to the BCG Matrix, so anyone who is familiar with the BCG Matrix can easily use the GE-McKinsey Matrix.

Disadvantages—

- This matrix does not take into account the synergies between various products. Discontinuing one might adversely impact another.
- The scoring of the various factors using the weights is subjective and leaves the tool open to bias.
- It does not help in allocating the relative investments for each product.

A.2.2.4 BCG Advantage Matrix[20]

The BCG Advantage Matrix is a two by two matrix, which was developed to categorize business units on two parameters—size of the advantage and number of approaches to achieve the advantage. It can also be applied to products in a product portfolio. The size of the advantage refers to the scope for gaining economies of scale for a product. The number of approaches to achieve the advantage is a measure of the number of ways in which a product can be differentiated from the competition. There are four categories in the matrix representing four different states characterizing each product’s current condition: fragmented, specialized, stalemate, and volume.

[20] Lochridge, R. (1981) “Strategy in the 1980s.” Boston Consulting Group.

Figure A-7 illustrates the BCG Advantage Matrix.

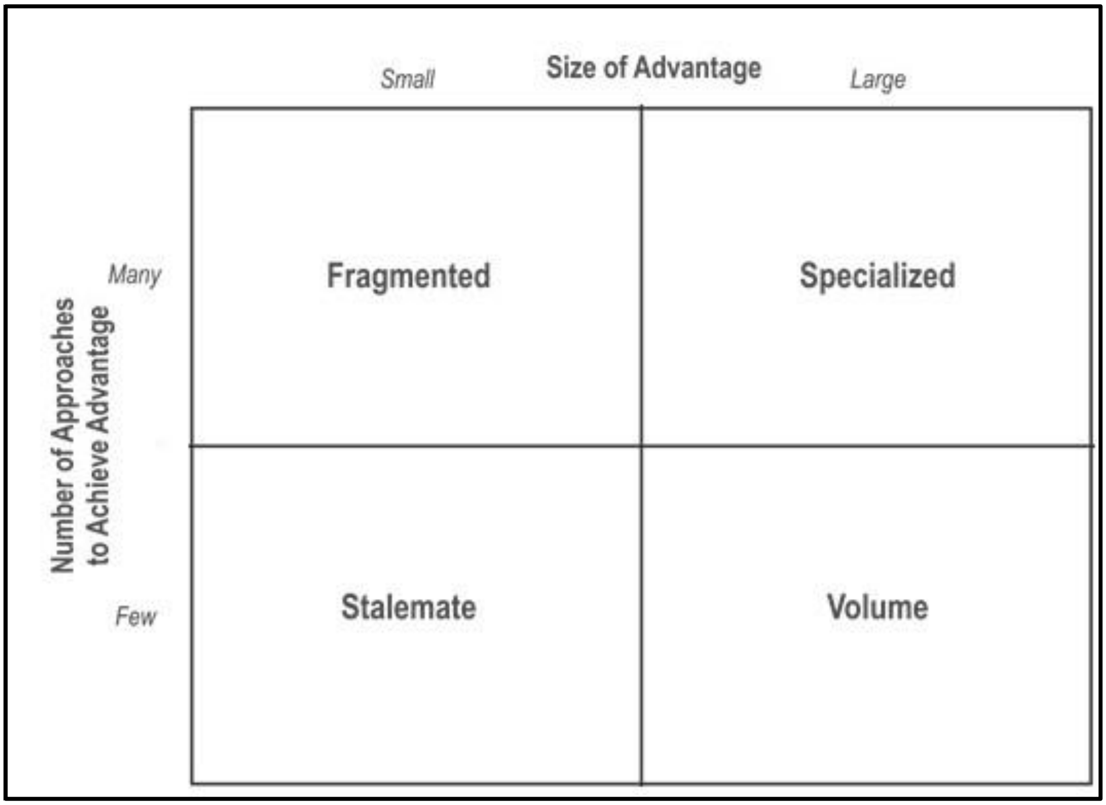


Figure A-7: BCG Advantage Matrix

Fragmented—The size of the advantage for these products is small but opportunities for differentiation are many. These products need to survive through differentiated offerings, but as the differentiated products address separate smaller markets, they do not share common resources and cannot leverage economies of scale. Success depends on a high level of differentiation targeted to meet the needs of specific customer segments.

Specialized—The size of the advantage is large for these products and many opportunities exist for differentiation. These products achieve success by being different from others while addressing the same broad market. Success depends on the products being market leaders in their specific segments. The differentiated products share common resources and can leverage economies of scale.

Stalemate—The size of the advantage for these products is small, as is the scope of differentiation. For these products to continue, new markets need to be explored to increase volume. Alternatively, a decision to discontinue these products may be made.

Volume—The size of the advantage is large for these products, but the approaches for increasing advantage are few. Few opportunities for differentiation implies lower profit margins. Thus, these products need to drive large volumes of sales to be successful, as the total cost can then be divided among a larger number of units, thus increasing unit profitability.

There are several advantages and disadvantages to using the BCG Advantage Matrix—

Benefits—

- This matrix highlights competitive advantage as a critical success factor for products.
- It highlights the fact that synergies between different products can provide significant cost advantage through economies of scale. This fact is not addressed by the BCG Matrix or the GE-McKinsey Matrix.

Disadvantages—

- This matrix is not as easy to understand as the BCG Matrix. The fact that the size of the advantage refers to a company's ability to gain economies of scale is not intuitive.
- It is not as popular as the BCG Matrix and, thus, not as widely accepted.
- It does not take into account a number of factors that the GE-McKinsey Matrix does.
- It does not provide an indication of the potential cash flows for various products.

A.2.3 Outputs

A.2.3.1 Updated Corporate Strategy*

1. **Updated Product Strategy**

   The Product Strategy describes the overall growth strategy for different products in their respective markets or new markets, strategies for diversification and new product launches including research and development initiatives for new products, and documents any plans to discontinue products currently being produced at a loss. Parameters and metrics to measure the success of each product-related initiative need to be specified in order to assess the effectiveness of implementation.

2. **Updates to Other Elements of the Corporate Strategy**

   The Product Strategy impacts other elements of the Corporate Strategy, so these elements must also be updated accordingly.

   - **Marketing Strategy—**Based on the overall growth strategies for the product-market combinations, the corporate marketing strategies are determined and the overall marketing budget and the Corporate Branding Strategy are created. In addition, a specific Marketing Strategy for each product may also need to be created or updated.

- **Operations Strategy**—The operations team may need to increase the production of products that have more demand in the market, or prepare to discontinue the production of current products or product lines. The operations team must also plan for new products by, for example, sourcing raw materials, working with new vendors, ensuring internal capabilities will meet production expectations, and training customer support to handle customer inquiries.
- **Financial Strategy**—Products slated for discontinuation will free up financial resources that can then be used for other initiatives. Products requiring more investment will need to be addressed through additional funding or by utilizing cash flow from other products.
- **Human Resource Strategy**—For new products or product lines, the Human Resources team may need to plan to hire additional resources. The HR Strategy should also be adjusted to provide for talent acquisition, training on new products, and other human resource changes to align with the updated Product Strategy and the Corporate Strategy.

A.3 Marketing Strategy

Marketing strategic planning helps an organization determine the marketing resources and activities that are needed to meet the marketing objectives. Marketing strategies are typically long-term plans driven by senior management's vision, company resources, the competitive landscape, consumer demands, and other factors. Creating a Marketing Strategy involves an analysis of product features, customer needs, target customers, and the marketing mix. Once developed, it is executed by the marketing team through the chosen distribution channels. The Marketing Strategy is the driving force influencing the customer's perception of the company and its products and, therefore, is extremely critical to the success of the organization.

Figure A-8 shows the inputs, tools, and outputs for Marketing Strategy.

INPUTS	TOOLS	OUTPUTS
1. Corporate Strategy*	1. Meetings and Discussions*	1. Updated Corporate Strategy*
2. External Factors	2. SWOT Analysis	
3. Organizational Capabilities	3. Market Segmentation	
4. Assumptions	4. Competitive Analysis	
5. Constraints	5. Product Positioning	
	6. Pricing and Distribution	
	7. Metrics and Objectives	
	8. Budget Allocation	

Figure A-8: Marketing Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.3.1 Inputs

A.3.1.1 Corporate Strategy*

1. Existing Marketing Strategy

The existing Marketing Strategy of the company, which incorporates past research, consumer behavior surveys, customer feedback, competitors' product portfolios, and lessons learned from past initiatives, can influence the future Marketing Strategy for the organization. The Marketing Strategy also contains the plans for marketing and promoting the company's products to consumers through various channels including traditional advertising, corporate sales, retail marketing, and digital marketing. The existing Marketing Strategy also provides data on the strengths and weaknesses of the company, which can help in formulating a desired positioning for the company's products. Without a comprehensive review of all marketing information, a company might waste resources on collecting data already available through past research. For example, if a company wanted to launch a product designed for a demographic group that is similar to another product in the company's portfolio, the Marketing Strategy for that existing product would provide significant insight relevant to the Marketing Strategy for the new product launch.

2. Senior Management Direction and Insights

Knowledge of the macro-environment, competitor strengths and weaknesses, company resources, and available budgets put the senior management team in a unique position to analyze the capability of the company and determine the ideal positioning for its products. Senior management also provides a long-term vision that gives direction and context for creating the Marketing Strategy.

3. Product Strategy

Knowledge of product features, new patents, and research and development capabilities of the product team are important inputs for determining the target geography and demographic for a product launch. This information is also helpful for identifying the positioning for the product and developing the messaging that will be used in marketing initiatives. Any unique offering the product provides becomes a key component of the marketing message that will be conveyed to consumers. Without knowledge of the Product Strategy, the organization would not be able to identify the appropriate marketing messaging and positioning for the product and thus could not create an effective Go-to-Market strategy. For example, if an electronics manufacturer has created a new product with a patented technology, which can significantly enhance the customer experience for the product, then both the ownership of the patent and the new product capabilities would be critical inputs in determining the Marketing Strategy for the product.

4. Operations Strategy

The existing Operations Strategy, which considers manufacturing capabilities, speed of product delivery, customer support processes, customer feedback, and operations-related technological changes in the industry, can help the marketing team decide on the product's value proposition. A strong focus on exceptional customer support can be a force multiplier for the Marketing Strategy and can significantly help in improving brand perception and customer loyalty. For example, some e-commerce companies are increasingly using operational capabilities such as same-day delivery, after-sales service, and return-guarantees as key factors in creating a competitive advantage.

5. Finance Strategy

The existing Finance Strategy, projected investment needs, investment trends in the industry, financial regulations, and shareholder expectations can help determine budget allocations for the execution of the Marketing Strategy. This information also helps determine the expected revenues and ROI from the various marketing channels. Without considering the Finance Strategy, a company runs the risk of over-spending the allocated budget on some channels and having to cut back spending on others.

6. Human Resource Strategy

The existing Human Resource Strategy, current employee skill sets, workforce trends in the industry, and an understanding of labor regulations help the marketing team determine if any additional training is needed, or if new staff need to be acquired in order to execute the Marketing Strategy. Without any insight from HR, the marketing team may struggle to assess the skills available in the organization and may also have difficulty acquiring staff with the necessary skills required for implementing various marketing efforts. For example, if a company that primarily promotes its products through television, print, and radio advertising decides to add digital marketing to its channels of promotion, it should first understand the impact this decision could have on the organizational structure, and then decide if employees with specific digital marketing skills will be acquired, or if outside agencies will be hired to execute a Digital Marketing Strategy.

A.3.1.2 External Factors

The marketing team needs to consider a number of external factors that may impact marketing activities, such as consumer attitudes toward the product or product category, pricing regulations, marketing campaigns from competitors, and government incentives for certain industries. For example, a company deciding to market its products in a new country needs to ensure that their marketing messages are acceptable to the cultural and social norms of that country and are within the relevant legal and regulatory framework.

A.3.1.3 Organizational Capabilities

The objectives of the Marketing Strategy can only be met if the organization has the necessary internal capabilities to achieve them. Therefore, the marketing team should determine whether the organization possesses the required organizational capabilities, such as expertise and operational resources, in order to execute the Marketing Strategy. If not, they need to assess the feasibility of acquiring them given constraints such as time, cost, quality, and availability. Without assessing the organizational capabilities, there is significant risk of not being able to properly execute the Marketing Strategy.

A.3.1.4 Assumptions

The marketing team must make several high-level, reasonable assumptions about various elements of the Marketing Strategy that will shape its expectations for future revenues and ROI from marketing initiatives Such assumptions might include expected revenue for specific products, services, and product lines; projections on segment growth; or price sensitivity of consumers. Without using good data to make reasonable assumptions, the marketing team may set unrealistic goals and consequently impact the company's financial health if actual performance fails to meet those goals. For example, for an automobile manufacturer launching an automatic transmission car model in a country where manual transmission cars dominate the market, an important input to sales projections would be a reasonable assumption about the percentage of owners of manual transmission cars who would be willing to switch to automatic transmission ones.

A.3.1.5 Constraints

There are a number of constraints at the corporate level that define the scope of what the marketing team hopes to achieve through the Marketing Strategy. These constraints can be financial, operational, or human resource related, and, though they do pose limitations, they can also help the marketing team set realistic targets. For example, budget is generally a constraint in defining how the company can execute its Go-to-Market strategy and how much of the budget the company can allocate to various marketing activities.

A.3.2 Tools

A.3.2.1 Meetings and Discussions*

The Marketing Strategy is a key component of the overall Corporate Strategy as it drives the key initiatives aimed at achieving the business objectives. The marketing team regularly meets with senior management, members of other divisions, and members of other functions of the organization in order to ensure that all marketing initiatives are designed to move the business forward and that all other functions of the business are appropriately positioned to support such initiatives. For example, if innovation in product development is a key differentiator driving the business and thus the Marketing Strategy, the product development team and operations must be well positioned and resourced in order to meet product development expectations. Meetings and discussions not only provide a forum for the various teams to ensure alignment with one another, but they also enable the marketing team to gain insights from the senior management team, which typically has a comprehensive understanding of the competition, the industry, and the leaders in the industry. Finally, establishing the business as an innovative leader in an industry requires substantial investment in research and development, thus impacting the overall budget of the organization. Without ongoing meetings and discussions, the functional areas may not be optimally aligned to ensure the marketing objectives and the overall business objectives can be achieved. Thus, meetings and discussions are a key tool for ensuring the Marketing Strategy is aligned with other divisions and departments, and with the overall business objectives.

A.3.2.2 SWOT Analysis

A SWOT analysis involves identifying the strengths, weaknesses, opportunities, and threats that can potentially impact the success of the marketing team in meeting its marketing objectives. Conducting a SWOT analysis requires the marketing team to examine the internal capabilities of the business for strengths and weaknesses, and to identify external factors that can present potential opportunities or pose potential threats to the company's success. Identifying such factors can provide significant insights for a business to determine its position relative to the competition. For example, if a company determines that an existing product has a significant market share and is thus a strength of the business, the company may decide to build on the strength of that product in its Marketing Strategy, by investing in promoting the product as a leader in the industry and thus strengthening the brand perception. At the same time, the business may recognize a potential threat to the ongoing success of that product line in a competitor's product, and therefore plan marketing initiatives aimed at enhancing the product leader with new features in order to protect the product's market share and brand strength. A SWOT analysis, therefore, provides significant insights that can assist the marketing team in defining the Marketing Strategy to support the overall corporate objectives.

A.3.2.3 Market Segmentation

Identifying the markets and the specific segments in which the business competes is critical to establishing and executing a focused Marketing Strategy. The market is the set of potential customers who have a demand for the company's products or services, and segmentation enables the business to design marketing initiatives that tap into key characteristics of each segment. Failure to identify key markets and market segments will result in lack of focus in the Marketing Strategy. Several tools described in section 2, Define Markets and Identify Market Segments, can be used to define the market segments that are relevant to the business. The process of identifying market segments should take into account future market scenarios in order to ensure long term success of the business in the defined segments. With a comprehensive understanding of the market segments, the marketing team can establish a Marketing Strategy that speaks to and meets the specific demands of the defined segments in which it competes and thus ensure marketing messages and activities are designed to support the overall corporate objectives.

A.3.2.4 Competitive Analysis

Competitive analysis involves examining the competitive landscape for competing products with a view to understanding the company's current product portfolio relative to other similar products, determining opportunities for product differentiation, and identifying new product development options. A good understanding of the competitive landscape requires the business to use its knowledge of the existing competitors in the relevant market segments and to continuously scan the environment for new threats in order to ensure that the company is well positioned to fend off any threats to the success of the Marketing Strategy and ultimately the success of the business.

A.3.2.5 Product Positioning

Creating a differentiated product positioning involves identifying the value that a company's products offer to target customers relative to the value offered by competitors. Product positioning creates an image of the company's products for consumers, highlighting the most important benefits that differentiate the product from similar products in the market. Product positioning involves identifying points of parity and points of differentiation that enable a company's product to both meet market standards while offering consumers additional value on key dimensions such as quality, innovation, price, leadership, and functionality, among others. With well-defined target segments, product positioning enables a company to meet very specific needs of a particular market segment, offering value that may not be provided by competitors. A company that identifies high quality, for example, as a key differentiator will highlight this positioning in its Marketing Strategy, investing heavily in high-quality materials and high standard craftsmanship and showcasing such features in its marketing messages. The price of the product would reflect its quality and, given the product positioning, the business would be able to command a premium price for the product if the consumer is willing to pay a premium for the value received. It is important that the business incorporate the product positioning across all facets of the business, including manufacturing and customer service in order to ensure consistency of the positioning from the consumer's standpoint. Further, the positioning must not only align with other divisions and with the current corporate objectives, but also provide long-term sustainability and remain relevant for product variants and for future market scenarios. Using strong product positioning is a key component to the success of the Marketing Strategy and to meeting overall corporate objectives.

A.3.2.6 Pricing and Distribution

Pricing and distribution are important tools to assist in establishing an effective Marketing Strategy to support corporate objectives. Pricing is a reflection of the company's understanding of its products' features relative to the features of competitive products in the market segment and takes into account the company's analysis of consumer needs and demand as well as the costs associated with bringing a product to market. These are all factors that impact the overall Marketing Strategy. Products that are priced right will not only reflect consumer demand and product positioning, they will also maximize profits and revenues in order to help the business achieve its corporate objectives.

Distribution includes looking at a company's network of relationships that enable the company to deliver value to the end customer. Understanding the distribution network and working with key partners is a significant contributor to a successful Marketing Strategy. Several factors related to product distribution can impact the Marketing Strategy, as a well-thought out distribution strategy can ensure customer satisfaction, expand reach, and enhance the brand through strategic alliances and partnerships with established distribution channels. Both pricing and distribution, therefore, can provide significant insights and are valuable components of the Marketing Strategy.

A.3.2.7 Metrics and Objectives

Metrics and objectives provide the business with a means to quantify the success of the Marketing Strategy and the overall Corporate Strategy. Metrics and objectives from previous years offer benchmarks against which the business can measure progress, and provide a starting point on which to build projections for the Marketing Strategy going forward. Metrics for measuring the effectiveness of Sales and Marketing activities can be broadly classified into four categories: customer reach, brand perception, product availability, and sales and profitability. Using past performance as measured by existing metrics and objectives, the Marketing team can design a Marketing Strategy that builds on previous successes and addresses any shortfalls, establishes challenging but realistic marketing objectives going forward, aligns with metrics and objectives across divisions and departments in the organization and contributes to the overall success of the business.

A.3.2.8 Budget Allocation

All facets of the Marketing Strategy require a financial investment. When setting a Marketing Strategy, the marketing team uses the budget allocated to each marketing campaign in order to ensure that expenditure caps are maintained. Setting and adhering to budget constraints ensures that marketing efforts remain on track to ensure profitability of the business and thus contribute to the success of the Corporate Strategy.

A.3.3 Outputs

A.3.3.1 Updated Corporate Strategy*

1. **Updated Marketing Strategy**

   The Marketing Strategy establishes the company's unique value proposition, target markets, and strategies to connect with defined audiences. It specifies the overall pricing and distribution strategies of the company, outlines the key metrics and objectives to measure the effectiveness of the marketing activities, and identifies the budget availability for each marketing effort. The primary output of this process is the updated Marketing Strategy, which defines the Go-to-Market strategy for the organization going forward. The Marketing Strategy takes into account both the internal operations and resources and the external market conditions and must therefore account for changes in the internal and external conditions. As changes occur the Marketing Strategy is updated to ensure that all activities are focused on ensuring the business meets the overall corporate objectives.

2. **Updates to Other Elements of Corporate Strategy**

   The Market Strategy will impact other elements of the Corporate Strategy, so these elements need to be updated accordingly.

   1. **Product Strategy**—Decisions like diversification of products or repositioning of existing products are often made as a result of marketing insights. These decisions may require updates to the existing Product Strategy.
   2. **Operations Strategy—**The Operations Strategy outlines how the organization will employ resources in the production of the company's products or services. Decisions made related to targeting new consumer markets, developing new marketing channels, and improving customer satisfaction, among others, significantly impact the Operations Strategy. Thus, the updated Operations Strategy should take marketing decisions into consideration.
   3. **Finance Strategy**—Many decisions made by the Marketing Strategy team have an impact on the financial objectives of the company, for example, changes to commissions for distributors of the company's products, projected sales of products, and budgets allocated to advertising and promotion. The Finance Strategy must be updated accordingly.

4. **Human Resource Strategy**—All changes in strategy are driven and implemented by the employees of the company; therefore, major strategic decisions reflected in the Marketing Strategy invariably impact the existing workforce. Consequently, there may be a need to implement initiatives aimed at retaining existing staff, hiring new personnel, or downsizing areas of the business. Such changes to staffing levels, required skill sets, workforce makeup, and so on, require updates to the HR Strategy.

A.4 Operations Strategy

Strategic planning involves creating a long-term plan for the optimum utilization of a company's resources and capabilities. The Operations Strategy addresses factors concerning the company's operations, such as identifying ideal locations and capabilities for a company's manufacturing facilities, structuring the supply chain, determining the optimal use of production technology, designing efficient customer support processes, identifying cost-reduction and quality-improvement opportunities, and structuring the operations workforce.

The role of the Operations Strategy team is not limited to utilizing resources and fulfilling customer requirements in the best way possible. The team should also consider opportunities for competitive advantage through improved operational processes. The marketing strategy team can then incorporate these into the company's competitive positioning. For example, in a low-priced market segment, larger firms tend to be more profitable than smaller businesses because their costs per unit are lower due to a larger scale of operations. This competitive advantage can be difficult to replicate for smaller businesses.

The competitive advantages that arise as a result of the operational capabilities of a company provide one or more of the following five benefits—

1. Low Cost
2. High Quality
3. Fast Delivery
4. Flexibility
5. Superior Service

Globalization, advances in technology—especially with respect to the speed of connectivity and access to information—and a focus on integrating services with operations are creating opportunities for organizations to provide improved customer benefits without having to make as many trade-offs among the five benefits as may have been required in the past.

Figure A-9 shows the inputs, tools, and outputs for the Operations Strategy.

INPUTS	TOOLS	OUTPUTS
1. Corporate Strategy* 2. External Factors 3. Organizational Capabilities 4. Assumptions 5. Constraints	1. Meetings and Discussions* 2. Analyzing Strengths and Weaknesses 3. Hill Framework for Formulating Operations Strategy 4. Product-Process Matrix 5. Value Stream Mapping 6. RATER Model	1. Updated Corporate Strategy*

Figure A-9: Operations Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.4.1 Inputs

A.4.1.1 Corporate Strategy*

1. Existing Operations Strategy

The existing Operations Strategy acts as a baseline from which improvement opportunities in current operations can be identified. These opportunities are revealed by first understanding the current operational capabilities, and then analyzing the gap between what those capabilities can achieve and the corporate objectives.

2. Senior Management Direction and Insights

The senior management team uses its past experience and knowledge to define the vision for improving operational processes and capabilities in areas where the company desires to achieve operational excellence. For example, senior management teams in several manufacturing companies have pioneered or adopted the use of best practices, such as stock control or supply chain management standards, which have significantly reduced costs or improved operational efficiencies, and which, when optimally implemented, can provide opportunities for a competitive advantage.

3. Product Strategy

The Operations Strategy team must plan for the production and delivery of the products defined in the Product Strategy. Therefore, the Product Strategy affects operational decisions related to manufacturing facilities and processes, technology, customer support, and quality activities, among others. Without a well-articulated Product Strategy, the Operations Strategy team would not be able to plan for the manufacturing and customer support infrastructure required to ensure the successful launch of a new product or accommodate changes to the production of an existing product.

4. Marketing Strategy

The existing Sales and Marketing Strategy of the company, market research, consumer behavior, sales data, and competitive analysis are important in determining the value that can be added to products to provide a competitive advantage over other products in the market. The addition of new product features impacts the existing production processes, and the demand forecast for a product directly impacts the company's production plans. Without demand forecasting, the existing production capabilities may not adequately support the demand for popular products, or appropriately reduce the production of products with decreasing demand. For example, in the automobile sector, there are instances when the manufacturer is not able to meet the demand for a particular car model, resulting in long waiting times for that model and lost customers. If demand forecasting is done properly, then operations can meet the demand forecasted by the marketing team by increasing and/or improving production capabilities.

5. Finance Strategy

The existing Finance Strategy, projected investment needs, investment trends in the industry, and financial regulations help the operations team make appropriate decisions related to creating and improving manufacturing, service, and delivery capabilities. Without a proper Finance Strategy and knowledge of the available budget, the Operations Strategy team would not be able to plan for addressing and improving operations capabilities.

6. Human Resource Strategy

The existing Human Resource Strategy considers the current and required human resource capabilities in the company, which are key determinants for operational capabilities. Some skills required for operations teams include designing operations processes, planning process improvements, identifying ideal facility locations, and carrying out daily operations efficiently and effectively with the right team of staff in place. Without an understanding of the human resource capabilities in the company, the operations team may not be able to achieve the performance levels required internally and by customers.

A.4.1.2 External Factors

Some examples of external factors that would affect the Operations Strategy include legal and regulatory requirements for setting up a new facility in a particular region or country, restrictions on importing or exporting goods, technological changes leading to improved communications, and the globalization of supply chains, among others. Without considering external factors, there is a possibility that an operations project will be stalled, or that an opportunity for improved efficiencies may be overlooked.

A.4.1.3 Organizational Capabilities

The organizational capabilities needed to carry out daily operations efficiently and to evaluate and implement new operations initiatives, are a key input for creating the Operations Strategy. Examples of such capabilities include manufacturing according to specific quality standards or benchmarks, delivering products within a defined time frame, and providing high levels of customer satisfaction. A lack of certain key capabilities can inhibit the ability of a company to fulfill its corporate objectives. Sometimes, the Operations Strategy team may not even realize that the company possesses a specific capability that offers a potential competitive advantage, and the company may miss out on an opportunity. Understanding all organizational capabilities is key to making decisions related to the Operations Strategy. For example, oil companies seeking to begin shale oil production might not have the technical capability or the human resources needed to successfully carry out a process that is more complicated than traditional oil drilling. Thus, they would need to either allocate financial resources to acquire the capability or abandon the idea.

A.4.1.4 Assumptions

The Operations Strategy team must state and understand the assumptions that are being used as the basis for strategic planning, as well as the rationale for each assumption. Without having well-reasoned assumptions, the Operations Strategy may be at risk of not being aligned with changes in future demand, production volume, and cost guidelines.

A.4.1.5 Constraints

Production and customer support processes are subject to a number of constraints that the Operations Strategy team must consider. Ignoring or incorrectly evaluating these constraints can result in situations that can impact various operational factors, and eventually impact the success of a product, ultimately adversely affecting the company. For example, the logistics team for an export company using merchant ships to export heavy goods to other countries has a constraint related to the number of days required to clear customs and reach the port of destination. Ignoring this constraint can result in promising customers delivery dates that cannot realistically be met.

A.4.2 Tools

A.4.2.1 Meetings and Discussions*

The senior management team meets with the members of the Operations Strategy team to discuss factors concerning the company's operations and to advice on best practices and opportunities for improvement of operational processes. The Operations Strategy team meets internally to identify changes required in existing practices to implement best practices and improvements in operational processes. They also discuss the feasibility of changes, the resource availability, and the time required to effect changes to existing operational processes. Meetings and discussion can also be held with other functional teams based on the impact that the operational changes have on other functional areas. For example, meetings and discussions are held with the finance teams to understand if funds required to implement changes are within the company's budget. Meetings are also held with the marketing strategy team to discuss improvements in the operational processes so that they can be incorporated in the company's competitive offering.

A.4.2.2 Analyzing Strengths and Weaknesses

Analyzing strengths and weaknesses involves identifying a company's operational assets (e.g., plant, machinery), intangible resources (e.g., patents for operational processes, manufacturing trade secrets), and capabilities (e.g., fast delivery times, high levels of customer satisfaction), and then determining which of these contribute to building a competitive advantage and which could to be improved upon. This analysis also involves finding any gaps in the performance criteria necessary to compete in the market and the ability of the operations team to meet those criteria. For example, it is possible for a company to have similar products as a competitor has, but to outperform the competition due to the competitive advantages it has developed in operational efficiencies.

A.4.2.3 Hill Framework for Formulating Operations Strategy[21]

The Hill Framework for formulating Operations Strategy involves the following steps—

1. Defining the corporate objectives
2. Developing a Marketing Strategy needed to fulfill the corporate objectives
3. Identifying the competitive factors based on which consumers prefer one company over another and then classifying them into order qualifiers and order winners
4. Defining the operational structure to deliver those products
5. Specifying the infrastructure and resources needed to implement the operations

---

[21] Hill T. (2005) *Operations Management, 2nd ed.* Basingstoke, UK: Palgrave Macmillan.

Step 1: Discussed in section 1.4, Corporate Strategy and its Relationship to Sales and Marketing

Step 2: Discussed in section A.3, Marketing Strategy

Step 3: This step involves mapping the Marketing Strategy to a set of competitive factors required to win orders from customers. The competitive factors are then classified into two categories—

a. **Order Qualifiers**—These factors are those that enable a product to qualify for purchase. However, excelling in these factors might not necessarily provide any advantage. For example, the ability to customize a software package can be an order qualifier for a business customer.
b. **Order Winners**—These factors are the key reasons behind customers purchasing a product, so excelling in these factors improves a company's chances of closing the sale and getting new business. For example, access to instant twenty-four hour technical support for a critical machine part can be considered a factor that significantly differentiates one company's product from that of another company.

The competitive factors determine the five performance objectives on which the operations processes are measured: cost, quality, speed, dependability, and flexibility. For example, the ability to customize a product (competitive factor) is directly related to the flexibility of operations (performance criteria).

Step 4: This step involves setting up the structure needed to meet or surpass the performance criteria. Structural decisions in a number of areas need to be made in this step. These include the following—

a. Selecting the manufacturing process type: project, jobbing, batch, mass, or continuous
b. Selecting the service process type: professional, service shop, or mass service (similar to selecting the manufacturing process type, but applied to services)
c. Determining the layout of operations: fixed position, process, cell, or product
d. Determining the location of facilities
e. Determining the process technology
f. Designing the products/services and their related processes
g. Determining the job and work design

Step 5: Here, all the infrastructural decisions are made that are required to enable the structure defined in Step 4 to create and deliver the company's products. The key areas on which decisions are made include the following—

a. Planning and Control
b. Inventory Management
c. Capacity Management
d. Supply Chain Management

A.4.2.4 Product-Process Matrix[22]

Robert Hayes and Steven Wheelwright first introduced the Product-Process Matrix to analyze the relationship between the product life cycle and the manufacturing process. This Matrix includes two dimensions, namely, product structure or product life cycle and the process structure or process life cycle.

This model is used to identify which stage of the product life cycle a product is in, and then the appropriate process strategy is mapped to that stage. The product structure/product life cycle dimension indicates the stage of the life cycle ("very low volume" to "very high volume") and the degree of product standardization required "(low standardization" to "high standardization"). The process structure/process life cycle dimension shows the process structure ("jumbled flow" to "continuous flow") and the process choice ("job shop" to "continuous flow").

The Product-Process Matrix helps companies compare their position with that of competitors by mapping their current and desired positions on the matrix. Where a company decides to position itself on the matrix depends on its production processes and the scale of production.

Figure A-10 illustrates the Product-Process Matrix.

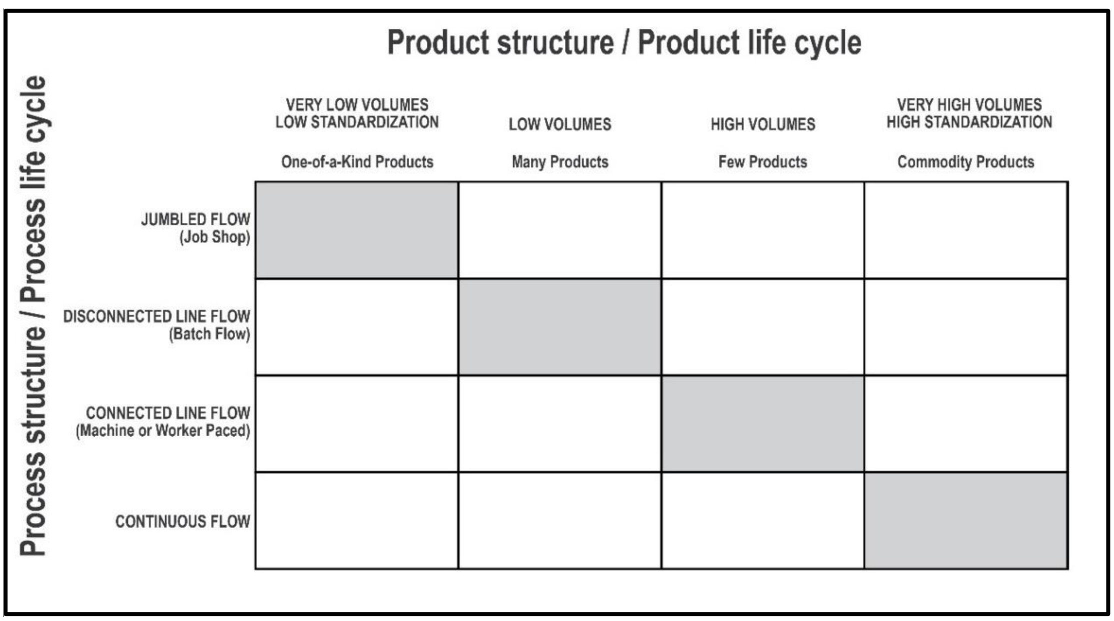


Figure A-10: Product–Process Matrix

The diagonal created by the shaded boxes shows the ideal movement of a company along its life cycle. Initially, since the volumes are low and the company commonly manufactures only one product, a jumbled

[22] Hayes, R.H. and Wheelwright, S.C. (1979). "Link Manufacturing Process and Product Life Cycles." *Harvard Business Review*, January–February: 133–140.

flow exists. As the organization grows, its volumes increase, the company's product portfolio grows, and the organization moves toward adopting a continuous flow.

A.4.2.5 Value Stream Mapping[23]

Value stream mapping involves describing in detail the current flow of information and materials required to deliver a product or service to customers, and then analyzing the flow to identify opportunities to reduce waste, decrease production and delivery times, and improve other operational metrics.

Typical value stream mapping involves drawing the current state value stream map, which includes material flows, information flows, and delays. This map is analyzed by the team to identify potential areas of improvement and, based on proposed improvements, a future value stream map is developed.

Value stream maps use special symbols known as the "language of lean" to showcase the flow of information and material. This helps companies identify and eliminate waste throughout their system by focusing on expenditure of resources for any goal that creates value for the end customer, and removal of non-value added tasks.

A.4.2.6 RATER Model[24]

The RATER model, which is widely used to establish service quality criteria, helps in measuring the efficiency of customer service delivery.

The model highlights five areas that are considered important by the customers when using a service—

- **R**eliability—Ability of the organization to provide the promised service consistently and in a timely manner
- **A**ssurance—Knowledge, skills, and expertise of the employees in creating trust and credibility
- **T**angibles—Physical delivery of the service provided
- **E**mpathy—The relationship between employees and customers
- **R**esponsiveness—Competency in providing quick and high-quality service to customers

Using the model involves collecting customer feedback on quality criteria for each of the five areas. For example, for Reliability, the quality criteria may be timeliness and consistency and, for Assurance, they may be credibility and safety. The specific quality criteria used by a company will depend on the nature of the

---

[23] Hines P. and Rich N. (1997) "The Seven Value Stream Mapping Tools." *International Journal of Operations and Production Management* 17(1): 46–64.

[24] Zeithaml, V.A., Parasuraman, A., and Berry L.L. (1990) *Delivering Quality Service: Balancing Customer Perceptions and Expectations*. New York: The Free Press.

product and the industry in which the company operates. The customer feedback may be collected using one or more of a number of tools, such as survey questionnaires, interviews, and post-purchase feedback forms.

Some benefits of using the RATER Model are mentioned below—

- The model enables quality assessments from customers' perspectives
- It enables comparison to competitors on common aspects
- It can help track customer expectations and perceptions over time
- It helps an organization channelize its efforts to bridge the gap between perceived and expected service

However, uniform applicability of the RATER model for all service sectors may be difficult.

A.4.3 Outputs

A.4.3.1 Updated Corporate Strategy*

1. **Updated Operations Strategy**

   The updated Operations Strategy details how to best utilize the required operational capabilities, resources, facilities, and technology to optimize the company's operational processes, such as supply chain and fulfillment, production and manufacturing, and customer support. This document serves as the plan for day-to-day operational activities and the source for key operational decision making. It also provides key information for the operations team to plan new initiatives.

2. **Updates to Other Elements of Corporate Strategy**

   The Operations Strategy might impact other elements of the Corporate Strategy that may need to be updated.

   - **Product Strategy**—The Operations Strategy indicates the required capabilities of the organization to create, deliver, and support products and services. Insufficient capabilities may hinder the production of certain products, or the existence of additional capabilities may allow new products to be created which would also be highlighted in the strategy. In either case, the Product Strategy would need to be updated.
   - **Marketing Strategy**—Customer service is a critical requirement for enhancing the brand image of a company. Changes in the way a company provides pre-sales and after-sales support to its customers could alter the company's brand image, impacting the Marketing Strategy. A company can also improve its product positioning in the market through improved operational capabilities.

- **Finance Strategy**—Improvements in operational efficiencies may increase the profits of a company, for example, through cost savings, thus providing the finance team with additional funds to invest in other areas. Additionally, any process changes approved by senior management may result in a change in required financial resources. Corresponding updates to the Finance Strategy need to be made.
- **Human Resource Strategy**—Changes made in various operations activities such as improving processes, adding production plants, or improving customer service may impact staffing levels and skill sets required. Resulting workforce-related changes may require updates to the HR Strategy.

A.5 Finance Strategy

The Financial Strategy at a corporate level impacts all functions, business units, and products in the organization, and thus plays a critical role in the growth of the company. The Financial Strategy generally dictates if resources can be mobilized or if activities can be initiated in a company.

The Finance Strategy of a company is mainly concerned with two aspects—

1. Ensuring the company has adequate financial resources to meet its corporate objectives
2. Monitoring the use of those financial resources to ensure they are achieving the desired results

The first aspect involves a variety of activities and decisions that touch several departments and teams working on the creation of the strategy. Examples of these activities include advising senior management and the marketing team on the financial feasibility of various corporate and marketing strategies, so only those projects that make the most financial sense are undertaken; determining all resources required for agreed-on projects; deciding the ideal debt-equity ratio; maintaining an adequate credit rating; providing guidance on the Pricing Strategy; and advising on the financial benefits and drawbacks of mergers and acquisitions.

The second aspect of the Finance Strategy involves monitoring the performance of the company using a variety of financial metrics related to profitability, growth, cash flow, and taxation, among others. It also involves regular, periodic financial reporting for the company, allocating various types of costs among different entities within the company, and regular audits to ensure that resources are being correctly utilized.

Figure A-11 shows the inputs, tools, and outputs of the Finance Strategy.

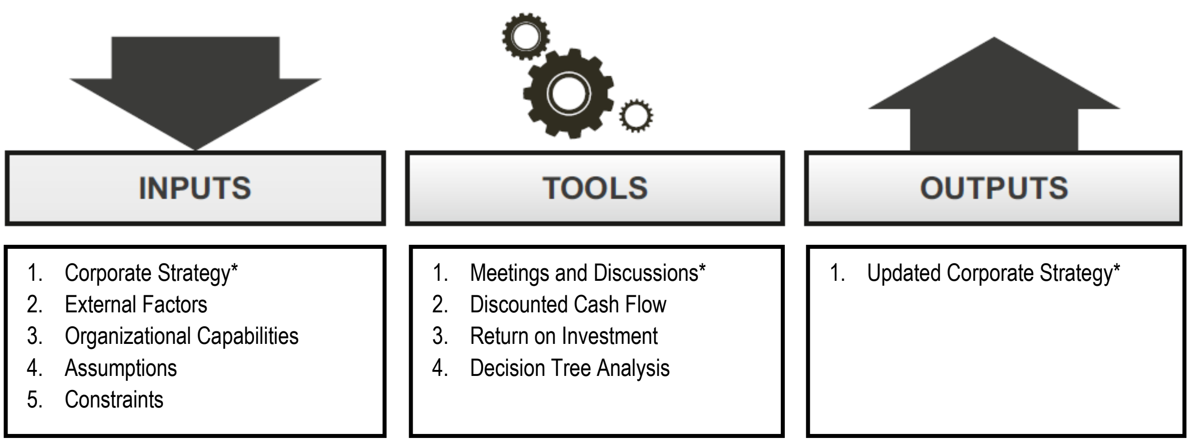


Figure A-11: Finance Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.5.1 Inputs

A.5.1.1 Corporate Strategy*

1. **Existing Finance Strategy**

   The existing Finance Strategy provides valuable inputs in terms of the past performance of the company and how effective the previous Finance Strategy was in meeting corporate objectives. It includes analysis of financial reports, such as the balance sheet, profit and loss statement, and cash flow statement, with details on the level of profitability and growth the company was able to attain. The existing Finance Strategy determines, to a large extent, the amount of resources available to the company in the short term and influences short-term projects. It also highlights which business units and products performed well, which need more financial support to succeed, and which need to be discontinued. If inputs from the existing Finance Strategy are not taken into account, key lessons learned from past performance are not considered in the decision-making process, potentially resulting in the duplication of past mistakes. For example, past financial performance is a key metric that senior management refers to when announcing future plans to shareholders. The confidence of shareholders is, in turn, based largely on the ability of the company's performance on financial metrics in the past.

2. **Senior Management Direction and Insights**

   The senior management team uses its knowledge and expert judgment to estimate growth rates and other parameters for various business units and products; these estimations are among the most important inputs in financial projections. Without accurate estimates of key parameters like the growth rate, fund allocation for future projects might be much higher or much lower than needed, potentially resulting in a situation of either wastes or shortages, respectively. For example, annual marketing budgets are decided by senior management based on their assessment of which products or business units will require marketing investment.

3. **Product Strategy**

   The Product Strategy contains the products that the company intends to focus on, and determines the level of financial resources needed to support research and development, product launches, and marketing and customer service operations for those products. If a product is discontinued, the resources that were allocated to that project are freed up and may be available for other initiatives. Without knowing which products will drive the growth of the company, the finance team will not be able to properly allocate funds, resulting in a situation where key products may be underfunded. For example, most of the technology companies that have maintained a market leadership position for decades invest a significant percentage of their revenues in research and development on new products. This is key to their ability to maintain their leadership position.

4. **Marketing Strategy**

The marketing team provides various types of financial data to the finance team in order to aid in developing the Finance Strategy. Such inputs include the growth potential of each of the company's existing and planned products, and the respective investments that each of the products will require as well as market share data, transaction data, and pricing details, among others. These inputs help the finance team make decisions regarding which investments make financial sense, which need to be scaled down, and which need to be postponed or discarded altogether. Without these inputs, the finance team would not know how much of the company's funds should be allocated per investment or if additional funds need to be raised, resulting in either surplus inefficiencies or underfunded initiatives that perform poorly. For example, marketing teams often have creative and ambitious plans for products and services that they want to offer in the future. These plans are communicated to the finance team who, after discussion with senior management, determines which products and services make financial sense. The required funds are then allocated accordingly, to be utilized by the marketing teams.

5. **Operations Strategy**

The operations team provides inputs regarding any planned operations initiatives. Such initiatives may include implementing production performance improvement measures, increasing capacity to meet demand, or adding technology to production processes. The operations team also develops estimates on anticipated changes in major operations-related expenses such as fuel, materials, power, and transportation. This information is necessary for the finance team to know the amount of funding required for each activity, and to avoid operational bottlenecks. For example, if a new manufacturing plant is needed to keep up with demand, the finance team should conduct a thorough analysis of the level of investment required for potential sites based on insights from the operations team, in order to decide which site makes the most financial sense.

6. **Human Resource Strategy**

The HR Strategy includes any plans for recruitment, downsizing, restructuring, salary benchmarking analysis, and more. This information enables the finance team to allocate the required funds for employee-related expenses as well as sufficient funds to reward top performers, which is key to the growth of many companies. Without this knowledge, the finance team might solely use past data to determine funding allocation for employee salaries, salary increases, and bonuses. However, it is important to also analyze current job market trends and expectations and align salaries accordingly.

A.5.1.2 External Factors

The finance strategic planning is impacted to a great extent by economic factors like exchange rates and interest rates, in addition to other external factors such as legal requirements, industry regulations, and government policies and incentives. Such factors need to be accounted for while devising the Finance Strategy. For example, governments sometimes provide financial incentives such as tax waivers or reductions for setting up companies in rural areas to promote development in those areas. The finance team, in discussion with the other strategy teams, should consider such incentives when deciding whether to set up operations in such areas. Without considering such factors, a company might miss out on tax-saving opportunities offered by the government, or invest in ventures that offer a low rate of interest or return.

A.5.1.3 Organizational Capabilities

The Finance Strategy takes into account whether the finance team has the necessary skills and capabilities to perform routine financial tasks as well as more specialized tasks required by senior management. An example of a special project could be valuing potential companies for acquisition. Large organizations that grow primarily through acquisitions generally have a dedicated person or team in the organization that specializes in seeking out such opportunities. Ignoring existing capabilities or the need to develop additional capabilities might result in the Finance Strategy being inwardly focused and therefore, not actively seeking lucrative financial opportunities.

A.5.1.4 Assumptions

The finance team must often make a number of assumptions related to a variety of parameters while developing projections for the next financial period. They also need to clearly specify those assumptions in order to both monitor performance and inform senior management and investors. For example, assumptions about revenue growth for the next financial period are a key determinant for developing the Financial Strategy across industries and in companies of all sizes. Incorrect assumptions while creating projections can have a far-reaching impact on the company as they might result in the underfunding of critical projects or a surplus of cash sitting idle.

A.5.1.5 Constraints

The finance team faces a number of constraints, such as the existing financial resources, minimum profitability thresholds, and mandatory corporate tax filing, tax remittances and audit requirements. For example, the finance team cannot approve a project that requires more resources than are currently available within the company or than can be raised within a specified period. Ignoring constraints such as mandatory audit requirements related to expense reporting might result in the company's performing successfully yet violating corporate or legal regulations.

A.5.2 Tools

A.5.2.1 Meetings and Discussions*

The Finance Strategy is established by the senior management and finance leadership teams after discussions with the functional management teams representing other areas of the company. The discussions should focus on the funds required for creating, marketing, and providing support for the company's products and services. In addition, the finance team needs to internally discuss any issues related to audits, choosing among various sources of funding, and managing financial risks such as credit risk and currency fluctuation risk.

A.5.2.2 Discounted Cash Flow

This tool is used to determine the financial attractiveness of a particular investment opportunity, which could range from a single product to an entire business unit. It determines the present-day value of future free cash flows expected to be generated by the opportunity (i.e., operating cash flow minus capital expenditures which represents the actual cash flow available for future opportunities), which are then discounted using the weighted average cost of capital. The weighted average cost of capital is the average cost of the components of financing employed for the opportunity, weighted proportionally with respect to the size of the components. The present-day value of the future free cash flows is then compared against the investment amount needed at the present time. If the future free cash flow value is higher, the opportunity is deemed to be worthwhile. The formula for calculating the discounted free cash flows is as follows:

$$\text{Value of Opportunity} = \sum_{t=1}^{t=n} \frac{\text{FCF for Opportunity}_t}{(1 + \text{WACC})^t}$$

Where:

$\text{FCF for Opportunity}_t$ = Expected Free Cash Flow for Opportunity in period t

WACC = Weighted Average Cost of Capital

Benefits—

- This tool uses free cash flows as the metric to determine returns and is, in general, a reliable estimate of the cash that is actually available for investment, unlike accounting profits, which may be far more than the actual cash available and, thus, may give a skewed picture.
- It is largely unaffected by changes in accounting practices because of the use of free cash flows.
- Different products and business units can be evaluated independently.
- It is a more realistic estimate for valuation as it is focused on future inflows and does not extrapolate from past data.

Disadvantages—

- The accuracy of this tool is largely decided by the accuracy of the estimates of free cash flows, the weighted average cost of capital, and the terminal value, if the product is expected to generate cash flows in perpetuity. Therefore, this tool is only as good as the accuracy of these estimates.
- For new products, it can be very difficult to estimate cash flows for even a few months into the future, let alone a year or more. Therefore, this tool is usually more applicable for established products where projections are more reliable.

A.5.2.3 Return on Investment (ROI)

Return on Investment (ROI) is a widely used tool that measures the benefits a company receives from a specific investment—like launching a product—against the cost of the investment. It is a highly flexible tool where the benefit and the cost can be represented by any metric that is suited to the analysis at hand. ROI is represented by the following:

Return on Investment = (Benefit from Investment – Cost of Investment) / Cost of Investment

For example, with a product for which revenues and marketing costs are the Key Performance Indicators—typically a new product whose aim is to generate sales—the finance team might choose to calculate ROI as:

Return on Investment = (Revenues – Marketing Cost) / Marketing Cost

For a more stable product whose Key Performance Indicators might be profits and marketing costs, the formula will change accordingly.

Benefits—

- This is a versatile tool that can be used in a wide variety of situations.
- This tool is very easy to use and understand and thus, is used as a Key Performance Indicator in many situations.

Disadvantages—

- The flexibility of the tool also leaves it open to misuse. If incorrect metrics are used to determine a product's performance, the decisions made using this tool would be invalid.
- The popularity of this metric sometimes results in its being used as the sole metric to judge a product's performance. For example, it can lead to bad judgement calls when a product is discontinued due to past ROI being below expectations, even when future performance is expected to be better.

A.5.2.4 Decision Tree Analysis

Decision Tree Analysis is used to evaluate the best option from a number of mutually exclusive options when an organization is faced with an investment decision. The finance team can use this tool while evaluating a number of potential options, such as which product or plant to invest in, or whether or not to invest in a new initiative. The tool, as shown in Figure A-12 takes into account the cost of pursuing each particular option, the probabilities of the different outcomes, and the economic benefit for each. The team can then calculate the overall value for each option.

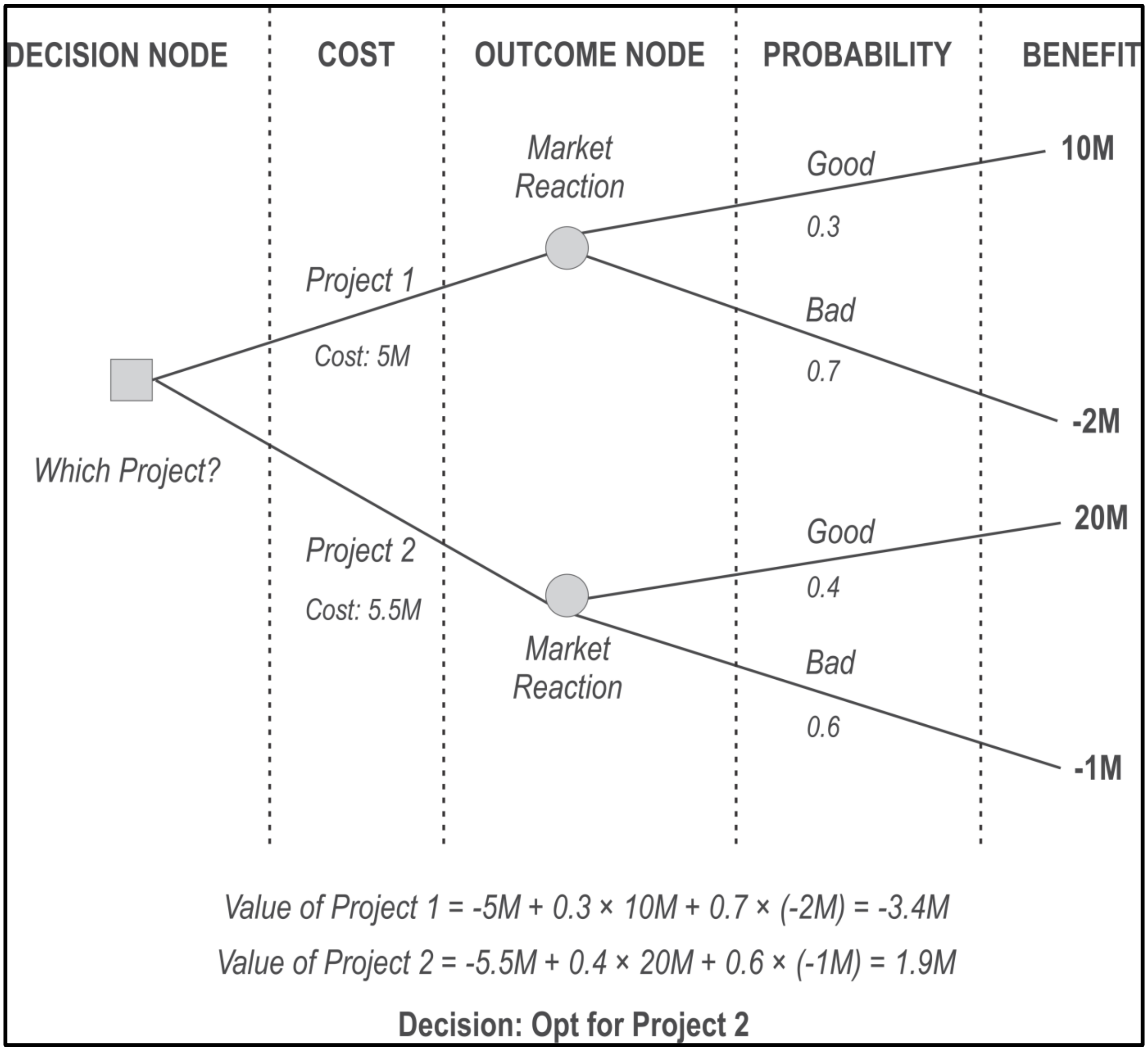


Figure A-12: Decision Tree Analysis

Benefits—

- This tool allows the team to clearly lay out and consider all available options, including a "Do Nothing" option, which is often ignored although it may sometimes be the best option.
- It is relatively easy to visualize the costs, benefits, and probabilities linked to all options to help facilitate focused decision making.
- Additional options can be added without impacting the evaluation of the other branches throughout the tree.

Disadvantages—

- In situations where there are many options to consider and each option has multiple possible outcomes, creating decision trees becomes a complex process and may require the use of software, rendering it a less-than-useful tool for strategic discussions.
- In some trees, even a small variation in an expected outcome or probability can completely change the results of the analysis. Therefore, obtaining accurate information is critical to the usefulness of this tool.
- This tool sometimes requires complex preparation, as well as extra time and effort to determine the various possible outcomes for each option, and to explicitly delineate each decision node and possible outcomes and options from those nodes.

A.5.3 Outputs

A.5.3.1 Updated Corporate Strategy*

1. Updated Finance Strategy

The updated Finance Strategy describes the level and sources of funding for all products and initiatives the organization intends to continue in the future. It should also contain the updated success metrics and financial performance criteria for the company's various products and for the company as a whole.

2. Updates to Other Elements of the Corporate Strategy

The Finance Strategy will impact other elements of the Corporate Strategy, which must be updated as a result.

- **Product Strategy**—Based on the funds allocated for product research and development, the product teams needs to prioritize initiatives to determine which research projects should be emphasized. Decisions also need to be made regarding the amount of research that should be performed on potential new products with the funds available.

- **Marketing Strategy**—Based on the analysis of which products are financially viable and the overall marketing budget allocated for those products, the marketing team establishes a specific marketing plan for each product and determines how much to spend on each distribution and promotional channel.
- **Operations Strategy**—The amount of funds set aside for operational activities is a factor in the level and extent of efficiencies the operations team needs to achieve to meet their financial targets. Allocating funds to major initiatives, such as new customer care centers, service centers, and manufacturing plants, can result in the initiation of major projects to create and operationalize the new infrastructure.
- **Human Resource Strategy**—The amount of funds allocated to various operational and marketing activities determines the level of resources needed to maintain an adequate workforce strength for those activities. Such activities may require additional recruiting, restructuring, or perhaps downsizing. In addition, the profitability of the company likely impacts employee pay levels across the organization.

A.6 Human Resource Strategy

A company's Human Resource Strategy is mainly concerned with aligning the human resource capabilities in the organization with the corporate objectives. It defines the organizational structure and considers the allocation of human resources among the company's business units or teams. In addition recruitment plans, development plans, performance evaluation plans, and compensation plans need to be considered.

The Human Resource Strategy has three primary objectives—

1. Retain desired talent
2. Attract required talent
3. Enhance talent of existing employees

Figure A-13 shows the inputs, tools, and outputs for the Human Resource Strategy.

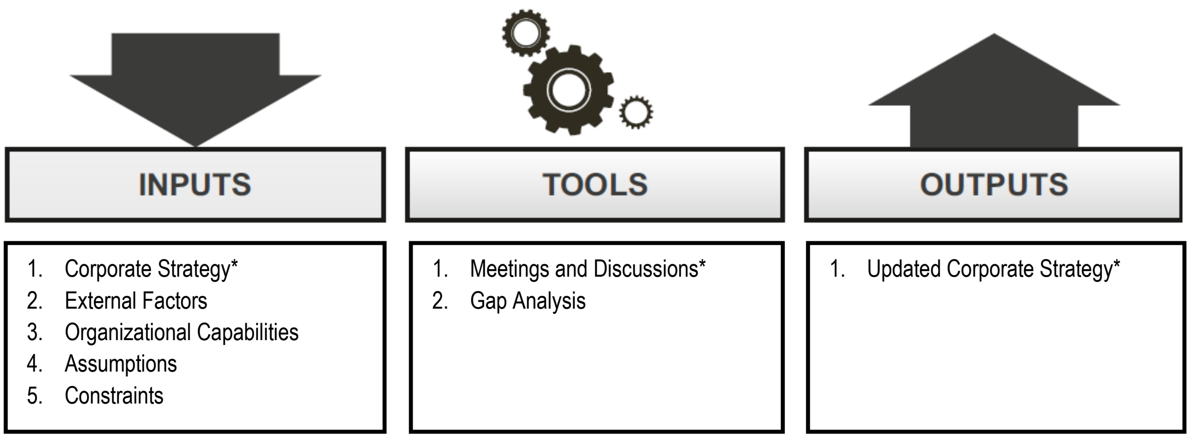


Figure A-13: Human Resources Strategy—Inputs, Tools, and Outputs

Note: An asterisk (*) denotes a highly recommended input, tool, or output for the corresponding strategy.

A.6.1 Inputs

A.6.1.1 Corporate Strategy*

1. **Existing Human Resource Strategy**

   The existing Human Resource Strategy defines the current organizational structure and the existing capabilities as required for the current operations of the business. Analyzing the impact of the existing Human Resource Strategy using Key Performance Indicators, such as attrition rate and employee utilization rate, can help identify improvement opportunities that can be incorporated into the updated HR Strategy. In companies that operate in stable markets, current corporate strategies may not differ significantly from the previous year's strategy, so the Human Resource function would only require slight modifications to the existing HR Strategy to meet the new corporate objectives. Without having an understanding of the existing HR Strategy, the organization may struggle to understand its organizational structure, culture, and existing processes. For example, companies that are in the manufacturing sector in stable industries have a large part of their workforce involved in ongoing operational activities that do not change significantly from year to year. Using the existing HR Strategy as an input in such cases helps significantly reduce the time required to create the new HR Strategy.

2. **Senior Management Direction and Insights**

   The senior management team uses its experience and knowledge of the industry to influence how the organization should be structured, and the key human resource capabilities needed to achieve its corporate objectives. The team may have experience in different industries and might be able to provide inputs on the best HR practices in other industries that may be incorporated in the HR Strategy of the company. Without Senior Management Direction and Insights, the Human Resource function might not consider factors such as desired company culture, macroeconomic environments, and future threats that might impact the organization's structure and recruitment activities. The Human Resource function may also use inputs from senior management while deciding on succession planning for all employees to ensure that these successions are in-line with the Corporate Strategy.

3. **Product Strategy**

   The Product Strategy defines the products that the company should pursue as well as the research and development capabilities required to develop new products. This information is useful in determining recruitment needs within the product team and the research team, and also identifies skill development requirements for existing employees within these two teams. Because successful products are critical to achieving the company's strategy, failing to include information from the Product Strategy may result in the organization failing to have the necessary skill sets to plan, design, and produce the required products.

4. Marketing Strategy

The Marketing Strategy includes the marketing channels the company intends to use and the projected sales of products from each channel. This information is helpful for determining the ideal workforce strength and skill levels required in each channel to implement the strategy. The Marketing Strategy also identifies the company's main competitors. This helps the HR team benchmark salary and other related factors to attract the best talent. Without information from the Marketing Strategy, the company may not hire the right number of employees or the relevant expertise in order to create, market, and sell its products.

5. Operations Strategy

The Operations Strategy provides insight into how the company plans to create or service its products in targeted markets. This information helps determine the workforce strength and skill sets required for operations employees. For multinational companies, the Operations Strategy may vary for each country. The Human Resource function should consider any geographical differences in order to attract and retain local talent. For example, an automobile manufacturer may have production plants in certain countries. The employees required in those countries may need particular manufacturing skills. In other countries, the company's operations may only include automobile sales, requiring employees with sales and marketing skills rather than manufacturing skills.

6. Finance Strategy

The existing Finance Strategy includes details of the organization's ability to finance hiring additional human resources, as well as providing training and conducting activities aimed at retaining the existing workforce. The organization's current financial position and projected financial earnings are a significant factor in deciding the future hiring of employees as well as the retention and development of current employees. Without the Finance Strategy, the HR function might decide on a large-scale hiring strategy for a new business line, but may not be able to support that decision financially. The Finance Strategy is decided at a high level by senior management. It specifies the Human Resource budget at a specific business unit and product level.

A.6.1.2 External Factors

Examples of external factors affecting the HR Strategy include climate change, change in government regulations, and employment laws that may affect the way an organization conducts its business. Failing to consider these environmental and legal factors can damage consumer perception of the brand and might severely impact sales. These types of laws are often specific to the country where the company operates; therefore the HR team must ensure that it adheres to the country's laws and regulations. For example, laws in some countries prevent companies from terminating the existing employees of an acquired company for a certain period of time after the acquisition. Ignoring such laws might result in the company facing lawsuits and fines.

A.6.1.3 Organizational Capabilities

The HR Strategy takes into account the capabilities of the HR team to perform all HR functions, including skill gap analysis, managing the entrance and exit process of employees, and maintaining the training and development of current employees. Outsourcing requirements are also identified in the HR Strategy. For example, the payroll processing function in many organizations, large and small, is increasingly being outsourced to third party companies because it requires specialized knowledge of laws and regulations related to wages and taxation. Furthermore, failure to consider the in-house expertise as well as those that may be better managed externally, may result in errors or oversights in key functions such as compensation or bonuses, which may alienate employees or violate HR regulations.

A.6.1.4 Assumptions

The HR team needs to make a number of assumptions related to skills availability, recruitment needs, and salary expectations, among others. These are critical inputs to deciding the future strategy of the HR function. Making rational assumptions based on past data, elements of the Corporate Strategy, employee surveys, and market data help the HR team mitigate risks and implement measures that are in-line with corporate objectives. For example, the HR function might make an assumption that the average salary increment in its industry will be five percent and use that as a factor in determining the salary increment policy for its own workforce. The accuracy of that assumption becomes a key factor impacting the attrition rate.

A.6.1.5 Constraints

There are certain constraints related to employee skills, availability, organizational structure, and corporate culture that the HR team should consider when developing the HR Strategy. Without taking these constraints into account, the HR team might commence initiatives that are contrary to corporate objectives or culture. For example, if a major product launch is scheduled in six months, there is a constraint on the HR team to recruit, hire skilled employees, and then provide access to appropriate training to support the launch within those six months.

A.6.2 Tools

A.6.2.1 Meetings and Discussions*

The senior management team meets with members of the HR Strategy team and other strategy teams to discuss the existing human resource capabilities and processes in the organization. Once senior management describes its overall corporate vision, the Product Strategy team provides inputs on their product vision and skill requirements, the Marketing Strategy team explains the markets and channels they want to operate in, the Finance Strategy team outlines the budgetary constraints, and the Operations Strategy team shares its ability to manufacture and service the product. These meetings provide clear direction on determining the Human Resource Strategy.

A.6.2.2 Gap Analysis

The HR team can conduct a gap analysis to compare the current state of the organization against the desired state to identify any required changes. Gap analysis is a three step process.

1. The HR function compares the desired state of the organization with the current state.
2. Based on the above comparison, the HR function determines gaps that need to be filled in order to reach the desired state. Such gaps may include skill set gaps, a shortage in the number of required employees, or team composition gaps.
3. The required changes are made by the HR function.

Gap analysis needs to be conducted by the HR function at the three levels as described in Figure A-14.

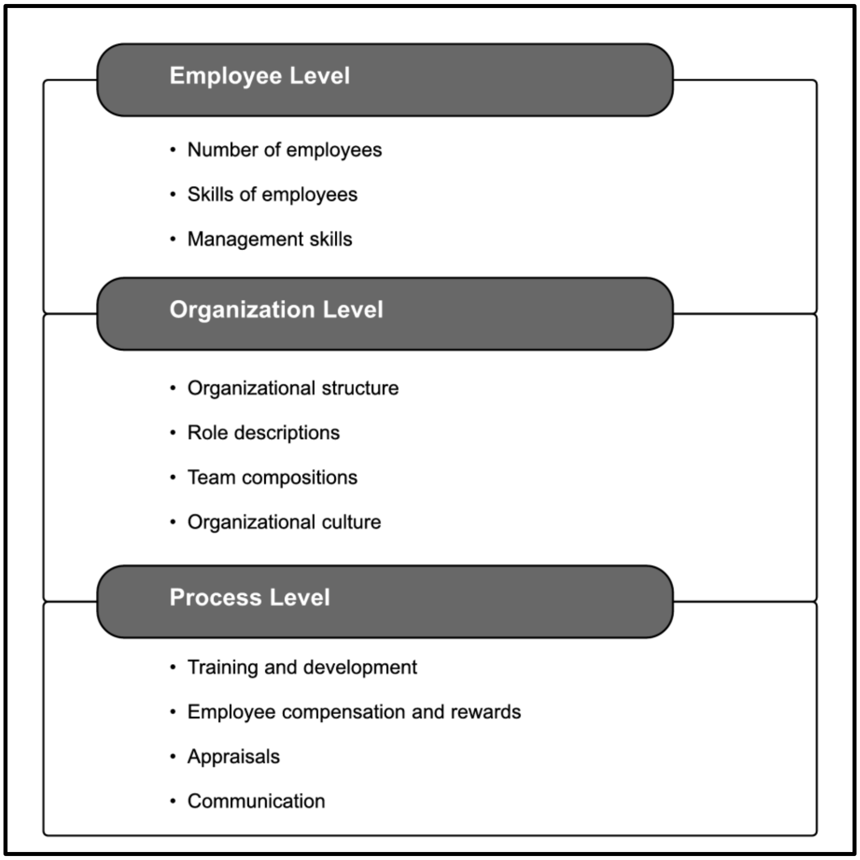


Figure A-14: Gap Analysis

1. **Employee Level Analysis**

   The Human Resource function must ensure that the employees with desired skills are placed in appropriate roles within the company, and that management possesses the necessary skills to meet the corporate objectives. The employee level analysis includes an overall evaluation of employee skills and addresses impacts from organizational changes, since typically changes in organizational structure often require a corresponding change in the type of employee skills needed, which may also impact the overall number of employees.

2. **Organization Level Analysis**

   Organizational structure is a key factor in the performance of any organization because it defines the roles and responsibilities of all employees throughout the organization. With changes to the corporate objectives, team compositions can also change. It is the responsibility of the HR function to communicate with all stakeholders regarding these changes. As part of the organization level analysis, the Human Resource function recommends the organizational structure for a new business unit, identifies the right team compositions based on information from the Product Strategy, Marketing Strategy, and Finance Strategy, and ensures that each individual is aware of his or her role in the organization.

3. **Process Level Analysis**

Process level analysis is done to review existing processes in the company and assess whether they align with the Corporate Strategy. As discussed above, organization level analysis provides the new organizational structure, skills, and team composition required for meeting the corporate objectives. As part of the process level analysis, the Human Resource function determines the training required for equipping employees with the required skills, decides the new compensation structure, and defines the updated KPIs for employee assessments.

A.6.3 Output

A.6.3.1 Updated Corporate Strategy*

1. Updated Human Resources Strategy

The updated HR Strategy includes the updated organizational structure, updated team compositions, most recent employee roles and responsibilities, and the details regarding training requirements for specific employees and/or teams. The HR Strategy also defines specific targets for the various HR functions and the plans to meet those targets.

2. Updates to Other Elements of the Corporate Strategy

The HR Strategy will impact other elements of the Corporate Strategy, and those elements need to be updated accordingly.

- **Product Strategy**—The HR Strategy provides information about the types of skills available in the organization and this will impact the Product Strategy. Because the HR function works within the budget provided by the Finance Strategy, there may be times when acquiring certain skills may not be possible. As a result, the product team may need to modify their product features to fit within the existing skill levels in the workforce.
- **Marketing Strategy**—The Marketing Strategy is impacted by HR variables such as the feasibility of recruiting marketing employees with the desired skill sets (e.g., low feasibility might result in a slower roll out of various marketing initiatives), or merging the sales force of an acquired company with the existing sales force (which may provide the marketing team with additional resources to accelerate a product launch).
- **Operations Strategy**—The HR function performs regular employee performance evaluations and skills assessments and identifies the training to be provided to employees in various functions. With a better trained workforce, the operations function may realize higher productivity and efficiency. Given that the staffing requirements for the operations team are also provided in the updated HR Strategy, the Operations Strategy may need updating to reflect any new requirements identified.

- **Financial Strategy**—The HR function provides insight on prevailing market rates for acquiring employees in critical roles. If these acquisitions exceed the allotted budget, the finance team may have to look for other ways to secure the financial resources to hire the required employees.

APPENDIX B. AUTHORS AND REVIEWERS OF THE SMBOK® GUIDE

This appendix lists the names of those individuals who contributed to the development and production of the *SMBOK® Guide*.

SMstudy® is grateful to all these individuals for their continuous support and acknowledges their contributions towards the development of the *SMBOK® Guide*.

B.1 Lead Author

Tridibesh Satpathy

B.2 Co-authors and Subject Matter Experts

Shawna Sheldon

Trent Fogg

Ruth Kim

Jaimie Rush

Ayan Ghosh

Elizabeth Airhart

Joanne Morrison

Holly Bowyer

Leslie Sloan

Lawrence Hourihan

Derek Davidson

Karen Lyncook

Ahmed Touseefullah Siddiqui

Melissa Lauro

James Pruitt

Nathan K. Cartmell

Gaurav Garg

Alexis Carnegie Dunham

Amit Pradhan

Anusuya Kannabiran

Carrie Ann Barrow

Daniel K Wentzel

Dr. Giridhar Thirumalai

Eduardo Barraza

Ernesto Ibarra

Ganesh Watve

Imran K Malik

Jacqueline Grant

James Paul

Javier Contreras

Joel Serrano

John Katsiris

Kim Essendrup

Micheal Olufemi Falodun

Mukul Gupta

Praveen George Jomy

Prayas Kad

Ralf Buhl

Sasan Nikookar

Warren Krams

Zimele Cele

REFERENCES

Lehmann, D.R. and Winer, R.S. (2008). *Analysis for Marketing Planning*. New York: McGraw Hill/Irwin.

Drucker, P. (1973). *Management: Tasks, Responsibilities, Practices*. New York: Harper & Row.

Henderson, B. D. (1970). "*The Product Portfolio*." Boston Consulting Group: Perspectives, 66.

Porter, Michael E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Simon and Schuster.

Porter, M.E. (1998). "*The Five Competitive Forces that Shape Strategy*." Competitive Advantage. New York: The Free Press.

Aaker, D. A. (2010). *Marketing Research*. New Jersey: John Wiley and Sons.

Aguilar, F.J. (1967). *Scanning the Business Environment*. New York: The Macmillan Company.

Ansoff, I. (1957). *Strategies for Diversification*, Harvard Business Review, Vol. 35 (5), Sep-Oct, p. 113-124.

Stern, C.W. & Deimler, M.S. (2006). *The Boston Consulting Group on Strategy: Classic Concepts and New Perspectives*. New Jersey: Wiley & Sons.

Woodall, P. (1986). "*The Big Mac Index*." London: The Economist, September Edition.

Plahte J. *Tiered pricing of vaccines: A win-win-win situation, not a subsidy*. Lancet Infect Dis 2005.

Outterson K. *Patent buy-outs for global disease innovations for low- and middle-income countries*. Am J Law Med 2006

Wasson, C.R. (1978). *Dynamic Competitive Strategy and Product Life Cycles*. Austin, TX: Austin Press.

Meyer, P. J. (2003). "*Attitude is Everything: If You Want to Succeed Above and Beyond*." Attitude & Motivation, 2.

Reichheld, F. (2003). "*One Number You Need to Grow*". Harvard Business Review, December.

Davidson, H. (1997). *Even More Offensive Marketing: An Exhilarating Action Guide to Winning in Business*. London: Penguin Business.

Moore, G. E. (1965) "*Cramming more components onto integrated circuits*." Electronics: 114-117.

Henderson, B. D. (1970) "*The Product Portfolio*" Boston Consulting Group: Perspectives, 66

Kotler, P. (1994) *Marketing Management 8th ed*. Englewood Cliffs, NJ: Prentice Hall: 72-75.

Lochridge, R. (1981) "*Strategy in the 1980s*." Boston Consulting Group.

Hill T. (2005) *Operations Management, 2nd ed*. Basingstoke, UK: Palgrave Macmillan.

Hayes, R.H. and Wheelwright, S.C. (1979) "*Link Manufacturing Process and Product Life Cycles.*" Harvard Business Review, January–February: 133-140.

Hines P. and Rich N. (1997) "*The Seven Value Stream Mapping Tools.*" International Journal of Operations and Production Management 17(1): 46-64.

Zeithaml, V.A., Parasuraman, A., and Berry L.L. (1990) *Delivering Quality Service: Balancing Customer Perceptions and Expectations* New York: The Free Press.

Drucker, P. (1973). Management: Tasks, Responsibilities, Practices. New York: Harper & Row.

GLOSSARY

Aspects of Sales and Marketing

Also referred to as "Aspects of Marketing". The Aspects of Sales and Marketing are based on the six most common and often distinct career fields related to Sales and Marketing. They are Marketing Strategy (MS), Marketing Research (MR), Digital Marketing (DM), Corporate Sales (CS), Branding and Advertising, and Retail Marketing (RM).

Assumptions

An assumption can be defined as anything that is considered to be true without proof.

Average Inventory Level

This metric represents the average amount of inventory available during a certain period of time. It is calculated as: (Inventory at start of period + Inventory at end of period) / 2.

Barter System

More than a thousand years ago, when coins and other forms of money were not yet popular, the typical and most common way people procured their products or services was through the barter system—the direct exchange of goods or services without the use of money.

BCG Advantage Matrix

BCG Advantage Matrix is a two by two matrix, which was developed to categorize business units on two parameters—size of the advantage and number of approaches to achieve the advantage.

BCG Growth-Share Matrix

The BCG Growth-Share Matrix, originally conceptualized by the Boston Consulting Group (BCG) in the late 1960s to evaluate various business units, can be applied equally well to products or services. It consists of a two-by-two matrix containing four quadrants, with the vertical axis depicting market growth rate and the horizontal axis showing market share.

Behavioral Segmentation

This tool involves segmenting customers on the basis of their consumption behavior or attitude towards a product and also takes into account their lifestyles and patterns of buying and/or using the product.

Brand Loyalty

This metric is reflected by how many customers purchase a brand repeatedly. It indicates the commitment that customers have towards a brand and is the basis of a strong relationship between the brand and its customers. The underlying metrics for brand loyalty may be the percentage of repeat customers out of total customers, the frequency of repeat purchases, and the degree to which other brands are also purchased along with the brand under consideration.

Brand Perception

Brand perception refers to how prospective and current customers react to seeing or hearing about a company's product or brand and how the company is perceived within the market.

Brand Recall

This metric is an indicator of how many customers or prospective customers mention a brand when a relevant cue is provided to them.

Break-Even Analysis

Breaking even refers to the amount of sales (measured either in units sold or revenue) required to cover the total cost of production (i.e., all fixed and variable costs). The break-even point refers to the point where revenue is equal to cost and profit is therefore zero. Each unit that the company sells beyond the break-even point adds to the profitability of the product. Break-even analysis helps companies identify the minimum amount of product that they must sell at a given price to cover their costs.

Business Unit Strategy

The Corporate Marketing Strategy, which is a component of the overall Corporate Strategy, is further divided into various Business Unit or Geographic Strategies, which in turn is further divided into particular Product or Brand Strategies for each product or brand.

Cash Rebates

Companies offer cash rebates during certain periods to quickly sell their products and clear stock without lowering the list price.

Company Commissioned Reports

These are research reports created or commissioned by a company to understand specific areas of the company's strengths and weaknesses which may have significant impact on the decisions to be made by the marketing strategy teams.

Competition Analysis

Competition analysis involves examining the competitive landscape for competing products with a view to understanding the company's current product portfolio relative to other similar products, determining opportunities for product differentiation, and identifying new product development options.

Competitor Selection Criteria

This tool involves selecting and evaluating potential competitors and their competing products through the use of specific objective criteria. The criteria are generally the critical success factors in the industry.

Constraints

A constraint is a limitation or restriction that creates certain boundaries or obstacles.

Conventional Mass Media Marketing

Unlike a seller's marketplace where sellers have the advantage over customers, mass media marketing features multiple manufacturers, thus shifting the balance of power in favor of consumers. Primary channels used for mass media marketing are print advertising (newspaper, magazine, insert, or run of paper), mass mailers, television (network, cable, or syndicated), and radio (national, local, satellite, or podcast), and outdoor advertising (billboards, bus shelters, stadiums).

Corporate Finance Strategy

This defines how the company will manage its finances, attain funding, and financially sustain its operations. The Finance Strategy should include forecasts and projections and summarize costs, income, and investments.

Corporate Human Resource Strategy

This maps the human resource capabilities within the company and considers talent management and acquisition needs to sustain growth.

Corporate Marketing Strategy

This defines how the company will target, position, market, and sell the planned products, and defines metrics, targets, and budgets for all marketing activities.

Corporate Operations Strategy

This defines how the company will manage operational activities, manufacture its products (or provide services), and provide the corresponding customer support and warranty.

Corporate Product Strategy

This defines the products or services the company offers, and the research and development efforts required to create them.

Corporate Strategy

Corporate Strategy is the overall direction of the company (as defined by senior management) that takes into consideration an assessment of the existing capabilities of the company and external opportunities and threats.

Customer Acquisition Cost

This metric represents the total cost that a company incurs in convincing a single customer to purchase its product and the cost of repeat purchases within a specific time period.

Customer Feedback

Customer Feedback includes improvement suggestions, compliments, and complaints. Complaints and improvement suggestions highlight areas where a company needs to make changes and adjustments and where its current positioning might not be working as desired. Compliments highlight areas where a company is doing well.

Customer Lifetime Value

Customer Lifetime Value places an upper limit on how much a company should spend on acquiring a new customer. Customer Lifetime Value represents the total profits that a customer generates for a company or a product over a certain time period.

Customer Personas

Personas are highly detailed fictional characters, representative of particular types of users in a market segment. They are created to help the marketing team identify who the potential buyers are, what they are trying to achieve, what they think, what drives their behaviors, how they buy, and why they take certain decisions.

Customer Reach

Customer reach metrics are an indicator of how many existing customers and potential new customers a Sales and Marketing initiative is able to reach through Marketing Aspects such as Branding and Advertising, Retail Marketing, Corporate Sales, and Digital Marketing.

Decision Tree Analysis

Decision Tree Analysis is used to evaluate the best option from a number of mutually exclusive options when an organization is faced with an investment decision.

Decline Stage

In the decline stage, the product reaches its saturation point and its market and sales begin to decline.

Demand Chain Planning

Demand chain planning involves reviewing details of the supply chain with customers and then working backwards to ensure that customers' demands are adequately met.

Demographic Segmentation

This tool is primarily used for consumer markets. It involves segmenting the market along one or more demographic variables.

Differentiated Strategy

In a differentiated targeting strategy, a company directs its marketing efforts towards two or more segments by creating a different marketing mix for each segment. Each marketing mix for this strategy typically varies depending on product features, distribution methods, promotion methods, and pricing. After successfully using a focused strategy in one market segment, an organization might expand into other segments, therefore switching to a differentiated strategy.

Discounted Cash Flow

This tool is used to determine the financial attractiveness of a particular investment opportunity, which could range from a single product to an entire business unit. It determines the present-day value of future free cash flows expected to be generated by the opportunity (i.e., operating cash flow minus capital expenditures which represents the actual cash flow available for future opportunities), which are then discounted using the weighted average cost of capital.

Distribution Channel

It is a network through which products or services move from vendors to end consumers. A distribution channel can be of two types- Direct and Indirect. A direct distribution channel generally consists of the vendor and the end consumer. An indirect distribution channel consists of various intermediaries between these two.

Distribution Strategy

The Distribution Strategy for a product or service identifies the key areas involved in delivering the product or service to customers.

Downtime

Downtime refers to periods when a system does not provide or perform its primary function or is unavailable

Dutch Auctions

In Dutch auctions, there can be a single seller and many prospective buyers or a single buyer and many prospective sellers. In the first scenario, an auctioneer announces the highest price for the product and lowers the price until a buyer is ready to purchase the item at that rate. In the second scenario, the buyer announces the item that he or she wants to buy, and the prospective sellers compete to offer the lowest price.

Economies of Scale

Economies of Scale occur when there is a significant decrease in the unit cost of production with an increase in the scale of operations or production.

Elastic Demand

An elastic demand is one in which a change in price significantly impacts the quantity demanded for a product or service.

English Auctions

In English auctions, there is a single seller and multiple prospective buyers. The seller posts an item with the starting bid amount (which is the lowest price at which the seller is willing to sell the item) and the bidders increase the bid amount to a price they are willing to pay for the item.

Environmental Scanning

Environmental scanning consists of performing a thorough assessment of external environmental factors, gathering relevant information, and considering opportunities and threats that can impact the company.

Essential Marketing Aspects

Marketing Strategy and Marketing Research are referred to as Essential Marketing Aspects. Both of these Aspects are mandatory and should be used to define, measure, and provide direction for the overall marketing efforts of a company.

Exclusive Distribution

Exclusive Distribution is a strategy whereby a company uses only one distribution partner to sell its product in a certain market.

Experience/Learning Curve

An Experience Curve (also known as a Learning Curve) explains the decline in the cost per unit due to accumulated production experience.

External Factors

External factors play a major role in developing a solid and comprehensive Corporate Strategy. Examples of external factors that play a role in strategic planning include government regulations, market conditions, emerging technology, regional culture, demographic changes, and the global economy.

External Strategic Consultants

External strategic consultants are commonly hired by senior management to help with strategic planning. In addition to organizing and leading sessions, third party consultants may also provide expert, unbiased opinions about key strategic decisions. Consultants are expected to provide thorough research data in addition to their expert knowledge during the strategic decision-making process.

Fill Rate

This metric refers to the percentage of demand (represented by customer orders) that is fulfilled by the stock on hand. It indicates the ability of the current inventory to fulfill demand.

Focused or Concentrated Strategy

When a company directs its entire marketing efforts toward a single market segment using single marketing mix, it is said to be using a focused or concentrated strategy.

Fragmented New-Age Marketing

In recent times, the media has become increasingly fragmented with several hundred television and radio channels, as well as a large variety of print media, including newspapers, magazines, and trade publications. Moreover, since the late 1990s, with the increasing popularity of the Internet and, more recently, smartphones, many options now exist for advertisers to reach a global audience using digital media marketing methods such as cell phone apps, Google, Facebook, Twitter, LinkedIn, YouTube, QR codes, gamification, and proximity marketing (e.g., Foursquare). With all of these options, many marketers find it beneficial to use an integrated approach to marketing by leveraging the strengths of various types of media.

Frequency

This metric represents the number of times a specific communication has been viewed by consumers in target markets through any of the Marketing Aspects.

Future Competitive Analysis

Performing a future competitive analysis involves actively scanning the industry (or other industries) for new entrants, emerging technologies, and other developments that pose a serious competitive threat to a company or its products in the future. This exercise is critical for the long-term success of the company because the greatest competition could come from outside the industry and, in extreme cases, could make an entire industry obsolete.

Future Competitive Scenarios

Future competitive scenarios are potential future events that pose a serious competitive threat to a company or its products.

Gain-Sharing Pricing

In a gain-sharing pricing situation, both the seller and purchaser share in any gains that are made above a pre-determined threshold.

Gap Analysis

Gap analysis is a tool used to compare the current state of the organization against the desired state to identify any required changes.

GE-McKinsey Matrix

The GE-McKinsey Matrix was developed in response to the shortcomings of the BCG Matrix, which does not account for a number of factors. It was originally used for a visual representation of GE's 150 business units to determine which business units were doing well, which needed support, and which should be discontinued. However, the matrix can also be applied to a product portfolio. It evaluates each product on two parameters, market attractiveness and product position, which are the labels of the axes on the matrix.

Generic Reports

These are research reports that are not specific to a company or its industry. They contain information about political, economic, social, technological, regulatory, and environmental trends that could impact the company's Marketing Strategy.

Geographic Strategy

The Corporate Marketing Strategy (which is a component of the overall Corporate Strategy) is further divided into Business Unit or Geographic Strategy, which in turn is further divided into Product or Brand Strategy for each product or brand.

Going Rate Pricing

In oligopolistic industries that sell commodities—such as salt, steel, or light bulbs—all companies charge approximately the same price because there is not a great deal of product variation, innovation, or options for reducing manufacturing costs.

Growth Stage

In the Growth Stage of the product life cycle, the market accepts the product, and sales begin to increase. This growth makes it possible for the company to invest more money in distribution, promotion, and advertising to maximize the potential of this stage in the life cycle

High Level Goals

When establishing the metrics against which to measure the success of the Marketing Strategy, the Marketing team must work with Senior Management and with other departments in order to ensure that appropriate and relevant data is being collected and that success criteria are consistent with the overall goals of the organization. Failure to take into consideration the high level goals of the business can result in the team focusing on metrics that do not contribute to the overall success of the business or that conflict with metrics at other levels and in other divisions or other functional areas of the business.

Hill Framework

The Hill Framework for formulating Operations Strategy involves the following steps—

1. Defining the corporate objectives
2. Developing a Marketing Strategy needed to fulfill the corporate objectives
3. Identifying the competitive factors based on which consumers prefer one company over another and then classifying them into order qualifiers and order winners
4. Defining the operational structure to deliver those products
5. Specifying the infrastructure and resources needed to implement the operations

Identify Competition

The first step in defining the competitive positioning for a company's products or services is to identify the main competitors for those products or services. This entails creating a list of all potential competitors and then analyzing their strengths, key product features, operational excellence, and market share information to best identify the closest rivals from the customer's viewpoint.

Industry Benchmarks

Industry benchmarking is the process of comparing an organization's business processes and performance metrics to those of leading companies in the industry. To establish a benchmark, management identifies the best companies in the industry or in another industry where similar processes exist. It then compares the company's own practices and processes to the best practices and processes of those leading organizations studied.

Industry Reports

These reports are specific to a company's industry and may contain current industry trends, present difficulties, legal and regulatory norms, and promising future developments. Industry reports are typically published by consulting firms or by industry associations and are available to any company, generally at a price.

Inelastic Demand

An inelastic demand refers to a situation in which there is no significant change in the quantity demanded due to a change in the price of the product or service.

Intensive Distribution

Intensive Distribution is a strategy whereby a company places its products and services in as many outlets or distribution channels as possible.

Introduction Stage

The Introduction stage is the product life cycle stage in which the marketing team emphasizes the product's promotion and initial distribution.

Key Performance Indicators (KPIs)

Key Performance Indicators (KPIs) are used to assess and compare current performance levels. KPIs are metrics that reveal how an organization is performing on certain critical aspects that are key to success in its industry.

Levels of Sales and Marketing Strategy

The Corporate Marketing Strategy, which is a component of the overall Corporate Strategy, is further divided into various Business Unit or Geographic Strategies, which in turn is further divided into particular Product or Brand Strategies for each product or brand.

Low-interest Financing

To enhance sales of products that are at a high price point, companies often offer low-interest financing to customers who prefer to pay in monthly installments rather than a lump sum amount upfront.

Macro-environment

Macro-environmental factors are those over which a company does not have much control or influence. Some of these include political, economic, social, technological, environmental, and legal factors.

Market Analysis

Market analysis involves analyzing market data to identify patterns and predict future events. The purpose of performing a market analysis is to understand the attractiveness of a market.

Market Attractiveness Report

The Market Attractiveness Report contains detailed information on potential markets and their relative attractiveness. Some factors that may be identified in the Market Attractiveness Report include market size, market trends, market growth rate and profitability, and key success factors for the market. The Market Attractiveness Report should also include information gathered from the PESTEL Analysis and Porter’s Five Forces model.

Market Definition

A market is defined as the set of potential customers who have a demand for the product category that includes the company's product. It sets the boundaries within which segmentation is carried out. The definition should be broad enough so that the company can reasonably hope to acquire a share of the market within a timeframe that generates revenues commensurate with its corporate objectives. The market definition should also take into account the most likely future market scenarios so that the definition continues to stay valid in the long term.

Market Growth Rate

Market growth rate forecasts use previous data and future trend indications to predict the future growth rate of markets.

Market-Product Grid

A Market-Product Grid is a tool that is used to relate the potential buyers' market segments to product offerings or potential marketing actions. It is particularly useful when a differentiated targeting strategy is being used in a heterogeneous market.

Market Segment Attractiveness Matrix

After segmenting the market, a company needs to identify the most attractive segments to target. This tool primarily involves mapping a company's strengths against the attractiveness of each market segment, and then selecting only those segments that provide the best prospects for growth of the company.

Market Segmentation

Identifying the markets and the specific segments in which the business competes is critical to establishing and executing a focused Marketing Strategy. The market is the set of potential customers who have a demand for the company's products or services, and segmentation enables the business to design marketing initiatives that tap into key characteristics of each segment.

Market Segments

The output of using any of the segmentation tools is a description of the various market segments a company wants to consider. The descriptions should contain the characteristics of each segment that differentiate one segment from another.

Market Share

This metric is typically reflected by the ratio of sales of a product to total sales in the target market..

Market Size

This dimension defines the size and potential of the markets under consideration. Market size is calculated on the basis of current sales volume for the market.

Market Trend Analysis

A market trend analysis is an analysis of past and current market behavior and dominant patterns of the market and consumers. An important aspect of conducting a trend analysis for an organization is to obtain insights on the market scenario, consumer preferences, and the macroeconomic environment.

Market Trends

Market Trends show the overall growth or decline of a market, competitor activities, and customer behavior over time. Current market trends can also help in predicting future market trends

Maturity Stage

In this stage of the product life cycle, sales reach their peak. The product is well established and the aim for the company is to maintain a sizeable market share.

Maximum Capacity

This metric refers to the quantifiable units of service in a given time frame that a company can handle at a one hundred percent resource utilization rate.

Media Coverage

This metric represents the number of mentions, articles, or stories about a product in the media, including newspaper, radio, magazines, television, and digital sites.

Micro-environment

The micro-environment of a company consists of environmental factors that have a more direct impact on the operations and success of the business. Some of these factors pertain to customers, distributors, suppliers, and other stakeholders.

Multi-voting Technique

Members of senior management vote on a list of initiatives in multiple rounds. In each round, the initiative that receives the least number of votes is removed. After a few iterations, only the most important initiatives remain.

Net Promoter Score

Net Promoter Score is a metric used to measure customer loyalty that was developed by Fred Reichheld of Bain & Company in association with Satmetrix in 2003. It is measured by asking customers their likelihood of recommending a company's product to a friend, relative, or colleague.

Online Marketplaces

Several e-commerce companies have created global online marketplaces for selling books, consumer goods, and other products. In such business models, customer acquisition is usually initiated through the company's website. The company coordinates with its multiple suppliers to source products, demos and product reviews are provided on the website, customers make their purchases online, and items are shipped directly to customers.

Online Networking

The Internet has made the world a smaller place. People can now have access to their networks at all times. These changes have significantly impacted the way in which people communicate with each other and, in turn, have created new possibilities for innovative business models.

Order Qualifiers

These factors are those that enable a product to qualify for purchase.

Order Winners

These factors are the key reasons behind customers purchasing a product, so excelling in these factors improves a company's chances of closing the sale and getting new business.

Organizational capabilities

Organizational capabilities are those that allow a company to achieve its organizational goals and gain a competitive advantage. Capabilities can originate from any function or may already be fundamental to a company.

Perceived Value Pricing

Perceived value pricing involves pricing goods or services based on the value consumers place on them and the price they are willing to pay, rather than on the costs involved in bringing them to market.

Perceptual Maps

Perceptual mapping is a technique used to visually display the perceptions of customers and examine the positioning of a company's product relative to those of the competition. These maps are two-dimensional, with the axes being two parameters on which customer perceptions of different products are measured.

PESTEL Analysis

The PESTEL Analysis (also referred to as 'PESTLE Analysis') framework is used to analyze macro-environmental factors that are sources of opportunities and threats, and therefore positively or negatively impact the organization, its customers, and/or its suppliers. The six factors of the PESTEL Analysis framework are Political Factors, Economic Factors, Social Factors, Technological Factors, Environmental Factors and Legal Factors.

Points of Parity

Points of parity for a product are those characteristics of a company's product that are not unique but are rather on par with competing products.

Porter's Five Forces Model

Porter's Five Forces model is used to analyze the long-term attractiveness of an industry. Understanding the interaction of these forces with the existing competing organizations helps explain the differences in profitability amongst industries. The five forces are Threat of New Entrants, Threat of Substitutes, Bargaining Power of Customers, Bargaining Power of Suppliers and Competitive Rivalry.

Positioning Statement

Positioning Statement is generally a short sentence or phrase that captures the essence of the value a company's products offer to its target customers.

Price Elasticity of Demand

Price Elasticity of Demand (PED) is a measure of the responsiveness of the product's demand to a change in its price. Specifically, it measures the percent change in quantity of product demanded in response to a one percent change in product's price when all other elements that determine demand are kept constant.

Mathematically, PED is calculated as follows:

$$\text{Price Elasticity of Demand} = \frac{\text{\%Change in Quantity Demanded}}{\text{\%Change in Price}}$$

Pricing Strategy

The Pricing Strategy for an organization should be oriented towards creating a sustainable brand perception and sustainable profitability for the brand while growing and maintaining a healthy market share. It typically includes the following information—

- the recommended pricing for products or services over a period of time in different target market segments and a rationale for the price point
- an indication of how the Pricing Strategy aligns with the products' positioning statement and the company's overall Corporate Strategy
- the number of units that must be sold to break even, the projected units the company anticipates it will sell, and the expected profitability of the product
- the strategy to deal with possible changes in the environment, such as changes in prices offered by competitors and increases in production costs
- the strategy for any discounts, special offers, or rebates, and the costs associated with these
- the Total Cost of Ownership, including cost of warranties and after-purchase servicing

Primary Marketing Research

When existing industry reports, internal company reports, or generic reports are insufficient for understanding the external factors that can impact a company, the company may choose to conduct primary marketing research in order to improve knowledge of the marketplace, reduce risk, and improve marketing decisions. Such marketing research projects generally involve understanding the perceptions of various entities that are knowledgeable about various external factors that may impact the company, through tools such as interviews, group discussions, and survey questionnaires.

Prioritization Matrix

Criteria and weighted ratings are used to determine the relative importance of different initiatives. Each initiative is assigned a rating for each criterion and then the weights are applied. The initiatives with the higher total weighted scores are assigned higher priority.

Prioritization Techniques

There are a number of prioritization techniques that can be used by senior management when deciding which initiatives or activities are the most important and thus should be implemented first. Some of the most frequently used prioritization tools are as follows—

1. Multi-voting technique
2. Strategy Grid
3. Prioritization Matrix

Process-Oriented Approach

In order to facilitate the best application of the SMstudy® Guide framework, the SMstudy® Guide defines a process-oriented approach to Sales and Marketing, which provides specific guidance to Sales and Marketing professionals about how to most effectively and efficiently manage their sales and marketing activities. The SMstudy® Guide defines Sales and Marketing in terms of processes that comprise a series of actions that leads to a particular result. Each process requires specific inputs and then uses tools to create specific outputs.

Product Availability

Product Availability metrics indicate whether a product is available for purchase at the time and place customers are looking to purchase the product or other competing products from competitors.

Product Category

It is useful for a company to identify an appropriate product category for each product when defining a positioning statement. Identifying an appropriate product category also helps the company determine its brand message and clearly articulates the value proposition of the company's products.

Product Life Cycle Analysis

Product Life Cycle Analysis is a useful tool to determine metrics and objectives that align with the current stage of the product in its life cycle. A product life cycle is divided into four stages of development—

1. Introduction Stage
2. Growth Stage
3. Maturity Stage
4. Decline Stage

Product or Brand Marketing Strategy

Each Product or Brand Marketing Strategy (also referred to as 'Marketing Strategy' in the SMstudy® Guide) defines Sales and Marketing objectives for each product or brand, which drive specific tactics that align with and often rely on other Marketing Aspects (i.e., Marketing Research, Digital Marketing, Corporate Sales, Branding and Advertising, and Retail Marketing).

Product Portfolio Analysis

Understanding the overall product portfolio of a company, and evaluating the current and future product lines is an important component of the Marketing Strategy. Peter Drucker (1973) proposed a classification method for analyzing a company's product portfolio based on each product's current and expected profitability. After the classification exercise, the marketing team is able to pinpoint products that contribute to the company's strengths and those that do not. Accordingly, support and investment for each product can be decided.

Product Positioning

Creating a differentiated product positioning involves identifying the value that a company's products offer to target customers relative to the value offered by competitors. Product Positioning creates an image of the company's products for consumers, highlighting the most important benefits that differentiate the product from similar products in the market.

Product-Process Matrix

Robert Hayes and Steven Wheelwright first introduced the Product-Process Matrix to analyze the relationship between the product life cycle and the manufacturing process. This Matrix includes two dimensions, namely, product structure or product life cycle and the process structure or process life cycle. This model is used to identify which stage of the product life cycle a product is in, and then the appropriate process strategy is mapped to that stage.

Profitability

This metric is calculated as a ratio of profits to sales and is represented as a percentage.

Psychographic Segmentation

This tool is primarily used for consumer markets and involves segmenting buyers along one or more psychological variables.

Psychological Discounting

Companies may set high list prices on their products, creating the perception of a high-quality product, and then offer huge discounts leading customers to believe that they are getting a great deal.

Purchase Timing

Companies use relevant events as opportunities to increase the sale of their products to new customers who, in some instances, may not otherwise be exposed to their brands. Companies may provide their products at lower prices or offer complimentary product samples in order to introduce their brands to potential customers, and possibly increase future product sales by growing the total customer base.

Purchasing Power Parity

An important concept that needs to be considered when pricing products in multiple countries is “Purchasing Power Parity” (PPP). PPP is based on the premise that the price of identical goods—in the absence of transaction costs, taxes, and trade restrictions—should be the same in different markets when measured using the same currency. Several economists believe that the concept of PPP provides a better indication of pricing of the same product across various countries (and hence should be used) when compared using official exchange rates. Although there are multiple measures for PPP, “The Big Mac Index” is a popular standard.

RATER Model

The RATER model, which is widely used to establish service quality criteria, helps in measuring the efficiency of customer service delivery.

The model highlights five areas that are considered important by the customers when using a service—

- **R**eliability—Ability of the organization to provide the promised service consistently and in a timely manner
- **A**ssurance—Knowledge, skills, and expertise of the employees in creating trust and credibility
- **T**angibles—Physical delivery of the service provided
- **E**mpathy—The relationship between employees and customers
- **R**esponsiveness—Competency in providing quick and high-quality service to customers

Resource Utilization Rate

This metric measures the time that people spend working on projects and tasks. Resource utilization measures resource allocation on a specific set of work, including client and internal work (which directly affects efficiency of client work).

Risk-Sharing Pricing

Risk-Sharing Pricing is a strategy that businesses may employ when there is potential for consumers to avoid buying a particular item because of a perceived risk associated with the product. In a risk-sharing pricing scenario, the seller shares some of the risk with the buyer or takes on all of the risk to induce a favorable buying decision.

ROI

Return on Investment (ROI) is a widely used tool that measures the benefits a company receives from a specific investment—like launching a product—against the cost of the investment. It is a highly flexible tool where the benefit and the cost can be represented by any metric that is suited to the analysis at hand. ROI is represented by the following:

Return on Investment = (Benefit from Investment – Cost of Investment) / Cost of Investment

Sales Growth

This metric represents the growth in revenues for a product during a certain time period. It can be represented either as a percentage growth or in absolute terms. It is one of the primary metrics used by marketing teams to determine the success of the Marketing Strategy and is also the easiest to measure

Sealed-bid Auctions

These auctions have one buyer and many prospective sellers. The seller submits only one bid and has no knowledge about the other sellers' bids. The contract is usually awarded to the lowest bidder who qualifies for the relevant criteria as mentioned in the contract bid documents.

Seasonal Pricing

Some companies may discount products based on the season of the year

Secondary Marketing Research

Secondary Marketing Research involves the use of content and information that is currently available within the company or in the market through primary research that has already been conducted and is readily obtainable through company reports, trade journals, industry publications, and/or the Internet.

Selective Distribution

Selective Distribution is a middle of the road approach whereby a company uses a few delivery channels to distribute a moderate volume of products.

Seller's Marketplace

The Industrial Revolution in the eighteenth and nineteenth centuries marked a shift to mass production in factories (e.g., textile manufacturing). During this time, transportation infrastructure improved significantly with inventions such as the steam engine and more efficient ships. The banking system was further developed and the exchange of money became easier. Communication was also substantially improved through the development of the postal system and the use of telegraphs. Furthermore, goods were produced more efficiently and economically in factories and could be sold to a wider market. This created the seller's marketplace. The main objective of the seller's marketplace is to establish a supply chain to procure products and then establish a distribution channel to sell the products to a wide variety of customers, often referred to as "mass marketing." Emphasis on branding and advertising is minimal in a seller's marketplace.

Senior Management Direction and Insights

This is provided by senior management based on their experience and insights related to the business.

Share of Heart

Share of Heart is an indicator of how many customers or prospective customers mention the brand first when a relevant cue, such as industry, product category, usage situation, or customer need, is provided to them. In addition, however, share of heart indicates the number of consumers who identify the brand in consideration as the one they will buy,

Share of Mind

This metric, also referred to as “top-of-mind recall”, is an indicator of how many customers or prospective customers mention the brand first when a relevant cue, such as industry, product category, usage situation, or customer need, is provided to them.

SMART Framework

The SMART framework is a method that can help determine the appropriate metrics and objectives to measure performance of the Marketing Strategy. SMART is an acronym for Specific, Measurable, Attainable, Relevant, and Time-bound.

SMBOK® Guide

A Guide to the SMstudy Sales and Marketing Body of Knowledge (SMBOK® Guide), also referred to as the “*SMstudy® Guide,*” is a series of books that provide guidelines for the Sales and Marketing of products and services. It offers a comprehensive framework that can be used to effectively manage Sales and Marketing efforts in any organization.

Social Media Coverage

This metric represents the number of times any activity or content related to a product is shared on various social media channels. It may also include the number of customers who have subscribed to a company’s social media channel.

Special Customer Pricing

Some customers are more valuable and loyal to a brand over their lifetime than others. To reward such loyalty, companies often provide special offers exclusively for their loyal customers.

Special Event Pricing

Companies may provide special promotional pricing to generate additional sales during special events.

Stock-out

A stock-out refers to an event where the current inventory level is not sufficient to meet demand.

Strategy Grid

This is a frequently used prioritization technique. A two by two grid is created with “feasibility” and “need” on the two axes and “high” and “low” as the two categories on which initiatives are rated. The initiatives are then plotted on the grid and the ones that fall under “high need” and “high feasibility” are addressed first.

SWOT Analysis

A SWOT analysis involves identifying the strengths, weaknesses, opportunities, and threats that can potentially impact the success of the marketing team in meeting its marketing objectives.

Target Costing

A target cost is the maximum amount of cost that can be incurred to develop a product while still earning a desired profit margin at a particular selling price. Target costing involves determining the actual cost of a product or service after considering the desired profit margin. Mathematically, Target Cost is calculated as follows:

Target Cost = Expected Selling Price – Desired Profits

Target Segment

Once a company has identified all market segments, explored the competition, and then compiled the details of competitive products, it should then analyze the various segments and the strengths, weaknesses, opportunities, and threats faced by the company in order to identify the target segments in which the business would be most competitive. This process involves identifying the type of customers a company plans to target and the product categories under which it intends to create products.

Total Cost of Distribution

The total cost of distribution should include all the costs incurred to deliver the company's product or service to the end user. If there are multiple channels of distribution for a product or service, the total cost for each of the different distribution channels should be calculated. This will help the company determine the most efficient distribution channel, and ensure that the pricing of the company's products includes distribution costs.

Total Cost of Ownership

The Total Cost of Ownership (TCO) for a product or service is the net cost incurred by the consumer throughout the product's lifetime.

Traditional Marketplace

Traditional marketplaces are usually small markets where price negotiations and other decisions related to sales are made quickly—often by one or two persons.

Undifferentiated Strategy

If an organization selects an entire market as its target segment for a particular product, it is said to be using an undifferentiated targeting strategy. In an undifferentiated targeting strategy, the company assumes that all customers in the target market for a specific product have similar wants and needs that can therefore be satisfied with a single marketing mix..

Unit Elastic Demand

If the percent change in demand for a product or service is directly proportionate to the percent change in its price, the product or service is said to possess unitary elasticity.

Value Chain Analysis

Value Chain Analysis is used to analyze the value created by a company's current activities. It explores where more value can be added, as well as where value is not being added throughout the chain of activities. It is a useful tool for internal analysis of strengths (activities that add value) and weaknesses (activities that do not add value).

Value Network Analysis

Value Network Analysis involves looking not only at a company's supply chain and its customers, but also at the supply chains of the company's vendors and their customers. Value for the end customer is created through the inter-relationships of these entities and all these relationships together make up the value network.

Value Pricing

Some companies acquire customers by pricing their products or services quite low, even if the offering is high quality. Value pricing does not simply mean lowering prices; it involves reengineering operations and reducing costs to become a low-cost provider. Value pricing is generally carried out by companies that are ahead of the competition in the experience curve.

Value Stream Mapping

Value stream mapping involves describing in detail the current flow of information and materials required to deliver a product or service to customers, and then analyzing the flow to identify opportunities to reduce waste, decrease production and delivery times, and improve other operational metrics.

Warranty

A warranty is a guarantee or promise made to consumers regarding the product or service.

INDEX

A

B

C

D

E

F

Q

R

S

T

U

V

W

Y

The SMstudy® Guide series is developed by VMEdu, Inc., a global education and certification course provider that has educated over 400,000 students world-wide in more than 3,500 companies. It is the result of a collaborative effort from a large number of Sales and Marketing experts with extensive experience, knowledge, and insights from a variety of industries and disciplines.

This first book in the SMstudy® Guide series focuses on Marketing Strategy, providing a unique process-oriented framework that, when effectively used, ensures a thoughtful and methodical approach to building and implementing marketing initiatives, and yields a Marketing Strategy that is comprehensive, aligned across all departments and functions of the business, and designed for success.

Marketing Strategy is one book in a series of six. Others in the SMstudy® Guide series that can be used to complement the initiatives and tools detailed in this book are Marketing Research (MR), Digital Marketing (DM), Corporate Sales (CS), Branding and Advertising (BA), and Retail Marketing (RM).

SMstudy
Targeting success

SMstudy® is a brand of VMEdu, Inc.