Chapter Two: Developing Marketing Strategies and a Marketing Plan

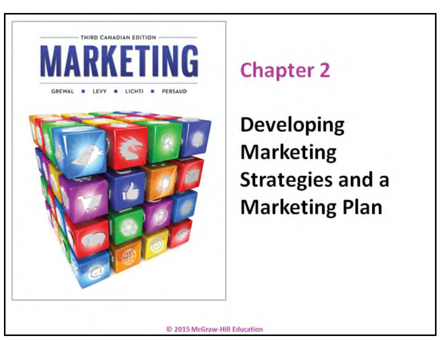
TOOLS FOR INSTRUCTORS

- Learning Objectives
- Annotated Chapter Outline with Instructor's Notes/Teaching Tips
- Answers to End of Chapter Learning Aids
    - Concept Review
    - Marketing Application Questions
    - Net Savvy

  Chapter Case Study
- Video Activities

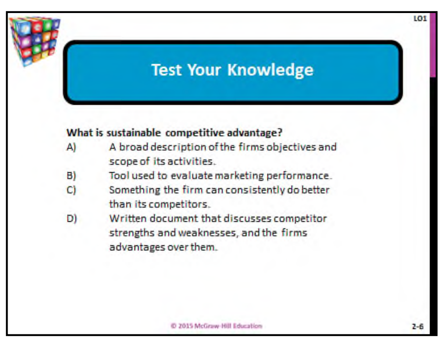
Learning Objectives

1. Define a marketing strategy
2. Describe the elements of a marketing plan
3. Analyze a marketing situation using a SWOT analysis
4. Explain how a firm chooses what group(s) to pursue with its marketing efforts
5. Outline the implementation of the marketing mix as a means to increase customer value
6. Describe how firms grow their businesses

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
Opening Vignette: Nike and adidas Both Nike and adidas compete for customers. Both companies offer a variety of product lines using different marketing tactics. Nike has used sponsorship featuring top athletes such as Michael Jordan, Kobe Bryant and LeBron James. Not to be outdone, adidas has enlisted young sports stars such as Derrick Rose and Dwight Howard to help sell its products. Each company uses different marketing strategies to win share, but Nike leads at 33% with adidas trailing at		*Many students will own products by Nike or adidas and have strong preferences for them.* ***Ask:*** *Why do you feel the way you do about the products? Have you do any research to support your belief that one brand is superior to the other? How do you think Nike and adidas were able to create strong value proposition?* *There are many ways to direct this discussion, but remember to focus on creating value for customers as well as the*

<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor's Notes</th></tr>
<tr>
<td>22%.</td>
<td>
</td>
<td>firm.
As noted, Chapter 2 focuses on Developing Marketing Strategies and a Marketing Plan. There are 6 Learning Objectives as noted.</td>
</tr>
<tr>
<td>LO1: What is a Marketing Strategy?
A company's marketing strategy should identify its target market(s), related marketing mix—the four Ps, and the bases upon which sustainable competitive advantage can be built.

A. Sustainable competitive advantage refers to something the firm can persistently do
B. A sustainable competitive advantage acts like a wall that the firm builds around its position in a market.</td>
<td>

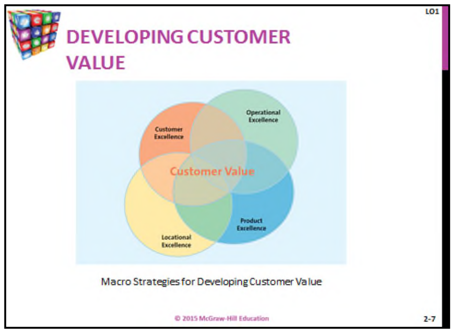

</td>
<td>Ask students: What competitive advantage(s) do companies such as Nike, Starbucks and Tim Hortons have?

For Nike, their competitive advantages revolve around their strong brand, technological break-throughs and a strong customer base of very loyal customers.

For Starbucks, they reach and appeal to customers that want a coffee-drinking experience and customers are willing to pay a lot for this. For Tim Hortons, their customers just want a good cup of coffee at a fair price in a timely manner.

Ask students: What can a firm to do compete against a well-established market leader?

When competing with an entrenched competitor, firms must be creative to meet the needs and wants of their customers. Apple, for example, consistently does just that and continually builds sustainable competitive advantages.</td>
</tr>
</table>

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
Four Overarching Strategies that create and deliver value and develop sustainable competitive advantages: 1. Customer excellence 2. Operational excellence 3. Product excellence 4. Locational excellence		*These strategies are expanded upon in the next sections. You can hold a brief discussion of the overarching strategies or introduce the following, more in-depth discussion. It covers the four strategies to create and deliver value and a sustainable competitive advantage.* ***Ask students** to think of companies who they are very loyal to in many categories (food, electronics, personal care)? Is it their product, location, operational, or customer excellence that draws the student's loyalty?*
1. Customer Excellence: Retain loyal customers by providing excellent customer service. • Retain loyal customers: Customer loyalty means that customers are committed to buying from a particular firm. Marketers use several methods to build customer loyalty. - Develop a clear and precise positioning strategy. - Create an emotional attachment through loyalty programs. • Offer excellent customer service. - Train employees to deliver a consistently superior customer experience.		*Loyal customers enable a firm to introduce new products and change price points without the risk of losing them. This is a good place to talk about loyalty programs.* ***Ask students** if they belong to any (or if their parents do). Most frequent programs would include airlines, hotels and video stores. Then **ask them how the program affects their patronage. You can also ask if they are loyal to any products.** This would lead to a discussion about what it means to be loyal—customers are committed to buying from a particular firm.*

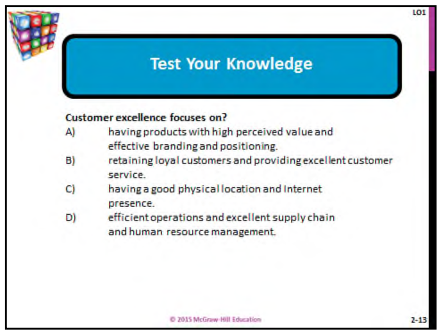
<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor's Notes</th></tr>
<tr><td>2. Achieve operational excellence. Ensure that customers get the merchandise they want, when they want it, in the required quantities, and at a lower delivered cost than that of competitors.
- Customer excellence derives from efficient operations, excellent supply chain management and strong relationships with their suppliers.
- Supplier relationships must be developed over time.</td><td>
</td><td>The text highlights how firms can use the various elements of the marketing mix to achieve a competitive advantage.

Firms such as Netflix represent a remarkable innovation with its high-tech distribution centres. Its supply chain continues to evolve and become increasingly efficient.

The case study at the end of the chapter provides additional information about the methods Netflix has used to become a dominant player in media streaming.</td></tr>
<tr><td>3. Offer product excellence through branding and positioning.</td><td>
</td><td>Building a strong brand and unique positioning in the marketplace can be a strong deterrent to other competitors that look to enter the market. Some brands employ a unique positioning.

Abercrombie and Fitch and Virgin Records both are designed to appeal to a young adults and college students. These stores use cutting edge images and unique promotions to appeal to this difficult demographic. Both feature quality goods and are considered trendy by consumers.</td></tr>
<tr><td>4. Offer locational excellence. A competitive advantage based on location is sustainable because it is not easily duplicated.</td><td>
</td><td>Ask students where they go to buy coffee or fast food. Do they choose Starbucks or Tim Hortons because there are many locations well situated and easily accessible? When it comes to fast food, is it easier to find a McDonald's than other burger outlets? Discuss how location has played a role in building</td></tr>
</table>

<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor’s Notes</th></tr>
<tr><td></td><td>

</td><td>and sustaining these businesses.

In most cases, a single strategy is not sufficient to build a sustainable competitive advantage. Firms often require multiple approaches to build a wall around their position. Multiple approaches include providing excellent customer value, customer service, offering superior customer relations and of course, great prices!</td></tr>
<tr><td>LO2: The Marketing Plan

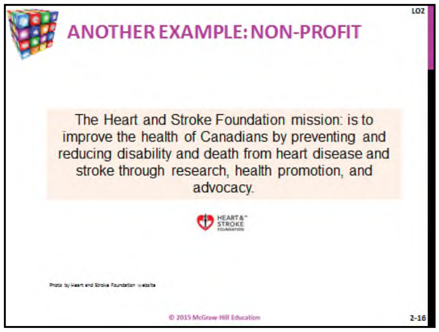
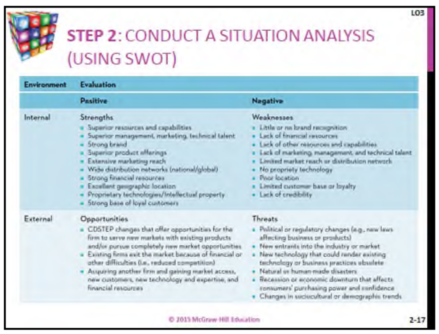
A marketing plan is a written document composed of an analysis of the current marketing situation, opportunities and threats (SWOT), marketing objectives and strategy specified in terms of the 4Ps, action programs, and projected or pro forma income (and other financial) statements. The three major phases of the marketing plan are:

Planning Phase
- Step 1: Define Business Mission & Objectives
- Step 2: Conduct a situation analysis (SWOT analysis)
Implementation Phase
- Step 3: Identify and evaluate opportunities through segmentation, targeting and positioning process
- Step 4: Develop and</td><td></td><td>There are three phases of a marketing plan: planning, implementation, control. Exhibit 2.2 shows these phases and strategic focus of each when developing a marketing plan.

Regarding the importance of planning. Sergio Zyman, former CMO of Coca-Cola, points out in his book The End of Marketing as We Know It that no one would ever go to the airport and say “I have $200—where can I go?” Instead, they say, “I need/want to go to San Francisco; how much will it cost me?” The same is true for marketing planning; you must know your final destination to get there. Planning and executing the plan are crucial to success.

Refer to Appendix2A to walk students through an example of a marketing</td></tr>
</table>

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
implement marketing mix (4Ps) Control Phase - **Step 5**: Evaluate performance by using marketing metrics and take corrective action as necessary		*plan.*
Developing a marketing plan consists of three major phases: **1.** Planning phase: Marketing executives and other top managers define the mission and/or vision of the business, conducts a situation analysis, and identifies and evaluates opportunities by engaging in a process known as segmentation, targeting, and positioning. **2.** Implementation phase: Marketing managers design the marketing organisation, allocate resources through by making budgets, and develops detailed schedules and action plans. **3.** Control phase: Marketers evaluate the performance of the marketing strategy and take any necessary corrective actions.	 Exhibit 2.2 shows the levels of planning and the scope, duration and strategic focus of each level of planning.	*A poorly executed plan leads to failure, regardless of how good or solid the plan is. The world is full of good plans poorly executed.* *When initially introduced, diapers designed differently for boy and girls bombed because the market was not ready for the product; through improved execution, the diaper manufacturer ultimately found success.* ***.*** *However, even well-executed plans require monitoring and updating, because the needs of any market constantly change.*
Step 1: Define the Business Mission and Objectives **A.** The *mission statement* provides a broad description of a firm's objectives and the scope of activities it plans to undertake as it attempts to answer two main questions: What type of business are we? What do we need to do to accomplish our goals and objectives? **B.** A well-defined, firm-wide mission must		***Group activity:*** *Students should develop a mission statement for their school. The resultant mission statement would offer a good way to assess and set student expectations.* *Instructors can also discuss the different between mission statements and objectives that exist between profit and non-profit organizations. A good example of a non-profit is the Heart and Stroke Foundation.*

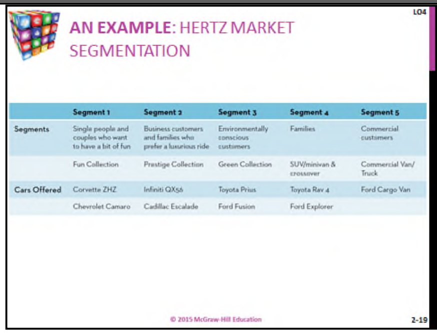
<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor's Notes</th></tr>
<tr><td>exist before marketing executives can get involved.
C. Each firm answers these questions in different ways, depending on the industry, size, and type of firm.</td><td></td><td>Instructors can go through this mission statement and discuss differences vs. Tim Hortons as noted above.</td></tr>
<tr><td>LO3: Step 2: Conduct a Situation Analysis Using SWOT
A. A situation analysis using SWOT assesses both the internal environment with regard to its strengths and weaknesses and the external environment in terms of its opportunities and threats.
B. SWOT
1. Strengths
2. Weaknesses
3. Opportunities
4. Threats</td><td></td><td>A SWOT analysis is comprehensive, in that it offers both an internal and an external assessment.

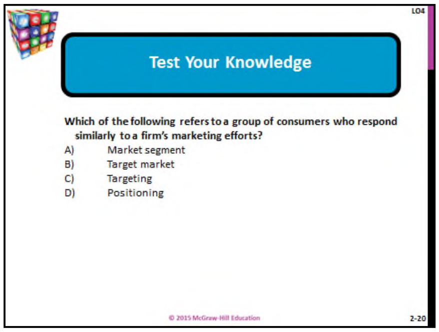
The firm therefore must possess expertise in both what the firm can provide and what the market wants the firm to provide.

Go to the Toolkits on Connect. Click on SWOT analysis. Work through one of the problems provided. The others could be assigned to students to do.</td></tr>
<tr><td>LO4: Step 3: Identify and Evaluate Opportunities Using STP
An STP analysis uses three steps to identify and evaluate opportunities for increasing sales and profits.

1. Segmentation: The process of dividing the market into groups of customers with different needs, wants, and characteristics and who therefore might appreciate product or services geared especially to them.
2. Targeting: An</td><td></td><td>Refer to Exhibit 2.6 for an example of segmentation.

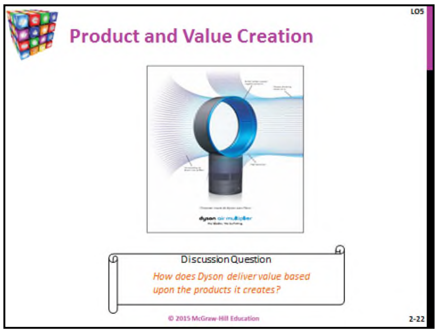
Hertz realizes that its primary appeal for the SUV/Minivan collection centers on young families, so the bulk of its marketing efforts for this business are directed toward that group.</td></tr>
</table>

<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor's Notes</th></tr>
<tr>
<td>evaluation of each segment's attractiveness to determine which to pursue through target marketing.
3. Positioning: The process of defining the marketing mix variables to communicate a clear, distinctive, desirable understanding of what the product does or represents in comparison with competing products to target customers.</td>
<td>


</td>
<td></td>
</tr>
<tr>
<td>LO5: Step 4: Implement Marketing Mix and Allocate Resources

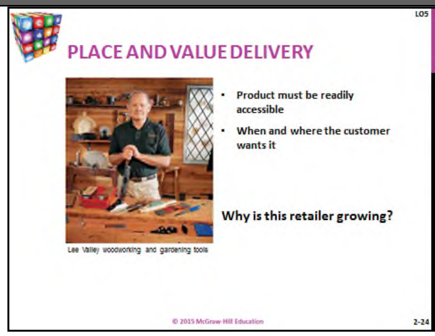
1. Marketing managers are responsible for setting specific objectives for the product or brand over time.
2. Develop Marketing Mix</td>
<td>
</td>
<td>After companies have finished their segmentation, targeting and positioning efforts, they need to set the marketing objectives for their product or brand and develop the marketing mix.

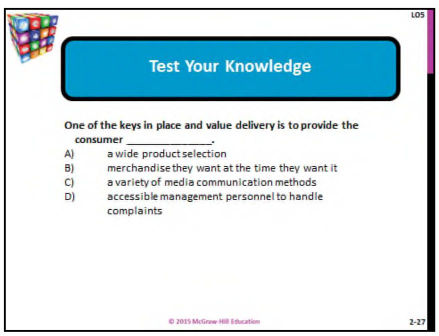
Refer to Exhibit 2.7 for a visual representation of Developing the Marketing Mix. This can be used to introduce the topic for a brief discussion. Or a more detailed discussion can follow based on the content that follows.</td>
</tr>
<tr>
<td>Each element of the 4 P's must be fully integrated to achieve a coherent strategy:

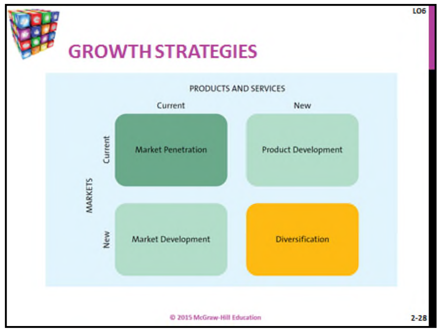
A. 1st P: Product and value creation. Firms attempt to develop products and services that customers perceive as valuable enough to buy.</td>
<td>
</td>
<td>Ask students: What value proposition does Dyson bring to its clients? Do you believe it is a good value compared with less expensive comparable products?

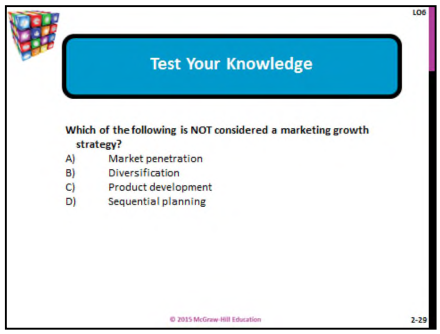
Answer: Some of the key benefits of satellite radio include commercial-free programming, a wide variety of channels, well-</td>
</tr>
</table>

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
		know DJs, and so forth.
B. 2nd P: Price and value for money. Value-based marketing requires that firms charge a price that customers perceive gives them a good value in relation to the product they receive.		*Show students two differently priced products from the same category And ask which one they view as better value and why? For example, an Apple iPod vs. another MP3 player. Or alternatively Aquafina vs. Perrier. Or as noted above, Dyson products vs. conventional fans.* *Also explain that in this course, more discussion of value will be done throughout the semester.*
Pricing Approaches: **1.** *Cost-based pricing* uses the following equation: cost + fixed amount = selling price. **2.** *Competitor-based pricing* uses competitor's price ± a specified amount = selling price. **3.** *Value-based pricing* dictates that customers' perceived value = selling price.		*The course covers pricing in more detail later; this section provides just a brief introduction. Many students will be familiar with cost-based pricing from their finance studies. Explain that marketers view price differently.*
C. 3rd P: Place and value delivery. Firms must make products/services readily accessible where and when customers want it.		*Getting the product to consumers at the exact moment they desire it is difficult. Firms therefore are experimenting with different forms of distribution, such as vending machines for cell phones, to offer consumers 24/7 access to products.*

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
		*Consider Lee Valley Tools as an example of one of the world's leading mail-order and retail suppliers of innovative woodworking and gardening tools. They have integrated stores, with catalogues with online presence to create value in its delivery process.*
D. 4th P: Promotion and value communication **1.** Use a variety of media. **2.** Deliver the value proposition.		*Consumers enter into an exchange only if they know that the firm's product or service appears in the marketplace. This is why promotion is so important. They won't buy if they don't know about it.*
Various tools, such as the Boston Consulting Group (BCG) matrix help marketers allocate resources.		*In all firms, resources are scarce and must be allocated so that they create the most value for the firm. The Boston Consulting Group Matrix is a tool some companies use to help them do this.* *Stars occur in high growth markets and are high market share products, for example the iPod Nano.* *Cash cows are in low growth markets but have high market shares, e.g. Microsoft's Office suite of software.* *Question marks appear in high growth markets but have relatively low market shares, e.g. Toshiba's High Definition TV versus Sony's Blu-Ray. Blu-Ray appears to have won the battle and is moving over to becoming a Star.*

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
		Dogs are in low growth markets and have relatively low market shares.
Step 5: Evaluate Performance by using Marketing Metrics and Make Adjustments The firm must determine why it achieved or did not achieve its performance goals.	 	*Firms cannot simply remain content with a strategy for too long. Over time, all strategies must be revised to adjust to new markets, new competitors, and new technologies. The firm must recognize not only its failures but also its successes to ensure continued success.*
Strategic Planning Is Not Sequential Actual planning processes move back and forth among these steps.		*The marketing planning steps are likely to not be sequential, since, planning entails an iterative process and is affected by market shifts, new research findings, and/or the introduction of new products. Thus, rarely will the process follow the identified steps neatly.*

<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor’s Notes</th></tr>
<tr><td>LO6: Growth Strategies</td><td>


</td><td>The growth strategies model is crucial for students to understand.

Fundamentally, all strategies involve one or a combination of the four factors pictured in this slide.

Each can be used to achieve different objectives. A series of slides follows that can be used to expand on these strategies if desired.</td></tr>
<tr><td>1. Market Penetration
A market penetration strategy employs the existing marketing mix and focuses the firm’s efforts on its existing customers.</td><td>
</td><td>Sales encourage current users to consume more of the current product mix, but they also bring new customers to the business.

Many strategies can be used to get current consumers to consume more of your product.

Group activity: Ask students to brainstorm ways in which firms can get current consumers to consume more. Example solutions might include coupons, loyalty cards, or serving size changes.</td></tr>
</table>

<table>
<tr><th>Annotated Chapter Outline</th><th>PowerPoint Slides</th><th>Instructor's Notes</th></tr>
<tr>
<td>2. Market Development
A. A market development strategy employs an existing marketing offering but extends it into new market segments.

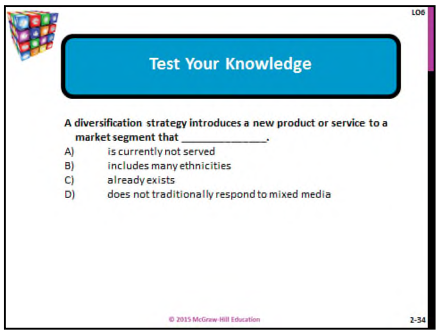
B. International expansion is generally riskier than domestic expansion.</td>
<td>
</td>
<td>This might include targeting growing ethnic groups in Canada or global expansion, which is a popular way for many firms to improve their profitability.

Ask international students, if you have them in your class, what types of products and brands are entering their markets?

Global expansion is a popular way for many firms to improve their profitability. Market development strategy can be explained using the MTV example.

MTV enjoys a competitive advantage in global markets because North American culture is widely emulated for consumer products.</td>
</tr>
<tr>
<td>3. Product Development
A product development strategy offers a new product or service to a firm's current target market.</td>
<td>
</td>
<td>A product development strategy requires that the firm understands its current consumers' needs/wants well enough to identify other products/services that would be attractive to them.

Ask students for examples of products that are targeted to them by companies who already have their business. They will no doubt mention many food products including drinks, candy and fast food.</td>
</tr>
</table>

Annotated Chapter Outline	PowerPoint Slides	Instructor's Notes
4. Diversification A *diversification strategy* introduces a new product or service to a market segment that currently is not being serviced.	 	*A **diversification strategy** introduces a new product or service to a market segment that currently is not served.* *Diversification opportunities may be either related or unrelated.* *In a related diversification opportunity, the current target market and/or marketing mix shares something in common with the new opportunity. In other words, the firm might be able to purchase from existing vendors, use the same distribution and/or management information system, or advertise in the same newspapers to target markets that are similar to their current consumers.* *In contrast, in an unrelated diversification, the new business lacks any common elements with the present business.*

Concept Review

Generally, the concept questions are designed to achieve a single purpose – to encourage students to test their knowledge and understanding of the theoretical content of the chapter. These questions encourage recall and reflection, which will better prepare students to answer the marketing applications questions based on their understanding of the theory.

1. Briefly describe the activities involved at each of the three phases of the marketing planning process: (1) planning, (2) implementation, and (3) control.

The planning phase involves defining the firm's mission and vision, conducting a situation analysis (SWOT, market trend analysis, environmental analysis, and competitor analysis), and identifying and evaluating the firm's opportunities, which involves segmentation, targeting, positioning and developing the marketing mixes for the chosen target markets, i.e. using its marketing mix to deliver good value to customers. The implementation phase defines how a firm plans to implement its mission and vision. This requires designing the marketing organisation, allocating funds (making a budget), and developing schedules and putting the plan into action. The control phase evaluates the firm's performance in order to determine to what extent the firm achieved its goals, what aspects of the marketing plan worked, what didn't, and how performance can be improved in the future.

2. What is meant by a mission or vision statement? What purpose does a mission statement serve and how does it influence marketing planning?

The mission statement gives a broad description of a firm's objectives and the scope of activities it plans to undertake. It attempts to answer two main questions: What type of business are we? What do we need to do to accomplish our goals and objectives? These fundamental business issues must be answered at the highest corporate levels before marketing executives can get involved. Once the mission is defined, the firms and its various departments develop marketing plans that contribute to achieving the firm's mission.

3. What does SWOT mean? List two benefits of SWOT analyses. What do think the differences are between a SWOT analysis for the entire firm and a SWOT analysis for a product?

SWOT stands for strengths, weaknesses, opportunities and threats and is a type of strategic analysis. There are many benefits to SWOT analyses including its flexibility of scope from an entire firm to a specific product, and also its focus on internal and external forces simultaneously.

The difference between a SWOT analysis for a firm versus a product is the scope. The first looks at the big picture including organisational strengths and weakness, and opportunities in the market as a whole, and major competitors across all categories. The latter would evaluate the smaller picture: strengths and weaknesses only of that specific product, and market opportunities unique to that product and competitors and threats only against the product. Both SWOT analyses would help a manager assess the situation accurately and plan strategy accordingly.

4. What type if information is required to conduct a SWOT analysis and where do marketers typically look for this information?

Strengths and weaknesses refer to the internal environment of the firm and are usually evaluated with information residing within the company. Opportunities and threats refer to the firms external environment are usually assessed based on a combination of research and analysis of various external sources of public and propriety information, which the firm may buy from market research firms. The firm may also conduct its own environmental scanning to get a good sense of the business environment.

5. Why are segmentation, targeting, and positioning (STP) crucial for identifying and evaluating market opportunities? How does STP influence the development of the marketing mix – 4Ps?

Proper segmentation, targeting and positioning are crucial because they evaluate the many different opportunities available for a firm to pursue. A firm can not satisfy the needs of every possible customer, so it must be strategic in its analysis and selection of the target markets in order to choose ones it can satisfy better than competitors. With each of these targets a firm must then identify how it wants to be perceived by its target segments i.e. develop a market positioning. STP heavily influences every aspect of the 4Ps because all of the marketing mix decisions are made directly to reach, communicate with, and inspire action from, the individuals in the selected targets. Each element of the 4Ps must be integrated with the others, and must work to achieve the strategic priorities of the STP analysis and of the firm in a seamless way.

6. Describe the four growth strategies that firms typically pursue. Use a fast food restaurant or a grocery chain in Canada (e.g., Loblaws, Safeway, or Food Basics) to illustrate each of the four growth strategies.

Illustrated using Loblaws as examples, the four growth strategies are:

Market penetration: targeting existing customers with existing products. Loblaws uses television advertising and flyer advertising to promote existing products to existing customers. It often offers weekly specials for certain products in order to get customers to buy more.

Market development: targeting new customers with existing products. Loblaws added a health and beauty section in the weekly flyer in some markets to highlight their existing cosmetic offering to attract new young female shoppers into the stores.

Product development: targeting existing customers with new products. Loblaws uses its Insider's Report each quarter to launch brand new food products to their existing market of loyal shoppers.

Diversification: targeting new customers with new products. Loblaws developed its Joe Fresh line of clothing as a new product offering to draw in a new demographic of customers.

7. Of the four growth strategies described in the chapter, which is the most risky? Which is the easiest to implement? Why?

- Riskiest: Diversification, because there is no guarantee that the new product or service will even appeal to the new market segment. A company that diversifies also might stretch itself too thin in terms of resources, and the new product and market segment focus might cause the company's original product/market focus to suffer.
- Easiest to implement: Market penetration, because the company deals with its existing product and customer base but promotes the offering more heavily and/or broadly.

8. Identify and describe four macro strategies that firms could use to grow their business. What other strategies could companies use to compete in the market?

Customer excellence, which focuses on retaining loyal customers and excellent customer service.

Operational excellence through efficient operations and excellent supply chain management.

Product excellence, or achieving high-quality products; effective branding and positioning are key.

Locational excellence, which focuses on finding the best location for the business. This is particularly important for retailers and service providers – many say that the three most important things in retailing are location, location, location.

9. What are the four components of the BCG Matrix? When would "stars' be preferred over "cash cows"?

The four components of the BCG Matrix, plotted against the market growth rate and relative market share respectively, are stars (high, high), question marks (high, low), cash cows (low, high) and dogs (low, low). When successful, a star will become a cash cow. Stars are preferred over cash cows when a company is looking to invest in a new project or make a large capital investment – because returns here are more likely than in other scenarios. The profits generated by cash cows can be reinvested in star opportunities.

10. Explain why in the BCG Matrix all products start out as questions marks and either end up as stars, cash cows or as dogs.

When looking for market opportunities, a company wants to focus on products with high potential. The first place to investigate is in markets that have high growth rates and where the company may have low relative market share. This represents the biggest opportunity for the company. However, with new products the success rate is often low and failure rate is high, hence, there is little guarantee that the product will be successful, thus they are deemed question marks. With appropriate investment, strong managerial support, and excellent marketing savvy, question marks can be successful and become stars, generating tremendous revenues for the company. Over time as new products are introduced, stars become cash cows because they require little investment to maintain their position but generate a constant stream of revenues for the company. As growth rates shrink and the market becomes more competitive, the revenues generated and the low market share may not be sufficient to justify the investment required to keep the product the market i.e. it costs the company more to have these products in their portfolio than the revenues they generate, thus they are called dogs.

Marketing Applications

1. How has WestJet created a sustainable competitive advantage?

Instructor's Notes: *In considering how WestJet creates and sustains its advantage relative to other major airlines, students should address how it differs from other airlines on a variety of criteria—ticket price, service, type of airports served, nature of the reservation system, average turnaround time for planes at the gate, percentage of on-time departures and arrivals, and overall customer experience.*

Example answer:

- WestJet Airlines has created a sustainable competitive advantage by offering low-frills, low-price service to cost-conscious customers while also meeting or beating competitors' average on-time arrival and departure performance. Such service causes WestJet's customers to come back again and again. WestJet is also widely recognised for its very friendly, helpful and efficient customer service.

2. Perform a SWOT analysis for your college or university.

Instructor's Notes*: This exercise challenges students to think about their educational institution from the perspective of not a student but rather a marketing professional. To complete the SWOT analysis, students will need to think about what the school does well, how it might perform better, how those strengths might open new opportunities for growth, and the potential weaknesses created by the school's identified weak areas.*

Example answers:

An example of SWOT analysis for the Telfer School of Management, University of Ottawa might contain the following:

Strengths	• Top-ranked program for innovation and entrepreneurship studies • AACSB accreditation • International student body and alumni network • Accomplished academic faculty
Weaknesses	• Image: Viewed as a French university outside in English Canada but as an English university in

	Quebec • No PhD in Management program
Opportunities	• Expansion of online program offerings • Leverage growing international alumni network • Expansion of Graduate Research Degree programs
Threats	• Many competing entrepreneurship programs in the Ontario and Canada • Potential for school ranking to drop

3. Describe the primary target markets for the Toronto Blue Jays, Victoria's Secret, and Gatorade. How do these three firms position their products and services so that they appeal to their respective target markets?

Instructor's Notes: *Using three popular brands, students can explore to whom the products are targeted and how the companies apply this targeting to appeal to the consumer segment in question.*

Example answers:

- Toronto Blue Jays: Predominantly men who enjoy and watch sports in Toronto and in Ontario. The organization positions its product through television and print advertising in sports-related media outlets, broadcasts of games on both cable and broadcast television stations, product merchandising, and personal endorsements of other products by players.
- Victoria's Secret: Primarily 20-something women looking for fashion-forward, body-conscious lingerie designs, as well as young men who are interested in these women. The company promotes its products through risqué television and print advertisements, as well as lingerie-themed fashion shows available through cable pay-per-view networks.
- Gatorade: Anyone who takes part in strenuous activity—particularly sports—looking for refreshment that replenishes body fluids depleted due to that activity, but especially those under 30 years of age. Gatorade uses vibrant, sports-themed television and print advertisements, as well as sponsored sporting events and product placements at those same events.

4. Pick your favourite product, service provider, or retailer. How do they add value through the implementation of the 4Ps?

Instructor's Notes: *Students must think about how value might be created by his or her favourite product or service on the basis of the four elements of the marketing strategy—product, price, place, and promotion—and how they come together to create that value.*

Example answers:

- Scion automobile:
    - Product: A low-cost vehicle with many customizable options.

- Price: Low company costs passed on to the consumer in the form of low prices, which makes the vehicle affordable even on a student’s limited budget.
- Place: A combination of wide dealership distribution and robust online sales, which enables the student to choose his or her vehicle options online and have it ready for pick up at an associated dealership.
- Promotion: Street-smart, hip, high-energy advertising that highlights how many options a student has in making the car his or her own unique, personal statement.\

5. Choose three retailers. You believe the first builds customer value through product excellence, the second through operational excellence, and the third through customer excellence. Justify your answer.

<u>Instructor’s Notes:</u> *Whereas the previous questions ask students to consider how various marketing elements (such as the 4Ps) create value for consumers, this exercise challenges them to consider more macro-level strategies for creating and delivering value, as well as for developing sustainable competitive advantage.*

<u>Example answers:</u>

- Product excellence: Apple effectively has branded its iPod media player and iTunes online media store so that comparable, cheaper MP3 devices and online music stores seem inferior.
- Operational excellence: WestJet Airlines offers consistent customer experience, regardless of the airport, and manages its logistics so that it meets or beats the on-time arrival and departure performance of all other major airlines.
- Customer excellence: Enterprise Rent-A-Car provides strong customer service, both at the counter and by offering to pick up customers at their homes or businesses when they rent a vehicle from the agency.

6. Visit the website of your bank and try to identify how it uses STP to develop various types of bank accounts (products) and charge different fees (price) for different types of accounts.

<u>Instructor’s Notes:</u> *This question asks student to apply their knowledge of segmentation to a real company and a real situation with which most of them would have a cursory knowledge. This exercise would not only show them first-hand how banks segment their customers’ bank accounts but would also how STP are used to satisfy different customer needs and wants or customers with similar characteristics.*

<u>Example answers:</u>

Students will most likely visit the website of their respective banks and would look at different types of bank accounts. Take for example, Scotiabank segments its transactions-based accounts into 6 segments:

Account Segments	Fees
Scotia One	$9.95/mth Covers Unlimited transactions (teller-assisted or self-service)
Scotia Powerchequing	No fees with $2,000 minimum monthly balance. Otherwise, $3.95/mth covers 15 self-service transactions including cheques
Basic Banking	$3.95/mth covers 12 transactions, including up to 4 teller-assisted
Basic Banking Plan	$7.00/mth covers 50 self-service transactions including cheques
Scotia Value Account	$11.95/mth Covers 50 transactions (teller-assisted or self-service); plus a variety of no-charge and discounted everyday banking services
Scotia U.S. Dollar Daily Interest Account	No fees with U.S. $200 minimum monthly balance. Otherwise, U.S. $1.00/mth covers 2 debit transactions**.**

Customer segments are determined using Scotiabank's Account Selector Reality Check®, an online tool that recommends the account that best fits with the customer's banking patterns.

7. Select a company with which you are familiar or search online to find a company that has pursued a diversification strategy as one of its growth strategies. How successful was the company's diversification strategy? What factors do you think account for its success or failure?

Instructor's Notes: *The focus of this question is to get students to think about related and unrelated diversification strategies and tactics companies can use to grow their businesses. They should be able to identify the factors that could influence the success or failure of diversification strategies.*

Example answers:

The key to answering this question is for students to be able to first identify the core business, products or service the company provides and then the new business, product, or service they are entering or have entered. The next step is to think about the benefits and risks of diversification that could eventually influence their success. An example of unrelated diversification occurred when banks started offering insurance products and services. A few years ago, banks were not allowed to sell insurance products since banking products and services were considered legally different from insurance products and services. However, the banks successfully lobbied the government to change the law and they are now selling insurance products and services. Another example is Rogers Communications, a cable and cell phone service provider (a telecommunications company) that is seeking approval to offer credit card services (a financial service) to its customers. Similarly, Apple, for example, was originally a computer company before it entered the mobile music market. This could be seen as both a related and an unrelated diversification since Apple was able to leverage its technological know-how, use some of its existing distribution network, and focus on its existing customer base. However, it can be characterized as an unrelated diversification since mobile music was seen as quite different from simply making and selling computers. This example could be used to emphasize the fact that the line between related an unrelated diversification is not always clear and distinct.

Students may identify a wide range of factors that may influence the success of diversification strategies, some of which may be specific to the companies chosen while others may be more general such as:

(1) Knowledge of the target market – that is how well the company understands the needs and wants of consumers in the new market and can serve them

(2) Product/service characteristics and value – how well the product fulfils the needs of the market and the extent to which it does it better than competing products/services and the overall value offered

(3) Access to manufacturing facilities and distribution networks

(4) Promotion strategies and tactics – convincing customers that as a new entrant they are capable and reliable to offer a high quality product or service that equals to better than existing products/services

(5) Market size and access – how big is the market and how easy is it to enter could influence success. Larger markets that are less competitive may be easier to penetrate than more competitive markets, especially if they are small.

8. Imagine that you have just developed and launched a new sports bike for cycling enthusiasts and your business has become an instant success. You would like to capitalize on this success and fame to grow your business. Explain how you would go about expanding your business over the next three years

<u>Instructor's Notes:</u> *The goal of this question is get students to think about how they may apply the four growth strategies – market penetration, product development, and market development, and diversification.*

<u>Example answers:</u>

Students' should be able to identify an appropriate sequence in the application of the growth strategy. Given that it is a new business that has been an instant success, students should likely suggest a market penetration strategy for most of the three years, if not all of it, followed by either a market development or product development strategy, depending on which of these two they consider more lucrative or risky. Students should be asked to justify their choice of growth strategies and to identify specific products they would develop or specific markets they would pursue.

9. Use the sports bike scenario from the previous question, describe what kinds of analysis you might conduct before deciding what growth strategies to implement?

<u>Instructor's Notes:</u> *This question requires students to consider the type of information they would need in order to decide on which strategy to employ.*

<u>Example answers:</u>

Students who choose market penetration may decide to focus on customer satisfaction and feedback data in order to improve their offering. Those that intend to use market development will likely focus on researching the new market(s) or segment(s) in order to get insights about customers' needs and wants and how they align with their existing resources and capabilities. Those that focus on a product development strategy will more likely collect information on customers' unmet needs or latent needs in order to develop new products to satisfy those needs.

10. You and a few of your classmates are planning to open a new spa facility near the campus of your university. Explain how you would segment the market for your services, which segment would you target, and how would you position your spa to the chosen target market.

<u>Instructor's Notes:</u> *This question requires that students apply their knowledge of the process of segmenting a market and to list the criteria for selecting a market segment.*

<u>Example answers:</u>

Students' answers may vary but they must clearly indicate that segmentation is about creating groups of customers that respond similarly to the firm's marketing efforts. They must state bases for segmenting the market, for example, using demographic factors (e.g., age, sex, income, location, etc) or psychological or behavioural considerations. Students must also identify the criteria for selecting a target market i.e. a segment's attractiveness in terms of factors such as size and growth potential.

Net Savvy

1. Petro-Canada is considered a progressive company in terms of its values and the mission statement that drives its business. Visit its website (http://www.petro-canada.ca) and review the portion that discusses the company, its mission, and its values. Discuss aspects of its

mission and values that might be considered progressive. Do you believe its progressive attitude creates a special position in the market that contributes to a sustainable competitive advantage?

Instructor's Notes: *This exercise challenges students to consider how and to what extent socially and/or environmentally progressive policies might contribute to a company's competitive advantage. The real question for the students, however, is whether this competitive advantage is sustainable for Petro-Canada.*

Example answers:

There are several aspects that might be considered progressive (see the screen shots for examples of the mission statement, company values, and social and environmental assessments):

- Economic opportunity creation for those who traditionally have been economically disadvantaged.
- Environmentally conscious manufacturing and waste management.
- Ecologically safe agriculture methods and practices.
- Promotion of social justice domestically and internationally.

Do these efforts translate into sustainable competitive advantage? Perhaps not, because there is nothing to stop a competitor from copying these values or methods. The ultimate logic of these values actually advocates that this competitive advantage should not be sustainable for a single company because these practices should be shared by all companies.

2. **More and more firms seem to be entering the dating service industry. Visit eHarmony (http://www.eharmony.ca) and tour its website to find the types of activities and methods such companies use to help match compatible couples. Now, analyse the environment that might affect Internet dating services using a SWOT analysis.**

Instructor's Notes: *Students can apply what they have learned to a novel service area they might not have considered before. To obtain an understanding of how a company like eHarmony attempts to match singles, students must consider what factors affect online dating services in the guise of a SWOT analysis.*

Example answers:

- eHarmony uses questionnaires to probe what people think about relationships (i.e., what they want, what's important, what they like or don't like), as well as personality tests to create a high-quality dating match.

- According to the following SWOT analysis, eHarmony might face problems on two fronts. First, singles could use many other low-cost options—both online and real-world—to meet and get to know one another. With so many options, clients might not be willing to pay for the eHarmony subscription service. Second, there is no guarantee that clients can avoid potentially negative, or even dangerous, situations with bad matches or sexual predators who use the service for their own ends.

Strengths	• At-home convenience factor • Multiple matching criteria • Low client risk
Weaknesses	• No guarantee that matches will be good or safe • Requires client subscription to enable communication between matches
Opportunities	• Use matching criteria for couples to provide inexpensive counselling • International expansion
Threats	• Many no-charge opportunities for singles to meet, online or off • Potential for sexual predators to use the service negatively

End-of-Chapter Case Study:

The Netflix Rollercoaster

1. Explain Netflix's marketing strategy. Can it sustain its competitive advantage? Why or why not?

<u>Example answers:</u>

- Netflix competes in the video rental market by using the Internet for customer orders and the mail system for disc delivery. Netflix also offers customers the option of immediate online streaming of movies and television shows. Its pricing strategy is to allow customers to choose a flat rate monthly subscription fee for video rentals or instant streaming. Netflix's competitive advantage is that it owns no brick-and-mortar stores and therefore has a cost advantage over some competitors. It faces tough competition from the cable, satellite, and telcos. Netflix has faced some challenges in previous years because of changes it made to its pricing strategy in the US. Netflix is struggling to maintain its current competitive advantage in the marketplace.

2. Perform a SWOT analysis for Netflix. What are its biggest threats? Which opportunities should it pursue?

Example answers:

Strengths	• No Brick-and-Mortar stores • Subscription fee option • No rental periods or late fees
Weaknesses	• Limited streaming of digital content • No negotiated contracts with major movie studios
Opportunities	• Growth in instant downloadable content • Growth in streaming content
Threats	• Competitors increasing the number of offered titles • Competitors with easier ways of renting content

3. What is the best way for Netflix to grow its business? Justify your answer.

Example answers:

- The greatest potential for growth is occurring with digital media. Netflix must develop its capabilities to distribute digital content via multiple delivery options. Ask students to consider services that Netflix could offer that would appeal to them? What products could Netflix offer that would appeal to other markets? Do students believe that digital media is the best growth strategy for Netflix?

Video Activities

Video: BeautyGram (CBC's Dragons' Den)

Learning Objective: LO1

Description: This video provides a real world pitch by an entrepreneur on CBC's Dragons' Den. Although Jennifer Ruparell was not successful in attracting investment from the Dragons, the video demonstrates the importance of creating a unique marketing strategy and developing a solid marketing mix to deliver maximum value to customers. The concept of sustainable competitive advantage is addressed.

Key Words: marketing strategy; marketing mix; product strategy; promotion; distribution, sustainable competitive advantage

Activity: Ask students to view the video and then (1) make a list of all the elements of each of the 4PS described in the video. For example, ask students to identify all the elements of distribution that are mentioned; (2) identify other companies with which they are familiar either in the same line of business and then identify the elements of each of the 4Ps for the retailer of their choice; (3) compare the two lists and (4) ask students to give reasons why the items on their lists are similar or different. Ask how the company they chose creates sustainable competitive advantage.

Marketing Metrics Case 2
Why Dell Inc. Lost Market Share in the US Personal Computer Market during 2006-2010

Michael Dell, chief executive officer of Dell Inc. (Dell), on May 9 2011 expressed that he is committed with the growth and strategic direction of Dell[1]. Dell is a multinational company with headquarters in Texas, US. Dell offers a "broad range of technology product categories including mobility products, desktops PCs, software and peripherals, servers and networking products, storage, and services[2].

Dell faced a decline in market share in the US personal computer (PC) market at the rate of approximately 8% annually from 2006 to 2010[3]. Gartner Inc., a leader consulting company of the technology industry, defines the PC market as the market integrated by desktop computers, notebooks (also called mobile PCs), and mini-notebooks (media tablets such as the Ipad are not included in this definition of PC market). According to Dell's 10K published financial statements, net sales of desktops and notebooks were approximately 55% of total net sales in 2010[4]. Mr. Michael Dell commented that the PC market contributes to one third of Dell's profits[5].

There are many potential reasons why Dell lost market share in the US PC market in the last five years. One reason may be the steer direction Mr. Dell has given to the company. He said that in the last four years Dell has acquired companies emphasizing new business areas such as "storage, service, data center, security, virtualization, networking, software, and enterprise[6]." Another potential reason why Dell lost market share may be related to the challenges created by tablets (such as the Ipad of Apple) in attracting consumers and corporations as well as the advancement of computer components which continue to get more efficient and faster and consequently extending the lifetime of a computer[7].

Other potential reason is related to how well Dell is competing in the market in terms of creation of customer value. In fact, a key driver of better market performance is the customer and how well s/he is served by organizations. An important marketing metric that measures how well a customer is served by an organization is the customer satisfaction score each organization has. Customer satisfaction is defined as the whole evaluation experience of customers with products and services[8]. The American Customer Satisfaction Index (ACSI) developed by the University of Michigan, shows customer satisfaction scores of many companies and different markets in the US.

Customer Satisfaction scores of the US PC market participants from 2001 to 2005

The competition for customer value creation in terms of customer satisfaction was really interesting during the period 2001-2005. Table 1 shows 2001-2005 ACSI scores of the players in the US PC market. The ACSI score for each company is reported on a 0 to 100 scale, where 100 is the maximum score. Apple experienced an increase of customer satisfaction in such period at the compound annual growth rate (CAGR) of approximately 2.6%[9]. It seems that Apple's customers had positive experiences in using Apple's product at that time. HP on the other hand did not improve or deteriorate customer satisfaction levels. However, Dell, Compaq and Acer downgraded customer satisfaction at the annual rate of 1.3%, 0.7%, and 0.3% respectively.

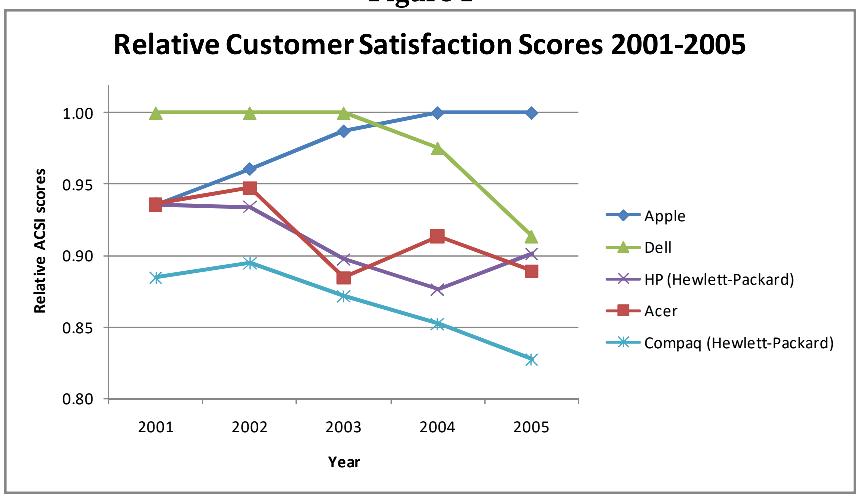
Table 1: Customer Satisfaction and growth of US PC market players[10]

Companies	2001	2002	2003	2004	2005	Compounded Annual Growth Rate
Apple	73	73	77	81	81	2.6%
Dell	78	76	78	79	74	-1.3%
HP (Hewlett-Packard)	73	71	70	71	73	0.0%
Compaq (Hewlett-Packard)	69	68	68	69	67	-0.7%

Acer	73	72	69	74	72	-0.3%
All Others	67	70	69	71	74	2.5%

The competitive strength of each company in regards to customer satisfaction during the period 2001-2005 can be observed in figure 1. Relative customer satisfaction indicates which company is the leader in the market in terms of satisfying customers. Relative customer satisfaction is the result of indexing a company's/brand's customer satisfaction against that of the leading competitor in the market. Interestingly, Dell was the customer satisfaction leader in the US PC market from 2001 to 2003. After that period, Dell conceded the leadership to Apple. In fact the customer satisfaction competitive gap between Apple and Dell has increased in 2004 and 2005. Further, the satisfaction competitive gap between Compaq and the leader has expanded from 12% in 2001 to 17% in 2005. The same case occurred for HP and Acer whose gap increased from 6% in 2001 to about 10% in 2005.

Figure 1[11]



Sales and Market share of the US PC market participants from 2006 to 2010

In the US PC market, the main participants are Dell, HP, Apple, Acer, Toshiba, and others. The US PC market (in sales units) grew annually 3.9%[12] from 2006 to 2010. HP, Apple, Acer and Toshiba grew above the market at the annual rate of 8.2%, 21.6%, 15%, and 23.5% respectively. Dell and other players in the US PC market grew below the market, actually annual sales of these companies decline at the annual rate of 4.3% and 4.6% respectively. Table 2 shows annual market shares (based on sales units figures) of Dell and its competitors in the US PC market for the years 2006 to 2010. The leaders of the PC market industry in US are HP and Dell, with approximately half the market in 2010. HP's market share has increased from 22.5% to 26.4% in the last 5 years. Apple, Acer and Toshiba's market shares have also increased. However Dell and other companies in the market have experienced a decline in their market share in the last five years. Potentially the decline of Dell's market share has benefited the increase of market share of HP, Apple, Acer and Toshiba.

Table 2: Market Share of US PC Market players

Company	2006	2007	2008	2009	2010	Compounded Annual Growth Rate
HP	22.5%	25.5%	25.5%	27.3%	26.4%	4.1%
Dell	32.3%	29.4%	29.9%	24.5%	23.2%	-7.9%
Apple	5.1%	6.5%	8.0%	8.2%	9.5%	17.0%
Acer	8.1%	9.8%	9.8%	13.6%	12.1%	10.6%

Toshiba	4.6%	5.5%	5.8%	7.8%	9.3%	18.9%
Others	27.4%	23.3%	20.9%	18.5%	19.5%	-8.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	-

The CAGR of Dell's market share was -7.9%, which basically reflects that Dell's year-over-year market share was shrinking. It only increased from 2007 to 2008 in 1.7%; the other year-over-year shares were decreasing, 9% from 2006 to 2007, 18.1% from 2008 to 2009, and 5.3% from 2009 to 2010 (see table 3). On the contrary Toshiba and Apple were companies that grew the most with CAGR of 18.9% and 17% respectively. On the one hand, Toshiba's year-over-year market share expanded, for instance, from 2006 to 2007 it grew 19.6%, from 2008 to 2009 it expanded 34.5%, and from 2009 to 2010 it grew up 19.2%. On the other hand, Apple's year-over-year market share also expanded from 27.5% (2006-2007) to 15.9% (2009-2010).

Table 3: Market Share Annual Growth of US PC Market players

Company	2007	2008	2009	2010
HP	13.3%	0.0%	7.1%	-3.3%
Dell	-9.0%	1.7%	-18.1%	-5.3%
Apple	27.5%	23.1%	2.5%	15.9%
Acer	21.0%	0.0%	38.8%	-11.0%
Toshiba	19.6%	5.5%	34.5%	19.2%
Others	-15.0%	-10.3%	-11.5%	5.4%

Challenges Dell is facing in the US PC market

Dell is suffering a market share shrink in the US PC market in the last 5 years. Mr. Dell apparently is trying to steer the direction of Dell toward new markets such as storage, service, and data center to name a few in order to minimize problems in the PC markets. Although new directions of Dell, the PC market still represents 55% of total net sales and 33% of net profits. The consistent loss of market share in the PC market may hurt Dell's net sales and profits in the near future.

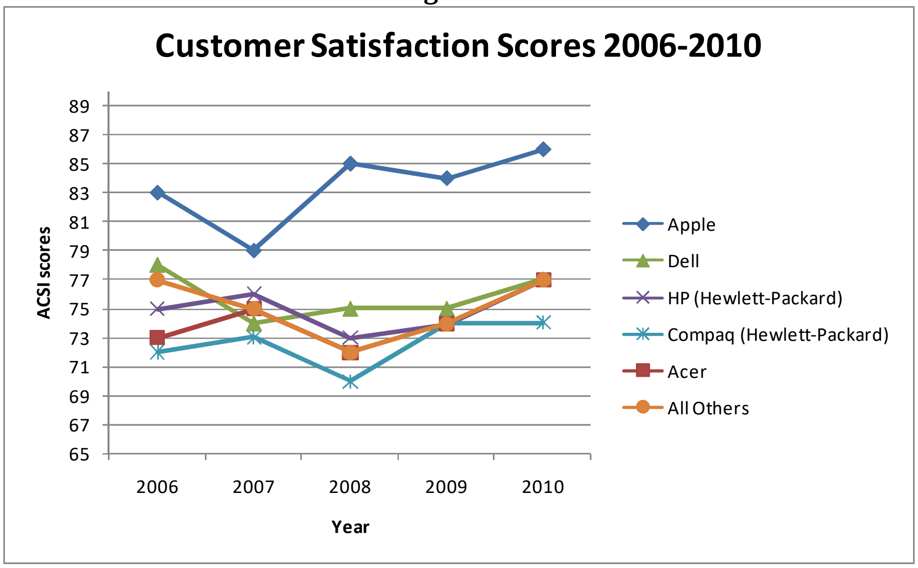
Part of the solution to this consistent drop of Dell's market share may be improving the creation of customer value by enhancing customer satisfaction. As we know, how well a customer is served by an organization is one of the pillars of a successful marketing strategy. Potentially Dell needs to improve the experience of customers with its products and services in order to create positive Dell's evaluations. You are part of a team which is in charge of analyzing the situation of Dell in the US PC market during 2006 to 2010 and making some recommendations to Dell marketers and managers. The hypothesis you will have in mind when doing your analysis is the positive relation that exists between customer satisfaction and market share. For doing your analysis, you have been provided with information contained in table 4. Table 4 shows the last 5 years ACSI scores of the players in the US PC market as well as the CAGR. As you already know, the ACSI score for each company is reported on a 0 to 100 scale, where 100 is the maximum score. See figure 2 for details on how the ACSI scores of PC market players in US has moved.

Table 4: Customer Satisfaction of US PC Market players[13]

Companies	2006	2007	2008	2009	2010	**Compounded Annual Growth Rate**
Apple	83	79	85	84	86	0.9%
Dell	78	74	75	75	77	-0.3%
HP (Hewlett-Packard)	75	76	73	74	77	0.7%
Compaq (Hewlett-Packard)	72	73	70	74	74	0.7%

Acer	73	75	72	74	77	1.3%
All Others	77	75	72	74	77	0.0%

Figure 2[14]



If you are competent in answering the following questions, then you will be able to make an outstanding report.

Questions:

1. What is the challenge Dell is facing? Summarize your thoughts and comment potential internal and external reasons causing such challenge.

2. Using companies' annual ACSIs (of table 4) compute the annual relative customer satisfaction of Dell and Apple from 2006 to 2010. Discuss your results. Take into consideration the following: relative customer satisfaction is the result of indexing a company's/brand's customer satisfaction against that of the leading competitor in the market.

Table 5: Relative ACSI (US PC market) [15]

Companies	**2006**	**2007**	**2008**	**2009**	**2010**
Apple					
Dell					
HP (Hewlett-Packard)	0.90	0.96	0.86	0.88	0.90
Compaq (Hewlett-Packard)	0.87	0.92	0.82	0.88	0.86
Acer	0.88	0.95	0.85	0.88	0.90
All Others	0.93	0.95	0.85	0.88	0.90

3. Using the annual customer satisfaction scores (of table 4), compute the annual growth rates of Dell's customer satisfaction from 2006 to 2010 in the US PC market. Discuss your results using Dell and some of its competitors' growth rates; also use CAGRs of table 4 to narrate the dynamics of the market. Take into consideration that the annual growth rate (AGR) is the result of:

$$AGR(\%) = \left(\left[\frac{Value\ in\ year\ t}{Value\ in\ year\ t-1}\right] - 1\right) x\ 100$$

Table 6: Customer satisfaction Annual Growth of US PC market players[16]

Companies	2007	2008	2009	2010
Apple	-4.8%	7.6%	-1.2%	2.4%
Dell				
HP (Hewlett-Packard)	1.3%	-3.9%	1.4%	4.1%
Compaq (Hewlett-Packard)	1.4%	-4.1%	5.7%	0.0%
Acer	2.7%	-4.0%	2.8%	4.1%
All others	-2.6%	-4.0%	2.8%	4.1%

4. As a future marketer, does it make sense for Dell to improve customer satisfaction? If so, what would be some of your recommendations for improving Dell's customer satisfaction? Please explain your thoughts (hint: use the relation between Dell's ACSI AGR and market share annual growth rate, table 3).

---

[1] Statement taken from Fiscal year 2010 in review (http://content.dell.com/us/en/corp/d/corp-comm/fy10-year-in-review.aspx); accessed May 9, 2011.
[2] Information from Dell website and Security Exchange Commission, Edgar files. Accessed May 2, 2011.
[3] This rate has been calculated using quarterly data published by Gartner Inc. Data downloaded from www.gartner.com
[4] Dell files, Security Exchange Commission, Edgar files. Files were accessed on May 2, 2011.
[5] Worthen, Ben (2011). "Boss Talk: Michael Dell looks beyond PC business," *Wall Street Journal*, 25 April.
[6] Worthen, Ben (2011). "Boss Talk: Michael Dell looks beyond PC business," *Wall Street Journal*, 25 April.
[7] Sherr, Ian (2011). "Corporate News: Demand for PCs falters," *Wall Street Journal*, 14 April.
[8] Fornell, Claes, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant (1996), "The American Customer Satisfaction Index: Nature, Purpose and Findings," *Journal of Marketing*, 60 (October), 7–18.
[9] The compound annual growth rate (CAGR) is computed using:

$$CAGR = \left[\sqrt[(last\ year - first\ year)]{\frac{Value\ in\ the\ last\ year\ of\ analysis}{Value\ in\ the\ first\ year\ of\ analysis}}\right] - 1$$

[10] Table 1 was developed using data published by the University of Michigan, downloaded from www.theacsi.org
[11] Figure 1 was developed using data published by the University of Michigan, downloaded from www.theacsi.org
[12] This and the following values, as well as tables 2 and 3, were developed by aggregating data of sales units published by Gartner Inc. and computing compound annual growth rate for each company and the market. Data was downloaded from www.gartner.com
[13] Table 4 was developed using data published by the University of Michigan, downloaded from www.theacsi.org
[14] Figure 2 was developed using data published by the University of Michigan, downloaded from www.theacsi.org
[15] Table 5 was developed using data published by the University of Michigan, downloaded from www.theacsi.org
[16] Table 6 was developed using data published by the University of Michigan, downloaded from www.theacsi.org

Teaching Note – Marketing Metrics Case 2
Why Dell Inc. Lost Market Share in the US Personal Computer Market during 2006-2010

Objective of the Case:

The objective of the mini case is make students to do industry and company analysis and propose recommendations using marketing metrics. Basically students are asked to work under the hypothesis that a positive relation exists between customer satisfaction and market share, to analyze the situation of Dell in the US PC market from 2006 to 2010 and to make some recommendations to Dell marketers and managers.

Teaching Suggestions:

This mini case is ideal for working on topics related to chapters 1, 2, and 3. For instance concepts related to the creation of customer value (via satisfaction), growth strategies (via Boston Consulting Group's relative market share and Ansoff matrix), and competitive forces may be rehearsed, discussed and critiqued. In particular chapter 1 topic on "how marketing discovers and satisfies needs," Chapter 2 topics on "growth strategies and tracking strategic performance with marketing dashboards and metrics," and Chapter 3 topics on "the importance of environmental scanning and competitive forces" should be emphasized.

The suggestion for working on the mini case is based on students' teams of 3-5. Considering that there are many calculations students can split the work. Also, students will be able to discuss interpretations and recommendations in a team basis. Further, students can practice presentation skills.

Questions:

1. **What is the challenge Dell is facing? Summarize your thoughts and comment potential internal and external reasons causing such challenge.**

   The objective of this question is to test the level of case comprehension students have.

   a. The performance challenge Dell is facing can be found in paragraphs 2 and 9; Dell is facing a shrink of market share in the last five years of about 8% annually. See tables 2 and 3 of mini case for quantitative evidence.
   b. External reason: "Another potential reason to why Dell lost market share may be related to the challenges created by tablets (such as the Ipad of Apple) in attracting consumers and corporations as well as the advancement of computer components which continue to get more efficient and faster and consequently extend the lifetime of a computer (page 1 of mini case)"
   c. Internal reason 1: "One reason may be the steer direction Mr. Dell has given to the company. He said that in the last four years Dell has acquired companies emphasizing new business areas such as "storage, service, data center, security, virtualization, networking, software, and enterprise" (page 1 mini case)
   d. Reason which the mini case will explore: The customer challenge: Dell's customer satisfaction has decrease at an annual rate of 1.3% from 2001 to 2005. Dell used to be the customer satisfaction leader, now it has lost its leadership place. There is something related to customers' experience with products and services that needs to be improved. What happened in the last 5 years? Questions 2 and 3 will focus on that.

   Potentially, students will want to share other reasons; that's fine as long as you drive the discussion. Students will be able to use concepts already studied. Maybe they can share some personal experiences with Dell's products and services; this will vivify the discussion.

2. **Using companies' annual ACSIs (of table 4) compute the annual relative customer satisfaction of Dell and Apple from 2006 to 2010. Discuss your results. Take into consideration the following: relative customer satisfaction is the result of indexing a company's/brand's customer satisfaction against that of the leading competitor in the market.**

   Example of how to compute relative customer satisfaction of Dell in 2006:

$$Relative\ Customer\ Satisfaction_{Dell\ in\ 2006} = \left[\frac{ACSI_{Dell}}{ACSI_{Leader}}\right] = \left[\frac{78}{83}\right] = 0.9398$$

Solution Table 1: Relative ACSI (US PC market)

Companies	2006	2007	2008	2009	2010
Apple	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
Dell	**0.94**	**0.94**	**0.88**	**0.89**	**0.90**
HP (Hewlett-Packard)	0.90	0.96	0.86	0.88	0.90
Compaq (Hewlett-Packard)	0.87	0.92	0.82	0.88	0.86
Acer	0.88	0.95	0.85	0.88	0.90
All others	0.93	0.95	0.85	0.88	0.90

The customer satisfaction leader in the PC market is Apple since 2004. Apparently Apple is the company receiving best customer evaluations in the industry. Dell, HP and Acer are the closest rivals of Apple in terms of customer satisfaction. There is no data available of Toshiba for making comparisons. Dell's customer satisfaction competitive gap against the leader reduced in 2006-2007, after that period, the competitive gap went back to gaps levels during 2004-2005.

3. **Using the annual customer satisfaction scores (of table 4), compute the annual growth rates of Dell's customer satisfaction from 2006 to 2010 in the US PC market. Discuss your results using Dell and some of its competitors' growth rates; also use CAGRs of table 4 to narrate the dynamics of the market. Take into consideration that the annual growth rate (AGR) is the result of:**

$$AGR(\%) = \left(\left[\frac{Value\ in\ year\ t}{Value\ in\ year\ t-1}\right] - 1\right) x\ 100$$

   Example of how to compute customer satisfaction AGR of Dell from 2006 to 2007:

$$AGR(\%)_{ACSI\ Dell\ 2007} = \left(\left[\frac{74}{78}\right] - 1\right) x\ 100 = (0.9487 - 1) x 100 = -5.1282\%$$

Solution Table 2: Customer Satisfaction Annual Growth of US PC market players

Companies	2007	2008	2009	2010
Apple	-4.8%	7.6%	-1.2%	2.4%
Dell	**-5.1%**	**1.4%**	**0.0%**	**2.7%**
HP (Hewlett-Packard)	1.3%	-3.9%	1.4%	4.1%
Compaq (Hewlett-Packard)	1.4%	-4.1%	5.7%	0.0%
Acer	2.7%	-4.0%	2.8%	4.1%
All others	-2.6%	-4.0%	2.8%	4.1%

In regards to the computation of AGRs, students' answers should not vary (maybe just the decimals). First, it is important to stress the difference between CAGRs and AGRs. CAGRs are abstract and smoothed growth rates; these are not the average of the annual growth rates or the actual annual growth rates. AGRs however are the actual annual growth rates of year-over-year data.

The customer satisfaction leader, Apple, was harmed from 2006 to 2007 with a satisfaction score decline of 4.8%. This decline, however, was contrasted by a growth rate of 7.6% from 2007 to 2008 and 2.4% from 2009 to 2010. These downs and ups made Apple to have a compound annual growth rate of approximately 1% from 2006 to 2010.

Dell experienced a major lost of customer satisfaction from 2006 to 2007 of 5.1%. This decline was not recovered at all in 2010, though Dell had customer satisfaction growth during 2007 to 2010. In general, Dell's customer satisfaction declined at a compound annual rate of 0.3%.
Acer ACSI scores have grown at an annual rate of approximately 1.3%. HP's ACSI score also grew.

Students may also speculate in the reasons of the Dell's customer satisfaction decline. That's fine, more points of discussion and opportunities for them to use concepts of chapters 1 to 3.

The remaining question is about the connection between ACSI growth rates and market share growth rates. This point is very important for marketing and its metrics.

4. **As a future marketer, does it make sense for Dell to improve customer satisfaction? If so, what would be some of your recommendations for improving Dell's customer satisfaction? Please explain your thoughts (hint: use the relation between Dell's ACSI AGR and market share annual growth rate, table 3).**

This question has two inter-related answers. One response may be argued at the industry level, taking into account all US PC market participants (or at least the most relevant ones whose information is available). The other answer may be argued at the company level, just focusing on Dell.

The good news is that using both answers we arrive to the same point, that there is a positive association between customer satisfaction and market share so it makes sense to improve customer satisfaction in order to enhance market performance. Students will practice how to relate ideas, concepts using not only theory but also data.

Using industry level analysis:

Solution Table 3: ACSI CAGR and CAGR of market share (US PC market)

Company	ACSI CAGR	CAGR of Market Share
Acer	1.3%	10.6%
Apple	0.9%	17.0%
HP	0.7%	4.1%
Others	0.0%	-8.2%
Dell	-0.3%	-7.9%
Toshiba	N.A.	18.9%

Note: Info from tables 2 and 4 was used to construct this table.

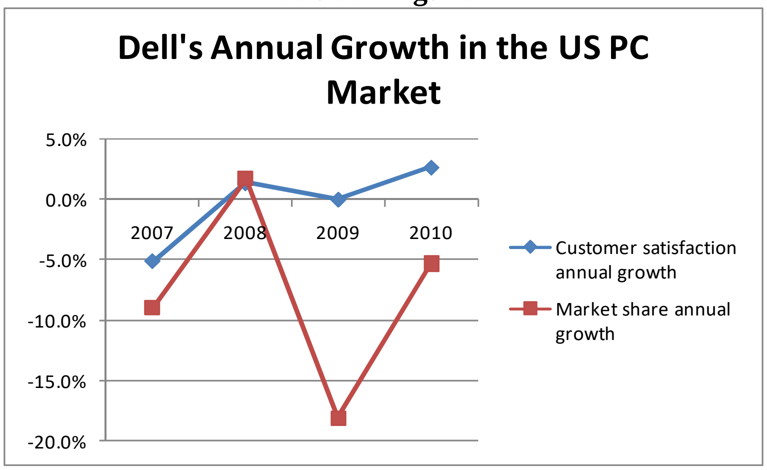
Using company level analysis, just focusing on Dell:

Solution Table 4: Dell's ACSI and market share annual growth (US PC market)

Year-over-year	ACSI AGR	Market Share AGR
2007	-5.1%	-9.0%
2008	1.4%	1.7%
2009	0.0%	-18.1%
2010	2.7%	-5.3%

Note: Info from solution table 2 and table 3 was used to construct this table.

Solution Figure 1



Yes, it makes sense; improvements in the creation of customer value (via satisfying customers better) will improve market performance of companies (in terms of market share). For instance, at industry level (solution table 3), using ACSI CAGR and market share CAGR of Dell, HP and Acer we can observe that as the ACSI CAGR increases (from -0.3% to 1.3%) the market share growth also increases (from -7.9% to 10.6%).

At company level, Dell, solution table 4, we can observe that as the annual growth rate of Dell's customer satisfaction increases, its market share annual growth rate also increases; the other way is also observable, as Dell's customer satisfaction AGR decreases, its market share AGR also decreases. In solution figure 1, the last two rationales can be observed visually.

To be a little bit more technical in analyzing the relationship between ACSI annual growth and market share annual growth we have to make use of correlation analysis, and this analysis goes beyond the scope of this mini case.

Students' speculations are welcome in regards to how Dell can improve customer satisfaction. They can practice concepts of chapters 1 to 3 placing special emphasis on managing the marketing program as a mean to satisfy customers and how to deal with competitive forces to continue to grow in the market place. You just need to guide the discussion.

Chapter 2: Developing Successful Marketing Strategies
Langley Green Gardens

"We're never going to get this plan approved, Luke. I mean, look at our marketing objective: it is not even in line with the president's overall goal for the company." Amanda Patel glanced down despairingly at the document that she and her assistant, Luke Saunders, had just spent several weeks developing. The deadline for submission of the 2009 Marketing Plan to the president was only two weeks away. Somehow she and Luke were going to have to rework their entire draft plan before that deadline. At least, that is what she was thinking at that moment. "Look, I am really upset right now. Why don't we get together this afternoon after I have had time to settle down a little?" Luke quickly agreed and left Amanda's office with the promise to return right after lunch.

Amanda sat back in her chair and reviewed events of the past few weeks. How had she managed to back herself into a corner like this and how was she going to get out of it?

Amanda was marketing manager of packaged seeds in the Consumer Products Division of Langley Green Gardens Limited in Vancouver, British Columbia. Langley was a medium-sized, private firm that had been in business for over twenty years. The founder, Gordon Lee, still owned and operated it, and acted as president. It had started as a seed company, supplying both the consumer and business market with high quality vegetable, fruit, and flower seeds. Over the years Langley had expanded into small plants, fertilizers, gardening tools, and other similar, related products. Overall the company was successful, due largely to Gordon Lee's business acumen.

Two months previously, Gordon had called a meeting of all managers to discuss the planning cycle for the next fiscal year. He had already mapped out the overall corporate goal for next year in conjunction with his two senior managers, and now he wanted to share this with his other managers. Gordon had analyzed a great deal of data in preparing the corporate goal. He believed that the current economic turmoil, originating south of the border and now affecting the Canadian economy, was going to continue, and he believed it would exert a negative influence on Langley. He presented his overall target for next year: a revenue increase of +3% in dollar sales. Gordon did not believe the company could expect any volume increase and was forecasting the +3% based solely on a price increase of the same amount. "This is a conservative estimate, I know, but there is a lot of uncertainty surrounding 2009. I want to err on the side of caution."

This came as a shock to Amanda because her own ongoing trend analysis suggested a much stronger forecast. Over the past three years her volume sales had been increasing at an annual rate of approximately 3.5-4%, and she had every reason to believe this would continue, if not accelerate. Her research revealed a back-to-nature trend, fuelled by the green movement, from which her business was benefiting substantially. She had trouble believing that this trend was suddenly going to come to a halt. Furthermore, she had not implemented a price increase in over three years, made possible by the strong anti-inflationary measures of the Bank of Canada.

As she sat listening to Gordon, she really had to wonder what was driving Gordon's predictions. Furthermore, and more importantly for Amanda, she was alarmed that she and Gordon were viewing the marketplace so differently. She had been slowly working through a tentative approach to her 2009 Marketing Plan over the past several months, reviewing sales data as they became available, tracking competitors' activities, and constantly reading the general business news. Her forecast was a great deal more optimistic than Gordon's. How was she going to convince Gordon that her outlook was much more likely than his?

When the meeting ended, Amanda approached Gordon and carefully expressed her concern – carefully because Gordon had a reputation for not responding graciously to others' opinions when they differed from his own. However, he was surprisingly open to Amanda's comments and suggested that they get together along with Amanda's immediate manager, the director of the Consumer Products Division, and chat further.

Later that week, they did just that. Amanda and her manager, Andy Wishart, held their own meeting before the meeting with Gordon, and he was largely supportive of her position. He added, "Your research justifies your stance on this, but you have to admit that Gordon' points are strong, too. I am going to leave it to you to defend yourself in our upcoming meeting. This is your chance to really demonstrate your capabilities to Gordon."

The meeting went reasonably well. Amanda laid out all her evidence to demonstrate why a sales volume increase made sense for packaged seeds for 2009. She also noted that a price increase, such as Gordon was suggesting, could well damage her ability to meet the forecast. Gordon frowned. He believed that a price increase would have a negligible impact on sales volume; that is, sales volume would be flat regardless of any price increase taken or not taken. This was because, as he explained it, the company would be able to implement a 3% price increase because of inflationary pressures in general. Food products in grocery stores had already increased by far more than 3% over the past six months. By the time Langley's own price increase occurred, no one would give it a thought.

As the meeting came to a conclusion, Gordon summarized the main points under discussion. "Although you have presented several convincing arguments, Amanda, I still think that our overall approach to 2009 has to be conservative. I fully expect some areas of the business to do better than others in the coming year, but let me be clear: your 2009 Marketing Plan has to be consistent with the corporate objectives and strategies and with your own division's objectives and strategies" – and here he nodded to Andy. "I leave it to you."

As she and Andy left the president's office, Andy suggested that they get together later that day, along with Luke, and review how they were going to proceed. So, at 3:30 P.M. the three of them began their meeting. Amanda presented her case forcefully to leave her forecast intact. She also insisted on recommending no price increase in her Plan. As she pointed out, "The net effect on dollar sales will be negligible. So Gordon cannot argue against it." Andy decided to go along with it. After all, as Langley was structured, Amanda herself was responsible for obtaining approval for her 2009 Plan since Gordon reserved the right to "micro manage" the marketing function.

Over the following weeks, Amanda and Luke developed the Marketing Plan for packaged seeds. The morning on which this story opened, though, Amanda received a blow. Gordon sent her an e-mail, reminding her that her plan had to be consistent with his corporate plan. Did this mean that she would have to redo all her and Luke's hard work? Did it mean that the marketing plan for every Langley product line had to be exactly the same? If some parts were in line (for example, consistent with Langley's mission statement), was this enough? How should Amanda proceed?

Chapter 2: Developing Successful Marketing Strategies
Langley Green Gardens
Teaching Note

This case can serve as an instructive way for students to learn how the planning process may unfold in the real world. Although the textbook seems to suggest that planning occurs in an orderly fashion, this is not necessarily always so. Differing views on the impact of future events in the external environment can result in widely different assessments of “where do we want to go?” – as indeed is amply demonstrated in the case. As well, although not an overt issue in this case, battles over access to a company’s scarce (financial) resources can also affect “where do we want to go?” kinds of analyses.

Thus, in the real world, there may be a great deal of to-ing and fro-ing as managers at various levels in a firm reconcile their differing perspectives.

Amanda and Gordon have different outlooks on the economic environment and its possible impact on Langley’s business. Where two views differ in the real world, it is almost always the senior manager’s view that prevails – at least, in this author’s experience! Thus, students with some business experience may argue that Amanda should just do what Gordon tells her to do (forecast flat volume sales and a +3% price increase) and stop trying to win Gordon over.

However, some students may argue, and justifiably so, that Amanda has been given some “wiggle room” within which she can recommend her own plan and still be consistent with what Gordon wants to see. For example, Amanda feels strongly that her more robust sales forecast is achievable even though it is not in line with the corporate objective. So what? Just how much in line does an individual product line’s marketing plan have to be? Remember, too, that in this case Amanda thinks that her 2009 dollar sales will still meet the forecast that Gordon wants: her more aggressive volume sales forecast will offset the absence of a price increase.

Financial Exercises: Coppola's Deli

Coppola's Deli is a small, family run sandwich shop located in the heart of the Halifax business district. Opened by Salvatore Coppola in 1953, the shop is now run by his son, Frank Coppola. Coppola's specializes in a variety of different sandwiches and wraps that are popular with the downtown lunch and breakfast crowds. This area is home to approximately 1,800 businesses in a ten block radius. There are just over 47,000 business, finance and administration professionals in the city based on 2011 demographic information and most of them work in the business district. The location also gets good weekend traffic and is generally very busy through the summer months. The shop has been in the same location since opening, and has become a landmark in downtown Halifax. The deli currently offers catering services, mostly sandwiches for businesses, but has not looked at other potential markets until recently.

There are 4 staff members including Frank, who produce roughly 200-250 sandwiches a day. Depending on the ingredients, regular sandwiches retail for between $5.00 and $6.50. There are also some specialty sandwiches retailing for $7.00 which Frank creates with ingredients like pepper steak or spicy sausage. In the food industry, the cost of the food generally accounts for 30% of the end-selling price with the remainder being based on service, quality, etc. Coppola's uses very high quality deli meats and cuts them individually for each sandwich. Frank has been able to maintain good relationships with his suppliers and thus been able to maintain his margins over time.

Coppola's also caters for some local businesses providing sandwich platters, drinks, fruits and vegetables for a variety of different events. This part of the business has been stable over many years but has not grown in any significant way. It is generally the same clients that request catering services. Frank uses this exposure to try to grow his retail business. He marks every order with the Coppola's logo and has had several people come to his shop after trying a catered sandwich. Currently Frank does not have the desire to actively grow this part of the business but will gladly take any jobs that come his way.

Frank has worked in the shop since he was a young boy. His father employed him after school, on weekends and during the summer. With this exposure it was no surprise that he was well suited to start managing the business when he was only 22. His father was still involved for many years but transferred most of the responsibilities to Frank. Frank is the oldest child and has two younger brothers and one sister. All four worked in the deli as children but the younger three had no interest in staying on and so pursued other careers as adults. When Salvatore died in 2005, Frank's brothers and sister decided that Frank should inherit the business given the work he had put into it. Coppola's has no debts and owns the building in which it is located.

Over the years the deli has been profitable allowing Frank to make a very good salary. However, profits are not always consistent year over year and can be greatly affected by economic factors. When the economy is poor, Frank sees a decline in his lunch business as people cut down on extra expenses. This is happened during the financial crisis of 2009. Profits from Coppola's Deli fell from $89,300 in 2008 to $65,500 in 2009. However with economic improvement in 2010 and some expansion in the business district, profits rose to $163,100, which was more consistent with the profits earned by Coppola's previously.

Over the past year, Frank has been considering expanding his business into new areas. He feels that he has been successful, is established and is now interested in taking some risks. He also has a 10-year-old son whom he hopes will be interested in the business. Frank wants to grow the business to provide his son with a good opportunity when he is older just like his father did for him. If his son shows no interest, growing the business should increase the bottom line, a valuable measure for future sale.

Frank is considering two potential ways to grow the company. The first is to open a second deli in the ritzy South End neighbourhood of Halifax. Known as one of the wealthiest neighbourhoods in Canada, it is in close proximity to the business district and is populated by a wealthy group of doctors, lawyers and finance professionals. Based on Canadian demographic data Frank believes there are 2,200 households that would make up his market. Another 1,000 households in surrounding areas could also be a potential market. Frank feels that many of the residents work in the business district and know of Coppola's Deli. Frank hopes that he can leverage his current reputation to capture the weekend market and stay at home segment in the neighbourhood. Just over 20% of the Halifax population has an income greater than $100,000 annually, with a significant portion of this group living in the South End. Frank feels that this area shows greater promise than any other neighbourhood in the city.

The second deli would be given a different name but Frank would promote it through Coppola's. It would have an espresso café and offer some boutique food items including Italian desserts, cheeses and gourmet coffee. After doing some preliminary research, Frank has identified his competition and noted that the outlets appear to be successful. None are direct competitors in the sandwich business nor do they have a reputation as good as Coppola's. Sandwiches in this new shop would retail starting at $7.00 and up. Frank has estimated that his cost per sandwich would remain on average at $2.70. Renovations to a new space would be costly and since he would not own the building, he would be subject to high lease costs of approximately $3000 per month.

In order for the new deli to succeed, Frank will have to advertise the business, something he has never had to do with Coppola's. After contacting some local radio stations Frank feels that CIOO-FM in Halifax has the best reach of his potential customer base. They play contemporary hits and reach 30% of the population on a weekly basis. To run two ads per day during peak time would cost Frank $400 per week, with a run of eight weeks. The radio station advises that companies do three runs of eight weeks as a minimum each year. Frank is concerned that the cost might be too high for the reach it gives him. He is also considering direct mail advertising. Canada Post will deliver unaddressed mail to homes and apartments for $.14 per item. Frank knows a local printer who will design and print 1500 full colour advertising pieces for $1200. Frank believes he will need to send direct mail piece once a quarter for the campaign to be successful.

Frank's second option is to wholesale sandwiches to private grocery stores, cafes and coffee shops. He has been approached many times over the last 20 years by different businesses that know of his reputation for service and quality. In the past, Frank was comfortable with his single shop but now feels that this could be an easy way to increase his revenues at a comparatively low risk. He has the extra capacity in the back of his shop and estimates that he would need 2 additional employees working full time making sandwiches. He will likely have to hire a full time deliveryman to be able to fill orders across the city. To start, this new service would be focused exclusively in Halifax. To be successful, Frank feels that he needs to send a personal letter and information about the service to about 100 businesses in the greater Halifax area. According to the Downtown Halifax Business Commission, there are over 60 cafes in the downtown alone that could be a fit as wholesalers. It would cost him roughly a dollar per letter in material costs and $.59 per letter in postage costs.

There are a few other competitors in the Halifax sandwich business but they generally serve different markets. For example, established chains like Williams and Tim Hortons offer more basic food, coffee and a sit down environment. However they do not have the selection offered by Coppola's and people generally complain that they are slow during the lunch hour. Coppola's is very quick and provides a wrapped sandwich for customers to take back to the office. The other major competitor is Sandwich Express. They offer a variety of sandwiches with fun names and target the university crowd. They can seat customers but are more like a fast food restaurant. Their sandwich options are also more expansive with the top price being around $9.00 depending on the ingredients. Coppola's has been around for the longest, and with its strong reputation, has had little reason to fear the competition.

Questions

Question 1
How does reference pricing affect what Coppola can charge? How can he mitigate the effects?

Question 2
Based on the industry standards, how much profit does Coppola's make on average from a regular sandwich? On a speciality sandwich?

Question 3
How much mark-up is represented by the above income for the two types of sandwiches?

Question 4
If Coppola decides to open a second deli, what kind of pricing strategy should be used based on the characteristics of the market?

Question 5
What kind of buying behaviour would customers of the new likely deli exhibit?

Question 6
What is the total cost of advertising for each of the proposed methods to promote the new Deli? Which one is the most cost effective? Which one would be best for the business and why?

Question 7
One retailer purchasing wholesale sandwiches wants to get a 30% margin on each sandwich and all products will be sold in his café for $6.25. At what price must Coppola sell the sandwiches to the retailer? How much profit would Coppola make on each sandwich?

Answers relate to Pricing, Consumer Behaviour, Segmentation Targeting & Positioning, and IMC chapters

Question 1

A reference price is pricing that consumers use to facilitate the evaluation of different purchases. These are determined by internal and external information about the price of different alternatives. In this example prices offered by competitors of Coppola's act as external influencers and effect the perception what is a fair price for a sandwich. These impact our internal reference prices, which we call on when we decide to purchase. If the pricing of a sandwich is inconsistent with consumers believe is fair can lead to the perception that high prices are unfair or low prices signify low quality. Prices need to be set at a level that is consistent with the service expectation and food quality of this type of restaurant or there is a risk that Coppola's will lose customers.

To mitigate the impacts of reference pricing, Coppola's should insure that their positioning fits with the customers they are trying to reach and the pricing strategy that they will employ. This would entail using a value positioning strategy and pairing this with a value based pricing. This strategy focuses on the trade off between cost and benefit. Coppola's is able to provide high quality product, quickly for a reasonable price. These would be the attributes that provide value to Coppola's customers.

Question 2

A regular sandwich retails for $5.00-$6.50, with the average price being $5.75 per sandwich. The cost represents 30% of the selling price based on the industry standards listed in the case.

=5.75*.3
=1.73
Profit = 5.75-1.73
=4.02
Therefore Coppola's makes $4.02 profit on every regular sandwich sold.

Specialty Sandwiches retail for $7.00.

=7.00*.3
= 2.1
Profit = 7-2.1
= 4.90

Therefore Coppola's makes $4.90 on every specialty sandwich they sell.

Question 3

Mark up is calculated by subtracting the cost from the selling price to determine profit. Then you divide this profit by the cost.

In this example the cost for a regular sandwich is $1.75 and profit is $4.02.

4.02/1.73 = 2.32
Mark up = 232%

For specialty sandwiches the profit is $4.90 and the cost is $2.10.

4.90/2.10 = 2.33
Mark up = 233%

Question 4

The target market for the new deli would be a resident of the wealthy South End neighbourhood in Halifax. This group is not highly price sensitive and is looking for a unique product and experience. With this target market, Frank should utilize a Value-Based pricing method. This pricing strategy focuses on setting prices at a level that reflect the value of the product offering as perceived by consumers. Under this strategy, consumers evaluate the cost and benefits. With a unique product or service customers are generally willing to spend more because they put a high value on the benefits they receive over the cost of acquiring them.

Question 5

Customers of the new deli are likely to exhibit variety-seeking buying behaviour. Customers exhibiting this behaviour generally have low involvement but perceive differences among brands. The new deli generally would be selling high quality and low cost food. Food purchases are not generally high involvement. Much of the value comes from prior experiences so Frank needs to leverage the reputation of Coppola's and create incentives to get people to try the new deli. Over time customers who have a positive experience with the new deli will begin to show signs of habitual buying behaviour.

Question 6

Total Cost Radio:
Cost per week: $400
Number of weeks per run: 8
Number of runs per year: 3

Total cost = 400*8*3
= $9,600

Total Cost Direct Mail:

Cost to mail each piece: $.14
Number of pieces per mailing: 1500
Cost for printing (1500): $1200
Number of mailings per year: 4

Total cost= 4*((.14*1500)+1200)
= $5,640

The most cost effective means of advertising is direct mail as it is it is 42% cheaper than the cost of radio advertising. Direct mail is also more likely to be successful as a means of advertising than radio. Radio does have a larger reach but with only two advertisements per day it is very hard to measure whether the target market in the south end will be listening when the advertising is aired. Direct mail allows Frank to target specially households in the south end and more cost effectively customize his message every quarter.

Question 7

Margin % = (Price-Cost)/Price
Cost =Price- (Price*Margin %)

In this example the café purchasing the sandwiches wants to make a margin of 30%. The selling price of sandwiches will be $6.25.

Cost 6.25- (6.25*.3) = 1.87
Cost (6.25-1.87) =4.37

Therefore, Coppola's will have to sell the sandwiches at $4.37 each to satisfy the café's desire to make a margin.

Chapter 11 (B): Break-Even Analysis and Decision Making

When assessing potential marketing opportunities that may help strengthen or grow the business, Famoso must consider a variety of factors. These include how these opportunities fit with their overall marketing objectives and strategy, the situation (e.g. internal strengths and weaknesses plus factors arising from the industry and competitive environment, customer needs and wants, and relevant macro-environment factors (e.g. culture, demographics, etc.).

Crucially, Famoso also must assess the potential financial implications of such opportunities. In this caselet, we consider three hypothetical marketing opportunities using concepts in the Break-Even Analysis and Decision Making sections of Chapter 11.

Note that all figures provided for this caselet are hypothetical. Further, while Famoso operates as a franchisor, and therefore does not recognize all revenues or costs, for simplicity, in this caselet we will examine Famoso as a wholly corporate-owned and operated restaurant chain.

Using industry averages for fast casual / premium casual dining, assume that Famoso's overall base revenues this year across 25 locations will be $25 million, cost of goods sold (food and beverages) is 30% of revenue, variable labour costs (e.g. restaurant staff) are also 30% of revenue, marketing costs are $1 million, occupancy and equipment costs are $5 million, and home office administration costs are $2 million. Assume average revenue per transaction of $50.

<u>Opportunity 1: Product improvement</u>

Famoso would like to consider taking an even stronger product quality positioning by using organic food ingredients. This is expected to increase food and beverage costs as a percent of sales by 5%. They would make a one-time investment of $100,000 in marketing communications to promote this offering. They believe they could see a sales increase of 10% under this opportunity.

<u>Opportunity 2: Sales promotion</u>

Famoso wants your perspective on a free pizza promotion to generate trial and new customer acquisition. They would market the offer via direct email, using address lists likely to avoid current customers. The campaign would reach 300,000 people at a cost of $75,000. They expect that 1% of those who receive the direct mail/email would take advantage of the offer, and spend $25 on their visit beyond the free pizza. For promotion cost purposes, assume that the average retail price of a Famoso pizza is $15. Famoso expects that half of those who participate in the promo would become a "regular" customer, going on to have two more transactions per year.

<u>Opportunity 3: Third-party delivery service</u>

Famoso has decided to consider a new distribution option: rolling out the use of a third party service such as Just-eat.ca, Skipthedishes.com, or UberEATS for food deliveries. They have been conducting a market test of this service at one of their 25 locations. The test achieved 1,000 deliveries with an average purchase of $25. Famoso pays the third-party service $5 for each delivery, and will spend $10,000 on in-store signage to promote the delivery option.

1. Given the hypothetical information provided, what is Famoso's overall break-even point in units? What is this as a percent of their current transaction volume? For this kind of business, units would be the number of tables served / transactions.

2. What is the break-even point in units for the product improvement idea (Opportunity 1)? What percentage sales increase is needed to achieve this break even?

3. What is the incremental transaction volume and variable cost of Opportunity 2?

4. What are the fixed costs of Opportunity 3? Is there a risk related to this investment?

5. Construct a basic income statement for Famoso's current business using the hypothetical information provided. A basic income statement would include line items such as revenue, variable costs, gross margin, fixed costs and net margin. It is useful to also note the average unit revenue and number of units (e.g. transactions) above the income statement to see "how" the revenue occurs.

    a) How many transactions did Famoso have last year?

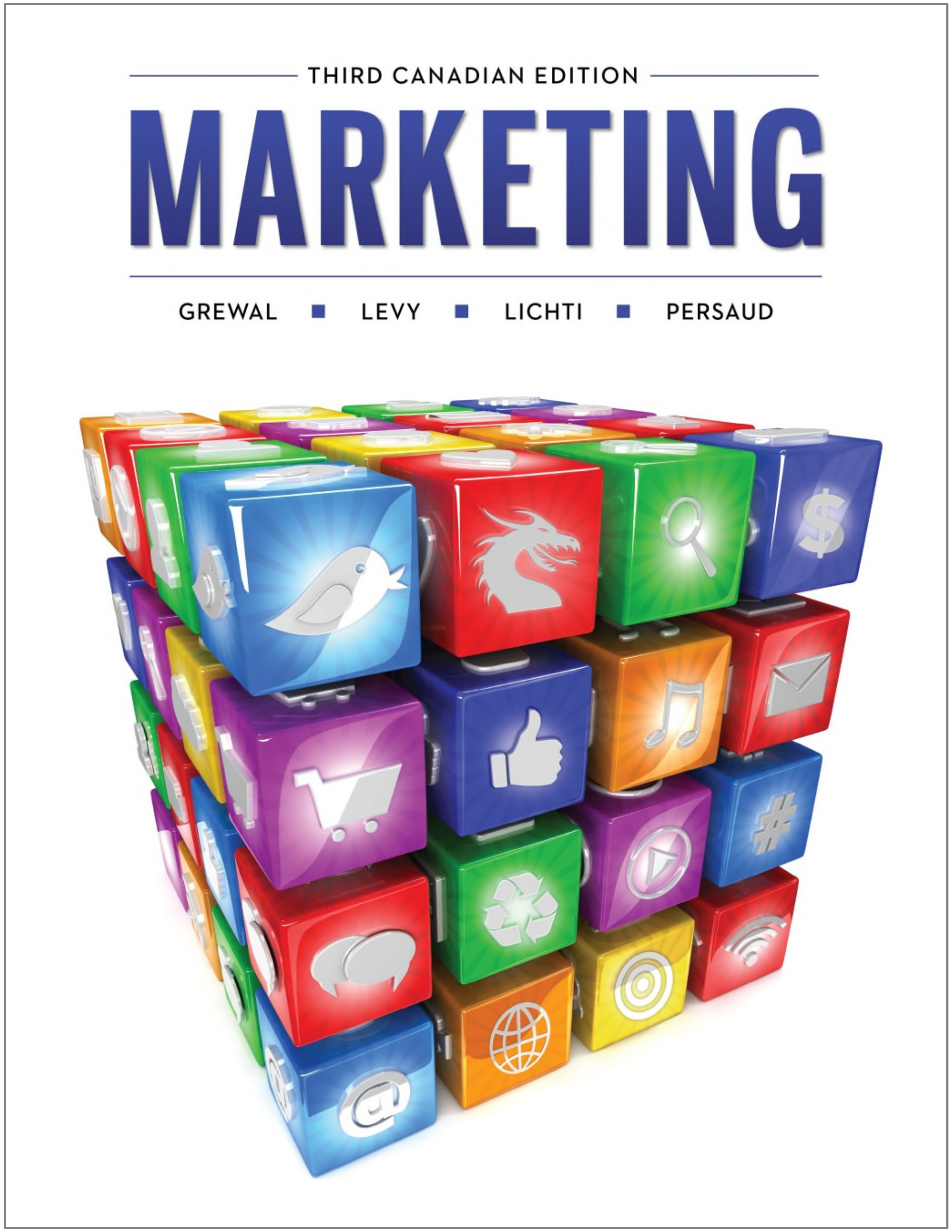
    b) What is Famoso's current net margin in dollar and as a percent of sales?

6. Now create new columns next to your basic income statement for each of the three opportunities. In doing so, consider that each opportunity changes one or more of the following: the total number of transactions, the average transaction value, variable costs, fixed costs. The result of these changes will impact Famoso's overall revenues, margin dollars and percentage values.

    a) Which of the opportunities are expected to result in the highest and lowest revenue gains? Be sure to discuss the revenue changes in percentage terms.

    b) Which of the opportunities results in the worst net margin outcome?

    c) Consider the three opportunities based not only on the quantitative analysis performed, but also on the qualitative considerations noted at the start of this caselet and long-term quantitative considerations. Given this more fulsome assessment, which opportunity would you recommend Famoso management prioritizes? Why?



Chapter 2

Developing Marketing Strategies and a Marketing Plan

Chapter 2: Developing Marketing Strategies and a Marketing Plan

LEARNING OBJECTIVES

LO1 Define a marketing strategy

LO2 Describe the elements of a marketing plan

LO3 Analyze a marketing situation using a SWOT analysis

LO4 Explain how a firm chooses what consumer group(s) to pursue with its marketing efforts

LO5 Outline the implementation of the marketing mix as a means to increase customer value

LO6 Describe how firms grow their businesses

THE GOAL IS CLEAR: WIN!

- Nike vs. adidas
- Competition spans product lines, target markets, marketing approaches
- Strategies and plans must be precise
- Is this a turf war?

WHAT IS A MARKETING STRATEGY?

Marketing strategy identifies:

- a firm's target market (s)
- a related marketing mix –the four P's and
- the bases upon which the firm plans to build a sustainable competitive advantage

⟶ Leads to sustainable competitive advantage!

SUSTAINABLE COMPETITIVE ADVANTAGE

Just do it!

- Strong brand
- Technology
- Strong customer base
- Loyal customers

Discussion Question

Why have these factors been the keys to Nike's sustainable advantage? Are there other factors to consider?

Test Your Knowledge

What is sustainable competitive advantage?

A) A broad description of the firms objectives and scope of its activities.

B) Tool used to evaluate marketing performance.

C) Something the firm can consistently do better than its competitors.

D) Written document that discusses competitor strengths and weaknesses, and the firms advantages over them.

DEVELOPING CUSTOMER VALUE

Macro Strategies for Developing Customer Value

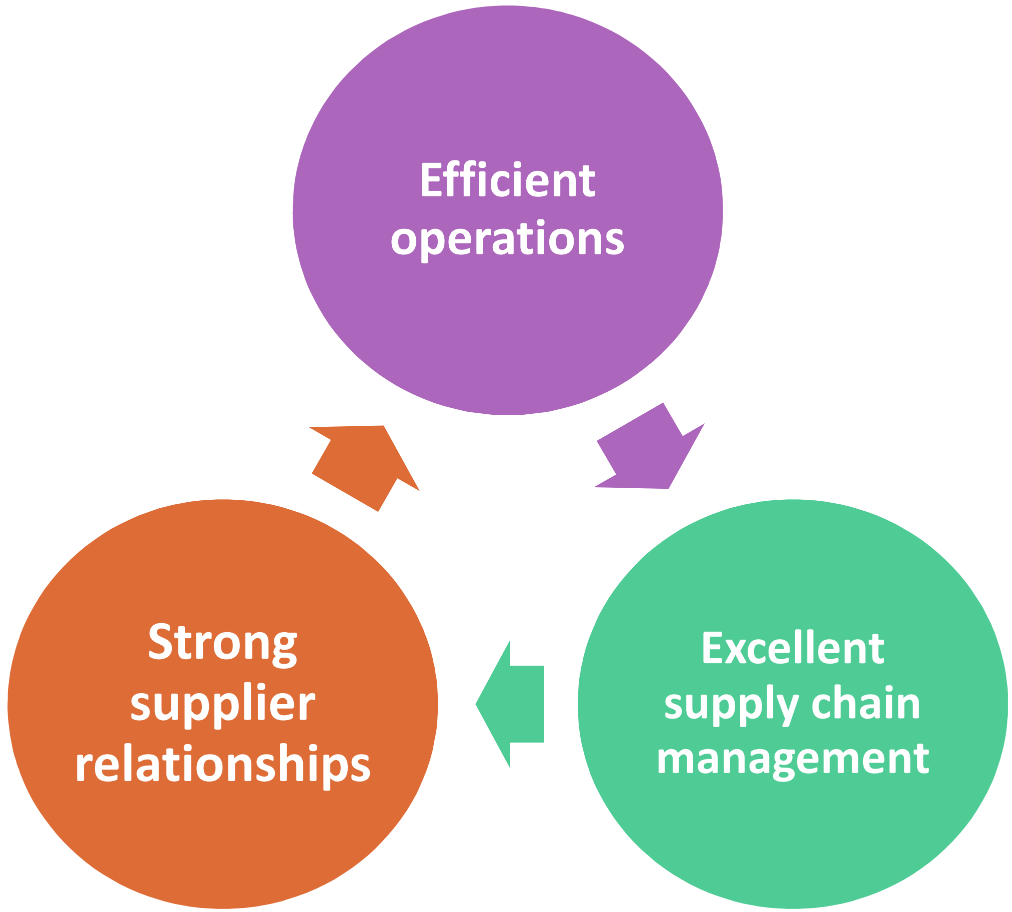
CUSTOMER EXCELLENCE

Retain loyal customers

Provide excellent customer service

OPERATIONAL EXCELLENCE

Netflix

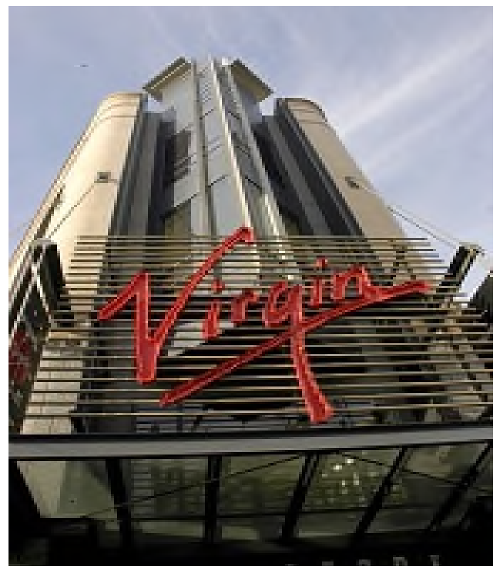


PRODUCT EXCELLENCE

High perceived value

+

Effective branding and positioning



LOCATIONAL EXCELLENCE

The three most important things in retailing are location, location, location.

Photo by Tim Boyle/Getty Images

MULTIPLE SOURCES OF ADVANTAGE

Multiple approaches:

Customer value

Customer service

Customer relations

Great prices!

Good service = Good value

Test Your Knowledge

Customer excellence focuses on?

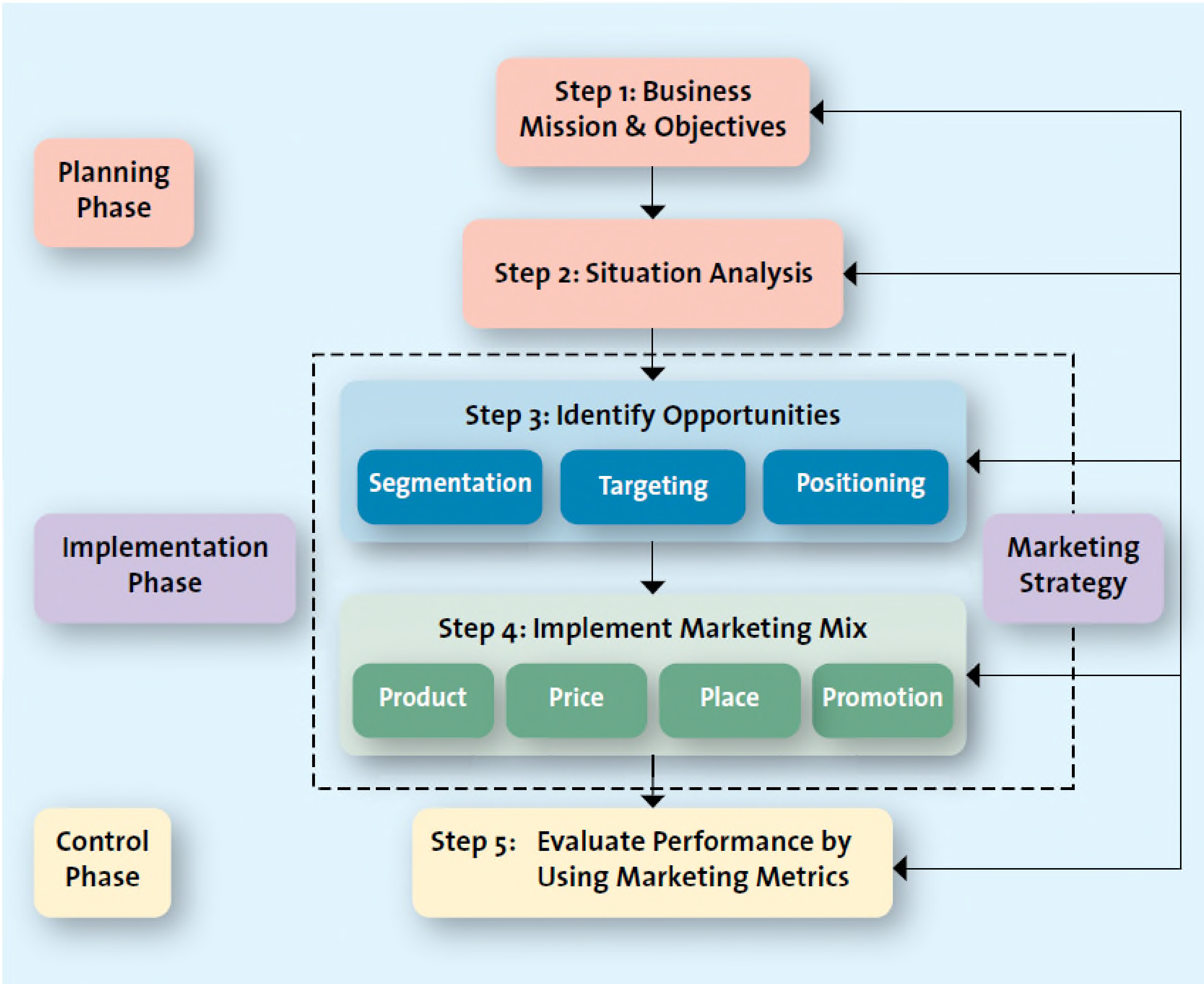
A) having products with high perceived value and effective branding and positioning.

B) retaining loyal customers and providing excellent customer service.

C) having a good physical location and Internet presence.

D) efficient operations and excellent supply chain and human resource management.

DEVELOPING A MARKETING PLAN



STEP 1: DEFINE THE BUSINESS MISSION & OBJECTIVES

Defining the Mission

Tim Hortons states: Our guiding mission is to deliver superior quality products and services for our customers and communities through leadership, innovation and partnerships. Our vision is to be the quality leader in everything we do.

Photo by Tim Boyle/Getty Images

ANOTHER EXAMPLE: NON-PROFIT

The Heart and Stroke Foundation mission: is to improve the health of Canadians by preventing and reducing disability and death from heart disease and stroke through research, health promotion, and advocacy.

HEART &™ STROKE FOUNDATION

Photo by Heart and Stroke Foundation website

STEP 2: CONDUCT A SITUATION ANALYSIS (USING SWOT)

Environment	**Evaluation**	
	Positive	**Negative**
Internal	Strengths • Superior resources and capabilities • Superior management, marketing, technical talent • Strong brand • Superior product offerings • Extensive marketing reach • Wide distribution networks (national/global) • Strong financial resources • Excellent geographic location • Proprietary technologies/Intellectual property • Strong base of loyal customers	Weaknesses • Little or no brand recognition • Lack of financial resources • Lack of other resources and capabilities • Lack of marketing, management, and technical talent • Limited market reach or distribution network • No propriety technology • Poor location • Limited customer base or loyalty • Lack of credibility
External	Opportunities • CDSTEP changes that offer opportunities for the firm to serve new markets with existing products and/or pursue completely new market opportunities • Existing firms exit the market because of financial or other difficulties (i.e., reduced competition) • Acquiring another firm and gaining market access, new customers, new technology and expertise, and financial resources	Threats • Political or regulatory changes (e.g., new laws affecting business or products) • New entrants into the industry or market • New technology that could render existing technology or business practices obsolete • Natural or human-made disasters • Recession or economic downturn that affects consumers' purchasing power and confidence • Changes in sociocultural or demographic trends

Step 3: Identify and Evaluate Opportunities by using STP

- Segmentation
- Targeting
- Positioning

AN EXAMPLE: HERTZ MARKET SEGMENTATION

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5
Segments	Single people and couples who want to have a bit of fun	Business customers and families who prefer a luxurious ride	Environmentally conscious customers	Families	Commercial customers
	Fun Collection	Prestige Collection	Green Collection	SUV/minivan & crossover	Commercial Van/ Truck
Cars Offered	Corvette ZHZ	Infiniti QX56	Toyota Prius	Toyota Rav 4	Ford Cargo Van
	Chevrolet Camaro	Cadillac Escalade	Ford Fusion	Ford Explorer	

Test Your Knowledge

Which of the following refers to a group of consumers who respond similarly to a firm’s marketing efforts?

A) Market segment

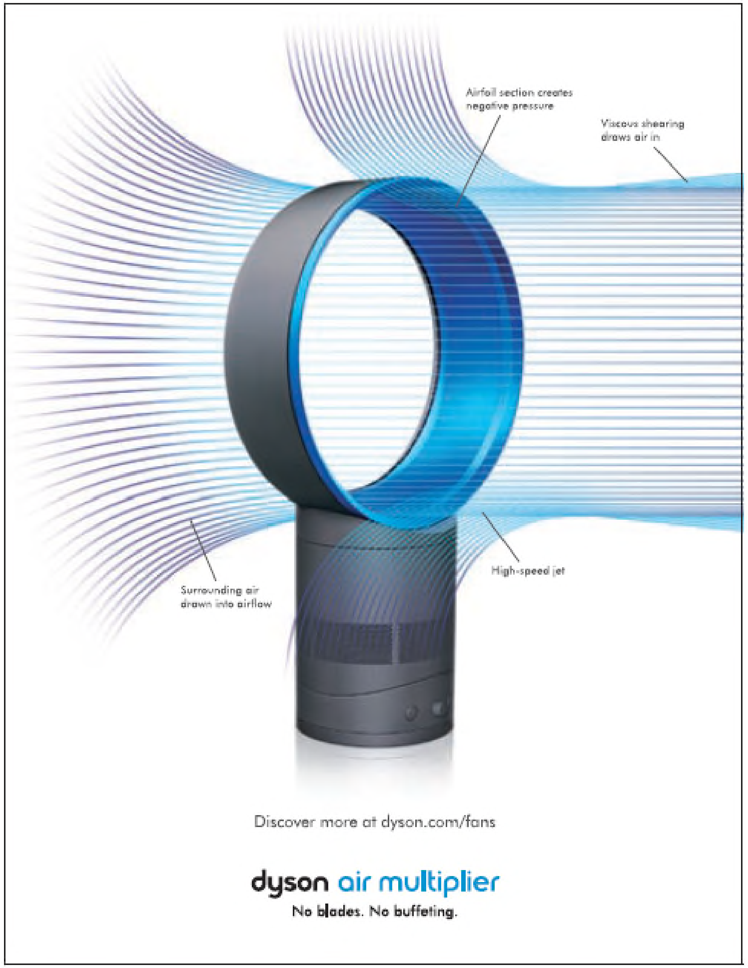
B) Target market

C) Targeting

D) Positioning

STEP 4: IMPLEMENT MARKETING MIX AND ALLOCATE RESOURCES

Product and Value Creation



Discussion Question

How does Dyson deliver value based upon the products it creates?

PRICE AND VALUE FOR MONEY

- Exchange: product = money
- Customer perception of value

Price is only a part of value!

PLACE AND VALUE DELIVERY

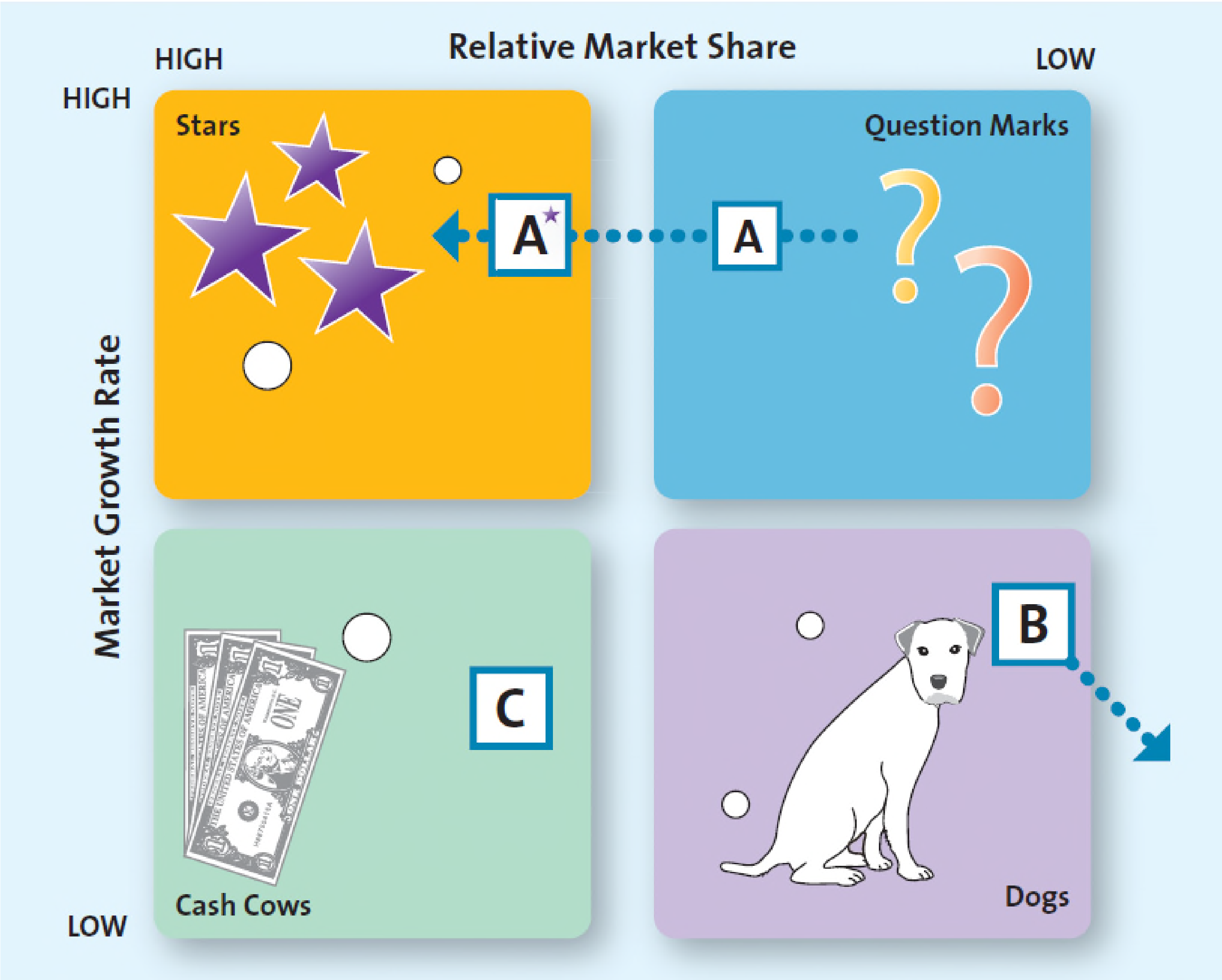
- Product must be readily accessible
- When and where the customer wants it

Why is this retailer growing?

PROMOTION AND VALUE COMMUNICATION

- Television
- Radio
- Magazines
- Sales force
- New Media

STEP 5: EVALUATE PERFORMANCE BY USING MARKETING METRICS



P&G Website

Test Your Knowledge

One of the keys in place and value delivery is to provide the consumer ________________.

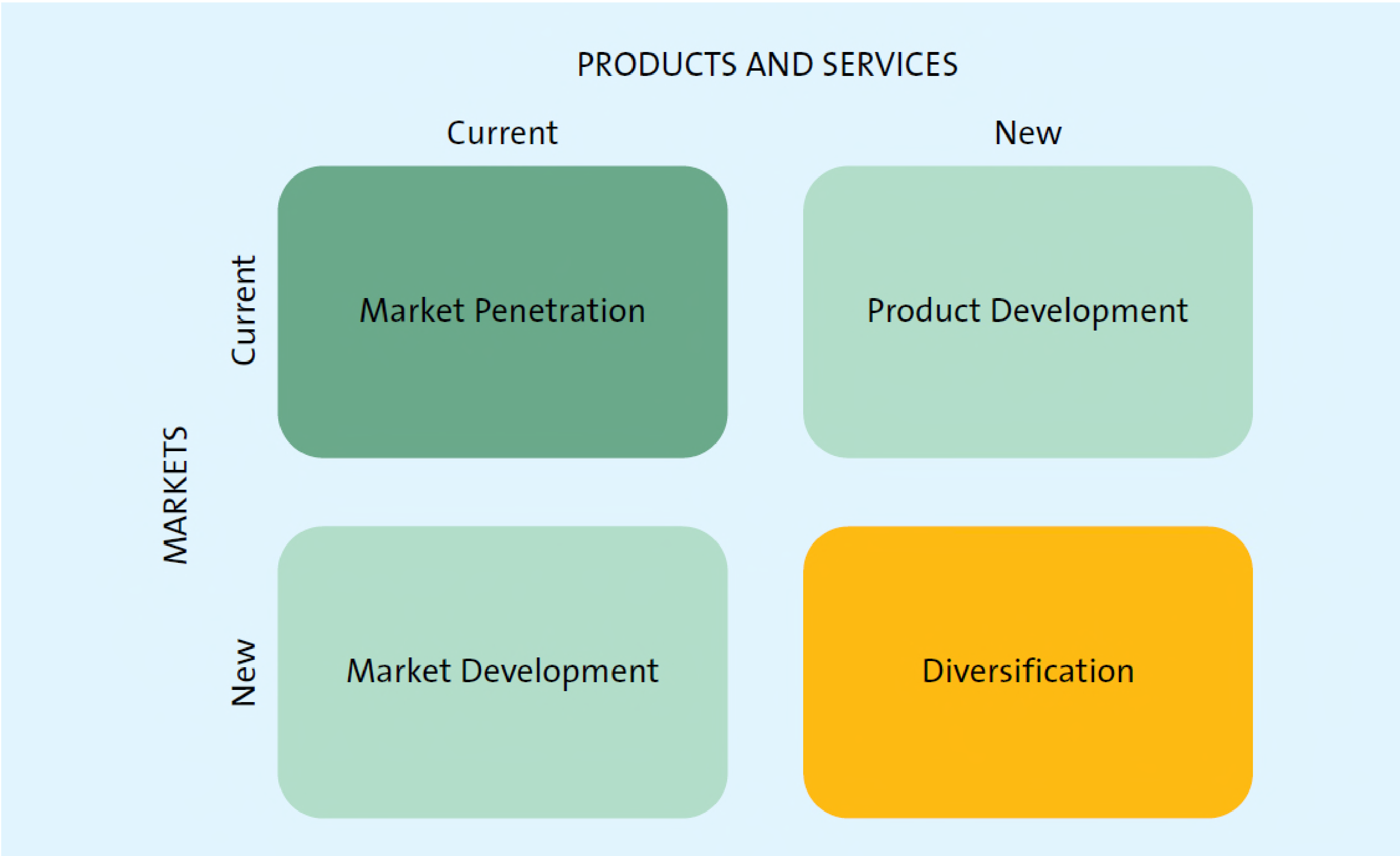
A) a wide product selection

B) merchandise they want at the time they want it

C) a variety of media communication methods

D) accessible management personnel to handle complaints

GROWTH STRATEGIES



Test Your Knowledge

Which of the following is NOT considered a marketing growth strategy?

A) Market penetration

B) Diversification

C) Product development

D) Sequential planning

MARKET PENETRATION

- Existing marketing mix
- Existing customers

Discussion Question

In what way is a sale a market penetration strategy?

MARKET DEVELOPMENT STRATEGY

- Existing marketing offering
- New market segments (domestic, international) not currently being served

PRODUCT DEVELOPMENT

- New product/service
- Current target market

DIVERSIFICATION

- New product/service
- New market segment not currently being served

Test Your Knowledge

A diversification strategy introduces a new product or service to a market segment that ________________.

A) is currently not served

B) includes many ethnicities

C) already exists

D) does not traditionally respond to mixed media

ENTREPRENEURIAL MARKETING 2.1
BEAUTY EXPERIENCE IN A BOX

- BeautyGram – a beautifully packaged alternative to sending flowers or a gift basket
- Choose from 6 themes or design your own beauty products
- Delivered or shipped
- Appeared on Dragon’s Den