Marketing Management A Strategic Decision-Making Approach 8th Edition Mullins Solutions Manu

Chapter 2: The Marketing Implications of Corporate and Business Strategies

Take-Aways

1. Marketing perspectives lie at the heart of strategic decision making, whether at the corporate, business-unit, or product-market levels. All managers who aspire to general management roles need marketing concepts and tools in their repertoire.

2. Market-oriented firms—those that plan and coordinate company activities around the primary goal of satisfying customer needs—tend to outperform other firms on a variety of dimensions, including sales growth, return on assets, and new product success.

3. Unethical behavior by a firm's employees can damage the trust between a firm and its suppliers and customers, thereby disrupting the development of long-term relationships and reducing sales and profits over time.

4. The four major paths to corporate growth—market penetration, market development, product development, and diversification strategies—imply differences in a firm's strategic scope, require different competencies and marketing actions, and involve different types and amounts of risk. Decisions about which path(s) to pursue should consider all of these factors.

5. A strong corporate brand makes sense when company level competencies are primarily responsible for generating the benefits and value customers receive from its various product offerings.

6. The ultimate goal in formulating business-unit strategies is to establish a basis for a sustainable competitive advantage that provides superior value to customers. Doing so requires the development of resources—often marketing resources, such as brand names, marketing information systems and databases, long-term customer relationships, and so on—that other firms do not have and that are hard to acquire.

7. Successful new firm formation typically requires a competitive strategy that delivers superior value to a narrowly defined target segment in a way that either avoids direct confrontation with established competitors or is difficult for them to emulate. Therefore, market sensing and analysis, market segmentation and targeting, and market positioning skills are usually crucial in helping new firms surmount the long odds against survival.

CHAPTER OUTLINE

I. **IBM Switches Strategies** describes how technological changes and competitor actions forced International Business Machines (IBM) to change the competitive, marketing, and quality differentiation strategy that it had been following.

II. **Marketing Challenges Addressed in Chapter 2**

   1. The interrelationships among the various levels of strategy raise several questions of importance to marketing managers as well as managers in other functional areas and top

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executives:

i. While marketing managers clearly bear the primary responsibility for developing strategic marketing plans for individual product or service offerings, what role does marketing play in formulating strategies at the corporate and divisional or business-unit level?
ii. Why do some organizations pay much more attention to customers and competitors when formulating their strategies than others, and does it make any difference in their performance?
iii. What do strategies consist of, and are they similar or different at the corporate, business, and functional levels?
iv. What specific decisions underlie effective corporate and business-level strategies, and what are their implications for marketing?

III. What is Marketing's Role in Formulating and Implementing Strategies?

1. Marketing managers are not only responsible for developing strategic plans for their own product-market entries, but also are often primary participants and contributors to the planning process at the business and corporate level as well.

A. Market-Oriented Management

1. Market-oriented organizations tend to operate according to the business philosophy known as the marketing concept.
2. The **marketing concept** holds that the planning and coordination of all company activities around the primary goal of satisfying customer needs is the most effective means to attain and sustain a competitive advantage and achieve company objectives over time.
3. Market-oriented firms are characterized by a consistent focus by personnel in all departments and at all levels on customers' needs and competitive circumstances in the market environment.
4. They are also willing and able to quickly adapt products and functional programs to fit changes in that environment.
5. Such firms pay a great deal of attention to customer research before products are designed and produced.
6. They embrace the concept of market segmentation by adapting product offerings and marketing programs to the special needs of different target markets.
7. Market-oriented firms also adopt a variety of organizational procedures and structures to improve the responsiveness of their decision making, including using more detailed environmental scanning and continuous, real-time information systems; seeking frequent feedback from and coordinating plans with key customers and major suppliers; decentralizing strategic decisions; encouraging entrepreneurial thinking among lower-level managers; and using interfunctional management teams to analyze issues and initiate strategic actions outside the formal planning process.
8. **Exhibit 2.2** summarizes some of the guidelines for market-oriented management.

B. Does Being Market-Oriented Pay?

1. By paying careful attention to customer needs and competitive threats—and by focusing activities across all functional departments on meeting those needs and threats effectively—organizations should be able to enhance, accelerate, and reduce the volatility and vulnerability of their cash flows.
2. And that should enhance their economic performance and shareholder value.
3. Indeed, profitability is the third leg, together with a customer focus and cross-functional coordination, of the three-legged stool known as the marketing concept.
4. The marketing concept is consistent with the notion of focusing on only those segments of the customer population that the firm can satisfy both effectively and

profitably.

5. Firms might offer less extensive or costly goods and services to unprofitable segments or avoid them altogether.
6. Substantial evidence supports the idea that being market-oriented pays dividends, at least in a highly developed economy such as the United States.
7. A number of studies involving more than 500 firms or business units across a variety of industries indicate that a market orientation has a significant positive effect on various dimensions of performance, including return on assets, sales growth, and new product success.

C. Factors That Mediate Marketing's Strategic Role

1. Competitive Factors Affecting a Firm's Market Orientation
    - i. Early entrants into newly emerging industries, particularly industries based on new technologies, are especially likely to be internally focused and not very market-oriented.
    - ii. This is because there are likely to be relatively few strong competitors during the formative years of a new industry, customer demand for the new product is likely to grow rapidly and outstrip available supply, and production problems and resource constraints tend to represent more immediate threats to the survival of such new businesses.
    - iii. Businesses facing such market and competitive conditions are often **product-oriented** or **production-oriented**.
    - iv. They focus most of their attention and resources on such functions as product and process engineering, production, and finance in order to acquire and manage the resources necessary to keep pace with growing demand.
    - v. **Exhibit 2.3** summarizes the differences between production-oriented and market-oriented organizations.
    - vi. As industries grow, they become more competitive.
    - vii. New entrants are attracted and existing producers attempt to differentiate themselves through improved products and more-efficient production processes.
    - viii. As a result, industry capacity often grows faster than demand and the environment shifts from a seller's market to a buyer's market.
    - ix. Firms often respond to such changes with aggressive promotional activities to maintain market share and hold down unit costs.
    - x. Unfortunately, this kind of **sales-oriented** response to increasing competition still focuses on selling what the firm wants to make rather than on customer needs.
    - xi. As industries mature, sales volume levels off and technological differences among brands tend to shrink as manufacturers copy the best features of each other's products.
    - xii. Consequently, a firm must seek new market segments or steal share from competitors by offering lower prices, superior services, or intangible benefits other firms cannot match.
2. The Influence of Different Stages of Development across Industries and Global Markets:
    - i. Industries that are in earlier stages of their life cycles, or that benefit from entry barriers to entry or other factors reducing the intensity of competition, are likely to have relatively fewer market-oriented firms.
    - ii. Given that entire economies are in different stages of development around the world, the popularity—and even the appropriateness—of different business philosophies may also vary across countries.

iii. International differences in business philosophies can cause some problems for the globalization of a firm's strategic marketing programs, but it can create some opportunities as well, especially for alliances or joint ventures.

3. Strategic Inertia:
   i. In some cases, a firm that achieved success by being in tune with its environment loses touch with its market because managers become reluctant to tamper with strategies and marketing programs that worked in the past.
   ii. Such strategic inertia is dangerous because customers' needs and competitive offerings change over time.
   iii. In environments where changes happen frequently, the strategic planning process needs to be ongoing and adaptive.
   iv. All the participants, whether from marketing or other functional departments, need to pay constant attention to what is happening with their customers and competitors.

IV. Three Levels of Strategy: Similar Components, but Different Issues

A. Strategy: A Definition
   1. A **strategy** is a fundamental pattern of present and planned objectives, resource deployments, and interactions of an organization with markets, competitors, and other environmental factors.
   2. A strategy should specify:
      i. what (objectives to be accomplished)
      ii. where (on which industries and product-markets to focus)
      iii. how (which resources and activities to allocate to each product-market to meet environmental opportunities and threats and to gain a competitive advantage)

B. The Components of Strategy
   1. Scope
   2. Goals and objectives
   3. Resource deployments
   4. Identification of a sustainable competitive advantage
   5. Synergy

C. The Hierarchy of Strategies
   1. Corporate strategy
   2. Business-level strategy
   3. Functional strategies
   4. Exhibit 2.5 summarizes the specific focus and issues dealt with at each level of strategy.

D. Corporate Strategy
   1. Decisions about the organization's scope and resource deployments across its divisions or businesses are the primary focus of corporate strategy.
   2. The essential questions at this level include:
      i. What business(es) are we in?
      ii. What business(es) should we be in?
      iii. What portion of our total resources should we devote to each of these businesses to achieve the organization's overall goals and objectives?
   3. Attempts to develop and maintain distinctive competencies at the corporate level focus on generating superior human, financial, and technological resources;

designing effective organization structures and processes; and seeking synergy among the firm's various businesses.

E. Business- Level Strategy

1. How a business unit competes within its industry is the critical focus of business-level strategy.
2. A major issue in a business strategy is that of sustainable competitive advantage:
    i. What distinctive competencies can give the business unit a competitive advantage?
    ii. And which of those competencies best match the needs and wants of the customers in the business's target segment(s)?
3. Another important issue a business-level strategy must address is appropriate scope.
4. Finally, synergy should be sought across product-markets and across functional departments within the business.

F. Marketing Strategy

1. The primary focus of marketing strategy is to effectively allocate and coordinate marketing resources and activities to accomplish the firm's objectives within a specific product-market.
2. The critical issue concerning the scope of a marketing strategy is specifying the target market(s) for a particular product or product line.

V. The Marketing Implications of Corporate Strategy Decisions

A. Corporate Scope—Defining the Firm's Mission

1. A well-thought-out mission statement guides an organization's managers as to which market opportunities to pursue and which fall outside the firm's strategic domain.
2. To provide a useful sense of direction, a corporate mission statement should clearly define the organization's strategic scope.
3. It should answer such fundamental questions as the following:
    i. What is our business?
    ii. Who are our customers?
    iii. What kinds of value can we provide to these customers?
    iv. What should our business be in the future?
4. Market Influences on the Corporate Mission:
    i. An organization's mission should fit both its internal characteristics and the opportunities and threats in its external environment.
    ii. The firm's mission should be compatible with its established values, resources, and distinctive competencies.
    iii. It should also focus the firm's efforts on markets where those resources and competencies will generate value for customers, an advantage over competitors, and synergy across its products.
5. Criteria for Defining the Corporate Mission:
    i. Many firms specify their domain in *physical terms*, focusing on *products* or *services* or the *technology* used.
6. Social Values and Ethical Principles
    i. Some firms are actively pursuing social programs they believe to be intertwined with their economic objectives, while others simply seek to manage their businesses according to the principles of *sustainability* — meeting humanity's needs without harming future generations.
    ii. The ethical principles a firm hopes to abide by in its dealings with customers, suppliers, and employees tend to be more straightforward and

specific than the broader issues of social responsibilities.

iii. Ethics is concerned with the development of moral standards by which actions and situations can be judged.

iv. It focuses on those actions that may result in actual or potential harm of some kind (e.g., economic, mental, physical) to an individual, group, or organization.

v. Particular actions may be legal but not ethical.

vi. Thus, ethics is more proactive than the law.

vii. Ethical standards attempt to anticipate and avoid social problems, whereas most laws and regulations emerge only after the negative consequences of an action become apparent.

7. Why Are Ethics Important? The Marketing Implications of Ethical Standards

   i. Unethical practices can damage the trust between a firm and its suppliers or customers, thereby disrupting the development of long-term exchange relationships and resulting in the likely loss of sales and profits over time.

   ii. Not all customers or competing suppliers adhere to the same ethical standards.

   iii. As a result, marketers sometimes feel pressure to engage in actions that are inconsistent with what they believe to be right.

   iv. Such dilemmas are particularly likely to arise as a company moves into global markets involving different cultures and levels of economic development where economic exigencies and ethical standards may be quite different.

   v. Such inconsistencies in external expectations and demands across countries and markets can lead to job stress and inconsistent behavior among marketing and sales personnel, which in turn can risk damaging long-term relationships with suppliers, channel partners, and customers.

   vi. A company can reduce such problems by spelling out formal social policies and ethical standards in its corporate mission statement and communicating and enforcing those standards.

   vii. It is not always easy to decide what a firm’s ethical policies and standards should be.

   viii. There are multiple philosophical traditions or frameworks that managers might use to evaluate the ethics of a given action.

   ix. Consequently, different firms or managers can pursue somewhat different ethical standards, particularly across national cultures.

B. Corporate Objectives

1. Formal objectives provide decision criteria that guide an organization’s business units and employees toward specific dimensions and performance levels.

2. Those same objectives provide the benchmarks against which actual performance can be evaluated.

3. To be useful as decision criteria and evaluative benchmarks, corporate objectives must be specific and measurable.

4. Each objective contains four components:

   i. A *performance dimension* or attribute sought.

   ii. A *measure or index* for evaluating progress.

   iii. A *target or hurdle* level to be achieved.

   iv. A *time frame* within which the target is to be accomplished.

5. The Marketing Implications of Corporate Objectives:

   i. Trying to achieve many objectives at once leads to conflicts and trade-offs.

   ii. Managers can reconcile conflicting goals by prioritizing them.

iii. Another approach is to state one of the conflicting goals as a constraint or **hurdle**.
iv. In firms with multiple business units or product lines, however, the most common way to pursue a set of conflicting objectives is to first break them down into subobjectives, then assign subobjectives to different business units or products.
v. As firms emphasize developing and maintaining long-term customer relationships, *customer-focused objectives* are being given greater importance.
vi. Such market-oriented objectives are more likely to be consistently pursued across business units and product offerings.
vii. There are several reasons for this:
  i. Given the huge profit implications of a customer's lifetime value, maximizing satisfaction and loyalty tends to make good sense no matter what other financial objectives are being pursued in the short term.
  ii. Satisfied, loyal customers of one product can be leveraged to provide synergies for other company products or services.
  iii. Customer satisfaction and loyalty are determined by factors other than the product itself or the activities of the marketing department.

C. Corporate Sources of Competitive Advantage
1. A sustainable competitive advantage at the corporate level is based on company resources: resources that other firms do not have, that take a long time to develop, and that are hard to acquire.
2. A company should develop a competitive strategy for each business unit within the firm, and a strategic marketing program, for each of its product lines that convert one or more of the company's unique resources into something of value to customers.

D. Corporate Growth Strategies
1. A firm can go in two major directions in seeking future growth:
  i. **Expansion** of its current businesses and activities.
  ii. **Diversification** into new businesses, either through internal business development or acquisition.
  iii. **Exhibit 2.9** outlines some specific options a firm might pursue while seeking growth in either of these directions.
2. Expansion by Increasing Penetration of Current Product-Markets
  i. One way for a company to expand is by increasing its share of existing markets.
  ii. This typically requires actions such as making product or service improvements, cutting costs and prices, or outspending competitors on advertising or promotions.
  iii. Even when a firm holds a commanding share of an existing product-market, additional growth may be possible by encouraging current customers to become more loyal and concentrate their purchases, use more of the product or service, use it more often, or use it in new ways.
3. Expansion by Developing New Products for Current Customers:
  i. A second avenue to future growth is through a product-development strategy emphasizing the introduction of product-line extensions or new product or service offerings aimed at existing customers.
4. Expansion by Selling Existing Products to New Segments or Countries:
  i. This may involve the creation of marketing programs aimed at nonuser or occasional-user segments of existing markets.

ii. Expansion into new geographic markets, particularly new countries, is also a primary growth strategy for many firms.
iii. While developing nations represent attractive growth markets for basic industrial and infrastructure goods and services, growing personal incomes and falling trade barriers are making them attractive potential markets for many consumer goods and services as well.

5. Expansion by Diversifying
   i. This is typically riskier than the various expansion strategies because it often involves learning new operations and dealing with unfamiliar customer groups.
   ii. **Vertical integration** is one way for companies to diversify:
      a. **Forward vertical integration** occurs when a firm moves downstream in terms of the product flow
      b. **Backward integration** occurs when a firm moves upstream by acquiring a supplier.
   iii. Integration can give a firm access to scarce or volatile sources of supply or tighter control over the marketing, distribution, or servicing of its products.
   iv. But it increases the risks inherent in committing substantial resources to a single industry.
   v. **Related (or concentric) diversification** occurs when a firm internally develops or acquires another business that does not have products or customers in common with its current businesses but that might contribute to internal synergy through the sharing of production facilities, brand names, R&D know-how, or marketing and distribution skills.
   vi. The motivations for **unrelated (or conglomerate) diversification** are primarily financial rather than operational.
      a. It involves two businesses that have no commonalities in products, customers, production facilities, or functional areas of expertise.
      b. Such diversification mostly occurs when a disproportionate number of a firm's current businesses face decline because of decreasing demand, increased competition, or product obsolescence.
      c. It tends to be the riskiest growth strategy in terms of financial outcomes.
      d. Most empirical studies report that related diversification is more conducive to capital productivity and other dimensions of performance than is unrelated diversification.
6. Expansion by Diversifying through Organizational Relationships or Networks:
   i. Recently, firms have attempted to gain some benefits of market expansion or diversification while simultaneously focusing more intensely on a few core competencies.
   ii. They try to accomplish this feat by forming relationships or organizational networks with other firms instead of acquiring ownership.
   iii. Perhaps the best models of such organizational networks are the Japanese keiretsu and the Korean chaebol.

E. Allocating Corporate Resources:
   1. Diversified organizations have several advantages over more narrowly focused firms.
   2. They have a broader range of areas in which they can knowledgeably invest, and their growth and profitability rates may be more stable because they can offset declines in one business with gains in another.
   3. To exploit the advantages of diversification, though, corporate managers must make intelligent decisions about how to allocate financial and human resources

across the firm's various businesses and product-markets.

4. Two sets of analytical tools have proven useful in making such decisions: **portfolio models** and **value-based planning**.
5. Portfolio models
    i. These models enable managers to classify and review their current and prospective businesses by viewing them as portfolios of investment opportunities and then evaluating each business's competitive strength and the attractiveness of the markets it serves.
6. The Boston Consulting Group's (BCG) Growth-Share Matrix (**Exhibit 2.10**)
    i. It analyzes the impact of investing resources in different businesses on the corporation's future earnings and cash flows.
    ii. Each business is positioned within a matrix.
    iii. The vertical axis indicates the industry's growth rate and the horizontal axis shows the business's relative market share.
    iv. The growth-share matrix assumes that a firm must generate cash from businesses with strong competitive positions in mature markets.
    v. Then it can fund investments and expenditures in industries that represent attractive future opportunities.
    vi. Thus, the **market growth** rate on the vertical axis is a proxy measure for the maturity and attractiveness of an industry.
    vii. This model represents businesses in rapidly growing industries as more attractive investment opportunities for future growth and profitability.
    viii. Similarly, a business's **relative market share** is a proxy for its competitive strength within its industry.
    ix. It is computed by dividing the business's absolute market share in dollars or units by that of the leading competitor in the industry.
7. Resource Allocation and Strategy Implications (**Exhibit 2.11**)
    i. Each of the four cells in the growth-share matrix represents a different type of business with different strategy and resource requirements:

        Question marks: Businesses in high-growth industries with low relative market shares are called *question marks* or *problem children*. Such businesses require large amounts of cash, not only for expansion to keep up with the rapidly growing market, but also for marketing activities (or reduced margins) to build market share and catch the industry leader.

        Stars: A *star* is the market leader in a high-growth industry. Stars are critical to the continued success of the firm.

        Cash cows: Businesses with a high relative share of low-growth markets are called *cash cows* because they are the primary generators of profits and cash in a corporation. Such businesses do not require much additional capital investment.

        Dogs: Low-share businesses in low-growth markets are called *dogs* because although they may throw off some cash, they typically generate low profits or losses. Divestiture is one option for such businesses, although it can be difficult to find an interested buyer.

F. Limitations of the Growth-Share Matrix
    1. Market growth rate is an inadequate descriptor of overall industry attractiveness.
    2. Relative market share is inadequate as a description of overall competitive strength.
    3. The outcomes of a growth-share analysis are highly sensitive to variations in how growth and share are measured.
    4. While the matrix specifies appropriate investment strategies for each business, it provides little guidance on how best to implement those strategies.

5. The model implicitly assumes that all business units are independent of one another except for the flow of cash.
6. Alternative Portfolio Models
   i. Because of the limitations of the growth-share matrix, a number of firms have attempted to improve the basic portfolio model.
   ii. Such improvements have focused primarily on developing more detailed, multifactor measures of industry attractiveness and a business's competitive strength and on making the analysis more future-oriented.
   iii. These multifactor models are more detailed and consequently provide more strategic guidance concerning the appropriate allocation of resources across businesses.
   iv. They are also more useful for evaluating potential new product markets.
   v. However, the multifactor measures in these models can be subjective and ambiguous.
   vi. Also, the conclusions drawn from these models still depend on the way industries and product-markets are defined.
7. Value**-based planning** is a resource allocation tool that attempts to address such questions by assessing the shareholder value a given strategy is likely to create.
   i. Thus, value-based planning provides a basis for comparing the economic returns to be gained from investing in different businesses pursuing different strategies or from alternative strategies that might be adopted by a given business unit.
   ii. A number of value-based planning methods are currently in use, but all share three basic features:
   iii. They assess the economic value a strategy is likely to produce by examining the cash flows it will generate, rather than relying on distorted accounting measures.
   iv. They estimate the shareholder value that a strategy will produce by discounting its forecasted cash flows by the business's risk-adjusted cost of capital.
   v. They evaluate strategies based on the likelihood that the investments required by a strategy will deliver returns greater than the cost of capital.
   vi. The amount of return a strategy or operating program generates in excess of the cost of capital is commonly referred to as its **economic value added** (EVA).
   vii. This approach to evaluating alternative strategies is particularly appropriate for use in allocating resources across business units because most capital investments are made at the business-unit level, and different business units typically face different risks and therefore have different costs of capital.
8. Discounted Cash Flow Model (**Exhibit 2.12**)
   i. In this model, shareholder value created by a strategy is determined by the cash flow it generates, the business's cost of capital, and the market value of the debt assigned to the business.
   ii. The future cash flows generated by the strategy are, in turn, affected by six "value drivers": the rate of sales growth the strategy will produce, the operating profit margin, the income tax rate, investment in working capital, fixed capital investment required by the strategy, and the duration of value growth.
   iii. The duration of value growth represents management's estimate of the number of years over which the strategy can be expected to produce rates of return that exceed the cost of capital.
9. Some Limitations of Value-Based Planning

i. It is not a substitute for strategic planning; it is only one tool for evaluating strategy alternatives identified and developed through managers' judgments.
ii. While good forecasts are notoriously difficult to make, they are critical to the validity of value-based planning. Unfortunately, there are natural human tendencies to overvalue the financial projections associated with some strategy alternatives and to undervalue others.
iii. Some kinds of strategy alternatives are consistently undervalued. Particularly worrisome from a marketing viewpoint is the tendency to underestimate the value of keeping current customers.
iv. It can evaluate alternatives, but it cannot create them.

10. Using Customer Equity to Estimate the Value of Alternative Marketing Actions
    i. A variation of value-based planning calculates the economic return for a prospective marketing initiative based on its likely impact on the firm's customer equity, which is the sum of the lifetime values of its current and future customers.

G. Sources of synergy
1. Knowledge-Based Synergies:
    i. The performance of one business can be enhanced by the transfer of competencies, knowledge, or customer-related intangibles—such as brand-name recognition and reputation—from other units within the firm.
    ii. In part, knowledge-based synergies are a function of the corporation's scope and mission.
2. Corporate Identity and The Corporate Brand as a Source of Synergy:
    i. *Corporate identity* flows from the communications, impressions, and personality projected by an organization.
    ii. It is shaped by the firm's mission and values, its functional competencies, the quality and design of its goods and services, its marketing communications, the actions of its personnel, the image generated by various corporate activities, and other factors.

VI. The Marketing Implications of Business-Unit Strategy Decisions

1. The components of a firm engaged in multiple industries or businesses are typically called **strategic business units** (SBUs).
2. Managers within each of these business units decide which objectives, markets, and competitive strategies to pursue.
3. The first step in developing business-level strategies is for the firm to decide how to divide itself into SBUs.
4. The managers in each SBU must then make recommendations about:
    i. The unit's objectives.
    ii. The scope of its target customers and offerings.
    iii. Which broad competitive strategy to pursue to build a competitive advantage in its product-markets.
    iv. How resources should be allocated across its product-market entries and functional departments.

A. How Should Strategic Business Units Be Designed?
1. Ideally, strategic business units have the following characteristics:
    i. *A homogeneous set of markets to serve with a limited number of related technologies*.
    ii. *A unique set of product-markets*, in the sense that no other SBU within the

firm competes for the same customers with similar products.

iii. *Control over those factors necessary for successful performance*, such as production, R&D and engineering, marketing, and distribution.

iv. *Responsibility for their own profitability*.

2. The three dimensions that define the scope and mission of the entire corporation also define individual SBUs:
    i. *Technical compatibility*, particularly with respect to product technologies and operational requirements, such as the use of similar production facilities and engineering skills.
    ii. Similarity in the *customer needs* or the product benefits sought by customers in the target markets.
    iii. Similarity in the *personal characteristics* or behavior patterns of customers in the target markets.
3. In practice, the choice is often between technical/operational compatibility on the one hand and customer homogeneity on the other.
4. In some cases, the marketing synergies gained from coordinating technically different products aimed at the same customer need or market segment outweigh operational considerations.

B. The Business Unit's Objectives

1. Breaking down an SBU's objectives into subobjectives for each of its product-market entries is often a major part of developing business-level strategy.
2. Those subobjectives need to add up to the accomplishment of the SBU's overall goals; yet they should vary across product-market entries to reflect differences in the attractiveness and growth potential of individual market segments and the competitive strengths of the SBU's product in each market.

C. The Business Unit's Competitive Strategy

1. Achieving a competitive advantage requires a business unit to make two choices:
    i. What is the SBU's competitive domain or scope? Which market segments can it target, and which customer needs can it satisfy?
    ii. How can the business unit distinguish itself from competitors in its target market(s)? What distinctive competencies can it rely on to achieve a unique position relative to its competitors?
2. Decisions about an SBU's Scope
    i. A business's strategic scope can be defined either broadly or narrowly.
    ii. It can pursue a range of market segments within its industry or focus on only one or a few target segments.
    iii. The decision about how many customer segments to serve usually hinges on a combination of factors, including the business's objectives and available resources, characteristics of the market, and the SBU's strengths and weaknesses relative to its competitors.
    iv. Scope of a business's strategic focus has ramifications for nearly every component of its marketing program, including the breadth of its product line; the audience for its advertising, promotion, and personal selling efforts; the design of its distribution system; and the range of prices that are viable.
3. Allocating Resources within the Business Unit
    i. Once SBU managers decide on the scope of market segments and product-market entries to pursue, they allocate the financial and human resources provided by corporate management across those product-markets.
4. Gaining a Competitive Advantage
    i. To be successful over the long haul, however, a competitive strategy should have three characteristics.

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ii. It should generate customer value. It should give potential customers a good reason to purchase from the SBU instead of its competitors.

iii. The superior value must be perceived by the customer. Even if an SBU's product or service is better than the competition, if the customer is not aware of that—or doesn't attach much value to the additional benefits—it does not gain a competitive advantage.

iv. The advantage should be difficult for competitors to copy. The easier it is for competitors to copy a successful strategy, the more short-lived the SBU's competitive advantage.

5. Marketing Resources and Competitive Advantage

i. The business unit should try to develop a competitive strategy that converts one or more of its unique resources or competencies into something of value to customers.

ii. Treacy and Wiersema argue that market leaders tend to pursue one of three categories of competitive strategy. They either stress operational excellence, which typically translates into lower costs and prices, or differentiate themselves through product leadership or customer intimacy and superior service (**Exhibit 2.13**).

iii. Competitive strategies are built on marketing resources and competencies.

iv. The competitive strategy pursued by an SBU helps determine what strategic marketing programs are viable for its various product-market entries.

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