



FIGURE 22-3

Steps a large consumer packaged goods firm takes in developing its annual marketing plan

with the approval of the plan by the division general manager—10 weeks before the fiscal year starts. Between these points there are continuing efforts to uncover new ideas through brainstorming and key-issues sessions with specialists both inside and outside the firm. The plan is fine-tuned through a series of often-excruciating reviews by several levels of management, which leaves few surprises and little to chance.

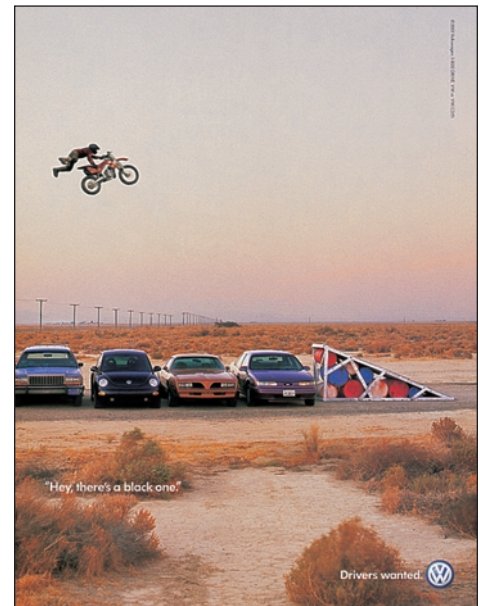
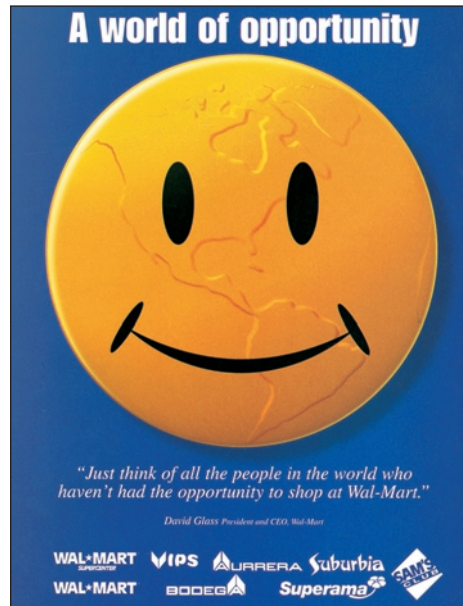
Concept Check

1. What is the significance of the S-shape of the sales response function in Figure 22-1?
2. What are the main output reports from each phase of the strategic marketing process?
3. What are two kinds of marketing plans?

Frameworks to Improve Marketing Planning

Marketing planning for a firm with many products competing in many markets—a multiproduct, multimarket firm—is a complex process. Three techniques that are useful in helping corporate and marketing executives in such a firm make important resource allocation decisions are (1) Porter’s generic business strategies, (2) profit enhancement options, and (3) market–product synergies. All of these techniques are based on elements introduced in earlier chapters.

Which of Porter’s generic strategies are Wal-Mart and Volkswagen using? For the answer and a discussion of the strategies, see the text.



GENERIC BUSINESS STRATEGY

Strategy that can be adopted by any firm, regardless of the product or industry involved, to achieve a competitive advantage.

COST LEADERSHIP STRATEGY

Using a serious commitment to reducing expenses that, in turn, lowers the price of the items sold in a relatively broad array of market segments.

Porter’s Generic Business Strategies

As shown in Figure 22–4, Michael E. Porter has developed a framework in which he identifies four basic, or “generic,” strategies.¹² A **generic business strategy** is one that can be adopted by any firm, regardless of the product or industry involved, to achieve a competitive advantage. Some current research suggests that a firm needs several major competencies, not just one, to sustain its competitive advantage over longer periods;¹³ other research suggests that the preferred strategy is to focus on a single discipline—such as operational excellence, product leadership, or customer intimacy.¹⁴

Although all of the techniques discussed here involve generic strategies, the phrase is most often associated with Porter’s framework. In this framework the columns identify the two fundamental alternatives firms can use in seeking competitive advantage: (1) becoming the low-cost producer within the markets in which it competes or (2) differentiating itself from competitors through developing points of difference in its product offerings or marketing programs. In contrast, the rows identify the competitive scope: (1) a broad target by competing in many market segments or (2) a narrow target by competing in only a few segments or even a single segment. The columns and rows result in four generic business strategies, any one of which can provide a competitive advantage among similar business units in the same industry:

1. A **cost leadership strategy** (cell 1) requires a serious commitment to reducing expenses that, in turn, lowers the price or the items sold in a relatively broad array of market segments. One way is by securing raw materials from a lower-cost supplier. Also, significant investments in capital equipment may be necessary to improve the production or distribution process and achieve

FIGURE 22-4

Porter’s four generic business strategies

SOURCE OF COMPETITIVE ADVANTAGE		
Competitive scope	Lower cost	Differentiation
Broad target	1. Cost leadership	2. Differentiation
Narrow target	3. Cost focus	4. Differentiation focus

DIFFERENTIATION STRATEGY

Requires innovation and significant points of difference in product offerings, brand image, higher quality, advanced technology, or superior service in a relatively broad array of market segments.

COST-FOCUS STRATEGY

Involves controlling expenses and, in turn, lowering prices, in a narrow range of market segments.

DIFFERENTIATION FOCUS STRATEGY

Using significant points of difference in the firm’s offerings to reach one or only a few market segments.

these lower unit costs. The cost leader still must have adequate quality levels. Wal-Mart’s sophisticated systems of regional warehouses and electronic data interchange with its suppliers have led to huge cost savings and its cost leadership strategy.

2. A **differentiation strategy** (cell 2) requires innovation and significant points of difference in product offerings, brand image, higher quality, advanced technology, or superior service in a relatively broad array of market segments. This allows the firm to charge a price premium. Delphi Automobile Systems has used this strategy to use satellite communications to connect you and your car to 24-hour-a-day emergency services, directions to a destination, and the opportunity to order a movie while on the road.
3. A **cost-focus strategy** (cell 3) involves controlling expenses and, in turn, lowering prices, in a narrow range of market segments. Retail chains targeting only a few market segments in a restricted group of products—such as Office Max in office supplies—have used a cost-focus strategy successfully. Similarly, some airlines have been very successful in offering low fares between very restricted pairs of cities.
4. Finally, a **differentiation focus strategy** (cell 4) utilizes significant points of difference to one or only a few market segments. Volkswagen has achieved spectacular success by targeting the “nostalgia segment,” 35- to 55-year-old baby boomers, with its technology-laden Beetle.¹⁵

These strategies also form the foundation for Michael Porter’s theory about what makes a nation’s industries successful, as discussed in Chapter 7.

Profit Enhancement Options If a business wants to increase, or “enhance,” its profits, it can (1) increase revenues, (2) decrease expenses, or (3) do both. Among these “profit enhancement options,” let’s look first at the strategy options of increasing revenues and then at those for decreasing expenses.

The strategy option of increasing revenues can be achieved only by using one or a combination of four ways to address present or new markets and products (Figure 22–5): (1) market penetration, (2) product development, (3) market development, and (4) diversification (which are described in Chapter 2).

FIGURE 22–5
Profit enhancement options for increasing a firm’s profits

