

Contemporary Strategic Marketing

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INSTRUCTOR'S MANUAL

PART A: NOTES TO CHAPTER
DISCUSSION QUESTIONS

PART B: NOTES TO CASE STUDIES

palgrave
macmillan

Part A

Notes to Chapter Discussion Questions

CHAPTER 2

What is Strategic Marketing?

1. WHAT DISTINGUISHES STRATEGIC BUSINESS DECISIONS FROM TACTICAL BUSINESS DECISIONS?

One could argue that the classification of business decisions into these two categories is somewhat arbitrary. Clearly, at the margin, there is a degree of overlap between the two concepts. However, it is equally clear that there are some decisions that are manifestly 'strategic' in nature and others that are manifestly 'tactical'. The decision to develop and launch a major new product is a strategic decision, while the decision to switch advertising from the Tuesday issue of a newspaper to Wednesday, to coincide with a particular news story, is tactical. Strategic decisions:

- Take into account likely competitor response
- Are concerned with substantial issues of resource allocation
- Potentially have a major impact on financial results
- Have a long-term impact on the organisation
- Are matched with trends in the business environment
- Are usually taken at a senior level within the organisation.

These characteristics are not generally found in tactical decisions.

2. WHAT IS MEANT BY COMPETITIVE STRATEGY, AND HOW DOES IT DIFFER FROM CORPORATE STRATEGY?

We regard the terms 'competitive strategy', 'business unit strategy' and 'strategic marketing' as closely related. There are two relevant dimensions – the subject matter of the decision and the organisational location of the decision. Competitive strategy, as the name implies, is concerned with the competitive battle – that is, the aim is to outmanoeuvre the competition in the battle for sales, market share and profits. Corporate strategy is concerned with resource allocation within firms that comprise multiple SBUs.

3. WHAT ARE THE KEY CHARACTERISTICS OF STRATEGIC MARKETING?

To be simplistic, strategic marketing is concerned with 'strategic' decisions that are made about matters that are predominantly of a 'marketing' nature. The answer to question 1 (above) assists us by clarifying what we mean by strategic. So strategic marketing is concerned with the long term, with marketing resource allocation, takes into account likely competitor response, and so on. Marketing is concerned with customers, products and markets – increasingly scholars and marketing practitioners would agree that marketing is concerned with the creation and management of mutually satisfying exchange relationships. So strategic marketing is concerned with long-term decisions involving resource allocation choices, which address matters to do with customers, customer relationships, products and markets.

4. WHAT IS A 'FORECASTING AND BUDGETING' APPROACH TO MARKETING PLANNING, AND HOW WOULD YOU DIFFERENTIATE IT FROM STRATEGIC MARKETING?

Forecasting and budgeting are legitimate components of the strategic marketing planning process. A problem arises where forecasting and budgeting are treated as the whole of the strategic marketing planning process! Forecasting and budgeting alone are a very blinkered approach to planning. Unless the forecasting process is very sophisticated it will not take into account likely competitor reaction, nor the impact of broad environmental change, nor will it involve the consideration of multiple strategic options, and so on. And if a forecasting approach is so sophisticated that it does take in all these aspects, then, of course, it is close to being a strategic marketing planning system anyway. A naive forecasting and budgeting approach (based, for example, on simple extrapolation methods) may be quite effective when the environment is stable. However, numerous commentators have claimed that the global business environment is becoming increasingly more turbulent, suggesting that forecasting and budgeting is unlikely to be adequate.

CHAPTER 3

Understanding Consumer Behaviour

1. DISTINGUISH BETWEEN NEEDS, WANTS AND DESIRES. DO MARKETERS HAVE THE POWER TO CREATE ANY OF THESE?

A good start would involve an attempt at defining each term:

- A **need** is an unsatisfactory physical or non-physical condition of the customer that leads her/him to an action that will remedy that condition. Put simply, needs are a lack of something useful in our lives. Abraham Maslow's classic model depicting a hierarchy of human needs would also contribute to this discussion quite well; some of our needs can be quite pressing (physiological, safety) while others are somewhat more discretionary (love, self-esteem, self-actualisation).
- **Wants** relate to the particular form of consumption chosen by a consumer to satisfy a particular need. Once we have decided to satisfy a particular need, we proceed to select a particular product and eventually a specific brand to do the job. I need an automobile, I want (to buy) that Mercedes Benz over there.
- A **desire** is a longing for products that contribute to the formation of our self-image. Many people desire a better appearance, a bigger house and an executive position with a large salary. Understandably, many of our desires remain unfulfilled...

In regards to the second half of the question, students will need to point out that, although marketing is a very powerful tool, marketers cannot create needs as such. They can, however, help consumers identify unmet needs they were unaware of, they can influence the perceived importance of satisfying certain needs ahead of others, and they can also influence the consumer's product search and brand choice.

2. DISCUSS THE EFFECTS OF GLOBALISATION ON CULTURE. IS THIS BECOMING A MATTER OF CONCERN FOR ALL MARKETERS AND ALL PRODUCT CATEGORIES?

A **global firm** is one that, by operating in more than one country, gains marketing, production, R&D, and financial advantages in its costs and reputation that are not available to purely domestic competitors. A **global marketer** aims to achieve worldwide product/brand penetration. **Global consumer culture positioning** refers to positioning a product/brand as a symbol of a given global culture. A good example of this is Nike's huge success in terms of its leading worldwide positioning among young urban males.

In terms of this becoming a matter of concern for all marketers and for all product categories, this is a matter of some debate. Multinational corporations (MNCs) are more likely to embrace the virtues of globalisation than non-governmental agencies (NGOs) and smaller regional/local competitors. Also, it must be pointed out that some product categories simply do not lend themselves to worldwide consumption; examples of such categories include alcoholic beverages, certain meats, high technology (due to limited infrastructures) and so forth. The word 'culture' generally encompasses the traditions, taboos, values, and basic attitudes of an entire society. As the mobile phone industry grows and grows, for instance, will truly global players emerge? Only time will tell.

3. **HOW CAN THE MODELS OF CONSUMER BEHAVIOUR PRESENTED IN THIS CHAPTER BE ADAPTED TO INCLUDE THE RECENT DEVELOPMENTS INVOLVING ONLINE SHOPPING AND CONSUMPTION BEHAVIOURS?**

Put simply, online marketing is conducted through interactive computer systems that link consumers and sellers electronically. We are still talking about 'people using newer and newer tools to get on with the business of shopping'. Although e-tailing provides customers with myriad options they never had before, the act of shopping online remains essentially the same as it is in the physical world. Although e-consumers have countless brands to choose from, can access vast searchable databases, can often personalise an e-tailer's site and so on, they are only human. They must identify unmet needs, then search for suitable goods/services, and so forth as any other consumer. E-marketers would be wise, however, to be aware of what Windham & Orton (2000) call the 'rules of the empowered consumer':

- Don't waste time;
- Give me what I want, when I want it;
- Give me meaningful content, not fluff;
- Don't exploit me;
- Don't disappoint me.

4. **APPROPRIATE POSITIONING HAS BEEN PRESENTED AS AN ESSENTIAL STRATEGY FOR ORGANISATIONS WISHING TO PROSPER IN THE MARKETPLACE. DISCUSS THE FUTURE PROSPECTS OF UNBRANDED GOODS AND SERVICES IN THIS CONTEXT.**

A product's **position** is simply the way it is defined by *consumers* on important attributes – the place the product/brand occupies in *consumers'* minds relative to competing products/brands. Normally, a strategic marketer would start by identifying possible competitive advantages for a product/brand, then narrow this list down to sustainable advantages and possibly try to develop a 'unique selling proposition' (USP). What emerges is a 'value proposition' reflecting the product's price position vis-à-vis the benefits it offers. This is generally followed by well-crafted communication and distribution programmes.

Positioning has become an essential strategy mainly because today's consumers are overloaded with information about goods and services. The buying process needs to be simplified so that time-pressed consumers need not re-evaluate a product every time they make a purchase decision. Well-known 'branded' products are particularly popular throughout the developed world, especially in fast-paced urban centres. It is interesting to note that highly familiar brands seem quite popular among *online* consumers as well. Students may also point out that branded merchandise is emerging as highly 'fashionable' in developing markets such as South East Asia, South America and elsewhere. The prospects for unbranded products may well be limited to very traditional goods and services sold in less time-pressed regions of the world.

5. **DISCUSS THE ETHICAL CHALLENGES FACED BY RESPONSIBLE MARKETERS IN TERMS OF SUCH DEVIANT BEHAVIOURS AS COMPULSIVE BUYING, BINGEING, ADDICTIVE GAMBLING AND SO FORTH.**

Marketing ethics policies are broad guidelines that everyone in the organisation must follow. These policies normally cover distributor relations, advertising standards, customer service, pricing, product development, and general ethical standards. The finest guidelines cannot resolve all the difficult ethical situations the strategic marketer faces. Marketing needs to operate within society. An enlightened company makes marketing decisions by considering consumer's wants and interests, the company's requirements, and society's long-run interests. The company is aware that neglecting consumer and societal long-run interests is a disservice to consumers and society.

Alert companies view societal problems as **opportunities**. To support this view, students should provide examples of 'responsible' and 'proactive' marketing practices (often voluntary, but not always),

and should also point to 'irresponsible' and 'defensive' approaches. Baby products encourage good parenting, food products suggest average servings and complementary dishes, pub owners check for 'designated drivers', and so forth. On the other hand, cigarette manufacturers needed to be forced to place health warnings on their packets, national lottery schemes cause considerable controversy in terms of the behaviours they encourage, and credit card companies happily 'upgrade' their customers' borrowing privileges without being asked to do so.

CHAPTER 4

Organisational Buying Behaviour

1. HOW DOES AN UNDERSTANDING OF THE ORGANISATIONAL BUYING PROCESS ASSIST IN THE FORMULATION OF MARKETING STRATEGY?

We would go so far as to argue that it is not really possible to formulate valid marketing strategies in organisational markets in the absence of an understanding of buying processes. A key point to appreciate is that such understanding may be implicit or explicit. For example, a sales executive who claims to have no interest in the 'theory' of organisational marketing will undoubtedly have his own implicit theory of buying behaviour. This will involve such factors as decision criteria ('this customer really cares about price, while this customer cares about quality'), key influencers ('of course at Jones & Co it's Smith who makes all the decisions'), and the buying process ('then at KDFE Ltd everything has to go to the buying committee'). Manifestly, in constructing a marketing strategy, one must either make assumptions about buying behaviour or one must gather research data about it. The process of target selection depends upon this, selecting customers who are matched to the competencies of your organisation. The process of marketing mix formulation also depends upon it, such as the identification of suitable messages and suitable distribution channels to meet the buying needs of the target customers. The more relational is the marketing strategy, the more familiar the marketer needs to be with the buying processes of the target customers.

2. ORGANISATIONAL MARKETS ARE VERY DIVERSE. HOWEVER, IN MANY ORGANISATIONAL MARKETS DEMAND IS CONCENTRATED IN THE HANDS OF COMPARATIVELY FEW BUYERS. HOW DOES THIS AFFECT MARKETING STRATEGY?

The first observation about concentrated demand is that it alters the balance of power between the buyer and the seller. All other things being equal, the greater the concentration of demand, the greater the power in the hands of the customer. As buying power becomes more concentrated, so it becomes more feasible, and more rational, to pursue relational strategies rather than marketing mix strategies. One customer can deliver very substantial sales volume, which can justify the investment of a substantial amount of time and other resources in marketing directed at that customer alone. In certain industries such as the automotive sector (see case 'BriCol Engineering Ltd') this can lead to substantial new product development activity and investment in machinery specifically for an individual customer. The adoption of a marketing mix strategy under conditions of heavy demand concentration makes little sense. Of course, a firm may operate in different markets with different conditions of demand concentration – in which case the marketing strategy has to be adapted to the specific conditions of each industry sector.

3. CHANGES IN THE MARKETING ENVIRONMENT HAVE PERSUADED SOME INFLUENTIAL COMMENTATORS THAT BUSINESS-TO-BUSINESS MARKETING STRATEGIES HAVE TO BECOME MORE RELATIONSHIP ORIENTED. WHAT ENVIRONMENTAL CHANGES HAVE BROUGHT THIS ABOUT, AND WHAT DOES IT MEAN TO BE MORE RELATIONSHIP ORIENTED?

Many purchasing organisations today express a preference for developing long-term supplier partnerships, rather than buying on the open market. One reason for this has been the increasing focus upon organisational core competencies, with the consequent outsourcing of activities that were once handled in-house. Inevitably this means that businesses come to rely more upon their suppliers, often for important functions such as design engineering as well as the more mundane cleaning and catering. Simultaneous developments in technology have facilitated these processes (for example, EDI and the Internet). A focus on

shareholder value has encouraged large firms to downsize their operations, again leading to an increasing dependence on subcontractors and other 'partners' for key operations. These are the principal reasons why business-to-business marketers have to give increasing weight to relationship orientation. Relationship orientation is the process of developing a marketing strategy based around customer relationships, rather than a marketing mix. The successful development and implementation of such a strategy will result in an organisation that is oriented towards the identification, development and management of mutually beneficial customer relationships.

CHAPTER 5

Understanding the Competitive Environment

Consider the consumer market for petrol (that is, sales of petrol to private motorists rather than companies). Explain the significance of each of the following aspects of the competitive environment for the petrol marketing strategies of the oil companies.

- 1. WORLD OIL PRODUCTION IS LARGELY CONTROLLED BY A SMALL NUMBER OF COUNTRIES THAT ARE MEMBERS OF OPEC (THE ORGANISATION OF PETROLEUM EXPORTING COUNTRIES), AN ORGANISATION THAT AIMS TO CONTROL WORLD OIL PRODUCTION AND MANAGE PRICE FLUCTUATIONS.**

Crude oil is a commodity that is traded on world markets. Normally this would mean that the price was determined more or less by the free interplay of supply and demand. However, the existence of OPEC creates an imperfection in the market. In terms of five forces analysis this is a powerful factor on the supply side of the industry. OPEC uses monopoly power to control movements in the price of crude oil. In particular, if supply tends to outstrip demand and prices therefore decline, OPEC will usually act to restrict demand and so sustain world oil prices.

- 2. SUPPOSE THAT PETROL COSTS US\$1 PER LITRE. THE GOVERNMENT IMPOSES A TAX INCREASE OF 10 CENTS PER LITRE, AND ALL THE OIL COMPANIES SIMULTANEOUSLY RAISE THE RETAIL PRICE OF PETROL TO \$1.10 PER LITRE. THEY NOTICE THAT THERE IS A 1.5 PER CENT REDUCTION IN DEMAND AS A RESULT OF THIS PRICE INCREASE.**

This is a simple example with which to illustrate the concept of elasticity of demand with respect to price. The price to the petrol consumer has risen by 10 per cent. The quantity of petrol demanded has declined by 1.5 per cent. Therefore the price elasticity of demand for petrol is -0.15 . We are assuming that there has been no other important change in the market at the same time, so that we can attribute the change in demand wholly to the impact of the price change.

- 3. CONSUMERS REGARD PETROL AS CLOSE TO A COMMODITY PRODUCT – COMPETING PRODUCTS ARE REGARDED AS GOOD SUBSTITUTES FOR EACH OTHER.**

We know that the elasticity of demand for petrol is low, so that the volume of petrol consumers want to buy is not very responsive to changes in price. Thus, if petrol companies could raise their prices simultaneously they would experience relatively little decline in sales volume, and an overall increase in sales revenue (this is a direct implication of inelastic demand). However, since petrol is a near-commodity, if one company alone were to raise its price, customers would switch to other brands and that company would face a considerable drop in sales. Technically, the 'own price elasticity' of a single company is much higher than the price elasticity for the industry as a whole.

4. GOVERNMENTS FREQUENTLY IMPOSE VERY HIGH LEVELS OF DUTY ON PETROL.

Of course, one reason that the government does impose high duty on petrol is because of the low elasticity of demand – it is an easy way to raise a lot of revenue, since the tax levy does not reduce sales volume as much as it would for many other products. It is politically convenient to have a 'green' argument to make, so that high levels of tax on petrol can be presented as environmentally friendly policies, rather than simply an easy way of raising government revenue. In any case, uncertainty over petrol duty decisions creates difficulties for petrol companies. In the UK, for example, it has been known for angry consumers to blockade petrol company premises in protest against high petrol prices! The companies argue that most of the price of petrol is government duty – but they are still on the receiving end of public protest.

CHAPTER 6

The Macroenvironment

1. **WHAT IS THE LIKELY IMPACT OF THE AGEING POPULATION ON ORGANISATIONS OPERATING IN THE HEALTH SECTOR?**

It is stressed in the chapter that we should not assume simply that tomorrow's elderly will behave like today's elderly, and that the consumption behaviour of the ageing baby boom generation may not conform to that of their parents. Nevertheless, some generalisations seem reasonable – and the main purpose of the question is to stimulate debate.

The implications for the private health sector, including health providers and drug companies, look very positive. More old people means greater use of drugs and greater need for surgical interventions such as hip replacements and cataract treatment. It seems increasingly likely that a greater burden of this expenditure will be shifted out of the public sector, and into the private sector. Substantial real growth in demand for private health care looks like a pretty safe bet in the industrialised world for the foreseeable future. For the public health sector the outlook may not be so rosy. It is unlikely that there will be a political will to continue to increase public health spending rapidly in real terms if more and more patients are being treated in the private sector. In a nutshell, the relatively affluent pensioner who pays for his own hip replacement in order to avoid queues in the public sector is unlikely to be persuaded that he should pay more tax so that his less affluent peers can be treated more quickly.

One could speculate freely on what new treatments and interventions will become possible and their implications for healthcare organisations. One fairly safe generalisation is that they will be expensive, and that private providers targeting affluent consumers will be able to do good business (for example, if effective anti-ageing therapies become available). There is plenty of discussion mileage in the science fiction idea that replacement body parts will be grown and marketed. Again, however, the implications for public sector health providers are by no means uniformly positive. If the affluent are less inclined to pay taxes (as seems to be the case), yet more and more expensive medical treatments become available, then an underfunded public sector health system will have some difficult decisions to make.

2. **THE MANAGING DIRECTOR OF A MEDIUM-SIZED MANUFACTURER OF INDUSTRIAL LIGHTING SYSTEMS, BASED IN NEWBURY (ENGLAND), WANTS TO KNOW HOW HER BUSINESS WOULD BE AFFECTED IF THE UK ADOPTED THE EURO. HER FIRM EXPORTS OVER 50 PERCENT OF ITS OUTPUT, MOSTLY TO EUROPEAN UNION COUNTRIES. ADVISE THE MANAGING DIRECTOR.**

The economic arguments in favour of a single currency – in this case the single European currency, the euro – are at their most clear when we consider a manufacturing business operating in international markets. There is little doubt that adoption of the euro would benefit a company such as this. The costs associated with currency transactions would be eliminated for customers in EU countries. It should also be observed that the same effect would apply if this company imports materials or components from other EU countries. Currency risks would be eliminated within the EU area, so that there would be no risk of a currency fluctuation wiping out profit on an export deal. In the early days of the euro, the £ sterling appreciated considerably against the euro, making British manufacturers much less competitive in price terms against EU rivals. Adoption of the euro by Britain would prevent any further currency appreciation. In everyday parlance it puts British manufacturers on a level playing field with their EU-based rivals when competing for business in countries within the single currency area.

3. **THE MANAGING DIRECTOR IS SO IMPRESSED BY YOUR ADVICE THAT SHE NOW WANTS YOU TO HELP HER ASSESS THE IMPORTANCE OF A NUMBER OF ENVIRONMENTAL FACTORS. SHE HAS COMPLETED THE FOLLOWING TABLE. PREPARE AN ENVIRONMENTAL PRIORITIES MATRIX FROM THIS INFORMATION AND SUGGEST WHAT THE FIRM SHOULD DO NEXT.**

12–15 7–11	3 new USA entrant	2 EU lighting legislation 4 substitute technology
3–6	6. £ depreciation 1 interest rates 5 raw material prices	
Seriousness	Clear	'Fuzzy'

This highly simplified example is an opportunity to see the process of putting priorities on issues in practice. Most of the hard work has been done before we arrived at this stage of the process. It would be well worth asking students to think through the process involved in putting together Table 6.2 in the first place. In practice there would be a much longer list of issues to work through, and there would be substantial disagreement within the management team about the clarity, likelihood, impact and urgency of the various issues. Clearly the major issue that emerges from the analysis is the serious threat of new entry competition, and the firm should immediately develop an action plan to cope with this eventuality. Students can be encouraged to think of strategic options for this plan, such as new product development, increased marketing communications, and customer relationship development strategies.

CHAPTER 7

Strategic Marketing Analysis

- 1. COMPANIES THAT ADOPT A FORMAL APPROACH TO MARKETING PLANNING TEND TO PERFORM BETTER IN TERMS OF KEY MARKETING AND FINANCIAL INDICATORS THAN COMPANIES THAT DO NOT. DOES THIS PROVE THAT THE ADOPTION OF FORMAL MARKETING PLANNING CAUSES IMPROVED FINANCIAL PERFORMANCE?**

The short answer is no. One would hope for a little more explanation than that. There is an inclination to jump to the conclusion that correlation implies causation, particularly where that is the message that we really want to hear. As students, teachers or practitioners of marketing strategy, presumably we would like to believe that the adoption of strategic marketing improves company performance. However, as usual with these little causation problems, we have a number of possibilities. Try reverse causality – better performance causes formal marketing planning. Plausible, since better performance may cut the firm some slack with which it can afford to invest in more sophisticated management systems such as formal planning. Alternatively, it could be that formal planning and better performance are both simultaneously caused by a third factor. In this case one or two such factors suggest themselves. For example, management talent and level of management education are plausible ‘third factors’. Finally, don’t forget random chance or spurious correlation. Perhaps not a very likely explanation in this case, but it has to be mentioned.

- 2. THE MARKETING DIRECTOR OF A LOCAL FIRM EXPLAINS THE FOLLOWING TO YOU: ‘WE HAVE INVESTED A LOT OF MONEY IN IMPROVED CUSTOMER SERVICE. OVER THE LAST SIX MONTHS WE HAVE CUT THE AVERAGE LENGTH OF TIME CUSTOMERS HAVE TO WAIT ON THE PHONE TO SPEAK TO A CUSTOMER SERVICE REPRESENTATIVE IN HALF, FROM TWO MINUTES TO ONE MINUTE. I WOULD SAY THAT CUSTOMER SERVICE WAS OBVIOUSLY A KEY STRENGTH OF OURS.’ WHAT ELSE WOULD YOU NEED TO FIND OUT TO ESTABLISH WHETHER CUSTOMER SERVICE IS REALLY A STRENGTH?**

This is a classic case of thinking that ‘because we got better at something it must be a strength’. There are four obvious things to find out. First, do customers care about phone waiting time in this industry, and, if they do, is one minute more or less a matter of importance to them? Second, the marketing director neatly links phone waiting time and customer service – what other dimensions are there of customer service and how is the company doing against those? Third, what is happening at competitor companies? If competitors are doing even better, then this is potentially a weakness rather than a strength. Finally, have customers actually perceived any difference? It is all very well to provide objective evidence of improvement, but customer perceptions can be fickle!

- 3. THE MARKETING DIRECTOR GOES ON TO EXPLAIN THAT SALES REVENUE FOR THE LAST SIX MONTHS WAS VERY CLOSE TO TARGET, EVEN THOUGH THE COMPANY HAS LOST SEVERAL MARKET SHARE POINTS OVER THE PERIOD. EXPLAIN HOW THIS COULD HAVE HAPPENED, USING THE LANGUAGE OF SALES VARIANCE ANALYSIS.**

Sales revenue variance is negligible. However, there is a substantial negative market share variance. It is possible that we are achieving a smaller share of a larger-than-expected market (positive market size variance), and achieving our expected level of net price (negligible price variance). Alternatively, it may be that market size is more or less as expected (negligible market size variance) but we are achieving a higher average net price than forecast (positive price variance). Combinations of these factors are possible. It is

quite sensible to suggest that higher prices are generally associated with loss of market share (see material on demand curves) and that a negative market share variance is consistent with a positive price variance for this reason.

4. **OUR ENTHUSIASTIC MARKETING DIRECTOR GOES ON TO EXPLAIN THAT HE HAS RECENTLY INVESTED IN A CUSTOMER DATABASE SYSTEM WHICH WILL ALLOW HIM TO TRACK CUSTOMER DEMAND AND IMPROVE HIS DIRECT MAILING EFFECTIVENESS CONSIDERABLY. ALL THE COSTS ASSOCIATED WITH THE SYSTEM WERE INCURRED LAST MONTH, AND AMOUNTED TO £75,000. IT IS EXPECTED THAT ADDITIONAL BUSINESS GENERATING PROFITS OF £35,000 FOR EACH OF THE NEXT THREE YEARS WILL BE CREATED BY USING THE SYSTEM – WHICH WILL THEN BE OBSOLETE AND HAVE NO RESIDUAL VALUE. DOES THE SYSTEM LOOK LIKE A GOOD INVESTMENT? (USE A 10 PER CENT DISCOUNT RATE.)**

For the sake of simplicity assume that all the profits accruing from the adoption of the new system are received at the end of the year. Then we have the following net cash flows.

		Discount factor	Discounted cash flow
Year 0	(75,000)	1	(75,000)
Year 1	35,000	0.909	31,815
Year 2	35,000	0.826	28,910
Year 3	35,000	0.751	26,285

The net discounted cash flow for the project amounts to $£87,010 - £75,000 = £12,010$, so the project looks like a decent investment. You will probably want to try different discount rates and see what happens. You should find that the project ceases to be a good investment if the discount rate climbs much above 15 per cent.

CHAPTER 8

Marketing Strategy Formulation

- 1. MARKET SEGMENTATION IS OFTEN BASED ON DIRECTLY OBSERVABLE CHARACTERISTICS OF CUSTOMERS AND POTENTIAL CUSTOMERS, SUCH AS THE AGE AND SEX OF CONSUMERS, OR THE TURNOVER SIZE AND INDUSTRY SECTOR OF COMPANIES. WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF SUCH SEGMENTATION METHODS WHEN COMPARED WITH SEGMENTATION BASED ON BUYING BEHAVIOUR CHARACTERISTICS?**

Demographic segmentation in consumer markets and the equivalent in business markets (sometimes known as 'emporographics') is a relatively simple and low-cost method of classifying customers and potential customers. It is easy to understand, and can readily be grasped by all the people who might be involved in the marketing process, including partner organisations and intermediaries. As a rule the implementation of such a segmentation technique requires little or no primary data gathering. It is easy to obtain comparative data at the aggregate level, from government or commercial information sources. However, the purpose of segmentation is to identify categories of people or firms that respond uniquely to a given set of marketing stimuli. The key question is, therefore, whether straightforward segmentation methods capture any useful behavioural information. There is no point in using company size, or the consumer's age, as a segmentation variable, if it does not correlate with consumption behaviour. There is no point in producing a differentiated marketing strategy for 'segments' that respond to marketing stimuli in the same way.

Behavioural methods of segmentation are clearly preferable in conceptual terms. However, there is a great deal more data gathering and analysis involved in behavioural segmentation, hence a great deal more cost. Furthermore, such segmentation methods are unlikely to produce neat, easily understood categories. The question that the practitioner has to ask is whether the investment of money and effort in a sophisticated segmentation technique is worth the improvements in target marketing strategy that are expected to follow.

- 2. A FRIEND OF YOURS, WHO IS A SUCCESSFUL ENTREPRENEUR, SAYS TO YOU: 'YOU'RE WASTING YOUR TIME WITH ALL THIS STRATEGIC MARKETING THEORY. I DON'T KNOW A DOG FROM A CASH COW, AND I WOULDN'T KNOW A DIFFERENTIATION FOCUS STRATEGY IF I TRIPPED OVER IT IN THE STREET. BUT MY BUSINESS SEEMS TO BE DOING FINE!' WHAT ARGUMENTS WOULD YOU USE TO PERSUADE YOUR FRIEND THAT STRATEGIC MARKETING MODELS CAN PLAY A VALUABLE ROLE IN BUSINESS?**

The first observation to make here is that the friend very probably runs a small business, and that it is well known that small businesses rarely apply formal marketing planning processes. As the business grows the complexity of the marketing problem will also grow, and a more formalised approach to marketing planning is likely to become essential. Another helpful observation is that the application of strategic marketing tools and techniques is not meant to be a substitute for sound business judgement and creativity. One sometimes gets the impression that entrepreneurs almost feel threatened by 'business theory'. Once again, we quite like the medical analogy here. The good doctor will use all the tools at her disposal to make a correct diagnosis, but will recognise that responsibility for decision-making rests with her, not with the tools. There are various other arguments that could be deployed in this question. As a final example, we would point out that the purpose of strategic marketing planning is to prepare the business to deal with the environmental turbulence that it is likely to encounter. Formal strategic marketing tools are a useful way of focusing the mind on what could happen, and on what we might do about it. We would argue that this is preferable to running a business purely on a day-to-day basis, and hoping to deal with contingencies as they arise.

3. **TABLE 8.5 SHOWS DATA RELATING TO THE PRODUCT LINES OF AN OFFICE EQUIPMENT COMPANY. DRAW UP AN ACCURATE BCG GROWTH/SHARE MATRIX FOR THIS PRODUCT PORTFOLIO. WHAT OBSERVATIONS DO YOU HAVE ABOUT THE BALANCE OF THIS PORTFOLIO?**

Product	Market growth	Relative share	BCG category
101A	1.8%	0.4	Dog
102A	11.1%	2.0	Star
102B	0.0%	0.4	Dog
103A	4.0%	0.125	Dog
103B	20.0%	0.666	Question mark

First, note that the majority of the product lines fall into the dog category. This is normal. In only one market out of five does the company hold the position of market leader. Again, this is quite usual. The firm does not have a cash cow. At this broad level of portfolio analysis one would have to say that there is a potential problem since the 102A and the 103B probably demand considerable cash investments, and only the 102B looking as though it might be generating any useful net positive cash flows. The 103B looks like a very interesting candidate for further investment, since the firm is not far behind the market leader, and this is a rapidly growing market. This certainly needs to be investigated further. The 102A is clearly a very important product line for this company, and a marketing strategy to maintain or enhance its market position is a priority.

4. **AUTOBITS LTD MANUFACTURES SPEEDOMETERS AND TACHOMETERS FOR USE IN MOTORCYCLES, SELLING THESE DIRECTLY TO JAPANESE BIKE MAKERS HONDA AND SUZUKI. THE FIRM'S MANAGEMENT HAS IDENTIFIED A NUMBER OF ALTERNATIVE STRATEGIC OPTIONS TO DEVELOP THE BUSINESS. THE SALES DIRECTOR WANTS TO GENERATE MORE SALES BY INVESTING GREATER EFFORTS IN DEVELOPING THE RELATIONSHIPS WITH HONDA AND SUZUKI. THE MARKETING DIRECTOR ADVOCATES DEVELOPING NEW RELATIONSHIPS WITH HARLEY DAVIDSON IN THE USA AND THE UK FIRM TRIUMPH. THE MANAGING DIRECTOR JOINED THE COMPANY FROM GENERAL MOTORS, AND IS INCLINED TO LOOK FOR NEW BUSINESS FROM AUTOMOBILE MANUFACTURERS. THE PRODUCTION DIRECTOR BELIEVES THAT IT WOULD MAKE SENSE TO SELL ADDITIONAL EQUIPMENT, SUCH AS FUEL GAUGES, TO HONDA AND SUZUKI. EXPLAIN ALL THESE OPTIONS USING THE ANSOFF GROWTH VECTOR MATRIX.**

The sales director is probably advocating a market penetration strategy, although he may also have in mind some product development aimed at reinforcing Autobits' position with Honda and Suzuki. How will Autobits win business from its competitive rivals? The marketing director proposes a market development strategy, looking to expand sales in new international markets and through the development of new original equipment manufacturer (OEM) customers. How will Autobits persuade these new customers to try out their products, and how will it then win share against the existing suppliers to Harley Davidson and Triumph? The managing director is also suggesting a market development strategy, although this may also involve substantial product development – it looks like a diversification into a technology-related market. Does the firm have the sales, marketing and product development resources to take this major step? The production director proposes a product development strategy. Can Autobits leverage its relationships with Honda and Suzuki sufficiently to persuade them to try other product lines from the range? Has Autobits demonstrated the kind of excellence in product design, quality, delivery and so on that will convince these demanding customers to give them more business?

CHAPTER 9

Relationship Marketing Strategies

1. **WOULD YOU SAY THAT RELATIONSHIP MARKETING WAS A PHILOSOPHY OF MARKETING OR A MARKETING STRATEGY, OR BOTH OF THESE THINGS, OR NEITHER?**

All the positions outlined in the question are defensible. In the early definitions of RM clearly the researchers thought that they were describing a retention-focused marketing strategy. More recently scholars have increasingly argued that relationship marketing is a 'paradigm shift', which implies a completely new way of thinking about marketing. Others remain sceptical (Brown, Blois and Mattsson are cited in the text). One good reason for their scepticism is that many managers clearly think that RM is (only) a neat way of trying to improve profitability. It would, perhaps, be difficult to argue for 'neither' in answering the question. In order to adopt this position one could argue that RM was simply nothing new at all. For example, if RM is synonymous with direct and database marketing, and if the increased sophistication of these tools in recent years is purely the result of technological capability, then one could argue that RM is no more a 'new strategy' than television advertising was with the advent of the television. TV is a means of implementing a communications strategy. Maybe RM is no more than that.

2. **SUGGEST A NUMBER OF EXAMPLES OF MARKETING EXCHANGES, STARTING WITH A DISCRETE TRANSACTION AND MOVING PROGRESSIVELY TOWARDS A RELATIONAL EXCHANGE.**

There are lots of possible answers to this question. Here are a few suggestions – obviously you can argue with our interpretation of relative positions on the spectrum.

Transactional end – buying commodities in commodity exchanges:

- buying a ream of white A4 paper from a stationery shop
- buying a novel suggested by the sales assistant in a bookshop
- a private buyer buying a brand new car from a car dealer
- a private buyer buying a used car from friend
- Ford Motor Company buying in-car entertainment units from an audio systems supplier

Relational end – British Telecommunications plc buying a telecommunications switching system from a major supplier (such as Nortel or GPT).

3. **WHAT PROBLEMS MIGHT YOU HAVE TO OVERCOME, AS A FULL-TIME PROFESSIONAL MARKETER IN A SERVICE ORGANISATION, IN ENGAGING THE 'PART-TIME MARKETERS' FULLY IN YOUR MARKETING STRATEGY?**

The point of this question is to ensure that the reader grasps the point that part-time marketers are normally not marketers at all. The expression tends to suggest that these people spend some of their time on other things, and some of their time on marketing. In practice, they spend almost all of their time performing their job function, and that 'interactive marketing' is implicitly taking place simultaneously. Quite simple, many so-called part-time marketers do not want anything to do with 'marketing', and some would be horrified to think that marketing was considered to be a part of their jobs. Obviously nurses think that they are employed to tend to the sick, and I'm sure most of them would not want to think that

they were wasting their time with marketing. Nevertheless, the impression that a customer/patient gets of the hospital will be heavily influenced by their interactions with the nurse.

Many respondents to this question will naively suppose that all that is required is to explain to the part-time marketers that marketing is a part of their role, and then to provide sufficient briefing and, if necessary, training, so that they can fulfil the marketing part of the role. This is to neglect the 'culture change' aspect that is addressed in the text. Part-time marketers may resist the implication that they have *anything* to do with marketing, and may regard marketing with a degree of contempt. Even if they are convinced that marketing has something to do with them, they will still probably regard marketing as secondary, and will argue that they are far too busy with their principal task to worry about marketing.

4. TAKING THE EXAMPLE OF BUSINESS-TO-BUSINESS MARKETING, EXPLAIN HOW THE DECISION WHETHER OR NOT TO USE A RELATIONSHIP MARKETING APPROACH IS BASED IN AN UNDERSTANDING OF BUYING BEHAVIOUR.

We are trying here to make sure that the link between marketing strategy and buying behaviour is clearly understood. In the text material on organisational buying behaviour, a distinction was made between the older approach based on the analysis of buying processes and buying criteria, and the newer interaction approach based on the analysis of the interactive and simultaneous processes of buying and selling. It is not the view of the authors that one or other of these approaches is intrinsically superior. Rather, they apply in different circumstances (a contingency approach). Developing a marketing strategy based on an inappropriate understanding of buying behaviour will be manifestly wrong. For example, if buyers are transaction focused and apply a clear set of objective buying criteria, then it would be mistaken to try to implement relational marketing or selling. However, if buyers are seeking a long-term trusted supplier, then a marketing strategy based on simple marketing propositions ('we're cheap', 'we offer quality') is not going to be successful. The text outlines a number of characteristics of the buying situation that will affect the preference of the buyer for transactional or relational purchasing. Marketing strategy must be constructed with these preferences in mind.

CHAPTER 10

e-Marketing Strategies

1. HOW IS THE 'MANY-TO-MANY' ENVIRONMENT DESCRIBED IN THIS CHAPTER SO DIFFERENT FROM THE MORE TRADITIONAL 'ONE-TO-MANY' APPROACH?

It is important for students to point out here that ICTs (information and communication technologies) represent 'alternative' means of doing business. The traditional mass communication model used by marketers for many decades simply does not work in marketspace.

Online technologies empower *both* sellers and buyers. Sellers enjoy many different ways of getting their information across to potential online customers, and shoppers/buyers also have many options open to them for expressing their multiple interests online. Information is exchanged between sellers (also between them and their suppliers), between e-customers, between sellers and e-customers, between e-customers and sellers, and so on. In this new model, information or content is not merely transmitted from a sender to a receiver, but instead, mediated environments are created by participants and then experienced (Hoffman and Novak 1996).

2. WHY DO YOU THINK THE WORLD WIDE WEB IS CURRENTLY MORE ATTRACTIVE TO E-MARKETERS THAN MOST OTHER NON-TRADITIONAL TOOLS?

Non-traditional marketing tools (other than the WWW) presented in the chapter include retail kiosks, ATMs (bank machines), EDI (electronic data interchange), e-mail, hand-held digital appliances, mobile telephony, and interactive television. Most students will agree that, for the moment at least, the World Wide Web is the easiest, most accessible, most complete, most flexible and most rapidly growing of all interactive options. Today's B2B and B2C e-marketers have much to gain by including WWW strategies in their overall planning initiatives, while keeping a watchful eye on rapidly developing alternative tools.

3. 'ICTS HAVE IMPACTED B2B MARKETING MIX STRATEGIES DIFFERENTLY THAN B2C MARKETING MIX STRATEGIES.' DISCUSS THIS STATEMENT.

The more important B2B and B2C marketing mix elements are discussed in the chapter. Essentially, ICTs have impacted these mixes in different ways:

- B2B customers – largely the same as before ICTs, except for very small 'low-tech' customers;
- B2B products – now assembled thanks to seamless procurement (JIT), and many of the products on offer are still 'unbranded' as before ICTs;
- B2B distribution – significant increases in efficiencies thanks to EDI (electronic data interchange);
- B2B pricing – no big changes except for the growing availability of intelligent agents to aid with price/quality comparisons;
- B2B communications – ICTs provide more and faster information, but the B2B sector still relies heavily on personal contact (that is, sales representatives);
- B2C customers – ICTs provide access to more educated consumers who typically have access to high-tech products;
- B2C products – ICTs are more successful with the marketing of high-quality 'branded' products and services;

- B2C distribution – new technologies facilitate direct delivery to the e-consumer's home or place of work;
- B2C pricing – e-consumers expect to pay less when purchasing online. They are also starting to depend on intelligent agents more and more for price/quality comparisons;
- B2C communications – ICTs support highly interactive 'two-way' communications, and offer more personalised messages and content directly to the end user.

Some of the better students might also provide a similar discussion around the three extra elements of a typical service mix (either B2B or B2C): people, physical evidence and process.

4. **WHEN A RESEARCHER SETS OUT TO COMPARE A NUMBER OF SIMILAR WEBSITES USING PRE-SELECTED CRITERIA, IS THIS CONSIDERED *PRIMARY* OR *SECONDARY* DATA COLLECTION? JUSTIFY YOUR ANSWER.**

The chapter features a 'website evaluation checklist' for such a research task. The information collected is generally considered **primary** – that is, 'new data' collected for the very first time in a novel way. Students may well compare this approach to the more traditional 'observation' method of information gathering – for example: if one takes a clipboard and goes out to compare what's on offer at different restaurants or petrol stations, using pre-determined criteria such as level of service, ambience, ease of access and so forth.

Another aspect raised by students might involve a discussion around the process itself. 'Comparative website research' differs from 'online surveys' (that is, website-based questionnaires and e-mail embedded surveys). Although methodically visiting a selection of sites allows researchers to collect either quantitative or qualitative data (as do online surveys), the approach is different. The researcher must 'experience' and 'measure' each site in terms of such factors as presence, interactivity/convenience, information/content and overall feel. The researcher needs to 'test drive' the selected websites so to speak. Under scrutiny will be each site's homepage, linkages, FAQs, e-mail feedback mechanism, discussion board, upload/download options, language options, payment options, and so forth.

5. **CAN E-MARKETING BE USEFUL TO ANY SORT OF BUSINESS? WHY OR WHY NOT?**

The chapter describes electronic marketing simply as 'conducting marketing activities through interactive online computer systems'. Whether B2B or B2C (or both), today's businesses cannot afford to ignore the rapid growth of ICTs around the globe. The point students will need to emphasise focuses on the degree to which a particular marketing organisation should get involved. On the one hand, some companies cannot hope to ever sell anything online (a custom-designed house for example) and ought to only use the medium for information provision and customer feedback purposes. On the other hand, there are companies who are ready to consider abandoning traditional means of doing business in favour of going online exclusively (airline bookings for example). Students will need to discuss a continuum of such possibilities, keeping in mind the fundamental difference between shopping online and actually buying online.

CHAPTER 11

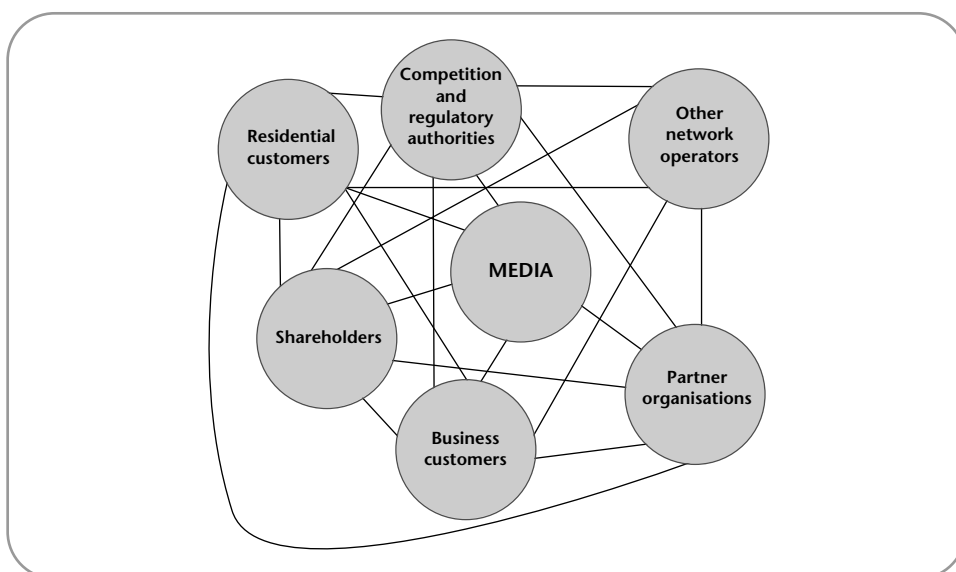
Marketing Strategy for Mass-mediated Services

1. WHAT IS THE FUNCTION OF THE MASS MEDIA IN THE FINANCIAL SERVICES MARKET? IS IT USED TO DISTRIBUTE THE PRODUCT OR COMMUNICATE ITS BENEFITS?

The mass media in the financial services market generally encompasses newspapers, particularly the quality Sunday newspapers. Specialist publications such as *What Money?*, the *Financial Times* and *Investor's Chronicle* are also important. The role of the media is generally to raise awareness of the particular financial service in question, although comparison data (for example on ISAs and unit trust performance) is often also presented. Other forms of mass media (for example radio, television) are less useful. Financial products are not distributed using mass media, since the service is not information-based, although if the Internet is considered as a form of mass media, it certainly can be. Online accounts, loans and so on are now in operation by the likes of Cahoot (owned by Halifax), Egg (owned by Prudential Insurance) and HSBC among many others. However, this is simply the advertising component. PR activity is particularly important in developing relations with the press. Readers are far more likely to believe in the benefits of a financial service if they read it from a reporter than in an advert. Since financial services can be highly complex, they have 'credence' qualities. Developing and maintaining relations with the press assume heightened importance in this context.

2. WHAT ARE THE MAJOR PUBLICS FOR A TELECOMMUNICATIONS COMPANY? WHAT IS THE NATURE OF THE RELATIONSHIP WITH EACH OF THESE PUBLICS?

The publics of a telco are outlined in the diagram below.



Major publics of a telecommunications company

- *Residential customers* – main market for many telecommunications companies.
- *Business customers* – large profit potential in this area but also potentially could provide more profitable data and consultancy services as well.
- *Shareholders* – important for telco to maintain strong market capitalisation. Also, shareholders represent opportunities for the generation of funding.
- *Media* – connects all publics generally but Internet also platform for distribution of telco services (for example BT Ignite). Media organisations may also be collaborative partner in terms of providing content.
- *Competition and regulatory authorities* – includes both competition commission in terms of ratifying joint ventures and mergers. However, also includes communication regulatory agencies such as the Radio Authority, Independent Television Commission and the Office for the Regulation of Telecommunications.
- *Other network operators* – important public since may be working together on joint ventures and in particular overseas markets. May also have to lease lines to other network operators (for example BT).
- *Partner organisations* – this category might include handset makers (for example Sony and Nokia's link-up), financial and media organisations among others.

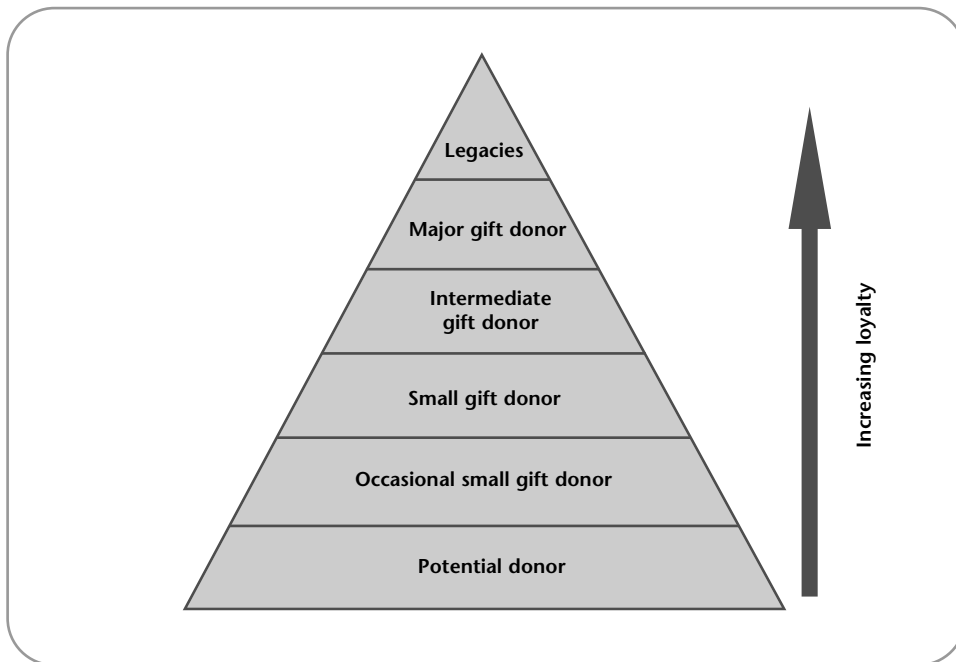
3. OUTLINE WHAT THE DIFFERENT ELEMENTS OF THE MARKETING MIX ARE FOR A PUBLIC UNIVERSITY IN THE UK.

A public university's marketing mix

Marketing aspect	University
Basic customer need	Self-development and actualisation
Target market	Secondary school-leavers, overseas students and increasingly continuing professional development and lifelong learning students
Product	Degrees and professional programmes, short courses, staff consultancy and academic accreditation of other institutions' programmes
Price	Depends on which product, but domestic degree programmes largely subsidised in UK by overseas students' inflated fees
Principal promotional tools	Depends on product, but generally in order of importance: (1) overseas exhibitions (2) direct mail (3) press, radio and billboard advertising and (4) the Internet
Distribution	Overseas agents and branches, courses distributed through distance and Internet platforms, on-site lectures and seminars, resource-based learning, and so on
Process	Heavily labour intensive. Degree of contact differs depending on programme but important component of mix. Quality assurance programmes in HE now emphasised by government agencies (for example HEFCE, QAA). Important that communication maintained with students after leaving university for lifelong learning opportunities to be fulfilled
Physical evidence	Course documents and materials, catalogues, degree certificates, alumni newsletters and websites
People	Highly labour intensive. Strong requirement for expensive professional input for course materials and delivery. Training and staff development absolutely imperative

4. **DRAW A RELATIONSHIP PYRAMID FOR A MAJOR NATIONAL CANCER CHARITY. EXPLAIN THE NATURE OF THE LOYALTY OF THESE CUSTOMERS/CONSUMERS/SUPPORTERS.**

The pyramid shows the different types of donors that a charity will solicit support from. There is increasing support for the charity as the donor moves from small gift-giving to intermediate and large gift-giving. The lowest level of support is at the potential donor stage whilst the greatest example of support is when a donor bestows a legacy on the charity.



Fund-raising relationship pyramid

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Part B

Notes to Case Studies

British Telecommunications plc 'A': The Strategic Dilemma

SYNOPSIS

The case starts with a summary of BT's position in 2001, the first year in which the company recorded a loss, and the year in which long-time Chairman Sir Iain Vallance stepped down. Clearly all was not well with BT in 2001. The question is, how did such a huge and powerful organisation come to face such major difficulties? The case seeks out the underlying answers to these questions in the history of the company, beginning in 1981 with the creation of British Telecommunications plc out of the telecommunications division of the British Post Office. Formerly a monopoly, state-owned provider, it became a private firm facing direct competition from Mercury Communications Ltd, later to become Cable & Wireless Communications Ltd. It became clear that the company was overmanned and insufficiently market-oriented to deal with the increasingly turbulent marketing environment of the 1980s and 1990s.

LEARNING OBJECTIVES

- In conjunction with British Telecommunications plc 'B', the case can be used to illustrate the interaction of a major organisation with its environment over an extended period of time
- In conjunction with British Telecommunications plc 'B', the case illustrates the interaction between marketing strategy, corporate strategy and human resource strategy, that is, strategic marketing decisions cannot be made in a vacuum
- The application of competitive environment analysis, macroenvironmental analysis, and SWOT analysis.

QUESTIONS FOR DISCUSSION

You are a strategic marketing manager working for British Telecommunications plc in 1992. You are a member of the team that is preparing BT's long-term strategic plan. The tasks that the team has asked you to undertake are as follows.

1. What are the principal factors in the macroenvironment affecting BT that should be taken into consideration in preparing the long-term strategic plan?
2. What are the principal factors in the competitive environment?
3. Prepare a SWOT analysis for BT as at 1992, and use this analysis to develop strategic options that you think the company should consider for its long-term strategic plan.

SUGGESTED ANSWERS

1. Students should be encouraged to apply one of the frameworks from the chapter on the macroenvironment. A simple PEST is quite adequate for this case. The macroenvironmental factors are very important, but not terribly complex. *Political* – mention should be made of OFTEL and the regulatory framework; a change of government could radically alter the regulation of telecommunications. *Economic* – economic growth and inflation are not mentioned in the case explicitly, but they are emphasised in the relevant chapter of the text. Demand for telecommunications is heavily influenced by economic growth. Since the OFTEL pricing framework is driven by the retail price index (RPI), it follows that inflation is an important element in BT's environment. *Social* – again, more from the chapter in the text than from the case material, students should appreciate that the ageing population and the rate of household formation will have an impact on the growth and pattern of demand for telecommunications. *Technological* – there is rapid technological change in telecommunications and computing, with increasing convergence between the two spawning the IT industry. These changes will radically alter the dynamics of the telecommunications market.
2. Direct rivalry is represented at the case date by Mercury Communications Ltd. While comparatively small, Mercury had a disproportionate impact on BT by targeting particularly profitable lines of business. For example, financial services companies in the City of London are inexpensive to supply with service, and very lucrative in terms of volume of demand. The entry threat at the case date was clearly considerable. Convergence (see above) was beginning to turn computing companies into IT companies, which would increasingly see themselves as rivals to BT for the provision of corporate IT systems. Cable TV was beginning to spread across the UK at the time, and the cable companies would shortly launch telephone services at very competitive prices. The issue of substitutes is quite complex. For example, the spread of mobile telephone technology would represent a substitute for BT's fixed wire network, which was the real basis for its market dominance. Of course, BT would compete in the mobile phone market. But if customers turned to mobile telephony instead of using their fixed wire telephone, then BT would find its competitive position seriously undermined. There is not really a great deal to be said about the power of buyers and suppliers. However, it is worth pointing out that, whereas the majority of residential consumers had very little choice of phone service in 1992, the big corporate users increasingly did. The bargaining power of the big corporate users had increased considerably over the previous decade, and was certainly a relevant factor in developing BT's B2B marketing strategy.
3. The following is a suggested SWOT list:
 - *Strengths.* Very high brand awareness; strong cash flows; high market share; connected to powerful overseas partners; legally protected from certain forms of competition.
 - *Weaknesses.* Overmanned; not a market-oriented culture; overdependent on the UK market; overdependent on basic telephone services; brand image improving but still questionable; some doubts over top management expertise (witness poor judgement over certain investments); pricing structure (which makes 'cherry-picking competition' a threat).
 - *Opportunities.* Clearly at the time BT saw the US market as a key opportunity; anticipated deregulation of European markets will create market entry opportunities; convergence of computing and telecommunications will create product development opportunities.
 - *Threats.* 'Cherry-picking competition' (see also under weaknesses); uncertainty over future regulatory framework; possibility of further new entry competition (for example cable TV companies); danger that the pricing framework (RPI-x) will be intensified; convergence creates threats to BT's business designing and running in-house networks for major corporate clients.

British Telecommunications plc 'B': Tomorrow the World?

SYNOPSIS

This case study considers the position of BT plc at the start of the twenty-first century. The company has continued to see turnover growth, but profits declined in 2000, and the company reported a loss in the annual report of 2001. Despite operating in some of the most superficially attractive technological markets, BT has run into considerable difficulties, and has seen its share price fall rapidly. BT took on a large amount of debt in acquiring licences for third generation mobile communications, and debt servicing is the main reason for the immediate financial problems. However, there remains considerable doubt whether BT is really up to the job of competing in the global information technology market. Partly in response to these concerns, BT introduced a major restructuring exercise in 2000. This led to the creation of BT Retail and BT Wholesale (retailing and wholesaling telecommunications capacity), plus four other SBUs – Yell, BT Wireless, BTOpenworld and BT Ignite. It is to be expected that one or more of these businesses will be sold off (in one way or another, for example by public offering or direct sale to another firm), partly in order to reduce BT's debt burden.

LEARNING OBJECTIVES

- In conjunction with British Telecommunications plc 'A', the case can be used to illustrate the interaction of a major organisation with its environment over an extended period of time
- In conjunction with British Telecommunications plc 'A', the case illustrates the interaction between marketing strategy, corporate strategy and human resource strategy, that is, strategic marketing decisions cannot be made in a vacuum
- The problematic nature of joint ventures and alliances, that is, they cannot be seen as a simple route to business development, and require careful management if they are to succeed
- The use of comparative analysis as an essential component of conducting a SWOT.

QUESTIONS FOR DISCUSSION

1. What are BT's key strengths and weaknesses? As bases for comparison in making judgements about BT, 1995 and 1996 data are provided in the Appendix on two other major telecommunications firms mentioned in the case study.
2. Why do you think BT has selected mergers and alliances as such an important component of its product/market development strategy?
3. What difficulties might BT experience if it tried to become more established as an information provider rather than just a network operator?
4. If BT wished to become a more established information provider, what entry methods might it try? What are the pros and cons of the different entry methods?

SUGGESTED ANSWERS

1. A key point in the marketing audit, and one with which students sometimes have difficulty, is the basic idea that organisational strengths and weaknesses must have a basis for comparison. The question has been phrased in such a way as to make it quite clear that a comparative approach is required. Students should be penalised for making statements of strength or weakness that manifestly fail to take a comparative perspective. For example, 'BT has a strong cash flow' alone is not a strength, since other large telephone and IT companies generate comparable levels of cash flow. This can only be a strength if BT is generating disproportionate amounts of cash for a company of its size operating in this industry (which may or may not be the case – but the point needs to be made in this way).

It is to be expected that students will study the comparative data on BT, MCI and C&W and make some elementary arithmetic comparisons between them for 1995 and 1996. There are a great many possible comparisons that could be made, but in essence they boil down to three types:

- Comparison of absolute figures between the companies at a comparable point in time (for example turnover; this requires currency conversion where MCI is involved, since the figures are in \$US)
- Comparison of ratios of figures across the three companies (for example net profit to turnover ratio; no currency conversion required for financial ratios, conversion required if non-financial indicators included, for example sales per employee)
- Comparison of growth rates from 1995 to 1996 (for example turnover growth; strictly speaking, currency conversion would be required to allow for fluctuations in exchange rate from 1995 to 1996, but in practice I would be happy if students assumed a constant exchange rate and simply compared 1995 to 1996).

The third of these types of comparison could be done either in current prices (figures as shown) or in constant prices (figures deflated to a constant base using some price index). Again, my preference would be for current prices. There is unlikely to be an appropriate price index for deflating the figures – the telecommunications sector is very different from the rest of the economy, and deflation by the retail price index is of dubious value.

Rather than prepare an exhaustive list of all the possible comparisons that might be conducted, here are a few key comparisons:

Indicator	BT	MCI	C&W
Turnover growth 95/96	3.3%	21.2%	7.5%
Ratio net profit to turnover 96	13.8%	6.5%	11.0%
Sales per employee 96	£110,000	\$334,521	£139,192
Net profit per employee 96	£15,240	\$21,741	£15,314
Ratio capital spend to turnover 96	19.2%	18.1%	n.a.
% non-domestic revenues	3%	n.a.	69%

These simple comparisons would suggest that BT is a comparatively slow growing company, which is generating rather unimpressive levels of sales turnover per employee. Net profit per employee is more comparable with MCI and C&W, and the reason for this is almost certainly the limited competition in the domestic UK market (the higher net profit margin also suggests this). BT's capital expenditure is roughly comparable to MCI's in proportion to turnover. Clearly, however, BT is still very heavily dependent on the domestic UK market – this exposure is particularly marked in comparison to C&W, which relies on the UK for only 31% of sales turnover. It is also interesting that C&W make better profits outside the UK than they do within the UK (UK generates only 17% of operating profit, but 31% of turnover). It is difficult to know what to make of this – probably the truth of the matter is that it demonstrates that C&W is dangerously exposed to the Hong Kong market, rather than revealing any great truths about BT!

Other strengths and weaknesses can be deduced from the text of the case study, although it may not always be possible to show a clear basis for comparison. The one-product, one-market problem remains to some extent. Table C2.2 shows that 52% of revenue is generated from inland telephone calls and exchange line rentals, and a further 12% from international phone calls (which is a 'domestic' product, since the service is delivered to UK customers, not to distant end customers). It would not be unreasonable to claim that BT has a weakness in terms of the management of alliances and mergers – presumably other firms have their disasters too, but BT has a consistently bad record! BT is more exposed to regulatory threat from OFTEL than any other UK telecommunications firm. BT is essentially a telecommunications infrastructure provider, rather than a content provider, and the point is made that this may turn out to be a commodity product. It would be a bold analyst who chose to comment upon BT's new corporate structure as either a strength or a weakness – only time will tell.

2. Some reference to the Ansoff matrix might be appropriate in the context of product/market development strategy, that is, an explanation of product development, market development and diversification strategies. In practice BT has pursued all these growth vectors, for example entering the UK mobile telephony market (product development), then entering the US mobile telephony market (market development), entering the Internet information-provider (IP) business (diversification). At the same time BT has been fighting hard to consolidate its position in the UK basic telecommunications market (a consolidation strategy rather than a penetration strategy – anyone who suggests that BT has pursued market penetration domestically should be corrected, since they started off with 100% of the market).

BT has reserved a strategy of organic growth for product/market developments that are reasonably close to its original business, for example the development of advanced telephone services like integrated services digital network (ISDN). For product/market developments that are further from the core business, BT has frequently selected some combination of a joint venture and a merger. Examples mentioned in the case are the McCaw acquisition and Concert (first with MCI, then with AT&T); there is also the failed merger with C&W. Several reasons suggest themselves. First, throughout the period BT has been rapidly reducing its manpower. Attempting to generate new businesses organically during a period of rapid downsizing would have been problematic. Second, BT has been entering new markets which are quite unlike the UK, and in which it has comparatively little expertise. The most prominent in the case study is the USA, while BT has also been active in Europe and Asia/Pacific. The complexities of market regulation and competitive rules make it very difficult to operate without a domestic collaborator. Third, the rate of change of telecommunications markets and technologies means that there is seldom sufficient time to develop a new business slowly. BT has undoubtedly felt pressured to make its presence felt quickly in new target markets, and the acquisition of a fully functioning operation speeds things up considerably. Students may be able to think of other plausible reasons.

3. The 2000 reorganisation has tried to address some of these difficulties. As the number one network operator in the UK, BT was heavily regulated. This was adversely affecting the ability of the company to compete in emerging new markets, such as information provision. The regulator was prone to insist that the new business should be regulated along with the telephone business. The explicit separation of the company into SBUs, it is hoped, will encourage the regulator to concentrate on the wholesale telephone capacity SBU and to leave alone the SBUs operating in highly competitive markets.

One might reasonably argue that it is difficult for a very large company such as BT to compete in such an innovative and fast-moving business as information provision. Again, the 2000 reorganisation might help with this, by setting the IP SBU free from the corporate culture.

The issue of branding might be raised. Of course, there is no reason why BT's IP activities should be 'corporate branded'. Students might care to reflect on the pros and cons of adopting a BT brand for the IP business. It is likely that it might play well with some markets, perhaps business-to-business, and less well with others, perhaps the youth market.

Of course, with the exception of Yellow Pages, BT has few proprietary rights over desirable information anyway. In the IP business BT would have to compete with businesses that already have substantial information assets (publishing houses and media corporations). One suspects that BT's liking for alliances and mergers might cause it to seek a solution to this problem by finding the right partner.

Ultimately, one must ask the question – what competitive advantage could BT seek to leverage in the IP market? There is no clear answer to this.

4. One plausible approach would be organic growth based on the existing Yellow Pages business (the new Yell SBU). This is a strong brand, particularly for business-to-business customers.

The most likely approach would be to develop one or more strategic alliances with companies already in the information business, such as publishing houses or media companies. However, alliances have already started to develop in this business, and BT might have the undesirable choice of setting up shop with the 'leftover' organisations – deemed the least attractive by potential partners – or trying to enter late into an established partnership.

REFERENCES AND ADDITIONAL LEARNING MATERIALS

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Competition in the UK Ice Cream Market

SYNOPSIS

The UK ice cream market has undergone something of a transformation over the last fifteen years. It used to be dominated by Wall's Ice Cream and Lyons Maid, and was perceived to be a mature and relatively dull market. Substantial changes to the market have occurred as a result of broad environmental changes, and the entry of new competition. A demographic shift (fewer children) left ice cream marketers searching for new growth segments; they responded by developing premium products targeted at adult consumers. The market grew faster in value terms than in volume terms as the unit price increased. However, aggressive new competition, from Mars in particular, has brought about the demise of Lyons Maid and caused a substantial strategic rethink at Wall's. Wall's has tried to maintain its position in the impulse market by preventing retailers from stocking other companies' products in the freezer cabinets that are supplied by Wall's. Mars has challenged this policy on legal grounds, arguing that it is anti-competitive.

LEARNING OBJECTIVES

- Rejuvenation of an industry, and a product, which was perceived to be mature and stable
- Marketers facing an environmental challenge respond by identifying and developing new market opportunities
- New entry competition radically alters the rules of the competitive game
- Brand extension by confectionery manufacturers, taking much-loved confectionery products and converting them into successful ice cream brands
- Legal and regulatory action can form a key part of a marketing strategy designed to undermine the position of a key rival
- Application of simple breakeven analysis to a marketing problem.

QUESTIONS FOR DISCUSSION

1. The case study contains examples of strategic marketing. List as many examples as you can find of this type of decision.
2. Imagine that you are a strategic analyst working for Nestlé SA in Switzerland. You have been asked to prepare a brief summary of competitive conditions in the UK ice cream market for the next board meeting.
3. Suppose that one board director has argued that Nestlé should sell its ice cream interest in the UK and withdraw from the market. That's one strategic option. What other options does Nestlé have, and how do they compare with a strategic withdrawal?

SUGGESTED ANSWERS

1. A very wide range of strategic marketing decisions is mentioned in the case study. Examples include:
 - New product development and brand extension decisions by Mars
 - Product line and brand extension decisions by all major competitors
 - Extensive market segmentation, targeting and positioning by all competitors

- Response to changing consumer tastes and changing demographic conditions (for example development of premium and super-premium products targeted at adults, with consequent repositioning required)
 - Withdrawal of the Lyons Maid brand and replacement with the Nestlé brand
 - Response to changing competitive conditions, for example Bird's Eye Walls response to new entry competition from Mars.
2. Nestlé has lost market share in the UK, and is firmly in the number three position behind Bird's Eye Walls and Mars. The overall UK market showed 5.6 per cent volume growth from 1994 to 1998, but only 3.3 per cent value growth. Hence the unit value of ice cream products declined during this period, indicating a high degree of competition. Both Bird's Eye Walls and Mars have demonstrated considerable commitment to the UK market, in terms of brand building, product development, investment in distribution channels and so on. Therefore Nestlé holds a minority share in a relatively slow-growing market, in which two well-entrenched competitive rivals seem determined to defend or enhance their own positions within the market. This situation is made rather worse by the fact that Nestlé has done particularly badly (lost greatest market share) in the impulse sector, which is the sector with the highest profit margins, in which branded products are most successful. It is worth noting that the Bird's Eye Walls parent company, Unilever, uses acquisition as a component of its corporate strategy. The freezer cabinet dispute is worthy of mention as a component of competitive conditions, since it gives Bird's Eye Walls preferential access to a large number of outlets for impulse ice cream.
3. For this question we would recommend that students are encouraged to identify two or three alternatives to the 'strategic withdrawal' option, and that lists of pros and cons for each option should be drawn up before a recommendation is made for the preferred strategy. An aggressive assault on the UK market in order to win market share from the rivals is clearly an option that should be considered. This would probably involve further new product development, repositioning, supported by extensive spending on advertising and promotions. Broadly speaking, a full frontal assault on a well-entrenched competitor with no obvious major weaknesses is deemed unlikely to succeed – but the option should be considered. It would probably make more sense to adopt a differentiation focus strategy, that is, to identify a segment of the market in which Nestlé can offer some meaningful differentiation to customers. The obvious segment in which Nestlé has a potential advantage is the children's segment, where it has a number of valuable brands with child appeal. Both of the major rivals have powerfully entrenched brands aimed at the adult market, but slightly less powerful children's brands. However, one would have to assess the likely profitability of a strategy targeted at children, noting in passing the adverse demographics. Nevertheless, there is evidence both that children personally have growing spending power, and that they have increasing influence on parental spending patterns (so called 'pester power').

Fulham FC: Strategic Marketing for Football Clubs

SYNOPSIS

The football industry has commercialised considerably over the last ten years. This case considers Fulham Football Club, a club steeped in history, but largely languishing in what was then the second division in the mid-1990s until it was rescued from financial difficulty by Mohammed Fayed, the charismatic and controversial owner of Harrods. Since then the club has gone from strength to strength and in 2002 occupied a strong position in the Premiership. Nevertheless, Fulham FC has spent millions on developing the team, and has a relatively small fan base for a Premiership club. The case looks at the changing nature of the football industry and the increasing importance of television, new media, sponsorship and merchandising.

LEARNING OBJECTIVES

- The importance of loyalty and identity in the football industry
- How segmentation models apply in the football industry
- The application of consumer relationship marketing techniques
- The importance of sponsorship, branding and merchandising.

QUESTIONS FOR DISCUSSION

1. Conduct a five forces analysis on Fulham FC. What are the major points for consideration for success in the football industry?
2. The cost of Premiership players is constantly increasing and yet Fulham must continue to purchase strong international players if it is to continually improve. Fulham's wage/turnover ratio is reputed to be around 120% for the 2000 season. In what areas should Fulham Football Club focus its revenue generation activities so that it covers its costs in the longer term?
3. Fulham has a relatively low fan base and a ground capacity that is currently hindered by the need to obtain planning permission approval. How important are the fans in the generation of revenue? Why couldn't Fulham simply focus on television spectatorship?

SUGGESTED ANSWERS

1. Five forces analysis requires the student to analyse the industry from the perspective of suppliers, buyers, possible substitutes, entry barriers and competitive rivals.

Suppliers – The major component of a football club is the football team itself. The football team is made up of a variety of players with different skills, for example defenders, midfielders, attackers and the goalkeeper. These players are purchased from other clubs in the UK and around the world. The major problem here is that a club pays inordinate sums of money for a player who is currently under contract with another club. Players can allow their contracts to elapse and transfer free to another club but since they receive a proportion of the transfer fee, and so does the owning club, it is not really in their interests to do so. Within the European Union, one of the principles of the Single European Act 1992 is the free movement of goods and

services and yet this transfer practice in the football industry is said to be restrictive. The question, yet to be determined in court, is whether or not football players can be 'owned' by a particular club. Thus, many clubs try to nurture their own talent by training young hopefuls and carefully talent scouting at other clubs.

Buyers – Loosely includes sponsors and television companies who provide the club with the revenue to purchase quality players. Football clubs try to tie in sponsors with long-term contracts and must ensure that the sponsor they pick has a similar consumer profile to the one that they have. There should be overlap between the supporter profile and the consumers that the sponsor wishes to communicate with. Buyers also include the football match attendees. These break down into occasional supporters, frequent supporters and season ticket holders. It is important that a club try to build on the loyalty of their supporters by providing more loyal fans with an enhanced package of benefits, for example season ticket holders get cheaper tickets and a discount on merchandise.

Entry barriers – Popular football clubs require large stadia. These are extensive and expensive servicescapes both to develop and maintain. The number of clubs operating in a particular league is regulated by the Football Association and by strict competition rules. The cost of acquiring strong new players is also considerable. The ownership of football clubs is also regulated and media owners are not allowed to own more than a 10% share in any football club in the UK. This, however, is not the practice overseas and many of our European partners clubs are wholly owned by media groups. The cost of setting up a football club is prohibitive and it seems that only the wealthiest of entrepreneurs and entertainers can afford the luxury of being a chief executive of a popular football club. The entry barriers could be lowered by purchasing land and building a stadium in a relatively cheap region, however, this strategy is often not viable because fans support their local or regional club and so the location becomes particularly important.

Substitutes – perhaps the closest substitute to watching a match live (revenue goes directly to club) is to watch the highlights or the full match on TV (revenue goes to television company and indirectly a proportion goes to the club). Where a club has a large fan base spread out over a disparate geographical region, the club might wish to offer its own TV station or Internet or mobile match news services. However, football spectatorship is a form of leisure too and so must compete with other events such as greyhound racing, ten-pin bowling, the cinema, and so on.

Competitive rivalry – Other clubs represent the closest rivals and usually a fan's loyalty to a particular club is intense. However, the author believes it is a myth that fans will never change loyalty to another club. They often do, particularly when they move to another region of the country or they cannot get in at their current club because of lack of space, prohibitive prices, and so on. The football game is also organised so that clubs need to beat each other in order to advance up the league tables. This generates a fierce loyalty amongst fans and a rivalry that is part of the enjoyment of football spectatorship. Reinforcement of this loyalty and the management of fans' hopes and expectations is of paramount importance to a football club.

2. Longer term revenue generation activities could include:

- Setting up shirt sponsorship deals with very large companies that are of minimum three years' duration.
- Arranging distribution deals with sports manufacturers to sell the team's merchandise in locations where there are a concentration of that particular team's supporters.
- Arranging for pockets of concentrations of overseas supporters to receive coverage of the matches either by broadcasting, or Internet broadcasting, services.
- Recruiting and training young talented players rather than buying them at market price.
- Moving to a location that can sustain a steady increase in the supporter base without compromising the location.
- Moving as many fans as possible up the loyalty ladder by offering them concessions, tailored packages based on their individual circumstances. This would require the design and implementation of a sophisticated database marketing system.

3. The fans are the lifeblood of the club. Without a significant fan base there would be no sponsorship since sponsors would not benefit from communicating to a small audience. Fans also buy merchandise and match tickets. Basically, they provide directly around three-quarters of the revenue associated with a particular club. Although the revenue that clubs get from TV rights (currently negotiated not by the club but by the Premiership League) is increasing, this is still based indirectly on the number of people likely to watch a particular match (ratings). Ratings are important for the BBC contractually (as part of their public service remit) and for independent television because it has an impact upon advertising revenue generation. Clubs that neglect their fan base ultimately bite the hand that feeds them.

Regaining the International Market for British Beef

SYNOPSIS

In 1996, when the EU banned Britain from exporting its beef product, as a result of the link between BSE-infected beef and the killer disease, new variant Creutzfeldt-Jakob (v-CJD), unsurprisingly, the domestic and international demand for British beef plummeted. This important British industry lost £520m of annual revenue at 1995 prices overnight. Although domestic demand subsequently recovered to pre-BSE levels, even after the EU lifted the export ban in August 1999, British beef exports have not resumed to pre-BSE levels partly because France, Britain's original major beef customer, is still operating an illegal ban. The case highlights the fragmented nature of the beef industry and the political difficulties in developing an efficient beef export industry.

LEARNING OBJECTIVES

- The impact of exogenous shocks on consumer demand
- The importance of politics as a macroenvironmental variable
- How to interpret a stakeholder map
- Supply chain management communication and integration strategies
- The application of market selection models for international market entry.

QUESTIONS FOR DISCUSSION

1. Conduct an industry analysis for the British beef export industry, explaining the major influences on the export and marketing processes.
2. What are the British beef industry's strategic options? Outline credible alternatives using Ansoff's matrix.
3. Assuming you are the Meat and Livestock Commission, outline a strategy for the British beef industry to restore distribution in non-domestic markets, indicating which markets it should concentrate on and why.

SUGGESTED ANSWERS

1. An industry analysis, based on the reader's interpretations of the stakeholder map, should identify the following important players within British beef export industry and their influences:
 - Beef processors – process meat for export as packaged product
 - Supermarkets (multiple retail grocers) – many multiples will supply their European subsidiaries with pre-packaged beef products
 - The MLC – exists to raise British export revenues (in addition to its domestic targets)
 - EU and individual member state politicians
 - Abattoirs – EC-approved abattoirs able to prepare beef carcasses for export, although non-EC-approved abattoirs will not be.

Students who link the stakeholder approach with a five forces industry analysis should be appropriately rewarded. Examiners should award marks for suitable suggestions. Traditionally, there has been considerable *rivalry* within the industry, which has damaged their ability to compete internationally. Overcapacity in the meat processing industry followed by a complex system of subsidies for farmers has ensured an imperfectly competitive market. The *suppliers* could be considered to be the farmers within this industry but because of the considerable buying volumes of the meat processors and the multiple retail grocers (MRGs), they hold little power. Conversely, *buyers* include meat processors and MRGs, but also at a country level include the likes of France, Italy, Ireland, Holland and Spain. *Substitute* products include chicken and pork, and vegetarian substitutes as well as beef from other countries, particularly South America and New Zealand. *Barriers to entry* to the export market depend on which level of the supply chain an organisation comes in at. However, for export, any organisation needs to include a consortium of EU-approved abattoirs, meat processors, and distributors (for example MRGs). This requires considerable vertical communication or integration, thereby requiring strong supply chain management skills.

2. Readers should consider the four quadrants of Ansoff's matrix providing at least one *reasonable* example for each quadrant. Possibilities could include:

Market penetration

- Try to increase sales of British beef in UK market by encouraging substitution of beef of foreign origin (for example New Zealand) for British beef.
- Increase consumer confidence, and therefore sales, through sustained advertising campaign, perhaps emphasising health benefits and traditional nature of beef meal preparations.

Market development

- Concentrate on regaining key markets such as France, Italy, Holland and Spain through collaborations with international partners based on high-quality produce.
- Develop new markets such as in China and East Asia generally where consumption has increased considerably but where production capacity does not currently match supply.

Product development

- Increase sales of British beef products by incorporating beef product in fast-growing meal subsector such as ready meals, particularly Chinese and Indian.
- Develop and distribute organic beef or Halal or Kosher beef for ethnic communities.

Diversification

- Concentrate on the sale and supply of other meat products, such as chicken, lamb or pork.
- Concentrate on processed meal solutions rather than simply the meat product.

3. The answer to this question depends on whether or not the reader thinks that the industry should concentrate on regaining significant old markets, or on targeting new high-growth markets.

If the former, *ten* markets represent 92% of the overall value of its 1995 exports. The countries should include Germany, since if the ban continues to operate, it could be seen to be damaging to Britain's other beef export interests. Alternatively, perhaps, the MLC should be targeting new high-growth markets such as China.

Importer	1995 value (£m)
France	179.0
Italy	126.0
Ireland	52.0
Netherlands	49.4
Spain	17.4
Denmark	12.0
Belgium	10.0
Portugal	7.0
South Africa	23.8
Germany	0.6
Total	520.0

A strategy plan should encompass the following areas and readers are expected to produce a brief cohesive plan where the individual aspects of the plan logically integrate with each other:

1. The marketing mix (place, price, distribution and promotion)
2. Market research

One example of a plan could be:

- **Product:** emphasis on high quality.
- **Price:** price to be set at a premium to reflect high cost of production (based on increased regulations introduced to improve quality).
- **Marketing communication**
 - *Lobbying* – the MLC needs to continue to continue liaison with French national and German state government representatives ensuring that they are aware of the need to remove their **illegal** bans and to press the European Commission to sue these governments should they continue their bans. MLC should also consider suggesting trade sanctions be placed in operation if these governments continue to press ahead with their own bans (this effectively represents a threat to the EC's legitimate power to enact and enforce its own laws and regulations). Lobbying activity would also be necessary to ensure that the South African market for British beef is restored.
 - *Trade advertising* – the MLC should look at increasing confidence in British beef among trade buyers (including multiple retailers, beef processors, and so on) in UK and non-EU countries through direct trade promotion and trade advertising schemes *guaranteeing* quality (through a recognised kitemark – indicating the meat has been through an EC-approved abattoir) and traceability (back to individual farms from a specific country). In order to do this, the MLC would need to work with a variety of the 'stakeholders' mentioned in answer 1.
 - Once the trade advertising has alerted and obtained interest amongst member state firms, the MLC should work with MAFF, the EC, and selected beef processors and multiple retailers to launch a *consumer advertising campaign* based on the quality of British beef (now thought to be of the highest quality due to the strict regulations it faces).
 - *Publicity* – information concerning the removal of trade bans (as they occur in individual countries) should be relayed to all states (EU and non-EU) with which the British beef industry has formerly had an export relationship.

- **Distribution**

The MLC should work with high-quality farmers, meat processors, abattoirs and multiple retailers in the UK to ensure that British beef is traceable through every step of the distribution chain and that quality is maintained throughout. The British beef product should be sold initially to more European multiple retailers, meat processors and brokers with a reputation for high-quality products.

Better answers will consider the need to conduct research to feed into the positioning strategy's objectives.

- **Research**

- The MLC should commission research in important individual member state countries in order to determine consumer opinion towards British beef in these member states. This will then ensure that the MLC lobbying activity is supported with high-quality information. It could also feed into a grass-roots lobbying campaign if this were necessary.

- The MLC should commission research to determine where to place trade advertising aimed at European food buyers read in order to enable them to place more effective trade advertising.

- The MLC would also need to undertake research to determine how best to position the British beef product and whether this positioning strategy would need to be adapted for individual countries.

Alternatively, if they select the high-growth market approach, one example of a plan could be:

- **Product:** emphasis on high quality, but also on technical competence and skill transfer (particularly in East Asian market). Likely to be produced with partner labour or other resources.

- **Price:** price to be set at an affordable level bearing in mind average wealth of citizen within country.

- **Marketing communication**

- *Lobbying* – liaison with country's political departments fundamental.

- *Trade and consumer advertising* – in collaboration with local partners.

- **Distribution**

Requires working with high-quality shippers and distributors to maintain cold-chain and quality of produce. Links with large MRGs or their East Asian equivalents fundamental.

- **Research**

- Would need to conduct research into the structure of the industry within particular country selected.

- Would need to commission research into eating habits in particular country.

- Trade and consumer advertising evaluation necessary.

Glaxo SmithKline in South Africa

SYNOPSIS

The World Trade Organisation agreement on intellectual property rights (TRIPs) requires signatory governments to offer 20-year patent protection. The South African government introduced a law in 1997 that gave it the power to import cheap generic alternatives to patented drugs in certain circumstances. In response, 39 pharmaceutical companies took the government to court to prevent this law from taking effect. They argued that it infringed the TRIPs agreement. In the event, the companies abandoned their case in April 2001 without a judgement having been reached. It seems likely that they were becoming increasingly concerned about the adverse worldwide publicity that cast them as 'villains' allegedly putting profits before the lives of poor African people.

LEARNING OBJECTIVES

- The importance, and potentially controversial nature, of intellectual property protection in an industry such as pharmaceuticals. Note that this can be generalised to 'knowledge industries' – compare software piracy
- Ethical dilemmas in strategic marketing
- Understanding of the role of the WTO in international trade agreements.

QUESTIONS FOR DISCUSSION

1. What is the purpose of patents in the pharmaceutical industry?
2. How would you characterise patents using Porter's industry analysis framework?
3. What strategic options does Glaxo SmithKline have for the South African market?
4. Prepare an outline analysis of the world market for anti-AIDS drugs in terms of the underlying logic of the market economy.

SUGGESTED ANSWERS

1. The argument from the pharmaceutical manufacturers is very clear. The development of new drugs is expensive, and many promising new treatments fail to reach the market, either because they are not expected to be commercially successful or because of problems with their therapeutic effectiveness. The fixed costs associated with pharmaceutical products are therefore very high, while the variable costs of producing a proven product can be very low. Manufacturers must be given time to recoup their investment in research and development and to earn a profit, before low-cost competition is allowed to enter the market. Without patent protection, drug companies would have little incentive to invest in new product development and, hence, new treatments would not be devised. The underlying logic of this position is not really in doubt. Counter-arguments from, for example, international charities suggest that patents are too long, that drug companies may benefit from publicly funded research, and that most R&D money is spent on drugs that are of negligible benefit to developing countries.

2. It is worth making the point that legal protection of intellectual property rights, including patents, is a form of entry barrier in the Porter competitive framework. Hence, the existence of a patent represents a reduction in the entry threat. Additionally, it is normal in the pharmaceutical industry for a single company to hold the patent over a specific drug – so in the case of that drug there is no threat of direct rivalry at all. The South African argument (a microcosm of the wider global argument) was about the elimination of a key entry barrier, after which new entrants would have rapidly increased the level of direct rivalry and reduced the profitability of the industry.
3. We discuss what we call the underlying logic of the market economy in the chapter on the macroenvironment. In the market system, resources are allocated according to the forces of supply and demand. Demand depends on the ability to pay, as well as on need. The great majority of drug spending is found in the developed nations. For one reason or another (whether because of sheer poverty, political preferences, or a combination of both) developing countries are minor consumers of drugs. Accordingly, developing nation issues (such as tropical diseases) have a relatively low priority with major drug manufacturers, and the pricing of drugs is aligned with the spending power of Western health services rather than those of developing nations. Of course there are complexities that make such an elementary analysis very incomplete. For example, if a manufacturer holds a patent over a unique and medically important drug, then it has, in effect, a very powerful monopoly position.
4. The developing world represents an important market politically and morally, though not economically, for Glaxo. The Western world is largely committed to providing support for a number of healthcare infrastructure projects through a variety of interested stakeholders. Glaxo also has a South African office and so has committed itself to the region. Recently it became one of five companies to sign up to the UN AAI scheme (Accelerating Access Initiative), although drugs offered through this scheme were still often many times more expensive than drugs obtained through parallel importing. GSK has a number of reasonable approaches, which can be characterised along a continuum as tough, moderate and humanitarian approaches, although the actual programme of action could contain different aspects of any of these proposals. The *tough approach* – work with governments and multilateral agencies to ensure parallel importing and compulsory licensing are not extended throughout the developed world, and by extension into the developed world, but ensures relatively even distribution of the HIV/AIDS drugs with strict controls. This would only very partially tackle the HIV/AIDS problem, probably amongst the wealthy elite within the country. It would ensure profits are not dented and other markets are not affected by price differentials. The *moderate approach* – work with governments and multilateral agencies to ensure parallel importing and compulsory licensing are not extended throughout the developed world, and by extension into the developed world, but ensures *cheap* distribution of the HIV/AIDS drugs with strict controls. This would only partially tackle the HIV/AIDS problem but would promote good public relations. The *humanitarian approach* – relax price to around level of generic drugs available in other developing countries (for example India, Brazil), work with multilateral agencies and other concerned stakeholders to achieve large-scale distribution. This would be fabulous for public relations but programme would become a significant cost. This may impact negatively upon shareholder confidence, which ultimately drives a company. If a company's stock falls too far, it becomes susceptible to takeover, particularly in an industry that is constantly consolidating.

Should UPS Purchase the Shuttle?

SYNOPSIS

The distribution function in a supply chain is an important internal service function for any firm, and has been increasingly recognised as playing a strategic role in achieving competitive advantage. United Parcel Service Inc. (UPS) has successfully positioned itself as a key partner to have when in need of an express carrier, package delivery company or a global provider of specialised transportation and logistics services. Over the course of 90+ years, the company has expanded from its modest beginnings as a small regional parcel delivery service into a leading worldwide logistics specialist organisation. Towards the end of the last century, 'globalisation' and 'time-based competition' have emerged as important business strategies leading to a renewed emphasis on the logistics function. This has opened up opportunities for strategic alliances between manufacturing firms and specialised logistics services providers, with each partner focusing on its core area of competence. Although such alliances are common in North America and Europe, this concept is relatively new in Asia. United Parcel Service is now the world's largest third-party logistics (known as TPL or 3PL) operator and the corporation is also a global leader in 4PL. As a fourth-party logistics facilitator, UPS uses information and communication technologies (ICTs) on the client's supply chain to add greater value and to help maximise supply chain efficiencies. The process is highly information-based and non-asset focused, and coordinates several players on behalf of its customers.

LEARNING OBJECTIVES

- Historical and strategic development of a logistics industry leader
- Role of information and communication technologies in supply chain management
- Strategic importance of sports marketing, charitable foundations and other positioning tools
- Strategic implications of achieving and maintaining a global perspective.

QUESTIONS FOR DISCUSSION

1. What would an annual strategic marketing plan look like for a global player such as United Parcel Service?
2. UPS has positioned itself as the leading third-party/fourth-party logistics facilitator on the planet. Discuss the advantages and disadvantages of this position.
3. UPS is gambling that globalisation will continue to spread unabated. Discuss other growth strategies the company might adopt, just in case!

SUGGESTED ANSWERS

1. Clearly, the information provided in the case study is by no means sufficient for students to actually develop a proper marketing plan. The idea behind this question is to cause students to reflect on the essential tasks to be performed by UPS planners. Students will need to point out that a single plan is unlikely to be realistic in a situation like this. Although the company's executive team must keep the overall business mission and goals in mind, each strategic business unit (SBU) in each major region of the world will need to produce an annual set of strategic plans. Students may well attempt to identify what they believe those SBUs are and may also prepare a list of the regions in question. It is expected that their answers will be inspired from the material on strategic marketing analysis presented in Chapter seven of this text.

2. As stated in the case study, the customer base for UPS is quite broad:

- Global corporations.
- Limited companies partnerships and sole traders.
- Professionals.
- Government departments and agencies.
- Non-profit organisations.
- Public/private health organisations.
- Public/private educational institutions.
- e-Businesses.
- Entrepreneurs working from home.
- Consumers (accessing UPS directly through their network of high street shops and counters).

All the potential UPS customers on the above list – except consumers – have one thing in common: they may, sooner or later, require 'third-party logistics'. This simply means that organisations and/or individuals need to outsource their logistical requirements from time to time. Some commercial ventures choose to simply 'UPS' a package or envelope while others may well hire a logistics specialist such as UPS to manage their entire supply chain. A 3PL firm utilises its own assets (that is, warehouses, vehicle fleets, and ICTs) for this purpose while a 4PL (fourth-party logistics) provider also subcontracts others and manages those contractors on behalf of its client. It is important to note that although United Parcel Service is the world's largest 3PL, the corporation is also a global leader in 4PL. As a fourth-party logistics facilitator UPS uses ICTs on the client's supply chain to add greater value and to help maximise supply chain efficiencies. The process is highly information-based and non-asset focused, and coordinates several players on behalf of its customers.

As for the advantages and disadvantages of 3PL and 4PL, students will need to consider offline as well as online logistics opportunities, current market position, market growth, market share, degree of competition, regional differences, and so forth. Answers will vary.

3. Students will probably struggle with this question. They might want to start off by re-examining the very purpose of 'going global'. In the face of saturated home markets, rising off-shore competition and rapidly diminishing differentiation among industry leaders, the pressure is on all major corporate players to carefully weigh the pros and cons of globalisation. But is this really the only way forward for UPS?

From a truly strategic perspective, the sky is the limit – literally! If the company can get its hands on the Shuttle they could go beyond mere globalisation to serve points in outer space. Then what?

Students might well consider the case of a similar global player – the McDonald's Corporation – discussed in another case study (see the Golden Arch Hotels). Like UPS, McDonald's is an industry leader looking to extend its reach worldwide. When is enough, enough? At which point should a global giant look to other (related or perhaps unrelated) opportunities for further growth and continued profitability? Students will need to point out that, at some stage, the way ahead may not be in a straight line. A good answer would point to alternative and complementary products UPS might launch in the not-too-distant future. The new products may not necessarily be appropriate for worldwide coverage, but may contribute significantly to regional needs.

News Corporation in the British Newspaper Market

SYNOPSIS

News Corporation is a global media corporation controlled by Rupert Murdoch. The News Corporation portfolio is extensive in terms of product and geographical range. This case study makes reference to the extended portfolio of News Corporation, but focuses on its activities within one key market, the British newspaper market. *The Times* and the *Sun* give News International (UK newspaper publishing subsidiary of News Corporation) a substantial stake in both the 'quality' and the 'popular' segments of the UK market. News International faces a diverse range of competitors, from other international media groups (for example the Telegraph Group – Hollinger International) and from local rivals (for example Trinity Mirror). Aggressive price cutting has been a notable feature of News International marketing strategy in the British market in recent years, and has led to investigations by the OFT into 'predatory pricing' allegations.

LEARNING OBJECTIVES

- The influence of the legal and regulatory environment on competitive strategy (in a particular legal system, noting that different legal systems will impact in different ways)
- The concept of 'predatory pricing' and the way in which this concept is interpreted within the British system
- Complexity of the competitive environment, with the interaction between 'global' and 'local' competitors
- The application of target marketing strategy within a highly segmented market.

QUESTIONS FOR DISCUSSION

You are a marketing consultant engaged by News Corporation to conduct an independent analysis of their newspaper publishing interests in the UK.

1. Prepare a summary analysis of the competitive environment in the UK newspaper market.
2. Focusing on direct competitive rivalry, assess the strengths and weaknesses of the principal players (including News International).
3. Propose alternative strategic options open to News International, and briefly evaluate each option.
4. Select your preferred strategic option, and develop an outline action plan for implementation.

SUGGESTED ANSWERS

1. It is intended that this question should be used as an opportunity to apply Porter's 'five forces analysis' to the newspaper industry. The UK newspaper market is reputedly the most competitive in the world, and there are a substantial number of *direct competitive rivals*, several of which control a substantial share of the market – question 2 focuses on the diversity of these rivals. An important strategic issue for the companies in the industry is the impact of new media, particularly the Internet, on their business. In Porter's terms this issue concerns *substitution*. A simplistic analysis might contend that the newspaper is merely a costly and inefficient method of conveying information to the customer, and that new alternatives will quickly replace it.

While there is evidence of a slow decline in newspaper sales, there is clearly no evidence of a wholesale substitution process at work. By analogy, television has not replaced radio. Naturally, all the media groups mentioned in the case study are also active in new media developments. Concerning *new entry competition* there is a reference to the launch and rather rapid failure of the *Today* title. *The Independent* is a relatively successful (at least it has survived) recent entrant to the UK newspaper industry, although it has become part of the Independent News and Media group. The aggressive pricing policies of News International have adversely affected *The Independent*. Broadly, new entry competition has not been successful in recent years in the British newspaper industry, suggesting that the incumbents are unlikely to regard future market entries as a constraint on their marketing strategy. The fact that the UK industry has such a highly competitive reputation, and the recent history of price-cutting competition, suggest that new entry competition is unlikely. There is no direct evidence in the case study pertaining to the *power of buyers and suppliers*. The interventions of the OFT in the newspaper industry can be seen either as an example of 'legal and regulatory' influence within the macroenvironment (probably to be preferred), or as a manifestation of 'customer power' by proxy. The latter is really stretching a point, but might form the basis for an interesting discussion: 'do you believe that the actions of the OFT will protect customer interests in the UK newspaper industry?'

2. Clearly this is closely related to question 1, focusing on one particular influence (direct competitive rivalry) and asking for a more detailed analysis. There is a limited amount of information in the case study on each competitor, and it would be a useful educational exercise to ask students to gather additional information to enable a more extended analysis to be undertaken. One way of doing this would be to allocate each competitor to a student or a small group of students, and to request a 1000-word briefing (with perhaps a five-minute presentation) on its strengths and weaknesses. However, you should note that it is easier to gather information on some of these companies than others.

The question asks explicitly for 'strengths and weaknesses' and there may be a tendency for students to make broad, non-comparative statements. There is an opportunity here to encourage the students to conduct their analysis on a comparative basis, and in order to do this it is possible to develop a set of reasonable objective criteria by which to judge the competitive rivals. Such criteria would include:

- *Organisational size*. This is a proxy for financial power. It was argued that News International was only able to sustain its aggressive pricing strategy because of the huge financial resources in the group.
- *Geographical scope*. There are examples of major international companies (News Corporation, Hollinger International, Pearson) and local competitors (Trinity Mirror, DMGT, Guardian Media Group, Express Newspapers). Independent News and Media has limited international interests.
- *Product line scope*. For example, although Pearson owns the *Financial Times*, it is not primarily a newspaper company. By contrast, Trinity Mirror is heavily focused on the newspaper business. It is also interesting to look at the newspaper product lines of the competing groups, and at their target market segments. News International is the only group with titles in both the 'popular' and the 'quality' segments. Express Newspapers has titles in the 'popular' and the 'mid-market' segments. Trinity Mirror is only in the 'popular' segment, while DMGT is only in the 'mid-market' segment.
- *Culture*. This is a less objective criterion, and less easy to define. While it may not be used as an explicit basis for comparison, nevertheless it can provoke some interesting discussion. For example, one of the key issues in the British newspaper industry at the case study date was what the impact of Richard Desmond's ownership would be on the *Daily Express*. One might argue that cultural considerations were part of the price-cutting strategy introduced by News International. The relatively staid British newspaper industry was shaken up by a strategy that had previously been considered to be ineffective, the perception being that newspaper readers were very loyal to their preferred title and not influenced by price.

- 3./4. Questions 1 and 2 focused on strategic analysis, while questions 3 and 4 move on to consider strategic choice. Therefore the responses to questions 3 and 4 should refer to, and should be consistent with, the analysis presented for questions 1 and 2. Relevant concepts to employ are Porter's generic competitive

strategies, Ansoff's growth vector matrix, and segmentation/targeting/positioning. The price-cutting strategy itself does not necessarily imply a 'cost leadership' approach by News International. However, as publisher of the biggest selling daily and national newspapers in Britain, it is reasonable to suppose that News International does hold a cost edge on the basis of scale economies. Clearly the marketing strategy at both *The Times* and the *Sun* has been to increase market penetration. There is reference in the case to product development strategy (for example, 'page3.com' is an extension of a *Sun* concept to the Internet, targeting essentially the same audience). One result of the price-cutting strategy at *The Times* was believed to be a migration of readers from mid-market newspapers to *The Times*. Some commentators have argued that editorial policy at *The Times* has been to appeal more to a mid-market audience, and to reposition the newspaper further away from the more 'high brow' titles. Going rather beyond the scope of this text, there are also interesting issues of corporate strategy to be addressed. These are hinted at in the case study itself. News International is a business unit of News Corporation. Given the level of marketing investment at News International in recent years (treating the cost of the price cuts as marketing investment), it seems unlikely that News Corporation would want to completely exit the UK market. However, might they want to acquire additional titles? Would they consider a bid for DMGT, which owns big selling titles that would complement the News International portfolio?

A Tale of Two Wine Brands

SYNOPSIS

The world wine market has changed markedly over the last two decades. The case examines those changes in the context of the UK wine market, and explores their implications for two well-known wine brands. We have seen the rise of New World wines, and the relative decline of Old World wines. German wines in particular have suffered. German producers traditionally exported inexpensive, sweetish white wines. The market has become more sophisticated, tastes have shifted markedly in favour of red wine, and consumers are prepared to spend a little more to get a higher quality product. Obviously this has had a very serious and damaging effect on German wine exporters. It has favoured Australian wine producers, who have responded with successful new product introductions, the development of strong producer brands, and wine of consistent quality produced using modern methods. Jacob's Creek exemplifies Australian success. Blue Nun has exemplified German decline, but has recently been relaunched in an attempt to recover lost market share.

LEARNING OBJECTIVES

- Market positioning is a central concept in the case study. Jacob's Creek has established an enviable position, while Blue Nun used to have a powerful position but has now lost it
- The case study shows how strong brands can be undermined by a combination of changes in consumer behaviour and the competitive environment, in the absence of suitable marketing strategy. This is a well-known marketing lesson (cf. Levitt's 'Marketing Myopia', *Harvard Business Review*, 1960) but can, surely, never be repeated too often!

QUESTIONS FOR DISCUSSION

1. 'Australian wine producers have seen sales increase by three-quarters in Britain. Two million cases (roughly 18 million litres) of Australian wine were sold in the year ended June 1992, a far cry from the situation in 1980 when only 100,000 cases were sold annually. However, there is doubt being cast over the continuation of this trend as most of the activity has been restricted to the cheapest end of the market, and low prices will be hard to sustain' (*Market Research GB, 1994, p.9*). These words of warning seemed perfectly reasonable in 1994 but turned out to be misguided. Why?
2. Jacob's Creek has built a very strong position in the UK market. Could anything threaten the brand's success?
3. Will Blue Nun succeed in the UK market? Weigh up the arguments for and against.

SUGGESTED ANSWERS

1. At the time when this comment from an influential source was written, it was by no means clear that Australian wines would have a successful long-term future in the UK market. They had not yet established their position as high-quality yet good value-for-money products. Informed commentators still imagined that they might end up in a 'cheap and cheerful' market position with a limited future. They were saved from this by a combination of factors, some under their control and some outside it. Positive marketing strategy has certainly played a part in the rise of Australian wine. Obviously one must take quotations from producers with a pinch of salt, nevertheless what Stephen Couche has to say in the case study is interesting. His

claim is that Jacob's Creek successfully pursued a planned marketing strategy to achieve its prized 'quality with value-for-money' position. Careful control of pricing strategy, production quality and marketing communications has been used to this end. On the other hand, to some extent the Australian producers 'got lucky'. The market has shifted in favour of the kind of product that they are well placed to supply – notably easy-drinking, mid-priced red wines. One might also argue that complacency among the market leaders was a factor in the success of Australian producers. In retrospect it is easy to see that the major French, German and Italian producers should have been better informed about trends in the market, and should have pursued product development and communications strategies aimed at repositioning their own brands.

2. The simple answer to this question is yes! Complacency on the part of Orlando Wyndham would doubtless see them overtaken by changing consumer tastes and competitor activity in the same way that Blue Nun was before. One clear message from the case study is that the wine market is ever changing. Australian brands will certainly be challenged by New World rivals (from South Africa, Chile, New Zealand and so on), and probably be challenged by resurgent Old World brands. The basic trends in the market seem to be well established; it is likely that wine will continue to grow faster than the alcoholic drinks sector overall, and that red wine sales will grow faster than white wine sales. Beyond that it is difficult to speculate. Will consumers become ever more sophisticated, demanding ever finer and more expensive wines? Might Australian wine come to be seen as 'yesterday's drink'?
3. Time will tell on this one. Certainly there is a natural scepticism about the relaunch. The brand is firmly positioned in consumers' minds as inexpensive, sweet, unsophisticated and unfashionable. The very association with Germany might be a negative for some consumers. Even assuming that they have got the product 'right', changing the minds of consumers is going to be an uphill struggle. On the other hand, Blue Nun still has high brand recognition. Australian brands were once considered downmarket but have been successfully repositioned. As the case says, if you can do it with Skoda, then why not with Blue Nun? Of course, Skoda was only repositioned after it had been acquired by the Volkswagen group, and much was made in the repositioning exercise of this association. Without undermining the VW brand, consumers appear to have been sold the message that they can have VW quality for a down-to-earth price. Blue Nun has also been acquired fairly recently. But there are no brand associations to leverage, at least not in the UK market. The Skoda parallel may well be spurious for this reason. For the moment, this author veers in the direction of scepticism, although for nostalgic reasons he would be delighted to be proved wrong.

BriCol Engineering Ltd

SYNOPSIS

BriCol is a medium-sized automotive components manufacturer located near a General Motors car plant in England. The GM plant is under threat of closure. BriCol relies on GM for 60 per cent of its business, and has been supplying GM for 20 years. The essence of the case is how BriCol can respond to the enormous challenge posed to the future of the company by the likely closure of a car plant upon which it has relied for most of its business, for most of the life of the company. Various strategic alternatives are outlined by the characters in the case study. Data is provided, in the form of a consultant's report, on the purchasing practices of the three most likely target customers – GM, Ford and MG Rover. Further options are to diversify out of the automotive industry, or to become a 'second-tier' supplier – that is, to supply components to one of the much larger firms that pre-assembles integrated systems for use on automobile production lines.

LEARNING OBJECTIVES

- This is a 'heavy duty' industrial marketing case study and includes material that may be quite unfamiliar to many marketing students raised on FMCG concepts. It is designed to provide the case material to support concepts of organisational buying behaviour, and the application of relationship marketing in business-to-business markets.
- A very clear set of strategic options can be derived from the case, and decision-making processes applied to these. The case study is a powerful tool to illustrate the strategic choice process.
- The problems faced by BriCol can be clearly traced to changes in the broader marketing environment. Broadly, the world has changed a great deal in the 20 years that they have been doing business with GM, and the company has not acknowledged the strategic implications of those changes.

QUESTIONS FOR DISCUSSION

1. How would you characterise the purchasing strategies of the three car manufacturing companies?
2. How attractive would you say that the three car companies were, compared to each other, as target customers for BriCol Engineering?
3. Should BriCol Engineering aim to remain a first tier supplier – that is, should it aim to continue to sell directly to one or more of the car manufacturers – or should it aim to become a successful second-tier supplier?
4. If you were the marketing consultant, what would you advise Brian Deans and Colin Platt to do next?

SUGGESTED ANSWERS

1. We noted in the chapter on organisational buying behaviour that Wilson (1996) proposed that we were in an era when 'old model' organisational buying behaviour was being supplanted by 'new model' organisational buying behaviour. The buying function, she claimed, was evolving in a number of ways:
 - Away from a win/lose negotiating orientation to a win/win orientation.
 - Away from a short-term orientation to a long-term orientation.
 - Away from transactional, price-based purchasing, to partnership purchasing.

- Away from the conventions of keeping suppliers at arm's length and avoiding close contact, to increasingly intense communications and information sharing with supplier partners.

The three car companies in the case study offer contrasting pictures of this process in action. Of the three firms Ford seems to have moved furthest in the direction that Wilson suggests. There is a great deal of rhetoric in Ford company literature that emphasises the value of long-term supplier relationships. There can be no doubt that the company has made great efforts to move away from short-term transactional buying and towards partnership sourcing. GM is perhaps the company that has moved least far in this direction. The rhetoric of supplier partnering is not very well developed, and the evidence for real supplier partnering is limited. GM appears to be trying to achieve a low-cost differential advantage by buying components on the open market at the lowest available prices. MG Rover is probably somewhere between the big two in terms of purchasing strategy.

2. The best way to address this question is to produce a list of pros and cons associated with each target customer based on the data in the case study. There is a considerable amount of relevant information. Students can also be encouraged to seek information from external sources relevant to this question. In particular, the financial position of MG Rover is a critical issue – the information in the case study is up to date at the end of 2001, but we would encourage students to check out the current viability of MG Rover. Obviously the long-term survival of the big two is much less of an issue, although a car industry recession would undoubtedly make them look harder at their costs.

Here are a few of the key issues:

- MG Rover is a major purchasing force in the UK industry. It is located conveniently for BriCol, and has made some moves in the direction of supplier partnering. However, MG Rover increasingly want to do business with large suppliers who can undertake substantial project management and systems integration work. MG Rover is by no means guaranteed to survive in the long term.
 - Ford also has a big plant located fairly near BriCol. Presumably the same arguments that caused GM to review its local plant could also apply to Ford's UK facilities (particularly the Eurozone issue). Ford is a large and financially sound player, which offers good support to its suppliers. But Ford has recently reduced its supply base and also wants to deal with large, first-tier suppliers capable of project management and systems integration.
 - The location advantage that has given BriCol so many years of business with GM will probably be lost soon. It is true that BriCol people are well connected at GM and are accredited to GM quality standards, which may give them some edge in competing for business with GM plants outside the UK. However, BriCol should not expect any favours from GM, and the levels of supplier support offered by GM appear to be inferior to the support offered by some rival firms.
3. It really does look as though the days of BriCol as a first-tier supplier are numbered. To remain a first-tier supplier, the company would have to acquire considerable new skills in design, project management and systems integration. Since the car manufacturers can choose from a range of much larger suppliers who already have these skills, BriCol would struggle to do this. One may be able to devise counter-arguments, but there would be a Canute-like feel if BriCol insisted on going down this route, trying to resist the tide of change in the automotive industry.
 4. The main strategic options seem to be as follows:
 - Accept that business with GM will decline, and seek to replace that with new business from other car manufacturers, principally Ford and MG Rover.
 - Seek to maintain the GM relationship by pursuing business from overseas GM plants, putting in place the necessary overseas logistics support.
 - Become a second-tier supplier. Identify new business opportunities among first-tier suppliers to the car manufacturers.

- Seek diversification opportunities outside the car industry. BriCol is a general purpose engineering company that manufactures metal components. Such components are used in a multitude of different industries.

Although these options are not mutually exclusive in a logical sense, the limited resources of the company make them more or less mutually exclusive in a practical sense. Of course, none of these options is perfect. The fact is that BriCol faces a very difficult strategic problem, and could well go under despite its best efforts. This rather frightening message could be quite a useful lesson to get across!

Crisis in the European Airline Industry

SYNOPSIS

The structural nature of the European airline industry, with various bilateral and multilateral agreements between EU countries and their non-EU partner countries, distorts the nature of competition. The case highlights the downturn in demand for flights as a result of the 11 September terrorist attacks in the US, particularly to the US and the Far East. Increasingly successful low-cost operators such as Ryanair and easyJet have entered the market and remained competitive through cost stripping by adopting airports with low landing charges, decreasing flight turnaround time, decreasing aircraft purchasing and maintenance costs and renegotiating union agreements. Thus, national carriers such as Lufthansa, Air France and British Airways are facing difficult times.

LEARNING OBJECTIVES

- The impact of exogenous shocks on consumer demand
- The complexity of regulation in some industries
- The application of Porter's generic strategies
- The importance of alliances as a competitive marketing strategy in the airline industry.

QUESTIONS FOR DISCUSSION

1. What can major national carriers such as British Airways do to stimulate consumer demand for their long-haul services, particularly to the US and the Far East?
2. How can major national carriers check the competitive threat of the low-cost carriers such as easyJet and Ryanair?

SUGGESTED ANSWERS

1. They can promote seats possibly through cheaper deals, and partly by offering better agreements with travel agents, but these kind of market penetration tactics will only serve to reduce BA's profit rather than stimulate long-term demand. It might well have been wiser to take out advertising in the national press urging people to continue flying because it was safer due to the increased safety requirements. This formula was followed to some extent by Ryanair, although they used old army requirement posters (in bad taste really) with the implication that passengers should not be frightened to continue living their lives despite the terrorist incidents, rather than highlighting increased safety procedures. The demand for flight services to the US and Far East will not return to normal levels until the conflict in Afghanistan has been settled and consumers feel that the threat has been limited. Ultimately, airports, governments, airline and aerospace companies need to work together to ensure that planes, airspaces and airports are safe places for consumers. Airlines might also decide to increase their flight services to other locations such as Australasia, Europe and South America.
2. Major national airlines have been trying to continue by differentiating their services, particularly to business travellers. However, this has met with limited success as low-cost carriers like easyJet have also started to court them. Ultimately, major national carriers will have to reduce their cost structure, possibly by simulating their low-cost competitors if they wish to continue operating in the short-haul market. This will require

renegotiation with unions over staff pay and conditions, renegotiation of landing charges with major airports and rationalisation of loss-making routes. It is likely that national carriers will continue to cooperate, operating alliances that ensure large-scale coverage of the market with reduced costs. Airline companies will woo those partners with complimentary routes to expand their own networks and reduce their costs. However, there is nothing stopping the likes of Ryanair and easyJet from forming their own low-cost partnership and thereby reducing their costs too. Airline companies then will have to decide whether or not they want to continue operating in the short-haul market or focus on the more profitable long-haul market, possibly with fewer national carriers after the inevitable shake-out in the short-haul market.

Internationalising the Chartered Institute of Marketing

SYNOPSIS

Although activities such as advertising, product/package design and salesmanship have been around for ages, 'marketing' as a discipline and as a powerful strategic force has only been with us since the end of World War 1. This case looks at the aspirations of a leading international organisation dedicated to raising the levels of awareness and understanding of marketing, and enhancing its standards of professionalism. In less than a decade from now, the Chartered Institute of Marketing will be 100 years old. The market (especially an international/global one) for an organisation such as the CIM is growing and shifting rapidly. The case describes how their strategists feel ready, willing and able to take on the world. Will their vision and determination be enough to keep them in the lead?

LEARNING OBJECTIVES

- Evolutionary path of a professional body over nine decades
- Deep understanding of the CIM's mission and purpose
- Implementation of service development and market development strategies
- Unfolding of the internationalisation process.

QUESTIONS FOR DISCUSSION

1. The case clearly indicates the CIM's new commitment to 'promote and increase membership internationally'. Discuss the main strategic options currently available to the CIM and make an informed recommendation to the Council.
2. In its most recent publications, the CIM claims to have become a 'global' organisation. When can a service organisation such as this safely make such a claim? Is the CIM actually ready to 'go global'? Discuss.

SUGGESTED ANSWERS

1. This question relates to the approach fully described in Chapter eight – Marketing Strategy Formulation. Students will first need to provide a market segmentation matrix for the CIM based on information presented in the case study (and perhaps by also exploring the CIM's main website – www.cim.co.uk). Then, choosing from the tools presented in Chapter eight – PLC analysis, BCG matrix, PIMS, Porter's generic competitive strategies, Ansoff's matrix – students will perform an analysis of the CIM's current situation. The next step would be to identify desirable customer targets and define a clear positioning strategy for the benefit of the organisation's Council.
2. Organisations are increasingly able, or indeed compelled as is the case here, to compete on a world scale. A global service organisation is one that, by operating in more than one country, gains marketing, service research and development, and financial advantages that are not available to purely domestic competitors. Students will note that the CIM is already committed to internationalisation. The core of the debate here concerns 'going global'. Discussion should focus on how close the Institute is to full internationalisation, and indeed how close it is to calling itself a global player. Most answers will probably conclude that, for the CIM at least, it is still very early days to talk about a truly 'global' stance.

Golden Arch Hotels

SYNOPSIS

The world is changing rapidly and global giants such as McDonald's need to change with it or risk swift decline. Trying hard not to be perceived as 'yesterday's fad', the corporation has developed a reputation for innovation: fast-food breakfasts, 'drive-thrus', seven-minute pizzas – the list goes on. This case looks at a recent attempt by McDonald's to look beyond food for growth opportunities. A couple of Golden Arch Hotels have just opened in Switzerland, and more – many more – may well be on the cards for selected locations worldwide. For now, we take a walk about one of these new hotels to see what all the fuss is about.

LEARNING OBJECTIVES

- The role of growth strategies for a global organisation
- Brand extension opportunities
- Hospitality service mix
- The role of pilot projects in test markets.

QUESTIONS FOR DISCUSSION

1. It is stated in the case study that other countries have expressed a desire to set up Golden Arch Hotels at home. Develop a balanced and realistic 'roll-out' strategy for the GAH concept.
2. The case also suggests that McDonald's Corporation feels ready to 'seize the challenges of diversification'. Discuss this with the help of the 'Ansoff matrix' model discussed in this textbook.

SUGGESTED ANSWERS

1. Students will need to address this issue from a highly strategic perspective. McDonald's want to continue making a lot of money while protecting the corporation's hard-earned reputation and worldwide leadership position. They are newcomers to the hospitality trade. This field typically requires a significant amount of capital outlay, very different knowledge and skills (other than fast-food skills), and normally provides long-term rather than medium- or short-term financial returns.

Answers should vary widely, but McDonald's will most certainly need to adapt their Golden Arch Hotel concept to the needs of each region and cultural they decide to target. They have done this successfully with their fast-food menu, and it is their hope that this successful approach can work for the hotel trade as well. Students will need to remember that these hotels are intended for use by business travellers as well as families and young nomads. Sensible roll-out locations would probably involve G-8 countries and top travel destinations. Future hotels may also vary in size and format.

2. Good answers will start by noting that the corporation has already exploited all four cells of Ansoff's matrix:
 - *Market penetration* – McDonald's saturated its home market (the USA) a number of years ago;
 - *Market development* – the company has managed to duplicate its fast-food success worldwide;

- *Product development* – from burgers and fries to breakfast, from salads to ice cream, the corporation has innovated in almost every edible direction;
- *Diversification* – McDonald's control land holdings and own processing facilities, logistics operations, franchising/financing operations, training facilities, and now hotels.

Additionally, students will need to discuss the distinction between *related* and *unrelated* diversification for McDonald's, and will also need to deliberate on the notion of 'fit' in relation to available diversification options.

Marketing Australia to the World

SYNOPSIS

International tourism makes a substantial and growing contribution to the Australian economy. While it is clear that further growth of international tourism is desirable in economic terms, the impact of tourism on the natural environment is an issue of growing concern. There are plentiful examples elsewhere in the world of tourist destinations that have been badly damaged by excessive tourism, sometimes to the extent that the original natural beauty that tourists came to see has been despoiled. In addition, Australia faces the twin environmental problems of dryland salinity (the result of certain farming practices) and water scarcity. How is the Australian tourist industry to compete effectively with other destinations worldwide without further serious damage to the natural environment?

LEARNING OBJECTIVES

- Environmental concerns as a key aspect of the strategic marketing environment
- Allocating priorities to issues in the macroenvironment
- The impact of economic growth on consumer demand
- The impact of exogenous shocks on consumer demand.

QUESTIONS FOR DISCUSSION

You have been asked to provide the Australian Department of Industry, Science and Resources with an objective assessment of the key strategic marketing issues facing the Australian tourist industry.

1. Using a suitable analytical framework, summarise the key macroenvironmental issues affecting Australian tourism.
2. Put the issues that you have identified in question 1 into a rank order, based on their impact, probability and urgency.

SUGGESTED ANSWERS

1. A range of different classification tools for the macroenvironment is provided in Chapter six. For the purposes of this answer, we will refer to the simple PEST (or STEP) framework, although students could be encouraged to try out different frameworks on the same data to see in practice the pros and cons that we discuss in Chapter six. In particular, since the 'green' environment plays such a large part in the case study, students might prefer a framework that mentions this aspect explicitly, such as the STEEP approach used in the construction industry example.

Political

- Note the role played by the Australian government in trying to oversee and promote the Australian tourist industry.
- It is clear that international political events affect inbound tourism to Australia considerably. These include the events of 11 September 2001, the Gulf War, and political uncertainty in the Middle East.
- Political attitudes to environmental issues will play an important part in future decision-making. Should Aus-

tralian public opinion, and Australian government opinion, become less sensitive to environmental concerns, this might have negative implications for the emerging eco-tourism industry.

- China is clearly a rapidly growing market. Political change in China, making international travel easier (or more difficult), would affect the Australian tourist industry.

Economic

- There is a rather clear link between economic prosperity and spending on tourism. As an international tourist destination, Australia is quite expensive, particularly for Europeans and North Americans.
- The case study mentions that economic growth in the USA is expected to exceed growth in Europe. However, within Europe, the UK (biggest single country for inbound tourism to Australia) will continue to grow quite quickly.
- Japanese inbound tourism has been disappointing in recent years, a period during which the Japanese economy has stagnated. The Asian economic crisis of the mid-1990s affected Australian tourism adversely.
- Broadly it is expected that the world economy will perform quite well in the mid-years of this decade.

Social

- One or two of the quotations from other authors provided in the case study suggest that Australian society contributes positively to the growth of tourism. Most obviously, the large immigrant population is the cause of the high proportion of visits to see friends and relatives. Australian immigration policy has an important effect on international tourism. Visiting friends and relatives is forecast to continue to grow in absolute terms, but to decline as a proportion of total international tourism over the period to 2010.
- The cosmopolitan nature of Australian cities attracts international tourists.
- One could also mention here the question of social attitudes towards the environment, with a link to political aspects of the macroenvironment. How important will the average Australian consider protection of the environment over the next decade?

Technological

- There is little direct information in the case study about technological developments. The most obvious impact is to be seen in the sample Internet sites that are referred to. Clearly the Internet represents an important resource for the marketing of Australia in world markets.
2. In order to illustrate the intended approach to this question, we have identified six possible environmental events and conducted an analysis of seriousness using the method described in Chapter six. In all cases, the timescale involved is the period up to 2010.

Possible events in the macroenvironment:

- a A further major international political upheaval, such as a regional war or further serious terrorist incidents.
- b Economic recession in the European Union.
- c Global economic recession.
- d More restrictive Australian immigration policy.
- e China becomes a more closed society, discouraging business and personal links with the outside world.
- f There is a backlash against the 'green' movement. Australians are less convinced of the need to protect the natural environment.

	Probability	Impact	Urgency	Total ('Seriousness')
a	4	4	5	13
b	3	2	2	7
c	2	4	3	9
d	2	3	3	8
e	1	3	1	5
f	3	2	3	8

Of course the scores allocated to these events are purely the judgement of the authors of this book. One of the most interesting aspects of this kind of analysis is to compare the judgements of different people and discuss differences of judgement. On the basis of the analysis above, a detailed action plan should be developed for event a, and outline action plans for events b, c, d and f.

Trouble with the CPC100

SYNOPSIS

The CPC100 (compact photocopier model 100) is failing to achieve its sales revenue targets in the UK market. This short case study is written in the form of a play, with the managing director, marketing director, sales director and product manager discussing the performance of the product at the end of the sixth month of the current year. The North American regional sales manager is also present at the table but says very little – this is the role, interested but slightly apart from the central players, to be adopted in answering the discussion questions. The characters are intentionally stereotypical, and play out somewhat ritualised political games. As they interact, the reasons for the underperformance of the product begin to emerge.

LEARNING OBJECTIVES

- Application of sales variance analysis
- Appreciation of internal political factors in marketing decision-making
- The difference between establishing the ‘surface problem’ and the ‘root cause’ underlying the problem.

In thinking about the teaching strategy to adopt with this case study, it is worth considering actually acting out the play. What the authors have done is to video record themselves and colleagues acting the play, and then replay the tape to students during a lecture – this creates quite an impression. Equally, by asking students to act out the play, one forces them to read the text for meaning – where should the inflections go, where are key pieces of analysis presented?

QUESTIONS FOR DISCUSSION

Imagine that you are Brad MacDonald. Liz has asked you to comment on the CPC100 situation. Frame your response to her in the following terms.

1. What is the immediate problem that the CPC100 product manager should focus his attention on?
2. What might be the underlying causes of the ‘trouble with the CPC100’?

SUGGESTED ANSWERS

1. There is a small market size variance of 0.8 per cent year to date. As explained in the case study, this is pretty good forecasting, but it would be well worth pointing out that month-by-month forecasts have been wrong by as much as 10 per cent, but that the positive and negative errors have more or less cancelled each other out over the six-month period. One might ask whether this is good forecasting or good luck. The market share target has very nearly been achieved, with 14.6 per cent year to date compared to a 15 per cent target. Hence actual market share varies from forecast by 0.4 percentage points, or by 2.67 per cent (0.4/15.0). Combining a 0.8 positive market size variance with a 2.67 per cent negative market share variance yields the overall 1.8 per cent negative sales volume variance. However, the CPC100 was expected to sell at £250 less 10 per cent discount, that is £225. So far this year the average net selling price has been £216.50, which is a negative price variance of 3.8 per cent. Hence, overall the CPC100 has missed its six-month revenue target by 5.5 per cent. The immediate problem is that sales revenue is well below target (by £446,725), largely because of bigger than expected price discounts.

2. The case study does not provide any clues to what might be the underlying cause of the problems with the CPC100. Therefore, this question is intended to be used for educated speculation about the underlying problems that might be facing the CPC100. One of the characters has argued strongly that the product is a 'dog', that the sales force simply cannot sell it without offering big discounts, and that serious thought should be given to product withdrawal. This is a coherent position to take, although we would have to benchmark the product against competing offerings to establish whether it has any validity. Is the CPC100 more expensive than competitor products offering equivalent features, quality and running costs? Logically the answer to the underlying problem with the CPC100 must lie either in developments in the competitive environment, or be internal. Is it that the CPC100 has failed to sustain its competitive advantage over rivals, or is it the sales and marketing effort that has let it down? It looks as though market share has been sustained at the cost of bigger sales discounts. But have these discounts been 'given away' as the marketing director argues, implying poor sales effort, or has the sales force been forced into this action as a last resort? On the one hand, it could be argued that there are some signs that the product might be reaching the end of its life cycle. On the other hand, following the arguments of those who have criticised the PLC concept, it is entirely possible that this is a very sound product that is in need of better management.

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