

Course Material 1

6MSMR1

Marketing Strategy

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EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



MINISTERSTVO ŠKOLSTVÍ,
MLÁDEŽE A TĚLOVÝCHOVY

Marketing Strategy

Tomáš Kincl



Literature

RECOMMENDED



COMPULSORY



Jakubíková, Dagmar. *Strategický marketing*. Praha: Grada, 2008. ISBN 978-80-247-2690-8.

West, Douglas - Ford, John B. - Ibrahim, Essam. *Strategic marketing : creating competitive advantage*. New York: Oxford University Press, 2010. ISBN 978-0-19-955660-1.

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Gilligan, Colin - Wilson, R. M. S. *Strategic marketing planning*. Oxford: Butterworth-Heinemann, 2009. ISBN 978-1-85617-617-0.

Kotler, Philip - Armstrong, Gary. *Principles of marketing*. Boston: Pearson, 2011. ISBN 978-0-13-216712-3.

Kotler, Philip - Keller, Kevin Lane. *Marketing management*. Boston: Pearson Education, 2012. ISBN 978-0-273-75336-0.

Machková, Hana. *Mezinárodní marketing : nové trendy a reflexe změn ve světě*. Praha: Grada, 2009. ISBN 978-80-247-2986-2.

Kerin, Roger A. - Peterson, Robert A. *Strategic marketing problems : cases and comments*. Boston: Pearson, 2013. ISBN 978-0-132-74725-7.

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Hoffman, K. Douglas - Bateson, John E. G. *Services marketing : concepts, strategies, & cases*. Mason: South-Western/Cengage Learning, 2011. ISBN 978-1-4390-3939-7.

Hutt, Michael D. - Speh, Thomas W. *Business marketing management : B2B*. Mason: South-Western Cengage Learning, 2013. ISBN 978-1-133-18957-2.

Thompson, Arthur A. - Strickland, A. J. *Strategic management : concepts and cases*. New York: McGraw-Hill/Irwin, 2003. ISBN 0-07-244371-5.

Cateora, Philip R. - Gilly, Mary C. - Graham, John L. *International marketing*. New York: McGraw-Hill/Irwin, 2013. ISBN 978-0-07-352997-4.

+ links in course materials, recommended reading (Harvard Business Review, academic papers, ...)

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History of Marketing Schools of Marketing Thought

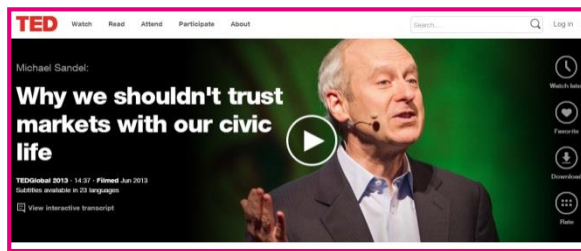
What is Marketing

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. [American Marketing Association](#) (2007)



Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.

Kotler, P. *Marketing management*: Pearson Education. 14th ed. 2012



What should be the role of money and markets in our societies?
Market mechanisms and market thinking and market solutions
recourse in bigger arenas

[Inside the bizarre life of an Upper East Side housewife](#)

Cohen, H. 72 *Marketing Definitions* [online], retr. 15/1/2014,
<<http://heidicohen.com/marketing-definition/>>

A BIG CHALLENGE for marketing is demonstrating its business value. As the finance function becomes more powerful within companies, some see marketing's influence as declining. One major reason for marketing's diminishing role is the difficulty of measuring its impact: The value marketers generate is often difficult to quantify.

REICHHELD, Frederick F. BENDLE, Neil T.; BAGGA, Charan K. 2016. The Metrics That Marketers Muddle. *MIT Sloan Management Review*, 57(3)

Micro- and Macro- Marketing

- Micro-marketing – company (and other subject on the market; i.e. non-profits; municipals, governments, ...) oriented;
 - Addresses company's objectives (market share, profit, cash flow, ...)
 - Analyzes elements of marketing mix
 - Sometimes considered as a perspective of individual/local marketing or market niches
- Macro-marketing studies marketing within the context of entire economic system; older perspective on marketing
 - Aggregate demand and supply; societal process oriented on flows (of goods, money, ...) in economy;
 - achieve equilibrium between demand and supply
 - Side effects of companies operating on the markets – i.e. business hours in supermarkets, safety; protection of employees; law and regulations, societal issues, environmental issues,
 - Efficiency and waste of resources, business ethics, ...

[Kids cereals](#) and other food high [in sugar](#)

Micro-marketing perspective – Kids love sugar – more sugar = more PROFIT!

Macro-marketing perspective – public health expenditures, shorter life expectancy,

[Victoria's Secret](#) and [targeting tweens](#)

Micro-marketing perspective – new potential markets, new customers to be targeted – more PROFIT!

Macro-marketing perspective – angry parents, child sexual abuse, Food Intake Disorders (bulimia or anorexia), ...



TABLE 1
Macromarketing/Micromarketing Perspectives

Author	Perspective
A. Moyer (1972)	Macromarketing studies marketing within the context of the entire economic system with special emphasis on its aggregate performance. Micromarketing is firm-oriented.
B. Shapiro (1973)	Marketing from the overall view of the aggregate activity in the economy for meeting society's objectives of a proper flow of goods and services is macromarketing.
C. Grashof and Kelman (1973)	The macromarketing system in the U.S., a mass production mass consumption mixed-market directed economy, serves to overcome discrepancies or mismatches between production and consumption.
D. Spratlen (1975)	Macromarketing pertains to the aggregates of market transactions or exchange activities, institutions, behavior and performance analyzed with respect to such units as industries, sectors, regions or the marketing system as a whole.
E. Hunt (1976)	Macromarketing suggests a higher level of aggregation, usually marketing systems or groups of consumers. Micromarketing refers to individual units, normally individual organizations (firms) and consumers or households.
F. Bagozzi (1977)	Macromarketing studies networks of relationships connecting marketing actors and societal patterns or systemic relationships among marketing actors. Micromarketing studies the behavior and characteristics of individual actors or attributes of single marketing entities and dyadic relationships between marketing actors.
G. Bartels and Jenkins (1977)	Perhaps most widely, macromarketing has meant marketing in general and the data that depict marketing in general. It has meant the marketing process in its entirety, and the aggregate mechanism of institutions performing it. It has meant systems and groups of micro institutions, such as channels, conglomerates, industries and associations, in contrast to their individual component units. More recently, it has meant the social context of micromarketing, its role in the national economy and its application to the marketing of non-economic goods. It has also meant the uncontrollable environment of micro firms.
H. Hunt (1977)	Macromarketing refers to the study of marketing systems, the impact and consequences of marketing systems on society, and the impact and consequences of society on marketing systems. Micromarketing refers to individual units: organizations, firms, consumers or households.
I. Nickels and Hill (1978)	Macromarketing is the study of intranational and international exchange systems rather than particular dyadic exchange relationships, and includes: (1) the structure, process (flows), and power relationships within systems; (2) the effects of exchange systems on various subsystems; (3) the effects of various environmental influences on the total exchange systems; (4) the productivity and equity of various exchange systems; (5) the interactions between and among domestic and international exchange systems; (6) the management of exchange systems rather than particular organizations; (7) the effect of the total exchange system on economic development; (8) the complex decision making processes of buying centers and distribution systems; (9) the activities and structure of collectives within exchange systems; and (10) the public policy implications of the total exchange system.
J. McCarthy (1978)	Macromarketing is a socioeconomic process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches heterogeneous supply capabilities with heterogeneous demand and accomplishes both the short run and long run objectives of society.
K. Slater (1978)	Marketing and distribution from a societal perspective is macromarketing.
L. White and Emory (1978)	Studying the impacts of the transaction upon the broader system, society or groups is macromarketing.
M. Shawver and Nickels (1979)	Macromarketing is the study of exchange activities and exchange systems from a societal perspective.



History of Marketing

- History of Marketing as a branch of science begins at the end of 19th century
 - (Macro) marketing perspective can be found in **Ancient Greek**, i.e. Socrates and his thoughts about wealth and commerce (decline of rural life, extent of commerce in Ancient world)
 - **Medieval period** – feudalism did not allow much to develop marketing principles, most of the population lived in rural areas, on the edge of survival, almost self-sufficient; merchants focus on transportation and safe travelling
 - **Since 1500** – growing importance of cities (self-insufficiency), early capitalists focused on cultivation of luxury markets for rich and noble, however also growing middle class (10–25 % of population development of mass markets); first dealerships, wholesalers, travel agents, financial instruments and institutions
 - **18th – 19th century** –stimulating demand among nearly all society, industrialization, productivity growth, population concentrated in cities, development of transportation (railways, shipping); marketing one of the central activities of everyday life; mass markets – one price fits all
 - **End of 19th century** – mass production required mass stimulation of demand; physical separation of producers and buyers required further development of transportation and establishment of institutions able to help with understanding the markets; development of modern marketing practices (vending machines, post service), esp. advertising; regulations
 - 20th century.** – marketing as a science, development of transportation (air freight), communication technologies (radio, tv, internet), marketing research, dedicated marketing departments, segmentation of mass markets, societal marketing, many new marketing field and theories

Marketing as a Science

1900–1910 – Initial teachers of marketing sought facts about the distributive trades. Theory was borrowed from economics relating to distribution, world trade, and commodity markets. The conception of marketing occurred and a name was given to it (1902, University of Michigan, University of Illinois, University of Wisconsin)

1910–1920 – Many marketing concepts were initially developed. Concepts were classified, and terms were defined; company department functions were defined, different types of organizations are defined (wholesalers, brokers, ...)

1920–1930 – Principles of marketing were postulated, and the general body of thought was integrated for the first time; First textbooks of marketing (Ivey, 1921, Principles of Marketing)

1930–1940 – Specialized areas of marketing continued to be developed, hypothetical assumptions were verified and quantified; some new approaches to the explanation of marketing were undertaken; first professional and academic associations were established (American Marketing Journal, Journal of Marketing)

1940–1950 – The concept and traditional explanation of marketing was re-appraised in terms of new needs for marketing knowledge. The scientific aspects of the subject were considered.

1950–1960 – emphasis upon managerial decision making, the societal aspects of marketing; many new concepts, some borrowed from the field of management and from other social sciences, were introduced into marketing

1960–1970 – new concepts took on substantial identity as significant components: managerialism, holism, environmentalism, systems, and internationalism

1970–... – Social issues and marketing became more important; as marketing upon society became a focus of interests; environmental issues, societal marketing, non-profit organizations, marketing of services

Schools of marketing thought

School	Selected marketing pioneers	Question(s) addressed	Level or focus of analysis	Key concepts and theories
Marketing functions	Shaw 1912, Weld 1917, Cherington 1920, Clark 1922, Converse 1922, Maynard et al. 1927	What activities (i.e. functions) comprise marketing?	Macro: • Marketing Middlemen	Value added by marketing activities
Marketing commodities	Shaw 1916, Cherington 1920, Copeland 1924, Breyer 1931	How are different types of goods (i.e., commodities) classified and related to different types of marketing functions?	Macro: • Trade flows • Types of goods	Classification of goods: • Industrial and consumer • Convenience, shopping and specialty • Products and services • Search and experience
Marketing institutions	Weld 1916, Nystrom 1915, Clark 1922, Maynard et al. 1927, Breyer 1934, Mallen 1967, Stern 1969, Bucklin 1970	Who performs marketing functions on commodities?	Macro: • Retailers • Wholesalers • Middlemen • Channels of distribution	Channels of distribution: • Market gaps and flows • Parallel systems • Depots • Transactions and transvections • Sorts and transformations • Postponement and speculation • Conflict and cooperation • Power and dependence
Marketing management	Alderson 1956, 1965, Howard 1956, Kelley and Lazer 1958, McCarthy 1960, Kotler 1967	How should managers market goods to customers (clients, patrons, patients)?	Micro: • Business firm as seller/supplier • Any individual or organization as supplier	• Marketing mix • Customer orientation • Segmentation, targeting and positioning
Marketing systems	Alderson 1956, 1965, Boddewyn 1969, Fisk 1967, Dixon 1967	What is a marketing system? Why does it exist? How do marketing systems work? Who performs marketing work? Where and when is it performed?	Micro: • Firms and households Macro: • Channels of distribution • Aggregate marketing systems	• Interrelationships between parts and whole • Unity of thought • Marketing systems • Micro and macro marketing • Societal Impact
Consumer behavior	Dichter 1947, Katona 1953, Engel et al. 1968, Kassarian and Robertson 1968, Howard and Sheth 1969, Holloway et al. 1971, Cohen 1972	Why do customers buy? How do people think, feel, act? How can customers/people be persuaded?	Micro: • Business buying • Consumer buying • Individual or household consumption	• Subconscious motivation • Rational & emotional motives • Needs and wants • Learning • Personality • Attitude formation and change • Hierarchy of effects • Information processing • Symbolism and signs • Opinion leadership • Social class • Culture and sub-cultures
Macro-marketing	Alderson 1965, Fisk 1967, Dixon 1967, Hunt 1976, Bartels and Jenkins 1977	How do marketing systems impact society and society impact marketing systems?	Macro: • Industries • Channels of Distribution • Consumer Movement • Public Policy • Economic Development	• Standard of living • Quality of life • Marketing systems • Aggregate marketing performance
Exchange	Alderson 1965, Kotler 1972, Bagozzi 1975, 1978, 1979, Shaw and Dixon 1980, Houston and Gassenheimer 1987, Wilkie and Moore 2003	What are the forms of exchange? How does market exchange differ from other exchanges? Who are the parties to exchange? Why do they engage in exchange?	Macro: • Aggregations of buyers and sellers in channels Micro: • Firms and households • Any two parties or persons	• Strategic and routine transactions • Social, economic and market exchange • Barter and market transactions • Generic exchange
Marketing history	Hotchkiss 1938, Bartels 1962, 1976, 1988, Hollander 1960, 1983, Shapiro and Doody 1968, Savitt 1980	When did marketing practices, ideas, theories, schools of thought emerge and evolve?	Macro: • Thought and practice Micro: • Thought and practice	• History of marketing practice • History of marketing thought

Current Trends in Marketing?

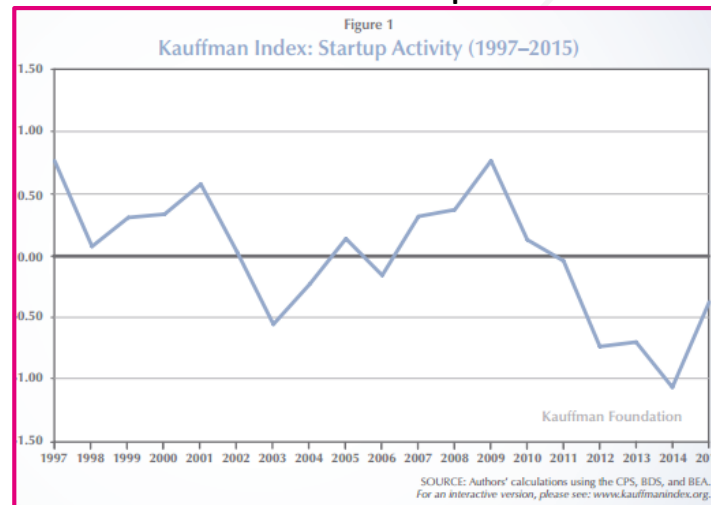
Received paradigm	Emergent paradigm
Consumer satisfaction	Consumer sensations and sense-making
Cognitive psychology of behavior	Neurophysiology of consumer behavior and sensory experiences
Products as “delivered services”	Products and services as sensory experiences
Massive-scale manufacturing by contract manufacturers (phase one networks); early phase two innovation networks	Small-scale distributed production-consumption networks. Products built atom-by-atom. Customer co-creation and co-production (phase three networks)
Dominant technologies: digitization and computer controlled systems	Dominant technologies: biotechnology, nanotechnology
Management as internal coordination of finance, marketing, production, R&D and personnel in the firm	Management as customer care and network development—interorganizational coordination of finance, innovation and production.
Core competency: idiosyncratic resources, usually technology	Core competency: Focal firm—marketing; Network—relational solidarity, synergy and mutuality
Management priorities: growth, customer life-time value, targeting middle and upper class high value markets	Management priorities: sustainable marketing (including demarketing, counter-marketing), growth from lower middle and base-of-the-pyramid markets
Dyad as unit of analysis; theories of hierarchical control, power and dependence; early relationship marketing, social norms of behavior	Multi-level networks as units of analysis; bottom-up networks; relational management of the economic and ecological “commons”; social engagement (proactive)
Corporate social responsibility (reactive, adaptive)	Proactive corporate strategies in ecology and development
Public policy: laissez-faire capitalism	Public policy: regulated capitalism (embedded regulation, self regulation); conscientious capitalism, conscious capitalism, social capitalism

Doporučené čtení: Achrol, R. S., & Kotler, P. (2012). [Frontiers of the marketing paradigm in the third millennium](#). *Journal of the Academy of Marketing Science*, 40(1), 35-52.

Current Trends in Marketing?

Recommended reading: Schumpeter (2016). [Management theory is becoming a compendium of dead ideas](#). The Economist, dec 17th 2016

- Some basic ideas are repeated repeated ad nauseam in every textbook, even though bear almost no relation to reality
- Hypercompetition?
 - In some industries striking competition, short-term competitive advantage, price wars, ... however the most striking business trend today is not competition but consolidation
- Entrepreneurship
 - [2015 was a record-breaking year for mergers and acquisitions \(M&A\)](#). Approximately \$4.7 trillion in global deals were signed, and despite high valuations, corporate executives think 2016 should be another record year of growth in the M&A market.⁴
 - The rate of business creation in USA and Europe has declined since the late 1970s.

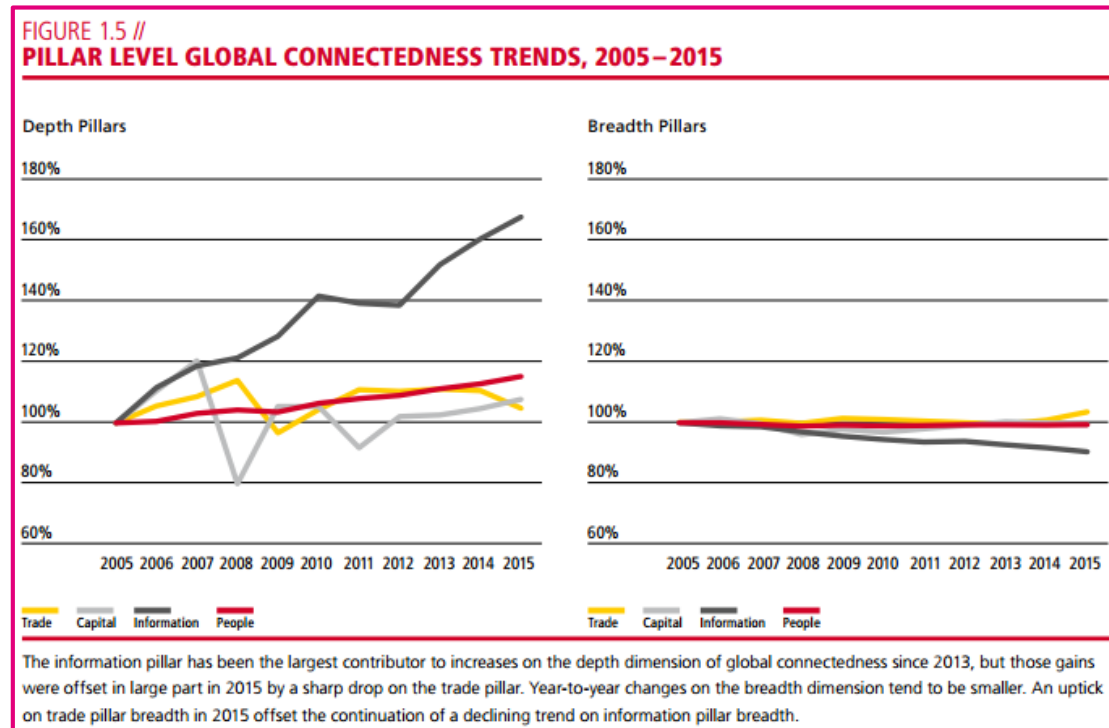


- On the other hand, entrepreneurship is one of the main economic growth drivers in third-world countries
- Small and medium enterprises (SMEs) represent the vast majority of the business population in low-income countries (excluding micro firms and the self-employed). According to [a recent study](#) from the International Finance Corporation (IFC), SMEs account for more than half of all formal jobs worldwide, and their share of [aggregate employment is comparable to that of large firms](#).

Current Trends in Marketing?

Recommended reading: Schumpeter (2016). [Management theory is becoming a compendium of dead ideas](#). The Economist, dec 17th 2016

- Globalisation
 - vs USA protectionis (Mexico wall, NAFTA agreement, import taxes, ...)



— Business getting faster?

- Internet companies can grow within months and acquire global audience
- On the other hand it takes months or years to check all legal, safety, audit, compliance requirements and dealing with governments' ever-expanding bureaucracies.

In 1913, the 50-year-old Ford had revolutionized American manufacturing by introducing the automated assembly line. By 1929, there were more than 27 million cars--or nearly one car [for every household in the United States](#).

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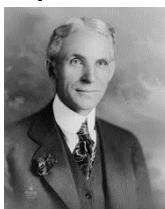
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Business Concepts

Criticism of business concepts FULLERTON, R.A. How Modern Is Modern Marketing? Marketing's Evolution and the Myth of the "Production Era,,. *Journal of Marketing*, Vol. 52, No. 1. 1988, pp. 108-125 – concept taxonomy is based on Pillsbury Company study, which just describes stages the (one) company went through over time (KEITH, R. J. The Marketing Revolution, *Journal of Marketing*, Vol. 24. 1960 , pp. 35-8)

Production Concept

- Usually associated with markets at the beginning of 20th century
- Preference of widely available and cheap products
- High production volumes, economies of scales, experience effect, low-cost, mass distribution
- Assumption that the demand exceeds supply



- Suitable approach to emerging markets, i.e. India or China

- Mobile phones in India



Last year, the number of mobile connections in India more than doubled to 142.2 million and that figure is expected to expand 48% to roughly 211 million by the end of 2007. All this explains why global handset makers such as Nokia, Motorola and Samsung are shifting product development efforts and marketing strategies to emerging markets.

[India Blows by China in Mobile Phone Market Growth](#). [The best selling phone in the world: can you guess which one is it?](#)

- China – the largest smartphone market worldwide – brands like Xiaomi, Lenovo, Yulong, Huawei, BBK, ZTE, OPPO and K-Touch have 65 % market share.
- A lot of companies abandon this approach and focus on higher value competes to well-known and established brands (first in market share than in, quality)
- Cheap food in supermarkets – meat-free sausages?

Top Five Smartphone Vendors, Worldwide Shipments, Marketshare and y/y Growth, 3Q 2014					
	3Q14 Shipments	3Q14 Market Share	3Q13 Shipments	3Q13 Market Share	3Q14/3Q13 Growth
Samsung	78.1	23.8%	85.0	32.5%	-8.2%
Apple	39.3	12.0%	33.8	12.9%	16.1%
Xiaomi	17.3	5.3%	5.6	2.1%	211.3%
Lenovo	16.9	5.2%	12.3	4.7%	38.0%
LG	16.8	5.1%	12.0	4.6%	39.8%
Others	159.2	48.6%	113	43.2%	40.8%
Total	327.6	100%	261.7	100%	25.2%

Product Concept

- Usually associated with markets in 1950s
- But also on markets with hi-tech goods with frequent innovations
- Assumption that customers favor high quality performance and technology
- Persistent pressure to innovate and improve product performance and parameters
- “good products sell themselves” – often leads to disappointment, consumers are not interested in products but in solving their own issues

Recommended reading: LEVITT, Theodore. [Marketing Myopia](#). Harvard Business Review 7/2004

TV manufacturers – how to convince customers to replace old TV? Continuously introducing new features (i.e. curved TVs, 8K screens)

[Are curved TVs any better than flat TVs?](#), [Are curved TVs a gimmick? Yup, but we still love them](#)

Google + – how to convince users to sign in to a new social network?

[Has Facebook Beaten Google Plus?](#) [What Killed Google+ And What Can Save It](#)

Philips – how to convince customers to buy expensive LEDs

[Lighting Needs Some Bright Ideas](#), [How To Spur Mass Market Consumer Adoption Of LEDs](#)

Segway – how to convince people that a new way of transportation was born?

[Eager Sellers and Stony Buyers: Understanding the Psychology of New-Product Adoption](#)

Microsoft – how to convince users that phone/tablet/PC could have the same OS?

[Why Windows 8 failed: It alienated desktop users](#), [Don't Believe The Windows 8 'Failure' Hype](#),



Product Concept

– Discussion: Does Apple follow the Product Concept?

- 2007 – Apple introduced a phone controlled by the most natural positioning device - fingers
- Even though it is no longer unique and specific product, Apple approach is still specific

For any product that Apple creates, the people who create it have to want it themselves. The products have to be easy to use

([6 Reasons Apple Is So Successful](#))

- Apple does not invest much in marketing (compared to competitors), marketing often just “happens” i.e. through celebrities and opinion-makers

Apple are so clever that they have actually managed to get other companies (mainly mobile phone operators) to pay for, and execute advertising for them. Apple iPhone ads are in fact paid for by a network operators who want to advertise that they sell the iPhone. When operators want to tell the world that they sell the iPhones, not only do they pay the bill but Apple slaps a fat stack of strict branding restrictions on the operators that dictated how the ad must look and what information it can contain.

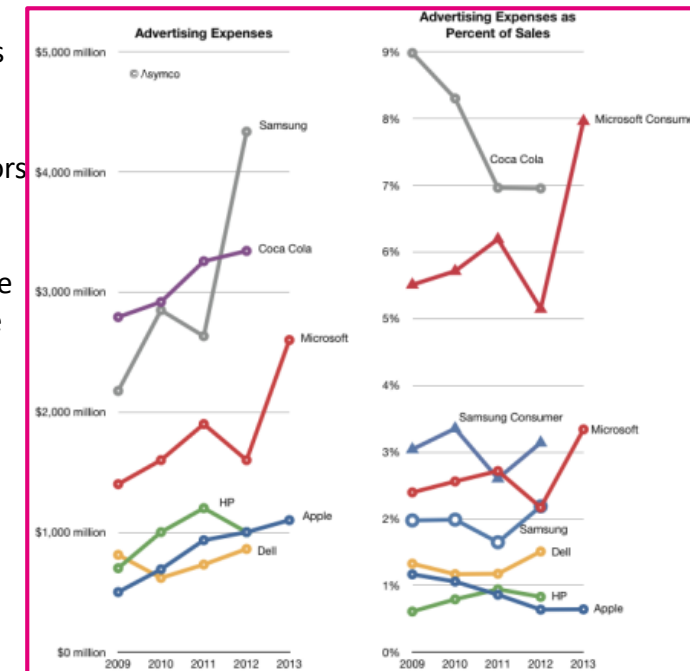
([Apple's iPhone Marketing Strategy Exposed](#))

Apple spent \$149.6 million to advertise the iPhone in the 2009 and \$173.3 million in the 2010 year. Compare that to Microsoft, which reportedly spent \$400 million to advertise Windows phones. That's roughly the same amount Apple spent to advertise the iPhone in three full years. Apple focuses on nationwide publications with the largest reach and actually has an employee who "helps provide products" to be "used by stars in movies [and] TV shows" ([Here's How Much Apple Spends To Advertise The iPhone And iPad](#))

- Exclusive distribution – phone without contract can be purchased just in Apple store or in Apple e-shop, frequent stock-outs

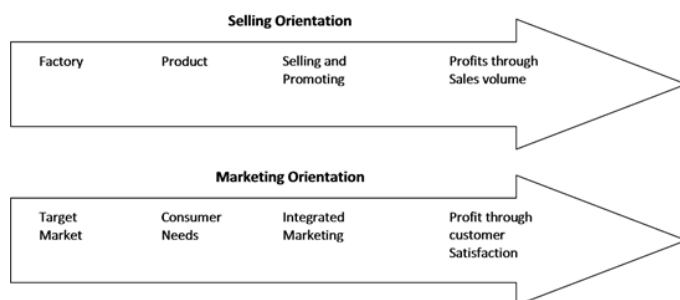
Notice that when you go into an Apple store and are greeted by one of the sales staff, you're not asked, “How can I help you?” Instead they ask, “What would you like to do today?” They go right to the heart of any technology user's question, a question that's always related to what they want to do with the technology the user is interested in. ([6 Reasons Apple Is So Successful](#))

Everyone wants to see the gold iPhone 5S but ... they don't seem to exist in real life. There are good reasons to believe this is a deliberate marketing play by the geniuses at Apple. ([Here's The Evidence That Apple's Gold iPhone Shortage Is Actually Deliberate](#))






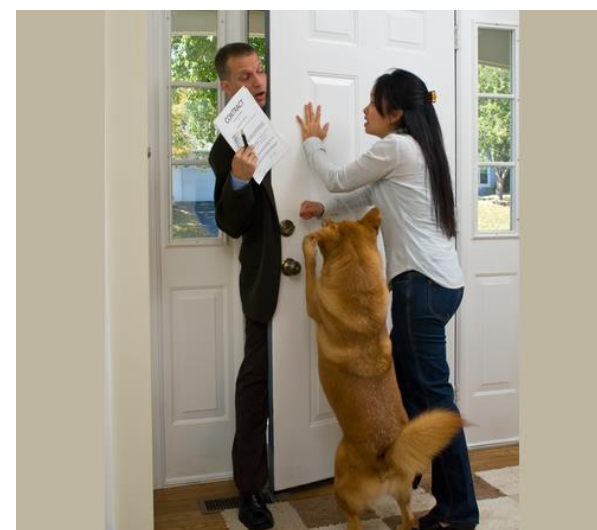
Selling Concept

- Usually associated with markets in 1950s
- Can be used on [FMCG markets or for unsought products](#)
- Sales should be supported by an intensive marketing communications
- To sell what has been already produced
- Often misinterpreted as marketing concept



- Promotional events, doorstep selling, aggressive advertising

Product	Promotional Event	Online Retailer
	19 990	2 990
	14 999	1 223
	13 999	1987



Mobile carriers, insurance companies, banks, energy distributors?

Marketing Concept

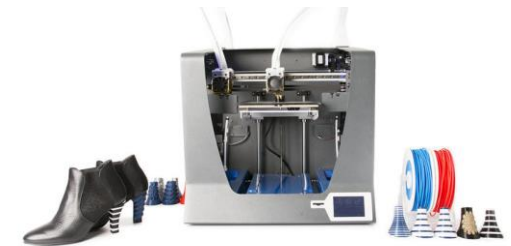
- Usually associated with markets in 1970s
- But also markets where customization of products is important
- Previous concepts *inside-out* perspective, now *outside-in*.
- Customer-centric approach, products are being developed according to customers' needs and tastes
- Similar to [Integrated marketing](#) – outperform competition in recognizing customers' needs, development of products, ability to communicate and deliver values

[Nike can make a pair of custom shoes in under an hour](#)

The athletic company will open Nike Makers' Experience at the Nike By You Studio in New York. Part of that experience is the ability to create Nike shoes with a custom look. And you don't even have to wait for them: From start to finish, the process takes less than 90 minutes -- significantly faster [than something like Nike's Bespoke iD process](#) that takes 6 - 8 weeks for delivery.

[Atelier 27 Combines Additive Manufacturing with Consumer Co-Creation](#)

What Unistudio Design has done with the Atelier 27 project for Eram is revolutionary for the footwear business. What the agency has done is develop a means for consumers to design and 3D print unique stiletto heels for their pumps, enabling them to jazz up a pair of bland-looking party shoes, or to replace a broken or scuffed heel with something a whole lot more exciting.



- How to recognize customers' needs (what if customers don't know what they want)
 - Discovering What People Want Before They Do

H. Ford: *If I'd asked customers what they wanted, they would have said "a faster horse".*

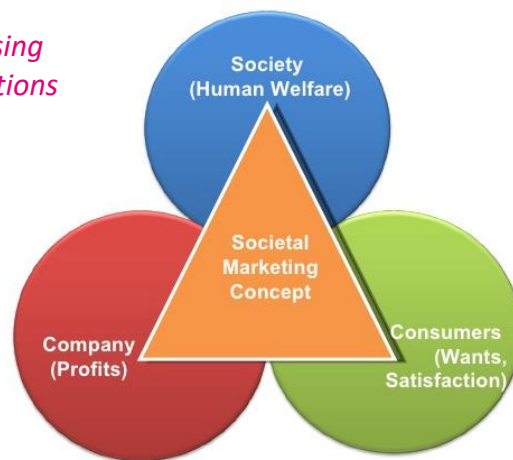
Recommended reading: DAVENPORT, Thomas H.; MULE, Leandro D.; LUCKER, John. [Know what your customers want before they do](#). Harvard Business Review 12/2011

Societal Marketing

- Usually associated with markets after 1970s
- In 1970s rather local environmentalism (i.e. local pollution)
- Targeted on left-wing oriented intellectual elites (often affluent)
- Often just an argument how to justify premium pricing
- Much wider perspective these days (sustainability, environmental protection, recycling, business ethics, Fair Trade, Child Labor Free Products)
- The customers (esp. younger cohorts like Gen Y, X) expect companies to actively participate and engage in dealing with major social issues (which companies often contribute to)

Societal Marketing

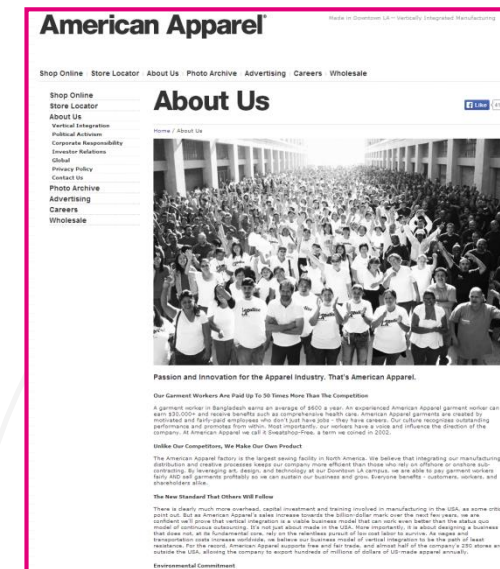
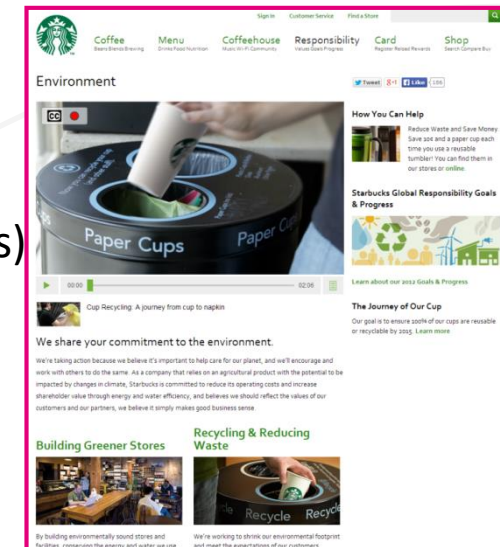
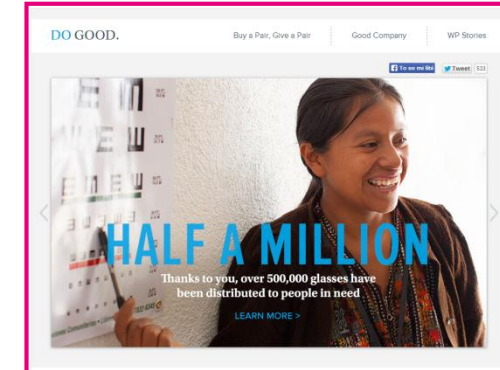
Meeting the needs of the present without compromising the ability of future generations to meet their own needs



References: Kotler, Philip & Armstrong, Gary, Principles of Marketing, 11th ed. Pearson Education Inc, publishing as Prentice Hall, 2006.

The “new marketing myopia” occurs when marketers fail to see the broader societal context of business decision making, sometimes with disastrous results for their organization and society. It stems from three related phenomena: (1) a single-minded focus on the customer to the exclusion of other stakeholders, (2) an overly narrow definition of the customer and his or her needs, and (3) a failure to recognize the changed societal context of business that necessitates addressing multiple stakeholders.

SMITH, N. Craig; DRUMWRIGHT, Minette E.; GENTILE, Mary C. [The new marketing myopia](#). *Journal of Public Policy & Marketing*, 2010, 29.1: 4-11.



Societal Marketing

- The customers accept premium pricing and contribute to CSR
- However, including CSR perspective has become a standard and the customers' expectations are growing
 - Esp. for Gen Y, Z customers, CSR became an integral part of their lives (i.e recycling)
 - CSR is becoming one of the major „product features“ and influences purchase behaviors
- On the other hand, many customers become more skeptical and distrustful to marketing proclamations and are not willing to pay premium for standard ([GFK, 2011 Green Gauge US Report](#)).

55 % of global online consumers across 60 countries say they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact ([Nielsen, 2014](#))

Some of the main factors contributing to consumer purchases of hybrid vehicles are: lower fuel costs; a reduced environmental impact; and the opportunity to use new technology. However, the appeal of each of these factors has been reduced due to improvements in engine efficiency; a change in consumer sentiment; and the commercialization of plug-in vehicles, helping to explain why HEV sales have not met projections. Once seen as being a promising option for car of the future, there is the very real possibility that HEV market share could continue at its low level and even retreat. [Explaining Stagnation in the Hybrid-Electric Vehicle Market](#)

– CSR and product quality – substitutes or complements

If there is a sizable segment of quality-sensitive consumers, a firm selling a high quality product should target this segment with a higher price and a lower level of CSR, while a firm selling a lower quality product should address the broader market with a lower price and a higher level of CSR investment. CSR acts as a substitute for product quality as a strategic decision of firms – even when there is a positive relationship between CSR and product quality preferences at the consumer level. The optimal commitment to CSR may vary depending on other elements of firm strategy such as pricing and product quality as well as market characteristics such as market composition, competition and product differentiation.

Banerjee, S., & Wathieu, L. (2017). Corporate social responsibility and product quality: Complements or substitutes?. *International Journal of Research in Marketing*, 34(3), 734-745.

Societal Marketing

— CFP (company financial performance)–CSR relation remains unclear

...the direction of causation remains an open question. That is, good CSP could cause good CFP, but good CFP could provide slack resources to spend on CSP. As the Economist wrote, '...whether profitable companies feel rich enough to splash out on CSR, or CSR [activity itself] brings profits.' (BARON, David P.; AGUS HARJOTO, Maretno; JO, Hoje. *The economics and politics of corporate social performance. Business and Politics*, 2011, 13.2.)

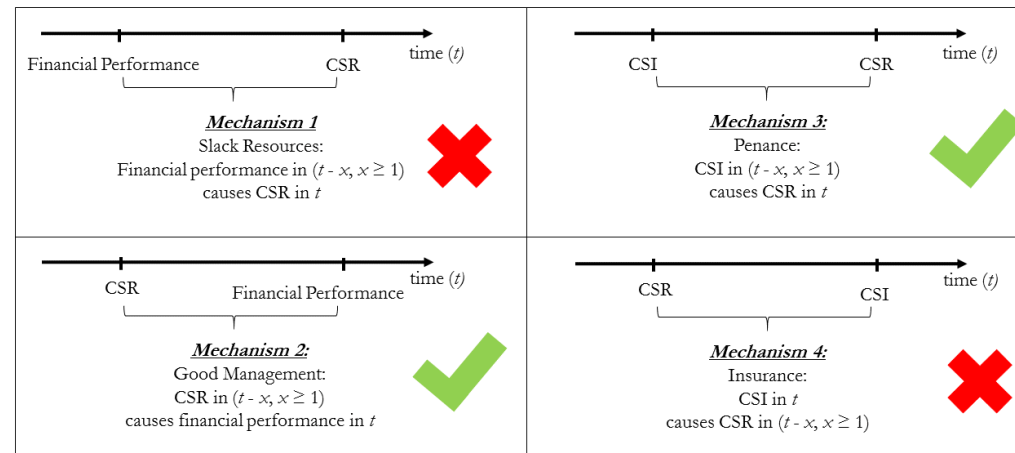
All else equal, 'doing good' leads to 'doing well'. However, using 'doing good' to offset 'doing bad' does not pay off financially. In support of the good management mechanism, we find that firms that engage in CSR are likely to benefit financially from their CSR investment. Moreover, we do not find support for the slack resources or the insurance mechanism. In contrast, and in support of the penance mechanism, often firm's CSR seems to trail their CSI. However, our results also suggest that the penance mechanism is ineffective at offsetting negative performance effects due to CSI.

Kang, C., Germann, F., & Grewal, R. (2016). Washing away your sins? Corporate social responsibility, corporate social irresponsibility, and firm performance. *Journal of Marketing*, 80(2), 51–66

For instance, managing environmental impact is a very important element of business strategy for firms in the fossil fuel or transportation industries. Less so for financial institutions or healthcare companies. In contrast, fair marketing and advertising of products are very important for companies in these sectors.

[The Type of Socially Responsible Investments That Make Firms More Profitable](#)

THE FOUR MECHANISMS



In support of the **good management mechanism**, firms can expect to benefit financially from engaging in Corporate Social Responsibility (CSR). However, in support of the **penance mechanism**, many firms engage in CSR to offset their past Corporate Social Irresponsibility (CSI), and these firms likely won't benefit financially from their CSR.

It may depend in what field the company performs its CSR

What if company CSR focuses on other domain/field than CSI (Corporate social irresponsibility)?

We then make a conceptual differentiation between distinct CSR approaches when CSI occurs: same domain CSR (SD-CSR) and other domain CSR (ODCSR). All else equal, the results show that SD-CSR has no effect on firm value, but OD-CSR significantly enhances firm value

Lenz, I., Wetzel, H. A., & Hammerschmidt, M. (2017). Can doing good lead to doing poorly? Firm value implications of CSR in the face of CSI. *Journal of the Academy of Marketing Science*, 1-21.

Societal Marketing

- CSR should not be limited just to PR proclamations and reporting or to rank well in various CSR rankings

The N100 (100 largest companies in 41 countries) global average reporting rate has increased from 64 % in 2013. Almost all G250 (world's largest 250 companies) report on CR. 9/10 use their reports to identify environmental changes that impact the business and its stakeholders. 8/10 report they have a strategy to manage the risks and opportunities. 7/10 report that these changes bring opportunities for the innovation of new products and services ([The KPMG Survey of Corporate Responsibility Reporting 2017](#))

- CSR doesn't mean just limitations, additional costs – it can be perceived as an opportunity to find new sources of competitive advantage or expenditure savings

Coca-Cola recently started a program to empower young women entrepreneurs. The 5x20 program aims to bring 5 million women in the developing world into its business by 2020 as local bottlers and distributors of Coca-Cola products. Investment in women can have a multiplier effect that leads not only to increased revenues and more workers for businesses, but also to better-educated, healthier families and more prosperous communities. Walmart's social responsibility policy is encompassed by three goals: to be fully supplied by renewable energy, to create zero waste and to sell products that sustain people and the environment. These are lofty targets — and if achieved, ones that ultimately save the company a great deal of money. ([Why Companies Can No Longer Afford to Ignore Their Social Responsibilities](#))

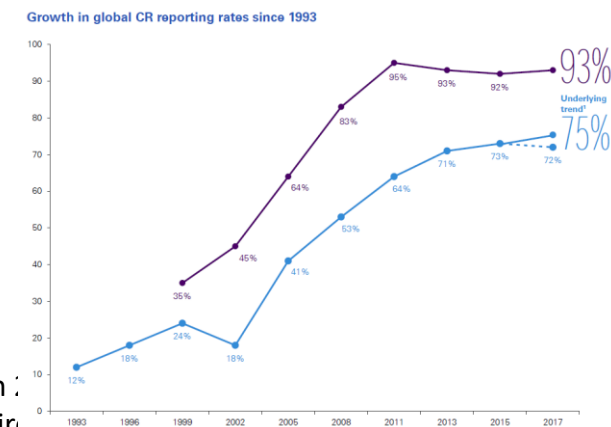
- Společnosti ale často neumí na CSR vydělat, absentuje strategický pohled, často nedokáží zákazníky přesvědčit, že dělají hodnotné CSR.

5% of companies are seen as delivering on these promises. And when you spend on average \$ 50-100million a year that's a poor ROI.

Consumers are likely to be especially brand loyal if their deeply-held values are engaged in their purchasing. Consumer engagement and commitment is priceless: ethical brands are more likely to encourage this engagement. [Ethical Consumerism Isn't Dead, It Just Needs Better Marketing](#)

- No need to “save the world” the company should contribute in its field and within its main activities

[ČEZ foundation](#) finances kids playgrounds, equips elementary schools with technologies. Even though such activities are definitely desirable and contribute to society, it is rather “generic” CSR which can be sold in CSR reports and in media. As a major player in power industry, the company should focus more on efficient technologies, renewable resources or landscape restoration ([company does as well](#))



Societal Marketing

Most companies have long practiced some form of corporate social and environmental responsibility with the broad goal, simply, of contributing to the well-being of the communities and society they affect and on which they depend. But there is increasing pressure to dress up CSR as a business discipline and demand that every initiative deliver business results. That is asking too much of CSR and distracts from what must be its main goal: to align a company's social and environmental activities with its business purpose and values. If in doing so CSR activities mitigate risks, enhance reputation, and contribute to business results, that is all to the good. But for many CSR programs, those outcomes should be a spillover, not their reason for being.

Recommended reading: RANGAN, Kasturi, CHASE, Lisa, KARIM, Sohel. [The Truth About CSR](#) Harvard Business Review 1/2015

Most companies practice a multifaceted version of CSR that runs the gamut from pure philanthropy to environmental sustainability to the active pursuit of shared value. Moreover, well-managed companies seem less interested in totally integrating CSR with their business strategies and goals than in devising a cogent CSR program aligned with the company's purpose and values. To maximize their positive impact on the social and environmental systems in which they operate, companies must develop coherent CSR strategies.



Recommended reading: PORTER, Michael E., KRAMER, Mark R. [Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility](#). Harvard Business Review 12/2006

THE PROBLEM

Many companies' CSR initiatives are disparate and uncoordinated, run by a variety of managers without the active engagement of the CEO. Such firms cannot maximize their positive impact on the social and environmental systems in which they operate.

THE SOLUTION

Firms must develop coherent CSR strategies, with activities typically divided among three theaters of practice. Theater one focuses on philanthropy, theater two on improving operational effectiveness, and theater three on transforming the business model to create shared value.

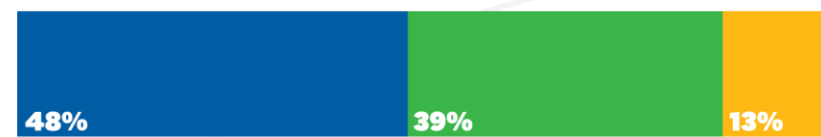
THE STEPS

Companies must prune existing programs in each theater to align them with the firm's purpose and values; develop ways of measuring initiatives' success; coordinate programs across theaters; and create an interdisciplinary management team to drive CSR strategy.

NUMBER OF RESPONDENTS 142

INDUSTRIES REPRESENTED Manufacturing, consumer packaged goods, extractive minerals, financial services, media, telecommunications, and others

NUMBER OF CSR PROGRAMS UNDER WAY IN THE RESPONDENTS' FIRMS 1,072



BENEFITS

Percent of respondents who identified the following as top benefits of their firms' CSR initiatives:

THEATER 1

PHILANTHROPY

Improves company's social standing: **84%**

Supports company's philanthropic priorities: **77%**

Increases employee motivation: **67%**

THEATER 2

OPERATIONAL IMPROVEMENTS

Improves company's social standing: **94%**

Improves company's environmental impact: **62%**

Protects resources on which the company depends: **58%**

THEATER 3

BUSINESS-MODEL TRANSFORMATION

Creates an important solution to a social/environmental problem: **89%**

Promises long-term gains: **82%**

Addresses senior management's social/environmental mission: **82%**

BUSINESS IMPACTS

Percent of respondents who identified the following as impacts (THEATER 1 and THEATER 2) or anticipated impacts (THEATER 3) of their firms' CSR initiatives:

Increased revenue: **13%**

Increased costs: **41%**

Increased revenue: **32%**

Reduced costs: **32%**

Increased costs: **35%**

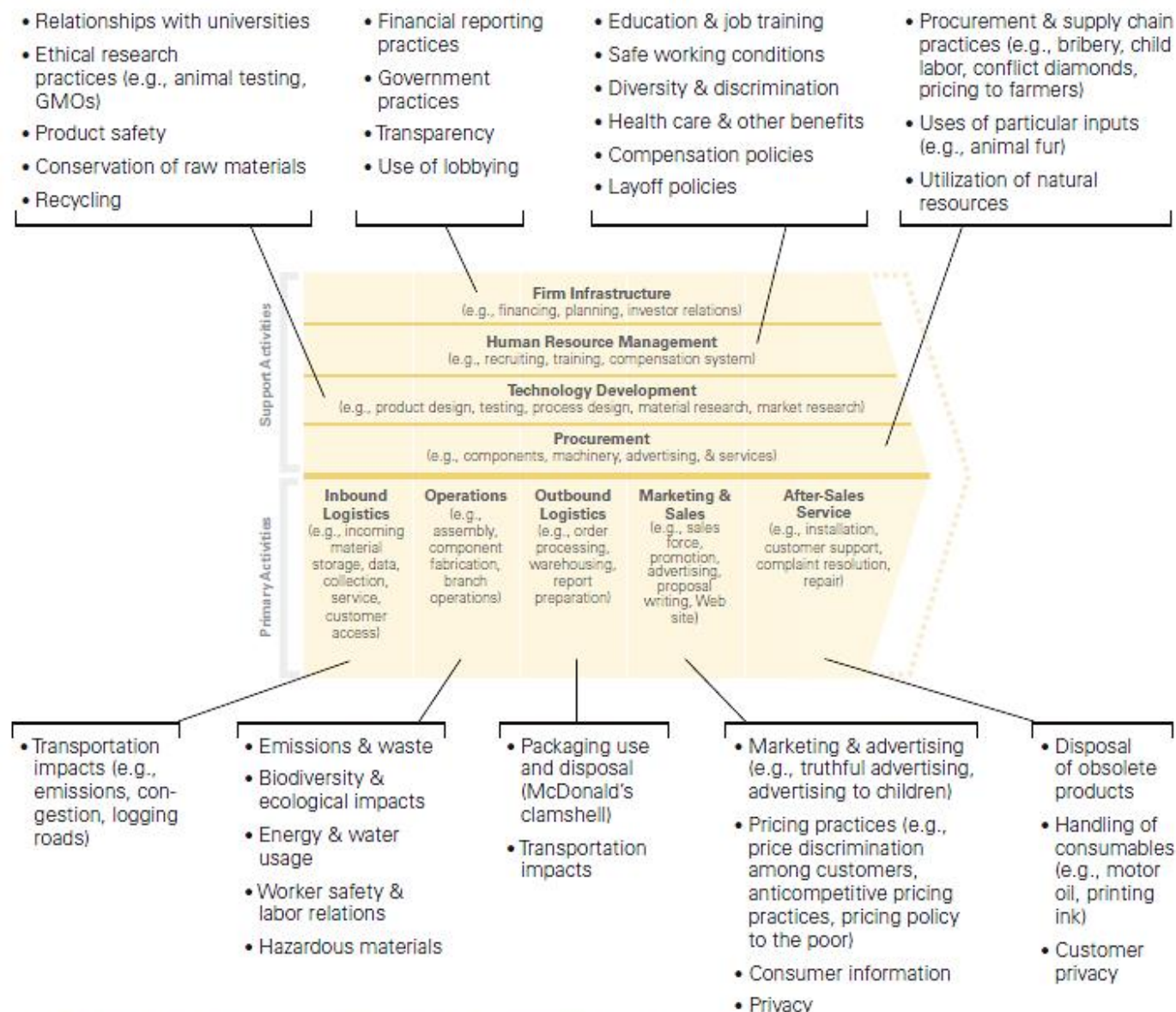
Increased revenue: **31%**

Reduced costs: **35%**

Increased costs: **36%**

Societal Marketing

- Inside-out perspective

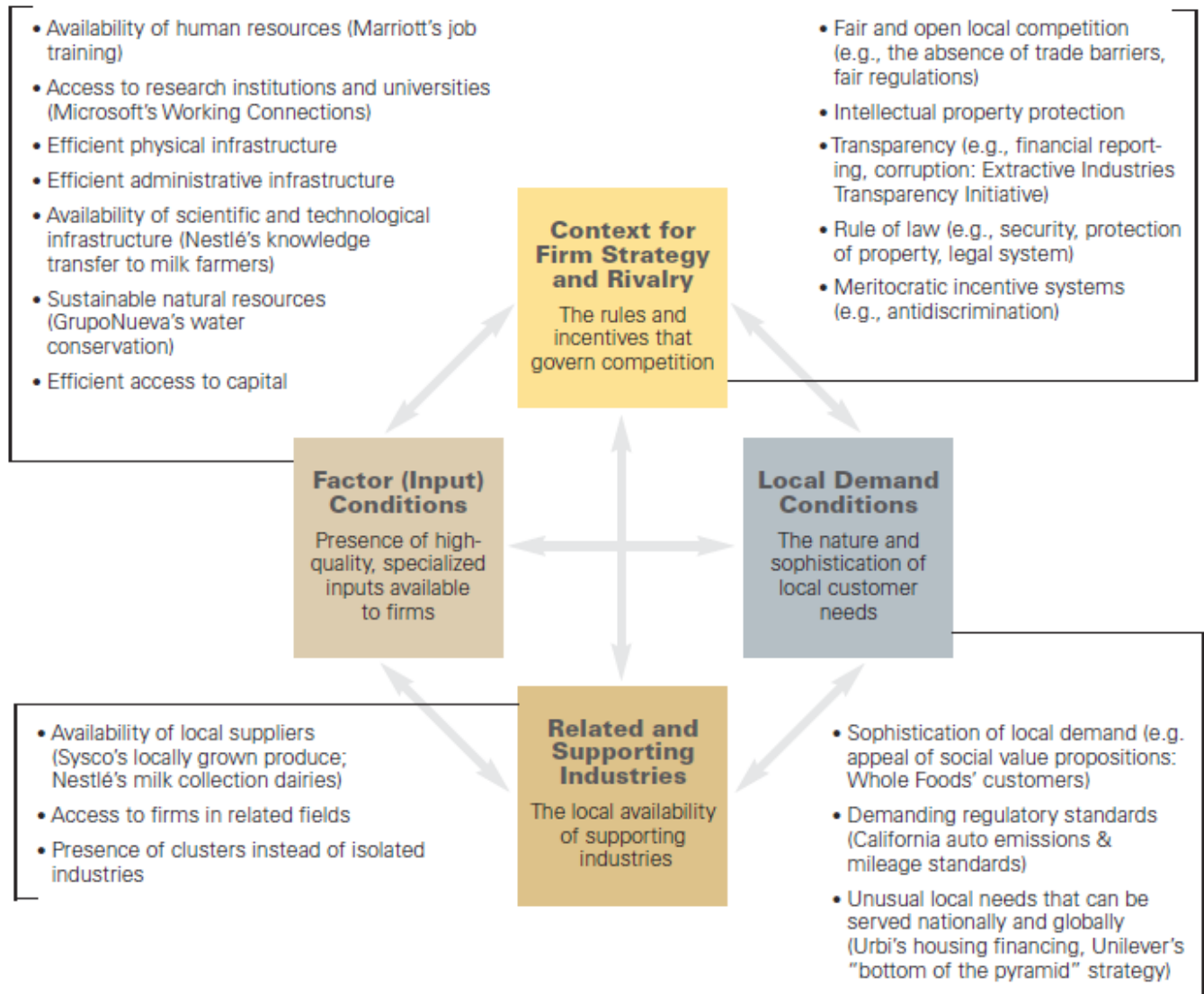


Source: Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985

- CSR mingles across the whole value chain
- Since the value chain should include all activities and processes that participate in value delivery, it could be used to identify either positive or negative impacts of such processes and activities

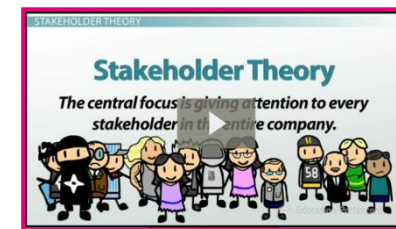
Societal Marketing

- Outside-in perspective



Source: Michael E. Porter, *The Competitive Advantage of Nations*, 1990

- Besides the inside-in perspective, the company has to analyze the surrounding environment/context – societal conditions, infrastructure, law and regulations, ...
- These aspects influence CSR as well (relation to [external analysis](#))



Societal Marketing

- CSR reporting soon becomes is required for some types of businesses in EU
- In certain countries, spending on CSR is mandatory (i.e. in India, 2 %)
- In Czech Republic, companies spend on CSR 2–4 % of their profits (in average), in Western Europe or US often more than 10 % (Události ČT, 3. 2. 2015)
- There are also critical voices on CSR

Recommended reading: SMITH, H. Jeff The Shareholders vs. Stakeholders Debate. MIT Sloan Management Review, Summer 2003

Most managers believe that there is a critical trade-off between serving customers and shareholders. The present study demonstrates that creating value for customers and shareholders are not two completely distinct goals, as the business press and managers fear; innovation can create value for shareholders by satisfying customers. However, results also indicate that a crucial trade-off between satisfying consumers and creating value for investors is indeed present, as those same factors (i.e., firm's branding strategy and level of market dominance, industry-level competitive intensity) that enhance the effects of innovation on customer satisfaction depress the effects of innovation on firm value, and vice versa.

Rubera, G., & Kirca, A. H. (2017). You gotta serve somebody: the effects of firm innovation on customer satisfaction and firm value. *Journal of the Academy of Marketing Science*, 1-21.

Creating Shared Value

• CSV – Creating Shared Value

- companies often perceived as prospering at the expense of the community
- CSV defines markets a not just by conventional economic needs but by societal needs

We believe that CSR is a different—if overlapping—concept from creating shared value. Corporate social responsibility is widely perceived as a cost center, not a profit center. In contrast, shared value creation is about new business opportunities that create new markets, improve profitability and strengthen competitive positioning. CSR is about responsibility; CSV is about creating value.

- CSR perceived just as a tool how to improve reputation, reducing risks, philanthropy, not aligned with profit maximization; driven by external stakeholders
- CSV –create competitive advantage through creating shared value for both company and the community; creating new business opportunities, aims to create large-scale sustainable changes in the society

CSR is fundamentally about taking resources from the business, and investing those resources in being a good corporate citizen: recycling, giving money to social causes, reporting on social and environmental impacts, and engaging employees in community works.

Shared Value is aimed at changing how the core business operates—strategy, structure, people, processes and rewards—in order to deliver triple bottom line returns.

The fundamental distinction is that CSR is about doing something separate from the business and CSV is about integrating social and environmental impact into the business, using that integration to drive economic value.

[CSR and CSV: What's the Difference?](#)

	CSR	CSV
Motivation	Corporate reputation and license to operate	Competitive advantage
Driver	External Stakeholders	Corporate Strategy
Measurement	Spending	Social and economic value created
Management	CSR Departments	Across the whole company
Social Benefit	Successful projects	Large-scale sustainable change
Business Benefit	Risk reduction and Goodwill	New Business Opportunities

Corporate Social Responsibility (CSR)	Creating Shared Value (CSV)
<ul style="list-style-type: none"> • Corporate values and corporate citizenship • Corporate philanthropy: sharing money the company has already made • Contributions-in-kind, pro-bono service and volunteerism: sharing the company's products, expertise, talent and time • Corporate sustainability • Cause related marketing • Compliance with community, national and international standards • Reputation management • Employee recruitment & retention • Risk management; changing business practices in response to external pressure • Typically led by CSR, Marketing, Corporate Communications, External/Public/Government Affairs, Community Relations, Sustainability and Foundation departments 	<ul style="list-style-type: none"> • Design new products and services that meet social and environmental needs while simultaneously delivering a financial return • Access new markets • Reconfigure and secure the value chain by tapping new or better resources and partners to improve productivity • Improve the capabilities (skills, knowledge, productivity) of suppliers • Create local clusters to strengthen and capture economic and social benefits at the community level • Deploy corporate assets to achieve scale and spur investment • Typically led by CEO, senior executive team and individual champions across the company in close collaboration with corporate affairs and sustainability departments

Creating Shared Value

- Examples

Nielsen Helps to Map the Meal Gap: Nielsen, a global information and measurement company, recently teamed up with Feeding America on a pro bono project to provide data for the Map the Meal Gap report—a landmark study that arms food banks with information to advocate for funding and public awareness about hunger. Not only did this project have large-scale social impact, it helped the company cement its brand as a corporate citizen, and improved employees' skills and engagement levels.

FedEx: When Hurricane Sandy pulverized parts of the East Coast in 2012, FedEx answered the call to serve by providing \$1.5 million in aid, and by delivering almost four million pounds of relief aid for agencies such as the American Red Cross, Heart to Heart International, Direct Relief and The Salvation Army. FedEx volunteers delivered everything from meals and clothing to water and medical supplies. They provided logistical expertise to deliver more than 85 generators to LaGuardia Airport, police stations and even polling stations to help residents vote during the 2012 presidential elections. As a result of that effort and the company's broader community engagement program, FedEx has seen a boost to employee satisfaction, loyalty, leadership development, and brand value.

Novartis: They saw a shared value opportunity in selling their pharmaceuticals in rural India, where 70% of the population lives. The obstacle was not the prices they charged but the social conditions in the region: a chronic lack of health-seeking behaviour in the community, healthcare providers with virtually no healthcare training, and tens of thousands of local clinics without a reliable supply chain. Looking through a shared value lens, Novartis saw these social problems as business opportunities: they hired hundreds of community health educators, held training camps for providers, and built up a distribution system to 50,000 rural clinics

Southwire: a US company that manufactures wire and cable in a small town in Georgia. Their machinists were retiring and the local high school, burdened by a 40% dropout rate, wasn't producing the workforce they needed. So Southwire partnered with the school, opened a factory nearby to employ the most at-risk students, part-time, using attractive wages as an incentive, and mentored their academic performance. Nearly 100% of the students in the Southwire program completed high school, and 1/3 went on to become Southwire employees. And, by the way, that factory near the school generates a million dollar annual profit.

[Better ways of doing business: Creating Shared Value](#), [Examples of Shared Value in Action](#)

Holistic Marketing

- Highest level, develop and maintain multiple perspectives on the company's commercial activities



A holistic marketing concept is based on the development, design and implementation of marketing programs, processes and activities that recognize the breadth and interdependencies. Holistic marketing recognizes that 'everything matters' with marketing and that a broad, integrated perspective is necessary to attain the best solution

KOTLER, P., KELLER, K.L. (2012) *Marketing Management*. 14th ed. Pearson

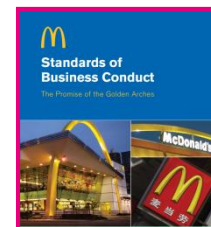
High performers excelled in their ability to leverage customer insight, communicate a societal purpose, and deliver a rich customer experience. They also demonstrated superior cross-functional collaboration, strategic focus, organizational agility, and training. New, fluid organizational structures facilitate these capabilities.

Marketing has become too important to be left just to the marketers. All employees, from store clerks to IT specialists, must be engaged in it.

Recommended reading: SWAAN ARONS, Marc, DRIEST, Frank, WEED, Keith. [The Ultimate Marketing Machine](#). Harvard Business Review 7/2014

Holistic Marketing

- Includes Internal marketing – all employees are familiar with what the company stands for, better customer and sales support, better value delivery; align every aspect of internal operations to better provide value to customers



R&D	Sales
Spend time meeting customers and listening to their problems.	Have specialized knowledge of the customer's industry.
Welcome the involvement of marketing, manufacturing, and other departments to each new project.	Strive to give the customer "the best solution."
Benchmark competitors' products and seek "best of class" solutions.	Make only promises that they can keep.
Solicit customer reactions and suggestions as the project progresses.	Feed back customers' needs and ideas to those in charge of product development.
Continuously improve and refine the product on the basis of market feedback.	Serve the same customers for a long period of time.
Purchasing	Logistics
Proactively search for the best suppliers.	Set a high standard for service delivery time and meet this standard consistently.
Build long-term relationships with fewer but more reliable, high-quality suppliers.	Operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.
Don't compromise quality for price savings.	
Manufacturing	Accounting
Invite customers to visit and tour their plants.	Prepare periodic "profitability" reports by product, market segment, geographic areas (regions, sales territories), order sizes, channels, and individual customers.
Visit customer plants.	Prepare invoices tailored to customer needs and answer customer queries courteously and quickly.
Willingly work overtime to meet promised delivery schedules.	
Continuously search for ways to produce goods faster and/or at lower cost.	
Continuously improve product quality, aiming for zero defects.	
Meet customer requirements for "customization" where possible.	
Marketing	Finance
Study customer needs and wants in well-defined market segments.	Understand and support marketing expenditures (e.g., image advertising) that produce long-term customer preference and loyalty.
Study customer needs and wants in well-defined market segments.	Tailor the financial package to the customer's financial requirements.
Allocate marketing effort in relation to the long-run profit potential of the targeted segments.	Make quick decisions on customer creditworthiness.
Develop winning offers for each target segment.	
Measure company image and customer satisfaction on a continuous basis.	Public Relations
Continuously gather and evaluate ideas for new products, product improvements, and services.	Send out favorable news about the company and "damage control" unfavorable news.
Urge all company departments and employees to be customer centered.	Act as an internal customer and public advocate for better company policies and practices.
	Source: KOTLER, P., KELLER, K.L. (2012) <i>Marketing Management</i> . 14 th ed. Pearson

Holistic Marketing

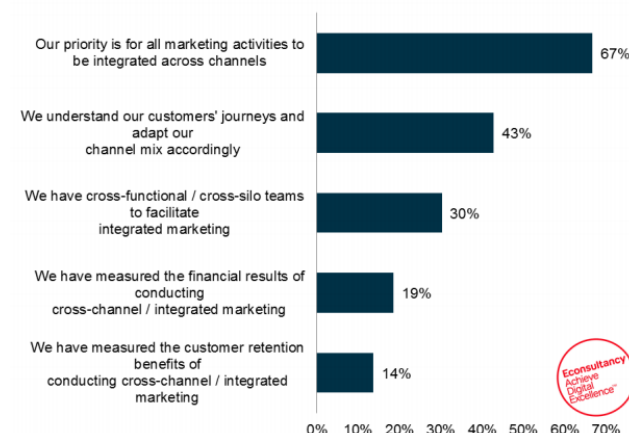
- Includes Integrated marketing – all marketing efforts – across television, radio, print, Internet, and in person – are presented in a similar style that reinforces ultimate message



Integrated Marketing Remains The Holy Grail For Marketers And Consumers

Company respondents

Figure 1: Cross-channel marketing capabilities



Cross-Channel Marketing Report 2014

Advertising



Heineken Sensation



Heineken SpySight



Heineken Store Amsterdam



Heineken Interactive Bottle



Heineken Departure Roulette



5 Inspiring Examples of Integrated Marketing Campaigns

5 Killer Integrated Marketing Cases To Draw Instant Inspiration From



Holistic Marketing

- Includes Relationship marketing – building long-term satisfying relations with key partners – customers, suppliers, distributors, in a broader perspective all stakeholders
 - Focus on partners and customers rather than on the company's products
 - Emphasis on customer retention and growth than on customer acquisition
 - Building marketing network
 - Mingles through all elements of marketing mix
 - Products are customized to the customers' preferences, developed and designed cooperatively with suppliers and distributors
 - Price based on the relationship with the customer and the bundle of features and services ordered by the customer (individual pricing, bundling)
 - Direct marketing to the customer, reducing the role of intermediaries; customers choose the way they want to order, pay for, receive, install, or even repair the product
 - Individual communication and dialogue with customers; integrated marketing communications, exchange of information with partners, building marketing network
 - Customer relationship management, loyalty programmes, data-mining, ...

We have discovered that one of the most useful dimensions was just to calculate net ratio of all clients deposits to his obligations... This allowed us to identify customers with high deposits (named them Investors) and to discover clients with high loans/obligations. Both groups are valuable to our company

[Segmentation of 5 million Česka spořitelna customers](#)

Starting May 8, Apple will begin contacting those who are eligible for an iPhone upgrade by email. This means if you're using an older model, such as an iPhone 4, 4s, or 5, you might get a promotional email from Apple this week encouraging you to upgrade to a 5s or 5c.

[Apple Plans To Boost iPhone Sales With A Big Promotion That'll Entice You To Upgrade](#)



Holistic Marketing

- The relationship between customers and company can be influenced (not only) by the nature of products or customers characteristics
 - Company should discover the nature of its relation with customers to respond appropriately



One of the aims of the scheme is to use the data collected from customers to ensure they're sent relevant offers and Subway knows the best channel to communicate with them. "We have to make sure all offers are relevant," said Shetal. "We won't send an offer for a bacon and cheese sub to a vegetarian customer. It's complicated and expensive to do, but worth it." The focus is on segmenting offers and not over saturating customers, "they don't want constant messages." [Subway Reveals How it Used its Loyalty Scheme to Increase Purchases](#)

Recommended reading: AVERY, Jill, FOURNIER, Susan, WITTENBRAKER, John. [Unlock the Mysteries of Your Customer Relationships](#). Harvard Business Review 7/2014

Basic Exchange <p>The customer enters the relationship to obtain a good product or service at a fair price. The customer is looking for dependability and doesn't want to have to think or do too much.</p> <p>EXAMPLE A loyal customer sticks with a toothpaste brand.</p>	Business Partners <p>The customer wants to work with the company as a valued and reliable partner to solve problems over the long term.</p> <p>EXAMPLE A customer of a grocery delivery service provides a stream of sensible suggestions for improving service, and the company follows up on the ideas.</p>	Fling <p>The customer wants to experiment with a new identity. He or she expects the company to provide excitement, fuel his or her passion during every interaction, and not encourage reflection or rational thinking about purchases.</p> <p>EXAMPLE A customer of a watch company delights in—and purchases—a steady stream of new models with dazzling designs.</p>
Best Friends <p>The customer is looking for intimacy and emotional support. He or she wants a two-way flow of honest communication and expects that the company won't disclose personal information or take advantage of his or her vulnerability.</p> <p>EXAMPLE A retail customer expects to be notified in advance of changes in operations or prices, or of other relevant business decisions, and the customer offers loyalty and understanding in return.</p>	Buddies <p>The customer is looking for sustained interaction but doesn't want a close or emotional relationship. He or she expects that the company will not make demands or limit his or her freedom to associate with others.</p> <p>EXAMPLE A beer lover wants to choose from a large selection of brews to suit different occasions and resists individual brands' efforts to win his loyalty.</p>	Master-Slave <p>The customer enters this type of relationship to intensify feelings of self-worth. He or she demands that the company listen, anticipate his or her every need, satisfy every demand, and not ask questions.</p> <p>EXAMPLE An online retail customer cuts off her relationship after a series of small service infractions that signal disrespect.</p>

Holistic Marketing

- Relationship marketing has developed together with spread of new technologies and e-commerce
 - Individual communication and dialogue, product customization, price adjustments, ...

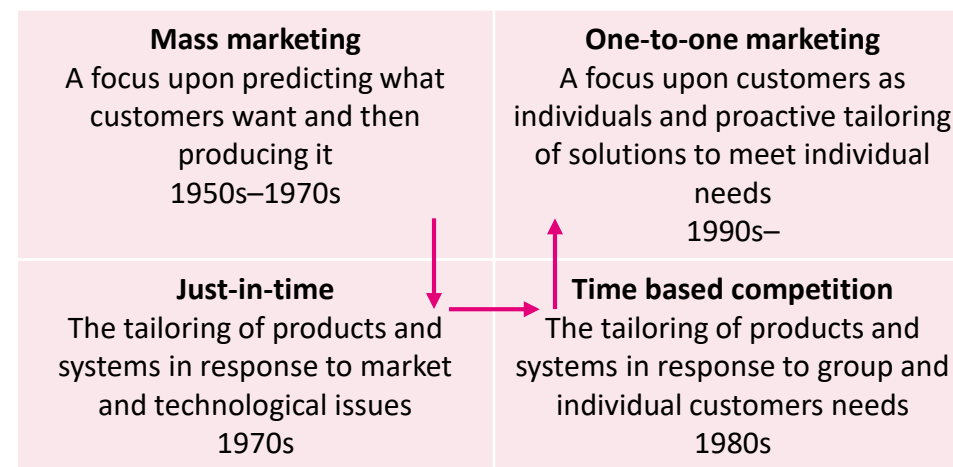


Table 1.2 Marketing's four paradigms: the shift from mass marketing to electronic marketing

	Mass marketing (traditional paradigm)	Target marketing (transitional paradigm)	Customer marketing (the new paradigm)	Electronic marketing (the emerging paradigm)
Key characteristics	Mass selling	Marketing segmentation	A focus upon key customers and database management	The Internet
Underlying assumptions and approaches	<ul style="list-style-type: none"> Consumers are satisfied with a standard product Resellers are used to reach the consumer Heavy advertisers will be successful 	<ul style="list-style-type: none"> Markets consist of distinct and definable groups Success is gained from clear customer targeting and the development of a strong position within particular segments Targeting can be achieved through market analysis 	<ul style="list-style-type: none"> Databases enable organizations to store and interrogate customer information to provide insight Performance is improved by focusing on individual's needs The costs of customization are reducing all the time Technology now allows for direct marketing 	<ul style="list-style-type: none"> Customer are more demanding, more discriminating and less loyal; they demand more information and are capable of processing this effectively Buyers want 24-hour access to develop a dialogue Markets are increasingly global in their nature
Weaknesses and failings	<ul style="list-style-type: none"> A lack of focus and the subsequent waste of resources It ignores the demand for individual responses 	<ul style="list-style-type: none"> Large and profitable segments attract numerous players Customers shift from one segment to another and may belong to contradictory segments Segments may be illusory Some financial services organizations 	<ul style="list-style-type: none"> 'Databases' are often just lists of names and addresses rather than detailed customer profiles Database management and database mining skills are often more limited than is needed 	<ul style="list-style-type: none"> Customers may be concerned about security

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Strategy and Business Model

What is Strategy

- from Ancient Greek *stratēgia* “office of general, command, generalship”), from *stratēgós* “leader/commander of an army” from *stratós* “army” + *ágō*, “I lead, I conduct”

Strategic positioning means performing *different* activities from rivals’ or performing similar activities in *different* ways. The essence of strategy is choosing to perform activities differently than rivals do. Strategy is the creation of a unique and valuable position, involving a different set of activities.

Recommended reading: PORTER, Michael E. [What Is Strategy?](#) Harvard Business Review 11/1996

- Types of strategic actions/moves

- Antagonistic

- Eliminate the enemy, antagonism, fight without rules

- *Analogical to: military campaign*

- Competitive

- Become better, succeed in competition fight within the rules

- *Analogical to: sport*

- confused

- Confuse and outsmart opponents, bluffing

- *Analogical to: poker game*



孙子兵法



Strategy defines

1. What is our business?
2. Who is the customer?
3. What is value to the customer?
4. What will our business be?
5. What should it be?

DRUCKER, P. F. (1954). *The practice of management*. New York: Harper & Brothers

Strategic planning is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback.

DRUCKER, Peter (2012). *Management*. Routledge

What is Strategy

- Typical decisions when formulating a strategy
 - Market/Industry entry
 - Leaving market/industry
 - Resources allocation
 - Expansion – acquisitions, fusions, joint-ventures, foreign markets
 - Diversification
 - Defense against competitors' attacks or acquisitions
 - ...

Companies have a unique strategy when (1) they have defined a clear target market and need, (2) developed a distinctive and winning value proposition for that market, and (3) arranged a distinctive supply network to deliver the value proposition to the target market.

KOTLER, Philip (2011). *Marketing insights from A to Z: 80 concepts every manager needs to know*. John Wiley & Sons

- Strategy taxonomies in marketing, according to – i.e. elements of marketing mix (product, pricing, promotion, distribution strategy); market trends (strategies for growth, harvesting); competition (cooperative, offensive, defensive); according to industry/product life cycle stages; targeting (undifferentiated, differentiated, concentrated); objectives (growth, defense, divest); ...

49 % of B2B companies doesn't have marketing goals & objectives specified, Marketing department is not involved on strategy formulation in 41 % B2B companies and 43 % of companies allocates less than 0,5 % of their turnover

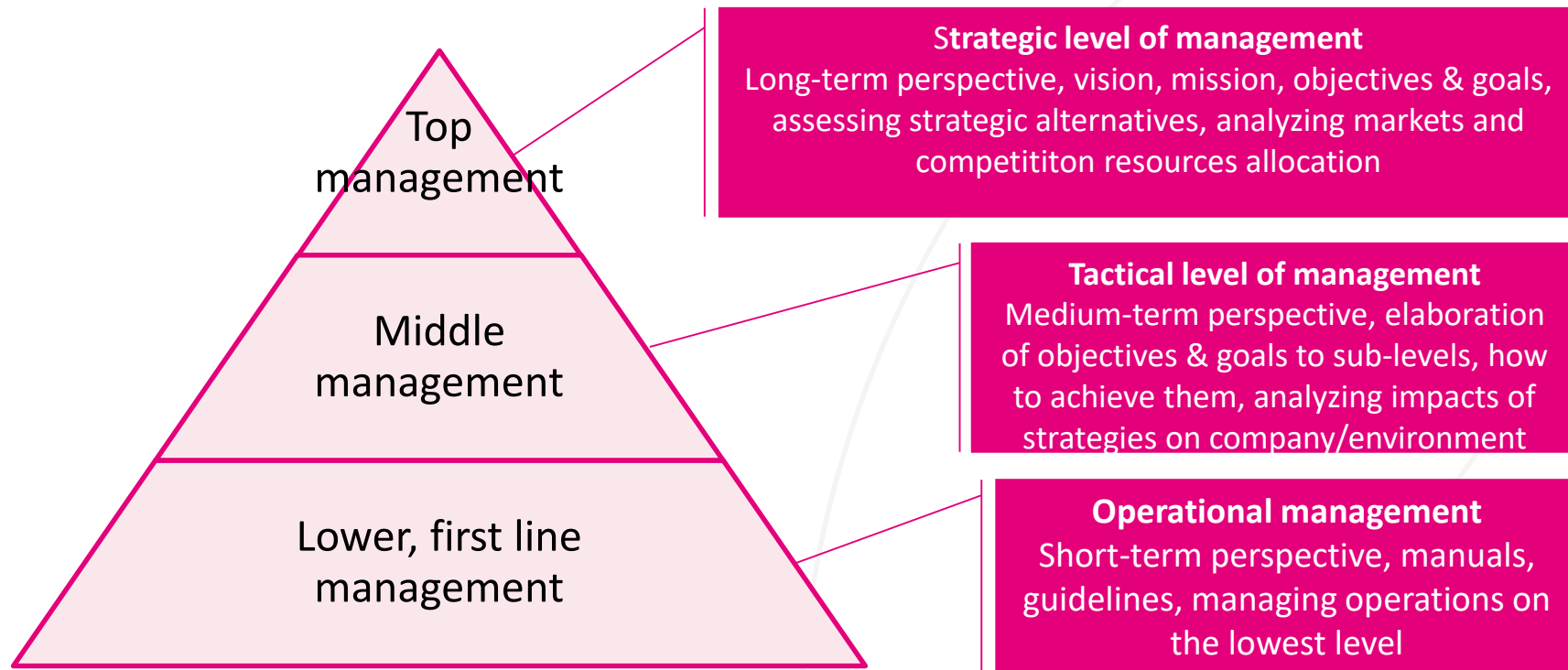
SOUKUP, T. Polovina B2B firem marketing prakticky nedělá. *MARKETING SALES MEDIA*. roč. 2013, č. 4, s. 28.

What is Strategy

- Characteristics of strategy:

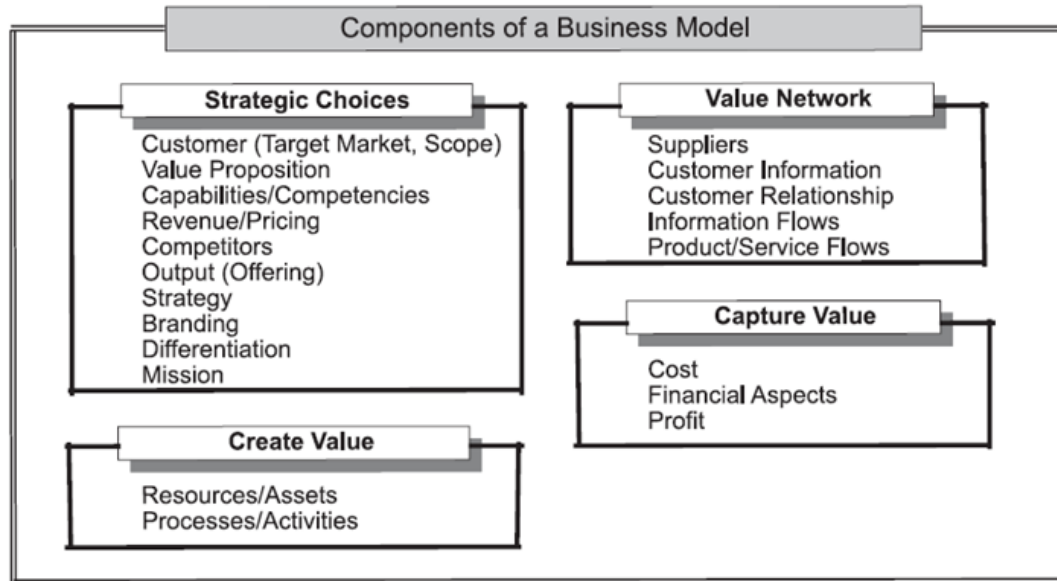
- Focus on the future
- Focus on outputs/results, goal achievement
- Succeed in competition, better exploit opportunities, achieve benefits or advantages
- Contingency and variability

On which level of marketing are marketing strategies being formulated?



Strategy × Business Model

- Strategy is not Business model
- Business model reflects strategy and develops it in to further levels



A business model isn't the same thing as a strategy, even though many people use the terms interchangeably today. Business models describe, as a system, how the pieces of a business fit together. But they don't factor in one critical dimension of performance: competition. Sooner or later—and it is usually sooner—every enterprise runs into competitors. Dealing with that reality is strategy's job.

SHAFER, Scott M.; SMITH, H. Jeff; LINDER, Jane C. [The power of business models](#). *Business horizons*, 2005, 48.3: 199-207.

- Strategic choices – decisions about markets, targeted customer segments, pricing, product differentiation,
- Creating value – structure of resources/processes, alignment of resources and structure, how the resources are being transformed into desired outputs
- Capturing value – how the value for customers is being transformed into value for company (shareholders), financial aspects
- Value network – includes partners participating in creating the value. Extends the perspective of company's resources. Role of the company in value network determines business model

Strategy × Business Model

A business model isn't the same thing as a strategy, even though many people use the terms interchangeably today. Business models describe, as a system, how the pieces of a business fit together. But they don't factor in one critical dimension of performance: competition. Sooner or later—and it is usually sooner—every enterprise runs into competitors. Dealing with that reality is strategy's job.

To see the distinction between a strategy and a business model, you need only look at Wal-Mart. You might think that the giant retailer's success was a result of pioneering a new business model, but that's not the case. When Sam Walton opened his first Wal-Mart in 1962 in the hamlet of Rogers, Arkansas, the discount-retailing business model had been around for a few years. It had emerged in the mid-1950s.

Walton heard about the new discount stores, visited a few, and liked their potential. In 1962, he decided to set out on his own, borrowing a lot of ideas for his early stores from Kmart and others. But it was what he chose to do differently—the ways he put his own stamp on the basic business model—that made Wal-Mart so fabulously successful. His model was the same as Kmart's, but his strategy was unique.

From the very start, for instance, Walton chose to serve a different group of customers in a different set of markets. The ten largest discounters in 1962, all gone today, focused on large metropolitan areas and cities like New York. Wal-Mart's "key strategy," in Walton's own words, "was to put good-sized stores into little one-horse towns which everybody else was ignoring."³ He sought out isolated rural towns, like Rogers, with populations between 5,000 and 25,000. Being a small-town guy himself, Walton knew the terrain well. The nearest city was probably a four-hour drive away. He rightly bet that if his stores could match or beat the city prices, "people would shop at home." And since Wal-Mart's markets tended to be too small to support more than one large retailer, Walton was able to preempt competitors and discourage them from entering Wal-Mart's territory.

Recommended reading: MAGRETTA, Joan. [Why Business Models Matter](#). Harvard Business Review 5/2002

Walmart



Business model in time

Recommended reading: RICART, Joan E.; CASADESUS-MASANELL, R. How to [Design A Winning Business Model](#). *Harvard Business Review*, 1-2/2011

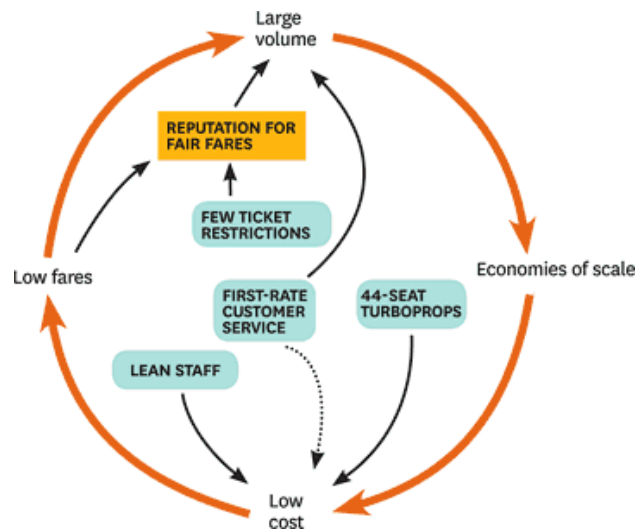
Strategy has been the primary building block of competitiveness over the past three decades, but in the future, the quest for sustainable advantage may well begin with the business model. While the convergence of information and communication technologies in the 1990s resulted in a short-lived fascination with business models, forces such as deregulation, technological change, globalization, and sustainability have rekindled interest in the concept today. Since 2006, the IBM Institute for Business Value's biannual Global CEO Study has reported that senior executives across industries regard developing innovative business models as a major priority. A 2009 follow-up study reveals that seven out of 10 companies are engaging in business-model innovation, and an incredible 98% are modifying their business models to some extent. Business model innovation is undoubtedly here to stay.

- Business model continually evolves
 - The innovation comes in cycles

RYANAIR'S KEY VIRTUOUS CYCLES

CYCLE 1 Low fares >> High volumes >> Greater bargaining power with suppliers >> Lower fixed costs >> Even lower fares
CYCLE 2 Low fares >> High volumes >> High aircraft utilization >> Low fixed cost per passenger >> Even lower fares
CYCLE 3 Low fares >> Expectations of low-quality service >> No meals offered >> Low variable costs >> Even lower fares

This depiction of Ryanair's business model in the 1980s highlights the airline's major choices at the time: offering excellent service and operating with a standardized fleet. The airline was forced to redesign its business model in the face of stiff competition.



There has never been as much interest in business models as there is today; seven out of 10 companies are trying to create innovative business models, and 98% are modifying existing ones, according to a recent survey.

However, most companies still create and evaluate business models in isolation, without considering the implications of how they will interact with rivals' business models. This narrow view dooms many to failure.

Moreover, companies often don't realize that business models can be designed so that they generate virtu-

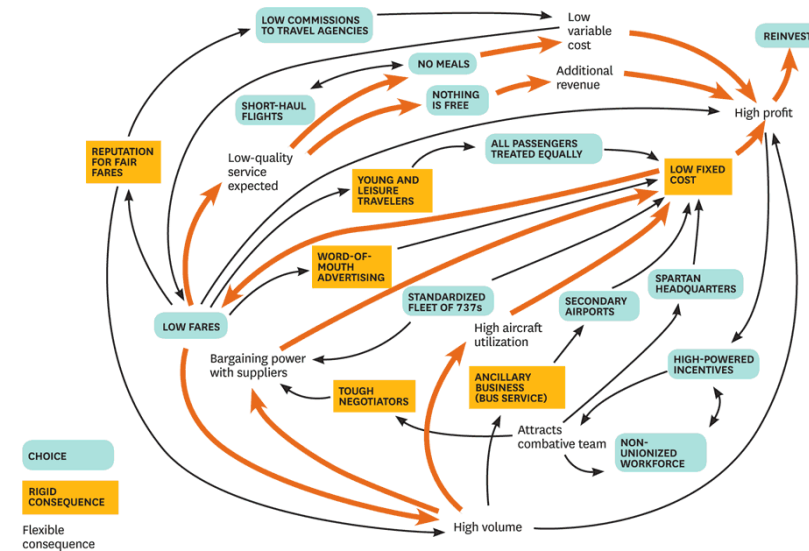
ous cycles—similar to the powerful effects high-tech firms such as Facebook, eBay, and Microsoft enjoy. These cycles, when aligned with company goals, reinforce competitive advantage.

By making the right choices, companies can strengthen their business models' virtuous cycles, weaken those of rivals, and

even use the cycles to turn competitors into complementary players.

This is neither strategy nor tactics; it's using business models to gain competitive advantage. Indeed, companies fare poorly partly because they don't recognize the differences between strategy, tactics, and business models.

Ryanair's current business model rests on the key choices of offering customers low fares and providing nothing free. The rigid consequences include a reputation for fair fares and low fixed costs. Ryanair's choices are aligned with its goals, generate cycles that reinforce the business model, and are robust given that it has been operating as a low-cost airline for 20 years.



Strategic Planning

- Differs from business planning
- Systematic and continuous process of defining strategy, and deciding on allocating resources to pursue the strategy
- Long-term horizon
- Strategy must be aligned with other elements of the organization (structure, culture)
- McKinsey 7 S framework

— Introduced in 1980s

Recommended reading: PETERS, Tom, WATERMAN Robert. Structure is not organization. *Business Horizons*, 1980

— Each organization consists of

- Hard elements (strategy structure, systems)
- Soft elements (shared values, skills, staff, style)

Objectives of Strategic Planning:

- Increase company performance
- Analyze potential responses on changes
- Align organizational structure with processes
- Determine optimal approach how to implement strategy



Example: Glowa, Tim: White Paper: Examining Starbucks utilizing the 7s method and less than perfect information, 2001

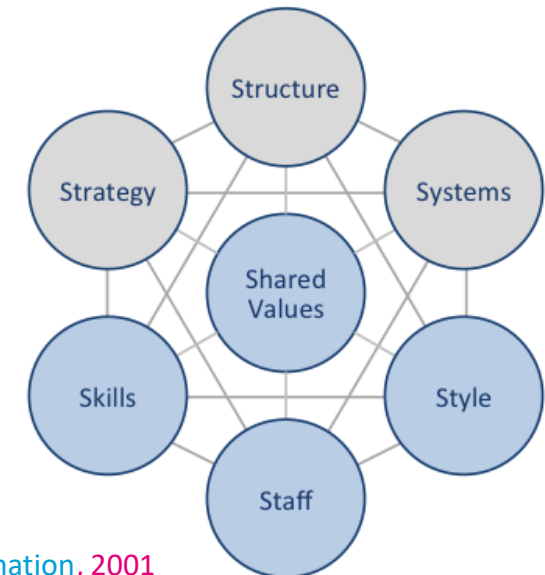


Strategic planning criticism

Recommended reading: MINTZBERG, Henry. The Fall and Rise of Strategic Planning. *Harvard Business Review* 1/1994

Strategic planning isn't strategic thinking. One is analysis, and the other is synthesis. Planners should make their greatest contribution *around* the strategy-making process rather than *inside* it. Planning has always been about *analysis*—about breaking down a goal or set of intentions into steps, formalizing those steps so that they can be implemented almost automatically, and articulating the anticipated consequences or results of each step. Strategic thinking, in contrast, is about *synthesis*. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise. The goal of those who promote planning is to reduce managers' power over strategy making.

Sometimes strategies must be left as broad visions, not precisely articulated, to adapt to a changing environment.



Strategic Choices and Company Mission/Objectives



- Vision – optimal desired future state, mental picture of what an organization wants to achieve over time
- Mission – general statement, defines the current state or purpose of an organization, answers why the organization exists



Vision Statement – Solutions for a small planet

Mission Statement – At IBM, we strive to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems and microelectronics. We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide.



Vision Statement – Harvard College will set the standard for residential liberal arts and sciences education in the twenty-first century. We are committed to creating and sustaining the conditions that enable all Harvard College students to experience an unparalleled educational journey that is intellectually, socially, and personally transformative.

Mission Statement – The mission of Harvard College is to educate the citizens and citizen-leaders for our society. We do this through our commitment to the transformative power of a liberal arts and sciences education.



Vision Statement – The Volvo Group's vision is to be valued as the world's leading supplier of commercial transport solutions.

Mission Statement – By creating value for our customers, we create value for our shareholders. We use our expertise to create transport-related products and services of superior quality, safety and environmental care for demanding customers in selected segments. We work with energy, passion and respect for the individual.



Vision Statement – To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time

Mission Statement – To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow



Vision Statement – becoming the leader in the electricity market in Central and Southeastern Europe..

Mission Statement – CEZ Group's mission is to maximize its return and secure long-term growth in shareholder value.



Toyota doesn't have an official mission but uses its vision statement instead of it:

Toyota will lead the way to the future of mobility, enriching lives around the world with the safest and most responsible ways of moving people. Through our commitment to quality, constant innovation and respect for the planet, we aim to exceed expectations and be rewarded with a smile. We will meet our challenging goals by engaging the talent and passion of people, who believe there is always a better way.

- Goals – general statements of mileposts company needs to meet to achieve its vision specific, measurable, attainable (agreed), realistic, timed
 - A need to define KPIs to determine whether the goals have been achieved

Strategic Choices and Company Mission/Objectives

- (Bad) example: Czech Post

Hlavní směry strategického rozvoje do roku 2017



Česká pošta je zákaznický orientovaná společnost, je součástí klíčové infrastruktury a partnerem českého státu a nese sociální a společenskou zodpovědnost.

Mission & Strategic Objectives

The mission of Czech Post ("the Company", "the Post") is to be a trustworthy provider of quality services in the area of mediating information, payments and goods via both traditional and electronic means.

Czech Post ensures the provision of universal postal services and seeks to make them as effective as possible. Its current activities are determined by the four key trends affecting the market and competitive environment, i.e. new technology, changes in ways of communicating due to booming internet services, changing customer needs and the liberalization of postal services. Czech Post intends to continue to work closely with the government through both its dense network of branches as well as new channels. The Company intends to cooperate closely with the state administration via both its dense network of post offices and new channels. It has therefore been appointed as administrator of a unique system of data mailboxes and the Czech Interior Ministry's data networks. The Company considers improvement of its image in the eyes of the public to be essential. Aware of its social role and social responsibility, it also wants to be seen as an attractive employer. [Annual report 2013](#)

- Czech Post no longer delivers on its promises. Email and social media took over the role of traditional communication.
- Marketing Myopia – common for previously successful industries

The view that an industry is a customer-satisfying process, not a goods-producing process, is vital for all businesspeople to understand. The marketing effort is still viewed as a necessary consequence of the product—not vice versa, as it should be. LEVITT, Theodore. [Marketing Myopia](#). Harvard Business Review 7/2004



Strategic Choices

Recommended reading: REEVES, Martin, LOVE, Claire, TILLMANN, Phillipp.
[Your Strategy Needs a Strategy](#). Harvard Business Review 9/2012

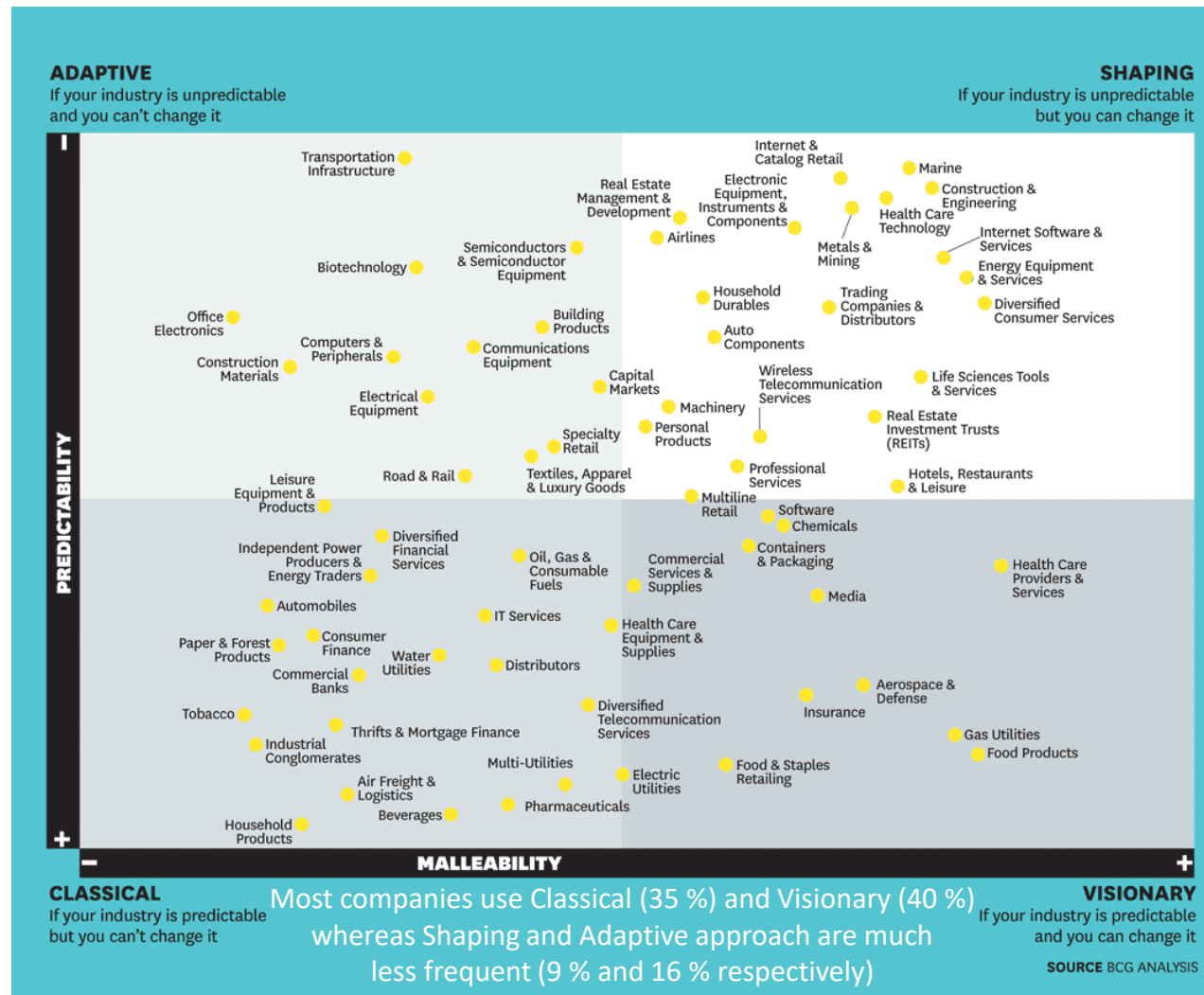
- Strategic Choices depend on a plethora of factors – besides others also the industry
 - Many industry factors play into the strategy formulation, the options could be narrowed down to predictability and malleability
 - Three-year total shareholder returns of companies using the right style were 4% to 8% higher

Unpredictable industry where the company has no power to change it. More adaptive and flexible approach is needed ([Mintzberg's approach](#) – be prepared for changes, [Adaptability: The New Competitive Advantage](#))

Constantly refined goals and tactics. Consumer tastes changes quickly. Specialty fashion retailing is a good example

Zara – flexible planning according to fashion trends, fast design, manufacturing and distribution, quick changes in product range (only 15 % of goods is sold at discounts)

Predictable industry but companies can hardly influence – a classical Porter's approach –, long-term planning, traditional analytical tools like Porter's 5F, portfolio analysis, ...
 Exxon Mobil or Shell (until new [disruptive technology](#) emerges)



New or young high-growth industries where barriers to entry are low, frequent, unpredictable demand, relative positions of competitors are in flux, a company can often radically shift the course of industry development. Short or continual planning cycles, Facebook overtook other social networks when opened its platform for developers ([2012 – over 9 million apps](#)). [Similarly Google and Apple on the mobile apps market](#)

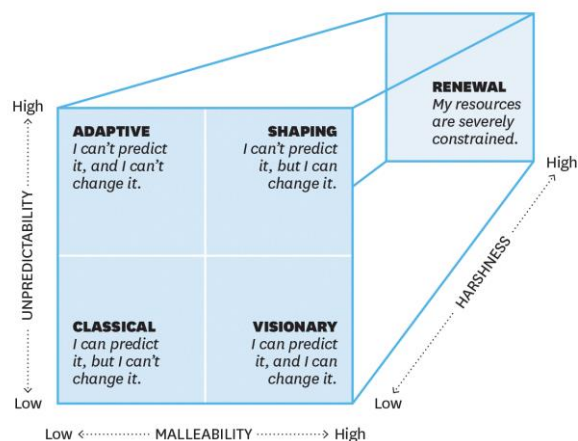
Company (knows the future) and has the power to shape the future. In the beginning of 1990s it became obvious that e-commerce cannot develop without simultaneous development of logistics companies. UPS invested some \$1 billion a year to integrate with web providers. e-commerce delivery market. UPS has snapped 60 % of e-commerce delivery market

Strategic Choices

Recommended reading: REEVES, Martin, HAANAES Knut, SINHA Janmejaya. [Navigating the Dozens of Different Strategy Options](#). Harvard Business Review 24/6/2015

5 Approaches to Strategy

And the business environment in which you might use each one.



SOURCE BCG

© HBR.ORG

The renewal approach to strategy aims to restore the vitality and competitiveness of a firm when it is operating in a harsh environment. Such difficult circumstances can be caused by a protracted mismatch between the firm's approach to strategy and its environment or by an acute external or internal shock.

When the external circumstances are so challenging that your current way of doing business cannot be sustained, decisively changing course is the only way to not only survive, but also to secure another chance to thrive. A company must first recognize and react to the deteriorating environment as early as possible. Then, it needs to act decisively to restore its viability—economizing by refocusing the business, cutting costs, and preserving capital, while also freeing up resources to fund the next part of the renewal journey. Finally, the firm must pivot to one of the four other approaches to strategy to ensure that it can grow and thrive again. The renewal approach differs markedly from the other four approaches to strategy: it is usually initially defensive, it involves two distinct phases, and it is a prelude to adopting one of the other approaches to strategy.

Renewal has become increasingly common because of the number of companies getting out of step with their environments.

	CLASSICAL	ADAPTIVE	VISIONARY	SHAPING	RENEWAL
<i>Core idea, or what it takes</i>	• Be big	• Be fast	• Be first	• Be the orchestrator	• Be viable
<i>Type of environment</i>	• Predictable, nonmalleable	• Unpredictable, nonmalleable	• Predictable, malleable	• Unpredictable, malleable	• Harsh
<i>Industries where approach is most visibly applicable</i>	• Utility • Automobile • Oil and gas	• Semi-conductors • Textile retail	• Not industry specific (create new, disrupt existing)	• Some software • Smartphone apps	• Financial institutions in the 2008–09 crisis
<i>Indicators of the approach</i>	• Low growth • High concentration • Mature industry • Stable regulation	• Volatile growth • Limited concentration • Young industry • High technological change	• High growth potential • White space, no direct competition • Limited regulation	• Fragmentation • No dominant player, platform • Shapable regulation	• Low growth, decline, crisis • Restricted financing • Negative cash flows
<i>How</i>	• Analyze, plan, execute	• Vary, select, scale up	• Envisage, build, persist	• Engage, orchestrate, evolve	• React (or anticipate), economize, grow
<i>Measures of success</i>	• Scale • Market share	• Cycle time • New product vitality index (NPVI)	• First to market • New user customer satisfaction	• Ecosystem growth and profitability • NPVI	• Cost savings • Cash flow
<i>Related approaches</i>	• Experience curve • BCG Matrix • Five Forces • Capabilities	• Time-based competition • Temporary advantage • Adaptive advantage	• Blue Ocean • Innovator's dilemma	• Networks • Ecosystems • Platforms	• Transformation • Turnaround
<i>Key examples</i>	• P&G under Lafley • Mars under Michaels	• Tata Consultancy Services under Chandrasekaran • 3M under McKnight	• Amazon.com under Bezos • Quintiles under Gillings	• Apple under Jobs • Novo Nordisk under Sørensen	• Amex under Chenault • AIG under Benmosche
<i>Key traps</i>	• Overapplication	• Planning the unplannable	• Wrong vision	• Overmanaged ecosystem	• No second phase

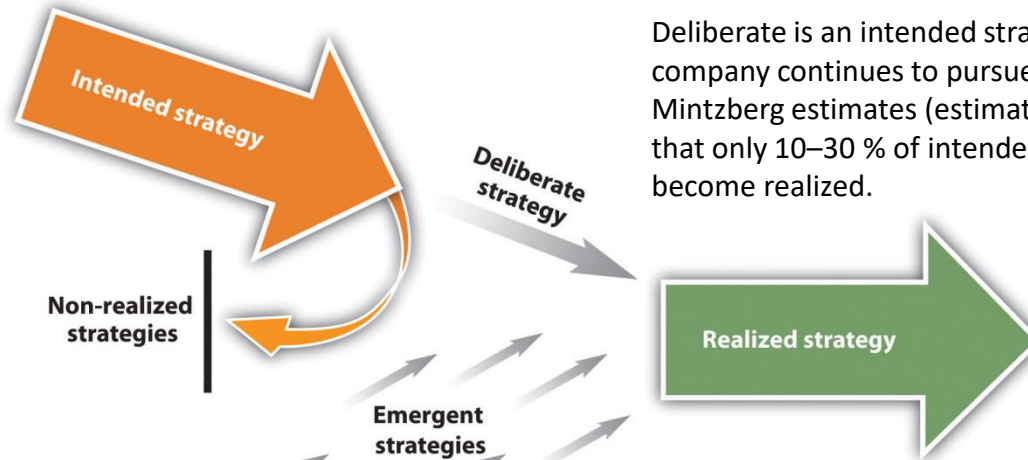
Intended, Emergent, and Realized Strategies (Mintzberg)

- Two major approaches to strategic planning
 - Porter's perspective – emphasizes developing mission and objectives, analysis, evaluation of strategic choices, planning, ...
 - Mintzberg's perspective – rather create organizational “patterns” in terms of being prepared to deal with turbulent environment

Strategy emerges over time as intentions collide with and accommodate a changing reality. Emergent strategy is a set of actions, or behavior, consistent over time, “a realized pattern [that] was not expressly intended” in the original planning of strategy.

MINTZBERG, Henry. (1994). *The Rise and Fall of Strategic Planning*. New York, NY: The Free Press.

Strategy that a company hopes to execute. Usually described in strategic plans, Porter's perspective



Deliberate is an intended strategy that the company continues to pursue over time. Mintzberg estimates (estimated in 1980s) that only 10–30 % of intended strategies become realized.

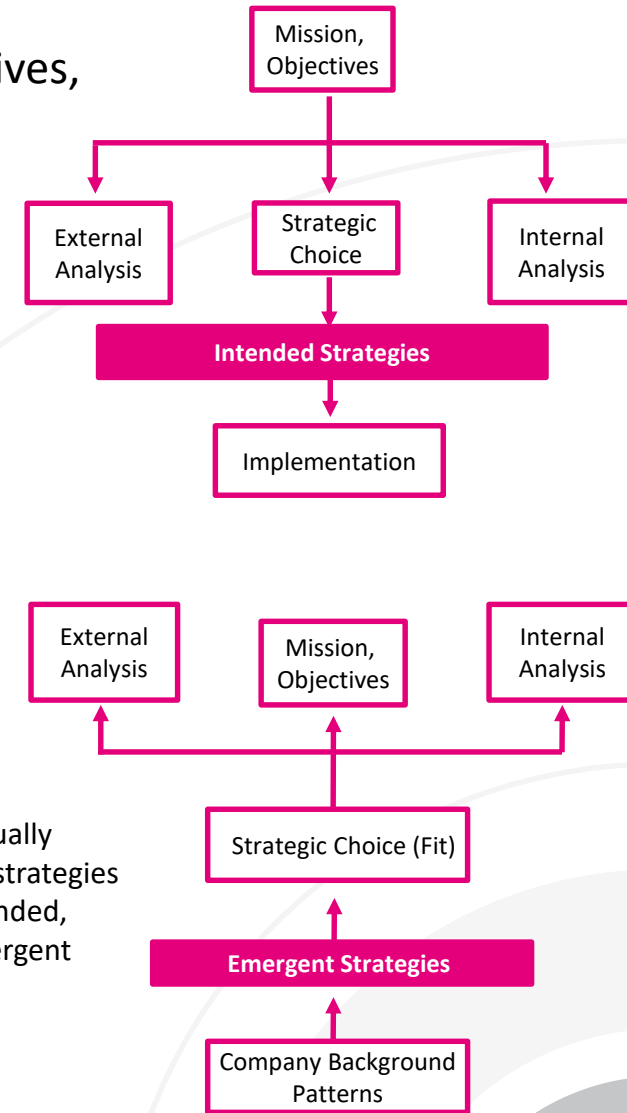
Strategy that is actually followed. Realized strategies are product of intended, deliberate and emergent strategies

An unplanned strategy that arises in response to unexpected opportunities and challenges.

A strategy can also be emergent, meaning that a convergent pattern has formed among the different actions taken by the organization one at a time.

MINTZBERG, Henry. [The Fall and Rise of Strategic Planning](#). Harvard

Business Review 1/1994



Intended, Emergent, and Realized Strategies (Mintzberg)

- Mintzberg's perspective is more relevant today

Porter's ideas are still relevant, my colleagues and I still teach them, so I still believe in them and when I talk to corporate CEOs they still use them as part of their strategy planning thinking. But they are getting a bit long in the tooth for today's different world. Henry's emergent strategy ideas simply seem to be more relevant to the world we live in today – they reflect the fact that our plans will fail. This is not to say that planning isn't useful, but other than some long term technology plans, the day of the 5 year and even 2 year plans has faded and emergent strategy is the reality in most industries that I work with. [MOORE, Karl. Porter or Mintzberg: Whose View of Strategy Is the Most Relevant Today?](#)

- Mintzberg identifies 8 types of strategies – from purely deliberate to purely emergent

Recommended reading: MINTZBERG, Henry, WATERS, James A. [Of strategies – deliberate and emergent](#), Strategic Management Journal, Vol. 6 (7), 257-272, 1985.



[SCHWARZINGER, Andreas, MORGOUNOVSKI, Boris Paper Presentation: Of Strategies, Deliberate and Emergent" by Mintzberg & Waters, 1985](#)

- Deliberate strategy **FedEx**

As an undergraduate student at Yale in 1965, Frederick Smith had to complete a business plan for a proposed company as a class project. His plan described a delivery system that would gain efficiency by routing packages through a central hub and then pass them to their destinations. A few years later, Smith started Federal Express (FedEx), a company whose strategy closely followed the plan laid out in his class project. Today, Frederick Smith's personal wealth has surpassed \$2 billion, and FedEx ranks eighth among the World's Most Admired Companies according to Fortune magazine. Certainly, Smith's intended strategy has worked out far better than even he could have dreamed.

[KETCHEN, Dave, SHORT, Jeremy. Mastering Strategic Management.](#)

- Emergent strategy **FedEx**

In the mid-1980s, FedEx deviated from its intended strategy's focus on package delivery to capitalize on an emerging technology: facsimile (fax) machines. The firm developed a service called ZapMail that involved documents being sent electronically via fax machines between FedEx offices and then being delivered to customers' offices. FedEx executives hoped that ZapMail would be a success because it reduced the delivery time of a document from overnight to just a couple of hours. Unfortunately, however, the ZapMail system had many technical problems that frustrated customers. Even worse, FedEx failed to anticipate that many businesses would simply purchase their own fax machines. ZapMail was shut down before long, and FedEx lost hundreds of millions of dollars following its failed emergent strategy.

[KETCHEN, Dave, SHORT, Jeremy. Mastering Strategic Management.](#)

Intended, Emergent, and Realized Strategies (Mintzberg)

Facebook – After being dumped by his girlfriend, a bitter Zuckerberg created a website called “FaceMash” where the attractiveness of young women could be voted on. This evolved first into an online social network called Thefacebook that was for Harvard students only. When the network became surprisingly popular, it then morphed into Facebook, a website open to everyone. Facebook is so pervasive today that it has changed the way we speak, such as the word friend being used as a verb. Ironically, Facebook’s emphasis on connecting with existing and new friends is about as different as it could be from Zuckerberg’s original mean-spirited concept. Certainly, Zuckerberg’s emergent and realized strategies turned out to be far nobler than the intended strategy that began his adventure in entrepreneurship.

KETCHEN, Dave, SHORT, Jeremy. [Mastering Strategic Management](#).

In 1968, Silver was working at 3M trying to create super strong adhesives for use in the aerospace industry in building planes. Instead of a super strong adhesive, though, he accidentally managed to create an incredibly weak, pressure sensitive adhesive agent. This adhesive did not interest 3M management as it was seen as too weak to be useful. It did have two interesting features, though. The first is that, when stuck to a surface, it can be peeled away without leaving any residue. The second big feature is that the adhesive is reusable.




3M still didn’t think the product would be commercially successful, they more or less shelved it for three years, even though the Post-It notes were extremely popular internally at 3M labs during that span. Finally, in 1977, 3M began running test sale runs of the Post-It note, then called “Press ‘n Peel”, in a certain areas in four different cities to see if people would buy and use the product. No one much did, which confirmed in the minds of the executives that it wasn’t a good commercial product.

A year after the initial flop, 3M tried again to introduce the Post-It note to the world, this time giving huge amounts of free sample Post-It note pads away. This time, the re-order rate went to 90% of the people and businesses that had received the free samples. This was double the best initial rate 3M had ever seen for any other product they’d introduced.

[Post-It Notes Were Invented By Accident](#)

Recommended reading: MINTZBERG, Henry. [Crafting Strategy](#). Harvard Business Review 7/1987

Managers are craftsmen and strategy is their clay. Like the potter, they sit between a past of corporate capabilities and a future of market opportunities. And if they are truly craftsmen, they bring to their work an equally intimate knowledge of the materials at hand. That is the essence of crafting strategy. Strategies can *form* as well as be *formulated*. A realized strategy can emerge in response to an evolving situation, or it can be brought about deliberately, through a process of formulation followed by implementation. But when these planned intentions do not produce the desired actions, organizations are left with unrealized strategies.

	Intended Strategy	Emergent Strategy	Realized Strategy
	David McConnell aspired to be a writer. When his books weren't selling he decided to give out perfume as a gimmick.	The perfumes McConnell gave out with his books were popular, inspiring the foundation of the California Perfume Company.	The company changed its name to Avon in 1939, and its direct marketing system remained popular for decades. Avon is now available online and in retail outlets worldwide.
	When father and son team Scott and Don Rasmussen were fired from the New England Whalers, they envisioned a cable television network that focused on sports events in the state of Connecticut.	As the network became successful, ESPN has branched out beyond the local softball games and demolition derbies that were first broadcasted.	ESPN is now billed as the worldwide leader in sports, owning several ESPN affiliates as well as production of ESPN magazine, ESPN radio, and broadcasting for ABC.
	In 1977, a cash-strapped advertiser gave a radio station managed by Lowell Paxson 112 electric can openers to pay off an overdue bill. The can openers were offered over the air for \$9.95 and quickly sold out.	An idea emerged. Soon the radio station features a regular show called “Suncoast Bargaineers.” In 1982, Paxson and a partner launched the Home Shopping Club on local cable television in Florida.	Today the Home Shopping Network has evolved into a retail powerhouse. The company sells tens of thousands of products on television channels in several countries and over the Internet.

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Current Shifts in Business Environments Hypercompetition, Glocalization, Marketing as a Strategy

Current Shifts in Business Environments

1. Fashionization of markets

- Products cycle faster through life stages, become obsolete rapidly, fluctuating demand

The first is the increasing speed of everything. Product life cycles and design cycles are getting shorter. When the pace of change gets faster, people realize that they need to look for the next big thing. The second issue is interindustry competition. Competition is coming from unexpected places. Who could have anticipated that the iPad's success would put all kinds of display devices—like electronic photo frames—out of business? And the third trend is disruptions from business models that offer better customer experiences instead of simply products. You'd do better to ask which industries are *not* being disrupted. If you don't have strong barriers to entry or you're up against shifts in technology or regulation, you're going to face new kinds of competition.

Cliffe, Sarah. When [Your Business Model Is in Trouble](#). *Harvard Business Review* 1/2011.

Kinect was an enormous hit, selling eight million units in just the first sixty days. According to Guinness World Records, that made Kinect the fastest-selling consumer electronic device in history. A little over a year after launch, twenty-four million Kinects had been sold, pushing sales of Xbox 360 consoles and games along with it. In 2010, Microsoft took the top spot in the fiercely competitive console market for the first time since Xbox 360's launch in 2001. However, catastrophic success invariably leads to rapid market saturation — and with it decline and sunset. Within six months, the pace of Kinect sales dropped precipitously. Though stragglers continued to buy the product in peaks and valleys over the next year, the product had largely fulfilled its mission in its first ten months. For Microsoft — and other game developers — it was time for another innovation. [The Faster a New Technology Takes Off, the Harder It Falls](#)

2. Higher pace of technological changes, strategic decision are made with shorter perspective

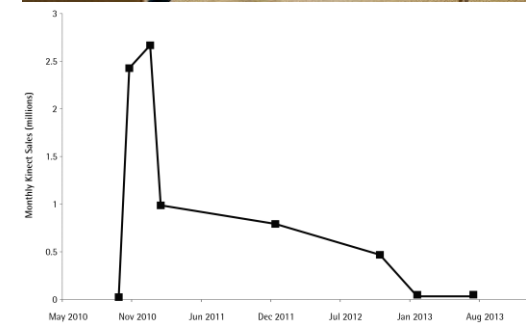
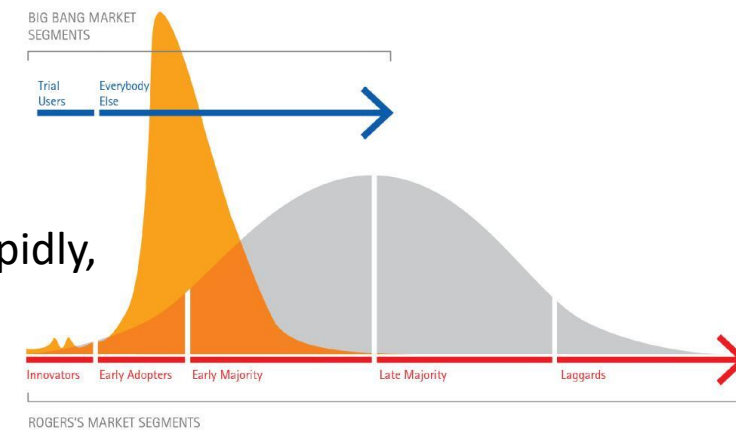
3. (Interindustry) Hypercompetition

In hyper-competitive environments, the life of a competitive advantage is nasty, brutish and short. Advantages don't last for very long before competitive entry, imitation and matching erode their edge, or customers move on, or the environment changes in such a way that the advantage becomes irrelevant.

MCGRATH, Rita. [Competitive Advantage Is Fleeting \(And It's Okay to Admit It\)](#) *Harvard Business Review* 6/2009

Hyper competition occurs when technologies or offerings, or innovative leapfrog development brings something so new that standards and rules are in flux, resulting in competitive advantages. [Hyper competition and the speed of change](#)

Big Bang Market Adoption



Source: Various news reports

* Note: Monthly sales are estimated from totals from March 2011 to Feb. 2013. Seasonal variations were likely but data not available.

Current Shifts in Business Environments

4. Complicated offerings, continual product modifications, customer distraction

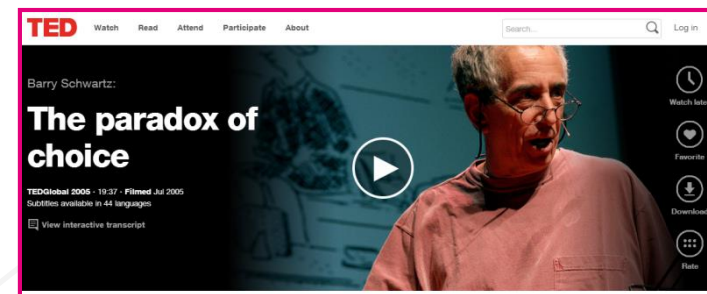
With new customers and partners come new demands. It is very easy to get distracted by product modification and other requests. Remember that you can't please everybody. Instead, identify what you do best and communicate that to your stakeholders before you expand your business.

[Why Scaling Up Sometimes Requires Slowing Down](#)

5. Increasing customer demands and expectations

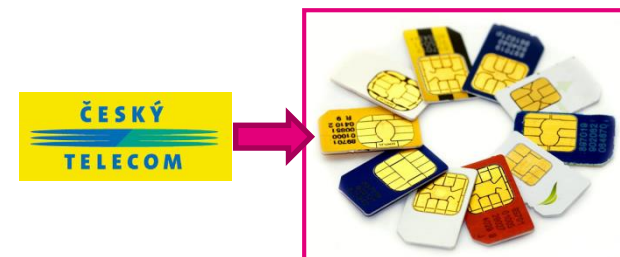
Everything is amazing right now and nobody's happy. Over the past 15 years customer expectations, have increased by about 24% in virtually all categories. More so in technology areas. Consumers aren't always able to rationally articulate needs, desires, or real expectations in the category.

[The Final Frontier: Customer Expectations](#)



6. Fragmentation of markets (into small micro-segments)

With today's deluge of data, we are no longer talking about large groups of people that fit into known categories, but micro-segmentation into smaller and smaller groups of people that are actively identified from a mixture of attitude and behavior, enabling the definition of increasingly finer market segments. The clear benefit of micro-segmentation is that the more relevant the message and offer in any media, the greater the ability for it to break through the clutter, engage the individual, and generate the desired response or behavior. These micro-segments enable finer targeting of content, offers, products, and services, which can deliver real and substantial returns. [Customer Segmentation in the Era of Big Data](#)



7. Commoditization

That said, intense global competition, outsourcing, and offshoring are all squeezing margins, increasing customer price sensitivity, and making it harder to sustain inter-brand differentiation. The product life cycle suggests that, as product categories mature, they become more susceptible to the forces of commoditization. The difference today is that the speed from launch to maturity is faster than ever before. Marketers can do three things to delay the inevitable forces of commoditization. Innovate. Bundle. Segment. [When Your Product Becomes a Commodity](#)



Current Shifts in Business Environments

8. Erosion of strong and dominant brands

There appears to be an epidemic of brand erosion going on, with some of the best and brightest companies with years of doing things right stumbling and hurting themselves in eyes of their consumers. I think part of the reason is that companies forget their core competencies in the drive for growth. Toyota built its rep on quality and then loses it by growing too fast. Motorola shapes a beautiful new thin form factor with the RAZR and builds 50 million of them, but neglects the user interface, driving people nuts who can't hear their phones or access what they need. The original StarTac phone was easy to use. Home Depot had a great reputation for customer service, literally helping people build their own products (kitchens, bathrooms). Then it guts its service and angers loyal consumers. BP was going green, until a chemical plant blew up and oil was spilled over half of Alaska because of poor maintenance and penny-pinching. [Toyota, Home Depot, Motorola, BP, Wal-Mart--Brand Erosion Hits The Biggest And Best Brands. What's Going On?](#)



9. Redefining borders of industries, global markets

Many global strategies fail--despite companies' powerful brands and other border-crossing advantages. Seduced by market size, the illusion of a borderless, "flat" world, and the allure of similarities, firms launch one-size-fits-all strategies. But cross-border differences are larger than we often assume. Most economic activity--including direct investment, tourism, and communication happens locally, not internationally. In this "semi-globalized" world, one-size-fits-all strategies don't stand a chance. Companies must instead reckon with cross-border differences by providing tools for assessing the cultural, administrative, geographic, and economic differences between countries.

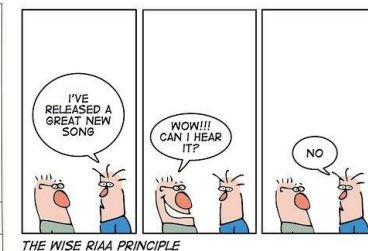
GHEMAWAT, Pankaj (2007). *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*. Harvard Business Review Press

Samsung vaulted ahead of cash-rich Apple in two ways: R&D and marketing spending. The first was not just on phones but across a whole range of innovations and adjacent markets. In only 10 years, Samsung went from entering to leading the global flash-memory market. In three years, it went from entering the global smartphone market in a serious way to leading it. Today, Samsung is the world's largest technology company by revenue. Samsung's expansion illustrates not only the flashing speed of change but also the blurring of industry borders. [Strategy, Uncertainty And Unfamiliarity](#)



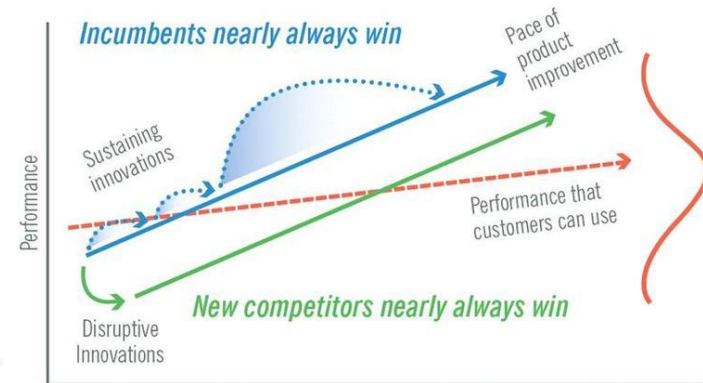
10. New regulations (economical, political, social, ...)

"Every gram of CO2 reduction costs the VW Group 100 million Euros per year, and we don't know when they will pay off," said Winterkorn. "Companies can only invest in environmental protections if we can afford it.," [VW Group CEO rails against tougher emissions regulations. The average additional manufacturing cost is estimated at around €1100 per car in 2020](#) .



Disruptive Technologies

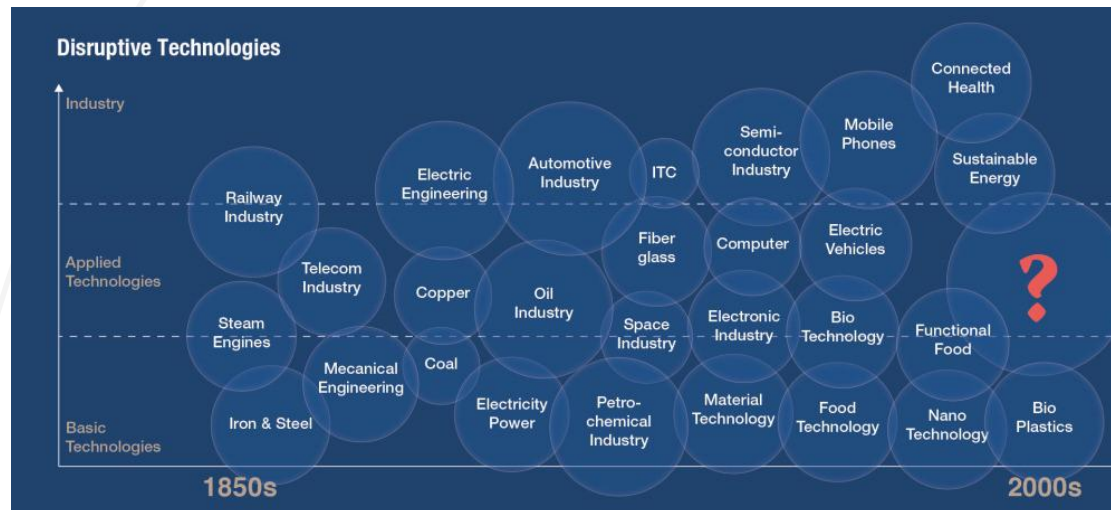
- Sustainable innovations
 - Incremental development of current product as a result of listening and reflecting customers' needs
 - To better serve current markets
- Disruptive innovations
 - Newly established markets typically ignored by the large companies
 - Often begins as low-cost alternative to mainstream or a niche
 - If the innovation is accepted by mainstream – fundamental changes of competition/rivalry on major markets, majority accepts new technology



Source: Clayton Christensen, *The Innovators Solution*

2014 - leaked [New York Times Innovation Report](#). Industry analysis from the perspective of New York Times, identification of competitors that have rapidly changed the environment

- In the journalism landscape, companies like BuzzFeed, Vox Media, Circa, Business Insider, Huffington Post, and Twitter are considered disruptions.
- Traffic to the homepage has decreased drastically, and perhaps home pages will soon become entirely irrelevant.
- Digital journalism does not just complement print. Digital and print newsrooms should be merged into one
- Digital journalism cannot work without practices common on websites (SEO, PPC, metadata, related and recommended content).
- Social journalism – user generated content, sharing on social media, identifying hidden influencers and opinion-makers
- Personalized and interactive news



Globalization, Localization, Glocalization

- Globalization

Recommended reading: LEVITT, Theodore. [The Globalization of Markets](#). Harvard Business Review 5/1983

Levitt described the sweeping emergence of a global market for uniform consumer products. He saw advances in communications and transportation driving ever more informed consumers toward a “convergence of tastes.” And he saw global corporations exploiting the “economics of simplicity and standardization” to price their global products far below the local competition. “Everywhere everything gets more and more like everything else as the world’s preference structure is relentlessly homogenized.”

- Usually interpreted as that companies should standardize products, promotion and distribution to succeed on various national (and culture diverse) markets
- Such approach worked for a limited time (1980s–1990s), however with saturation of markets the companies experienced problems

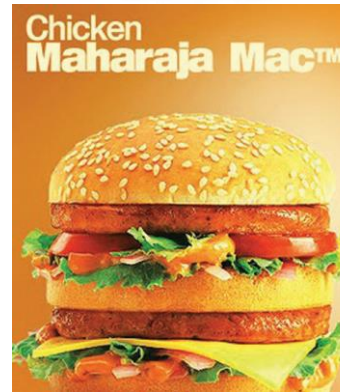
During the late 1980s and the 1990s, these global companies found receptive consumers in every corner of the world. Scrambling to establish beachheads in some 30 new country markets, global companies had no time—or apparently any need—to worry about local adaptation. The value of global trade almost trebled between 1980 and 2000. Increasingly, it seemed that globalization was actually Americanization. By 2000, 62 of the most valuable 100 brands in the world (according to Interbrand methodology) were American. But with the start of the new millennium, Levitt’s relentless homogenization began to stall. In emerging markets from China to Eastern Europe, enthusiasm for global brands proved short-lived. Local brands found new (and returning) customers as global brands saturated their markets. Local brands also started to win back customers as their quality improved in response to new competitive pressure, and, in some cases, new ownership by global corporations.

Recommended reading: QUELCH, John. [The Return of the Global Brand](#). Harvard Business Review 8/2003

- At the end of 1980s – a combination of global and local approach - glocalization

With glocalization, companies develop great products at home and then distribute them worldwide, with some adaptations to local conditions. It allows multinationals to make the optimal trade-off between the global scale so crucial to minimizing costs and the local customization required to maximize market share. [How GE Is Disrupting Itself](#)

Doporučené čtení: HOLT, Douglas B., QUELCH, John, TAYLOR, Earl E. [How Global Brands Compete](#). Harvard Business Review 9/2004

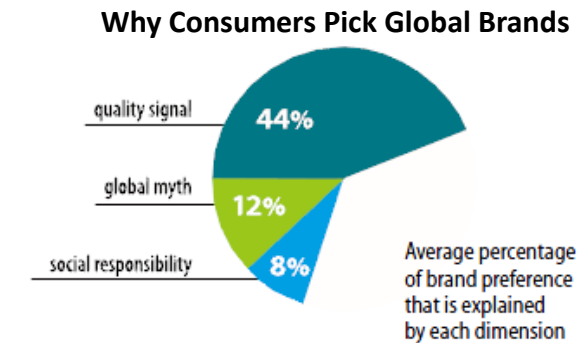


Globalization, Localization, Glocalization

- Globalization – is there a global customer?

Certain behaviors are likely to be universal, whereas others are not. Understanding such differences is essential to designing international marketing strategies. The marketing manager must understand the extent to which key behaviors vary from one culture to another. Culture or country boundaries can be a less important segmentation criterion than individual factors across culture.

DAWAR, Niraj; PARKER, Philip. Marketing universals: Consumers' use of brand name, price, physical appearance, and retailer reputation as signals of product quality. *The Journal of Marketing*, 1994, 81-95.



- Three distinct stages of globalization can be recognized

- **1950s and 1960s** – Globalizing Market Presence – till the end of WWII the US companies didn't need "think global" since the huge and robust domestic market. However economies destroyed by WWII offered a huge opportunities for growth. US companies went global with products designed for US customers (i.e. Xerox with copiers wever offered in Europe through subsidiary Rank Xerox and in Asia through Fuji Xerox)
- **1970s and 1980s** – Globalizing the Resource Base – US corporations moved many operations (including R&D) overseas to maximize efficiency (i.e. Microsoft has R&D centers also in India and China)
- With saturation of local markets in **1990s**, US companies were not that competitive as they needed to be. Companies focused on winning the local markets through glocalization – adapting global offerings to meet local needs
- Glocalization concept has become no longer sufficient with **the beginning of the new century**. Companies had to inverse their innovation processes, develop products specially for local markets (but benefit from global resources and know-how – Reverse Innovation)

Globalization, Localization, Glocalization

• Glocalization

“Glocal strategy” refers to the idea of “think global, act local”. Successful corporations must develop a glocal strategy, by utilizing their global experiences and then customizing and tailoring their services and products in such a way that would appeal to local markets. This should not apply just for product design or communications, it has to incorporate branding and all variables from the marketing mix, whenever possible.

DUMITRESCU, Luigi; VINERAN, Simona. [The Glocal Strategy of Global Brands](#). *Studies in Business and Economics*, 2010, 5(3).

A Framework for Alternative Global Marketing Strategies (Adapted from Schiffman and Lazar Kanuk, 2009, p. 472)

PRODUCT STRATEGY	COMMUNICATION STRATEGY	
	Standardized Communications	Localized Communications
Standardized Product	Global Strategy: Uniform Product / Uniform Message	Glocal Strategy: Uniform Product / Customized Message
Localized Product	Glocal Strategy: Customized Product / Uniform Message	Local Strategy: Customized Product / Customized Message
	Glocal Strategy : Customized Product / Customized Message	

- Glocal tactics are involved in all elements of marketing mix

Globalization	Localization	Glocalization
The tendency toward an international integration of goods, technology, information, labor, capital, or the process of making this integration	The process of adapting a product or service to a particular culture, language, developing a local appeal and satisfying local needs	Providing a global offer (brand, idea, product, service, etc), while taking local related issues into account”
<ul style="list-style-type: none"> • Undifferentiation and convergence in • customer preferences and income across target countries with economic development and trade • Takes into account mass demand • Globalism • Quantity • International brand awareness • Cost benefits from standardization • Falling costs of trade with greater • globalization 	<ul style="list-style-type: none"> • Differentiation - differences in customer preferences and income across target countries • Takes into account specific demand • Localism • Quality and values • Local brand recognition • Competition from both successful domestic products and international brands • High costs of trade create separate markets 	<ul style="list-style-type: none"> • Utilizing global experiences or a global brand name, and differentiating the offer in order to appeal to local markets • Operates within a global market and local market niches • Integrating both globalism and localism • Integrating quality and values in a product, that gets sold in large quantities • High notoriety of the brand • A glocal product / service can face competition from both local and international brands in a better way because it meets certain local needs or preferences, at lower costs due to the global edge of the company

Product	Price	Promotion	Distribution
Danone had to adjust its products to a less lactose based for the Chinese market, because the Chinese are lactose intolerant. McDonald's has adapted its global marketing to different regions or countries – offering Beer in Germany, wine in France, mutton pies in Australia, McSpaghetti in Philippines, Maharaja Mac and Veggie McNuggets in India.	Spar' utilizes a glocal strategy based on positioning through price. Spar' is positioned as a low-cost supermarket in Germany, however in United Kingdom and Ireland provides greater service and store design, and it is positioned as a small, high-cost convenience store.	McDonald's had to change its promotion/communications campaign in China. Ronald McDonald clown's white face denotes death in China and therefore is not a good image to inspire lunch.	In Hong Kong and United Arab Emirates, Louis Vuitton bags are sold from stands in shopping centers. If Louis Vuitton did this in European countries ,it could damage the brand's luxury status.

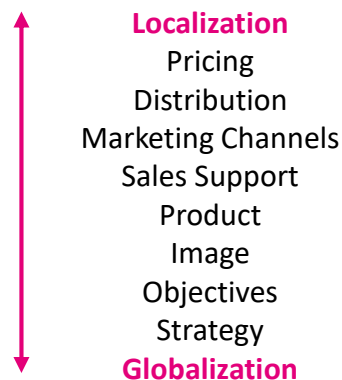
Globalization × Localization

Our hyper connected world isn't as tightly linked as it was during the peak of globalization, in 2007—just before the financial crisis hit. That's the message from the [DHL Global Connectedness Index 2014](#).

The index uses flows of trade, capital, people, and information to show how entwined we citizens of the world are. It measures those flows along two dimensions: Depth reflects the volume of international activity, while breadth reflects its geographic distribution. For example, tourism in the Bahamas scores high on depth, because a lot of people travel there, but low on breadth, because most come from one country, the U.S.

The index calculates the connectedness of each nation by combining depth and breadth. It also tracks connectedness on a worldwide level.

[Not As Global As We Think](#) Harvard Business Review 3/2015



Globalization has been also a source of problems – an easy access on emerging markets and inflow of foreign capital – dependence of countries on foreign resources and jobs. Optimization of processes often leads to job losses and wage cuts; degeneration of national cultures (acculturation – rapid changes in local architecture or product offerings); speculative investments influence and often harm national economy; problems when the company decides to leave the country, ...

Reducing mutual economic dependence, strengthening self-sufficiency

Global Connectedness

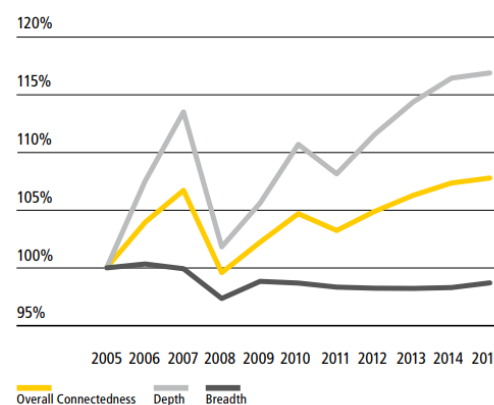
MANY LEADERS HAVE LOST GROUND

Fully half the 26 most-connected countries in 2013 have become less connected since 2007—and often the declines are steep. The financial crisis and recession caused trade flows to plummet. Capital has been largely flat, as has the number of people studying or working outside their home countries. Information flows have been rising fast, but they started from a low base; even now less than 20% of Internet traffic crosses borders, and fewer than 5% of telephone calls do.

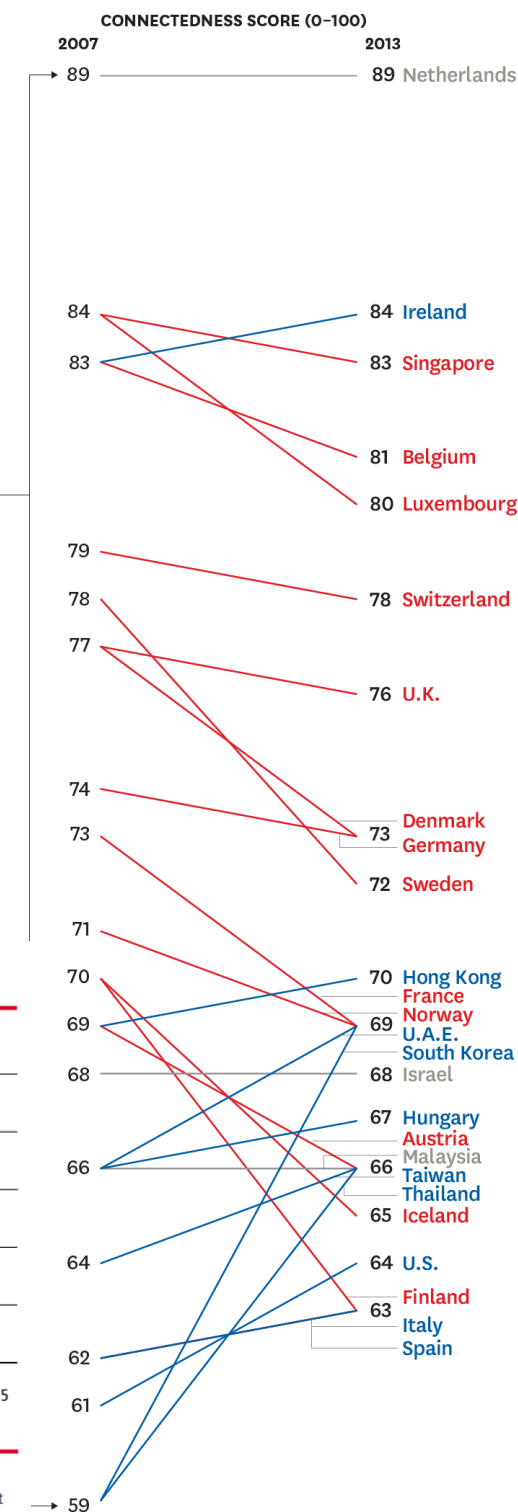
DEPTH BUT NOT BREADTH

Worldwide, the volume of flows has rebounded since the recession—but those gains have been offset by continued declines in geographic distribution.

FIGURE 1.3 // GLOBAL CONNECTEDNESS, DEPTH, AND BREADTH, 2005–2015



The world's overall level of global connectedness surpassed its pre-crisis peak during 2014. In 2015, its post-crisis expansion slowed but the available evidence does not indicate another reversal during the period analyzed.



How to Deal with Hypercompetition

- Focus on downstream activities and accept [marketing as a strategy](#) 😊
- D'Aveni suggests the New 7S's framework
 - Unlike the McKinsey 7S's (sustaining advantage and perpetuating an equilibrium) through finding and building temporary advantages through market disruption

Superior stakeholder satisfaction	Successful firms prioritize customers as the most important stakeholder. Employees and investors are prioritized less highly. The firm must find a way to satisfy employees and investors even though their interests have been subordinated to customers. Caterpillar products are 10–20 % more expensive than the competition – reliability, warranties, complex product lines, financing, spare parts availability, ... Includes Corporate Social Responsibility
Strategic soothsaying	To recognize and create future needs that the company can serve better than any competitor. Requires ability to predict future trends, to control the development of key technologies and other know-how that will shape the future (emergent strategies). Microsoft – used to be sw developer, today delivers a complex solution (including hw) – however even MS sometimes fail – Why Windows 8 failed: It alienated desktop users
Positioning for speed	Success depends on the creation of a series of temporary advantages – company's ability to move quickly from one advantage to the next is crucial. Speed of change is the essence of hypercompetition and today's shifts of business environments .
Positioning for surprise	If a competitor is unaware of the opportunity to create a new advantage, surprise can maintain that lack of awareness. Surprise allows the company to create the advantage and to extend the period in which the advantage is unique. IBM used to be a major computers manufacturer and seller. However Dell introduced sales over phone and web, wide configuration options and do-it-yourself warranty (a lot of computer failures can be easily repaired even by unskilled user – no need to wait weeks till the repaired computer returns back to the customer)
Shifting the rules of the game	Shift the rules of competition creates a sudden and discontinuous move in the industry. Reshaping the competitive playing field and confusing the opponent. I.e. low cost carriers (Ryanair) – the service includes just the seat, everything else is for additional fees, ...
Signaling strategic intent	Signaling can delay or dampen the competitor's actions to create advantage, throw the competitor off balance, or create surprise. When Google announces new service, other companies rather focus on something else since Google is tough to fight.
Simultaneous and sequential strategic thrusts	Competitive thrusts are rapid-either a sequence of moves or a set of simultaneous actions-to upset the equilibrium of the industry, disrupt the status quo, and open opportunities for new advantage. Apple introduces new products every 12 months. Samsung accelerates the pace and introduces new flagship every 8 months

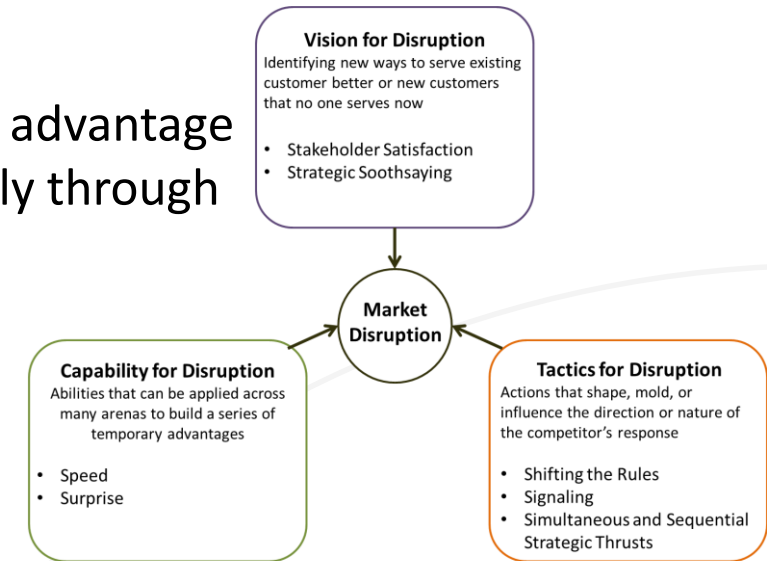







How to Deal with Hypercompetition

- Disrupt the status quo, and open opportunities for new advantage (temporary) competitive advantage can be achieved only through seizing the initiative.



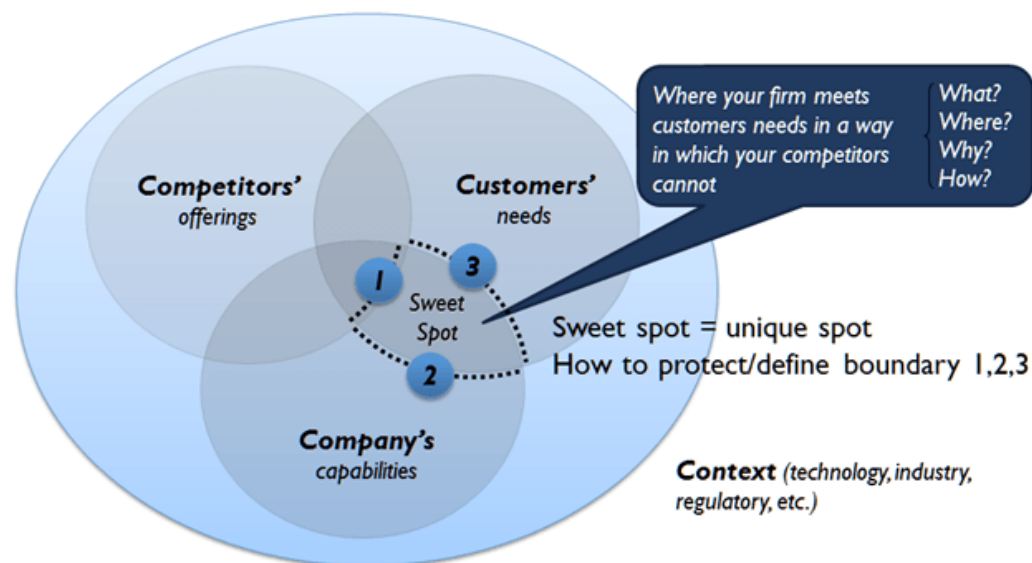
- Companies continuously establish spheres of influence
 - To secure company's main business from attacks from others

Zone of the Sphere	Strategic Intent	Example (Harley-Davidson)
Core	To keep economies of scale and value leadership, to build critical core competencies	Heavyweight cycles (750-cc), Custom cruisers, Touring motorcycles
Vital Interests	To create economies of scope and integration, to support, leverage or fund core initiatives	Harley Owners Group (H.O.G.), Clothing and fashion accessories, Harley-Davidson Financial Services, Dealer network service, parts and cycle accessories
Buffer Zones	To use blocking brands/products as barriers to entry, to fill in a "power vacuum" before a rival does	Defense against attacks by Japanese sportsters and performance cycles in the United States, Purchase of Buell Motorcycle Co., VRSC racing brand
Pivotal Zones	To invest in real options — risky, big upside opportunities, to absorb into (and hence migrate) the core in the long term	Buell's products for women, young/first-time riders
Forward Positions	To launch offensive strikes to capture rivals' strongholds, to establish multimarket contact in a rival's core, to harass, distract or divert a rival's resources or attention	Entry into Japan, Lower-cc cycles from Buell positioned against Honda in Europe
Power Vacuums	To be monitored to anticipate future threats and opportunities in emerging areas currently not controlled by any major player	

Recommended reading: D'AVENI, Richard A. [Corporate Spheres of Influence](#). MITSloan Management Review, Summer 2004 Volume 45, Issue #4

How to Deal with Hypercompetition

- Finding the Sweet spot



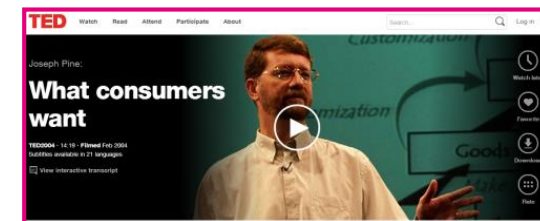
Source: Collis & Rukstad (2008). *Can You Say What Your Strategy Is?*, HBR (April 2008)

Recommended reading: COLLIS, David J. RUKSTAD, Michael G. [Can you say what your strategy is?](#) *Harvard Business Review*, 4/2008

- Types of Hypercompetition

Imitative Hypercompetition	Innovative Hypercompetition	Dual Hypercompetition
Pace of imitation is high but innovations are rather rare. Usually commodity markets where the products are almost the same. The product can be copied easily and innovations are limited just to marginal changes in design or color. I.e. home appliances industry	Industries where the introduction of new products is rapid and constant. However imitation is limited by the use of patents (or by the speed of the product life cycle). Pharmaceutical industry – only few companies control the market by continuously innovative medicines that can't be imitated until the expiration of the patent	Speed of innovation and imitation creates a highly turbulent environment. Both, innovation and imitation must be focused equally to conquer, or at least not lose, leadership in the market. Common in hi-tech industries, i.e. Apple and Samsung wars.

BARADELLO, Carlos S.; SALAZZARO, Andrea. The Role of Imitation in Global High-Tech Product Development. *Symphonya. Emerging Issues in Management*, 2012, 1 Innovation Management in Global Marktes-1: 57-71.



Marketing as a Strategy

- Even these days some companies rather focus on their products
 - Source of the competitive advantage is recognized inside the company (R&D, processes, effectiveness, technologies, HR, ...)
- Competition is not necessarily about having better product than others
 - To (better) understand customers' needs and satisfy them
 - Source of the competitive advantage could be in connection to the marketplace, understanding customer's needs, cooperation with marketing channels or other partners,, redefining purchase criteria...
 - Upstream activities (sourcing, production, logistics, ...) are being commoditized or outsourced

The Shifting Source of Competitive Advantage

WHAT ELSE CAN WE MAKE AND SELL?				WHAT ELSE CAN WE DO FOR OUR CUSTOMERS?		
UPSTREAM ACTIVITIES				DOWNSTREAM ACTIVITIES		
Sourcing	Production	Logistics	Innovation	Shaping Customer Perception	Innovation	Building Accumulative Advantage
Contract with lowest-cost suppliers	Reduce costs/ maximize scale and throughput	Optimize supply-chain and distribution efficiency	Build better products	Define competitive set Change purchase criteria Build trust	Tailor offering to consumption circumstances Reduce customer costs and risks	Harness network effects Accrue and deploy customer data
FIXED COSTS, CUSTOMER VALUE, AND COMPETITIVE ADVANTAGE ARE MOVING DOWNSTREAM						

Recommended reading: DAWAR, Niraj. [When Marketing Is Strategy](#). Harvard Business Review 12/2013

Marketing as a Strategy

- Where is the source of the competitive advantage? – in upstream or downstream activities?



- What matters more – What we sell or how we sell?



In a supermarket the consumer buys the drink as part of a 24-pack. The price is about 25 cents a can. The same consumer gladly pays two dollars for a chilled can of Coke sold at the point-of-thirst through a vending machine. That 700% price premium is attributable not to a better or different product but to a more convenient means of obtaining it.

What would happen to Coca-Cola if customers forget the brand and decide on “rational” criteria?

Apple iPhone is not [the best phone on the market](#) so why has Apple sold that much?

[Apple sold more than 10 million iPhones the first weekend.](#)
[Galaxy S5 can be considered Samsung's bestselling smartphone to date, shipped 10 million units in 27 days.](#)

Last June, Apple's older iPhone 5s outsold the S5 during its first full month of sales.

Definition of marketing: Putting the right product in the right place, at the right price, at the right time.

The downstream tilt has particular resonance for three kinds of companies: The first is companies that operate in product-obsessed industries, such as technology and pharmaceuticals. The possibilities of downstream value creation and the potential for building competitive advantage in the marketplace tend to be eye-opening for such firms. The second is companies operating in maturing industries whose products are increasingly commoditized. These firms are keen to find sources of differentiation that do not rely on easily replicated products or production advantages. The third is companies seeking to move up the value chain. Downstream activities provide a way to build new forms of customer value and lasting differentiation.

Marketing as a Strategy

Pfizer launched the first such drug, Viagra (erectile dysfunction drug), in April 1998, with a record 600,000 prescriptions filled that month alone. At a price of \$10 per dose and a gross margin of 90%, Pfizer could afford to splurge on marketing and sales. It rolled out a \$100 million advertising campaign, and sales reps made a whopping 700,000 physician visits that year. In the process, Pfizer created an entirely new market on the basis of one key criterion of purchase: efficacy. The drug got the job done. By 2001 annual sales had reached \$1.5 billion, and other pharmaceutical companies had taken note of the size, growth, and profitability of the market. In 2003, Bayer introduced Levitra, the first competitor to Viagra. The drug had a profile very similar to Viagra's and a slightly lower price—classic “me too” positioning.

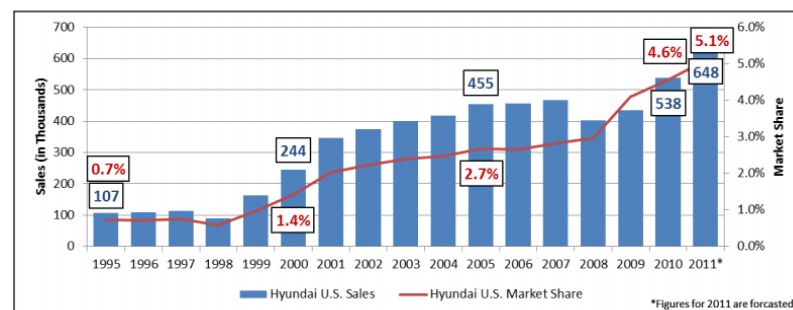
Soon after, Lilly Icos, a joint venture between Eli Lilly and the biotech firm ICOS, entered the market with a new product—Cialis—that was different from its competitors. Whereas Viagra and Levitra were effective for four to five hours, Cialis lasted up to 36 hours, making it potentially much more convenient for customers to use. The marketing team decided to emphasize the benefits of duration—being able to choose a time for intimacy in a 36-hour window—in its launch campaign, and it set the price for Cialis higher than that for Viagra to underscore the product's superiority. In 2012 Cialis passed Viagra's \$1.9 billion in annual sales, with duration supplanting efficacy as the key criterion of purchase in the erectile dysfunction market... [DAWAR, Niraj. When Marketing Is Strategy. Harvard Business Review 12/2013](#)

In one-on-one interviews in mid-2000, Viagra users who had been informed of the attributes of both drugs were given a stack of objects and asked to sort them into two groups, one for Viagra and the other for Cialis. Red-lace teddies, stiletto-heeled shoes, and champagne glasses were assigned to Viagra, while fluffy bathrobes and down pillows belonged to Cialis. The implication: Viagra was for studs, Cialis for romantics. (Is Viagra Vulnerable?).

The 2008–2009 recession hit US car market hard. Automakers ended a dreadful 2009 – the worst U.S. sales year since 1982. To save sinking sales, most car manufacturers began a price war (which made their situation even more difficult). The U.S. government had to help GM and Chrysler with \$85 billion bailout. Hyundai struggled as well (sales dropped by 37 %), since targets more price sensitive customers. However the company decided to follow a different way than price adjustments. In a conducted survey, customers often reported that *The risk of buying during the financial crisis—when I could lose my job at any time—is simply too high*. Instead of lower prices, Hyundai offered Hyundai Assurance Program – *Hyundai would buy back their vehicles if they lost their jobs, went bankrupt, or became disabled*. The company's sales ticked up 8% in 2009 – at a time when nearly every other automaker was in the red – and a whopping 23.7% in 2010, which was the best performance of any mainstream automaker in the U.S. Only 350 customers have made use of the Assurance Program's buyback offer so far.

[After 26 Months, Hyundai Assurance Program Gets Its Walking Papers, Auto sales end 2009 with uptick, but year was awful](#)

Figure 3-7: Hyundai Annual U.S. Sales and Market Share 1995 - 2011



Source: IHS Global Insight, CAR Research



DECEMBER AND 2009 U.S. AUTO SALES | Story

Company	Dec. sales	Chg. from Dec. 2008	2009 sales	Chg. from 2008	2008 U.S. share	2009 U.S. share
GM1	207,538	-5.7%	2,071,749	-29.9%	24.6%	19.9%
Toyota Motor2	187,860	32.3%	1,770,149	-20.2%	15.9%	17.0%
Ford Motor3	183,701	32.8%	1,677,234	-15.3%	15.5%	16.1%
Honda4	107,143	24.5%	1,150,784	-19.5%	9.6%	11.0%
Chrysler Grp.	86,523	-3.7%	931,402	-35.9%	10.0%	8.9%
Nissan5	73,404	18.2%	770,103	-19.1%	6.9%	7.4%
Hyundai	33,797	40.6%	435,064	8.3%	2.7%	4.2%
Kia Motors	21,048	43.7%	300,063	9.8%	1.6%	2.9%
Volkswagen Grp.6	29,597	16.2%	297,882	-5.2%	2.8%	2.9%
BMW7	23,634	9.1%	242,053	-20.3%	2.4%	2.3%
Subaru	23,074	33.5%	216,652	15.4%	1.9%	2.1%
Mazda	18,255	1.6%	207,767	-21.3%	2.0%	2.0%
Mercedes-Benz	20,059	8.3%	190,604	-15.3%	2.1%	1.8%
Mitsubishi	4,355	-4.7%	53,986	-44.5%	0.5%	0.5%
Suzuki	1,885	-48.4%	38,695	-54.4%	0.4%	0.4%
Jaguar Land Rover	4,841	33.3%	38,261	-14.1%	0.4%	0.4%
Porsche	2,118	-1.7%	19,696	-24.3%	0.2%	0.2%
Smart USA	864	-63.1%	14,595	-40.7%	0.3%	0.1%
Ferrari	125	2.5%	1,374	-14.2%	0.0%	0.0%
Maserati	115	-56.6%	1,275	-49.2%	0.0%	0.0%
Isuzu	0	-100.0%	165	-96.5%	0.0%	0.0%
Total light-vehicle sales	1,029,936	15.1%	10,429,553	-21.2%	100.0%	100.0%

1 = includes Saab; 2 = includes Lexus; 3 = includes Volvo; 4 = includes Acura; 5 = includes Infiniti; 6 = includes Audi; 7 = includes Mini Source: Autodata