Answers

The Relationship between Business Strategy and Marketing

MARKET-ORIENTED MANAGEMENT

No matter where companies are located, marketing managers do not play an equally extensive strategic role in every firm because not all firms are equally market- oriented. Not surprisingly, marketers tend to have a greater influence on all levels of strategy in organizations that embrace a market-oriented philosophy of business. More critically, managers in other functional areas of market-oriented firms incorporate more customer and competitor information into their decision-making processes as well.

Market-oriented organizations tend to operate according to the business philosophy known as the **marketing concept**. As originally stated by General Electric five decades ago, the marketing concept holds that the planning and coordination of all company activities around the primary goal of satisfying customer needs is the most effective means to attain and sustain a competitive advantage and achieve company objectives over time. Thus, market-oriented firms are characterized by a consistent focus by personnel in all departments and at all levels on customers' needs and competitive circumstances in the market environment. They are also willing and able to quickly adapt products and functional programs to fit changes in that environment. Such firms pay a great deal of attention to customer research before products are designed and produced. They embrace the concept of market segmentation by adapting product offerings and marketing programs to the special needs of different target markets.

Market-oriented firms also adopt a variety of organizational procedures and structures to improve the responsiveness of their decision making, including using more detailed environmental scanning and continuous, real-time information systems; seeking frequent feedback from and coordinating plans with key customers and major suppliers; decentralizing strategic decisions; encouraging entrepreneurial thinking among lower-level managers; and using interfunctional management teams to analyze issues and initiate strategic actions outside the formal planning process. For example, IBM formed a high-level cross-functional task force to reevaluate its market environment, develop a new strategic focus, and map new avenues toward future growth. And it has formed cross-functional teams to help individual customers identify and resolve their business problems and to sustain long- term relationships. These and other actions recommended to make an organization more market-driven and responsive to environmental changes are summarized in Exhibit 2.3.

http://answers.mheducation.com/marketing/marketing-strategy/relationship-between-business-strategy-and-marketing

Exhibit 2.3

Guidelines for Market-Oriented Management

1. Create customer focus throughout the business.

2. Listen to the customer.

3. Define and nurture your distinctive competence.

4. Define marketing as market intelligence.

5. Target customers precisely.

6. Manage for profitability, not sales volume.

7. Make customer value the guiding star.

8. Let the customer define quality.

9. Measure and manage customer expectations.

10. Build customer relationships and loyalty.

11. Define the business as a service business.

12. Commit to continuous improvement and innovation.

13. Manage culture along with strategy and structure.

14. Grow with partners and alliances.

15. Destroy marketing bureaucracy.

THE PAYOFF OF MARKET-ORIENTATION

Since an organization's success over time hinges on its ability to provide benefits of value to its customers—and to do that better than its competitors—it seems likely that market-oriented firms should perform better than others. By paying careful attention to customer needs and competitive threats—and by focusing activities across all functional departments on meeting those needs and threats effectively—organizations should be able to enhance, accelerate, and reduce the volatility and vulnerability of their cash flows. And that should enhance their economic performance and shareholder value. Indeed, profitability is the third leg, together with a customer focus and cross-functional coordination, of the three-legged stool known as the marketing concept.

Sometimes the marketing concept is interpreted as a philosophy of trying to satisfy all customers' needs regardless of the cost. That would be a prescription for financial disaster. Instead, the marketing concept is consistent with the notion of focusing on only those segments of the customer population that the firm can satisfy both effectively and profitably. Firms might offer less extensive or costly goods and services to unprofitable segments or avoid them. For example, the Buena Vista Winery Web site (**www. buenavistawinery.com**) does not accept orders of less than a case because they are too costly to process and ship.

Substantial evidence supports the idea that being market-oriented pays dividends, at least in a highly developed economy such as the United States. A number of studies involving more than 500 firms or business units across a variety of industries indicate that a market orientation has a significant positive effect on various dimensions of performance, including return on assets, sales growth, and new product success. Even entrepreneurial start-ups appear to benefit from a strong customer orientation. One recent study of start-ups in Japan and the United States found that new firms that focused on marketing first, rather than lowering costs or advancing technology, were less likely to be brought down by competitors as their product-markets developed.

FACTORS INFLUENCING MARKET-ORIENTATION

Despite the evidence that a market-orientation boosts performance, many companies around the world are not very focused on their customers or competitors. Among the reasons firms are not always in close touch with their market environments are these:

● Competitive conditions may enable a company to be successful in the short run without being particularly sensitive to customer desires.

● Different levels of economic development across industries or countries may favor different business philosophies.

● Firms can suffer from strategic inertia—the automatic continuation of strategies successful in the past, even though current market conditions are changing.

Competitive Factors Affecting a Firm's Market Orientation

The competitive conditions some firms face enable them to be successful in the short term without paying much attention to their customers, suppliers, distributors, or other organizations in their market environment. Early entrants into newly emerging industries, particularly industries based on new technologies, are especially likely to be internally focused and not very market- oriented. This is because there are likely to be relatively few strong competitors during the formative years of a new industry, customer demand for the new product is likely to grow rapidly and outstrip available supply, and production problems and resource constraints tend to represent more immediate threats to the survival of such new businesses.

Businesses facing such market and competitive conditions are often **product-oriented** or **production-oriented**. They focus most of their attention and resources on such functions as product and process engineering, production, and finance in order to acquire and manage the resources necessary to keep pace with growing demand. The business is primarily concerned with producing more of what it wants to make, and marketing generally plays a secondary role in formulating and implementing strategy. Other functional differences between production-oriented and market-oriented firms are summarized in Exhibit 2.4.

As industries grow, they become more competitive. New entrants are attracted and existing producers attempt to differentiate themselves through improved products and more-efficient production processes. As a result, industry capacity often grows faster than demand and the environment shifts from a seller's market to a buyer's market. Firms often respond to such changes with aggressive promotional activities—such as hiring more salespeople, increasing advertising budgets, or offering frequent price promotions—to maintain market share and hold down unit costs.

Unfortunately, this kind of **sales-oriented** response to increasing competition still focuses on selling what the firm wants to make rather than on customer needs. Worse, competitors can easily match such aggressive sales tactics. Simply spending more on selling efforts usually does not create a sustainable competitive advantage.

As industries mature, sales volume levels off and technological differences among brands tend to shrink as manufacturers copy the best features of each other's products. Consequently, a firm must seek new market segments or steal share from competitors by offering lower prices, superior services, or intangible benefits other firms cannot match. At this stage, managers can most readily appreciate the benefits of a market orientation, and marketers are often given a bigger role in developing competitive strategies. Of course, a given industry's characteristics may make some components of a market orientation more crucial for good performance than others. For example, in an industry dominated by large, dynamic competitors—as in the global automobile industry—being responsive to competitor moves may be even more important than a strong customer focus. But the bottom line is that an orientation toward the market — competitors, customers, and potential customers—is usually crucial for continued success in global markets.

Exhibit 2.4

DIFFERENCES BETWEEN PRODUCTION-ORIENTED AND MARKET-ORIENTED ORGANIZATIONS

Business activity or function	Production orientation	Marketing orientation
Product offering	Company sells what it can make; primary focus on functional performance and cost.	Company makes what it can sell; primary focus on customers' needs and market opportunities.
Product line	Narrow.	Broad.
Pricing	Based on production and distribution costs.	Based on perceived benefits provided.
Research	Technical research; focus on product improvement and cost cutting in the production process.	Market research; focus on identifying new opportunities and applying new technology to satisfy customer needs.
Packaging	Protection for the product; minimize costs.	Designed for customer convenience; a promotional tool.
Credit	A necessary evil; minimize bad debt losses.	A customer service; a tool to attract customers.
Promotion	Emphasis on product features, quality, and price.	Emphasis on product benefits and ability to satisfy customers' needs or solve problems.

The Influence of Different Stages of Development across Industries and Global Markets

The previous discussion suggests that the degree of adoption of a market orientation varies not only across firms but also across entire industries. Industries that are in earlier stages of their life cycles, or that benefit from barriers to entry or other factors reducing the intensity of competition, are likely to have relatively fewer market-oriented firms. For instance, in part because of governmental regulations that restricted competition, many service industries—including banks, airlines, physicians, lawyers, accountants, and insurance companies—were slow to adopt the marketing concept. But with the trend toward deregulation and the increasingly intense global competition in such industries, many service organizations are working much harder to understand and satisfy their customers.

Given that entire economies are in different stages of development around the world, the popularity—and even the appropriateness—of different business philosophies may also vary across countries. A production orientation was the dominant business philosophy in the United States, for instance, during the industrialization that occurred from the mid-1800s through World War I. Similarly, a primary focus on developing product and production technology may still be appropriate in developing nations that are in the midst of industrialization.

International differences in business philosophies can cause some problems for the globalization of a firm's strategic marketing programs, but it can create some opportunities as well, especially for alliances or joint ventures. Consider, for example, the partnership between French automaker Renault-Nissan and the Russian car manufacturer AvtoVAZ discussed in Exhibit 2.5.

Exhibit 2.5 ***Renault's Partnership with Russian Automaker AvtoVAZ Benefits Both Parties***

The AvtoVAZ car factory in the central Russian city of Togliatti is a decrepit, mile-long building where the company's Lada sedans are turned out by 40-year- old equipment. Nevertheless, the French carmaker Renault-Nissan recently paid $1 billion for a 25 percent stake in AvtoVAZ. Even after investing more millions to modernize the plant, Renault figures that Russia's low labor and energy costs will make the plant ideal for producing the Logan lineup of cars that the firm introduced in 2004. The no-frills Logan, starting at about $9,000, has become the world's most successful cheap car. Its partnership with AvtoVAZ should also help Renault appeal to Russian car buyers and capture a larger share of that country's rapidly growing market. But AvtoVAZ will also benefit from the partnership, especially on the production side. A key reason the firm agreed to the deal with Renault was "the modern technology and know-how that the company will provide us," according to Chairman Sergei Chemezov. The partnership may also encourage global auto parts suppliers to build new, more-efficient plants near the AvtoVAZ factory.

Strategic Inertia

In some cases, a firm that achieved success by being in tune with its environment loses touch with its market because managers become reluctant to tamper with strategies and marketing programs that worked in the past. They begin to believe there is one best way to satisfy their customers. Such strategic inertia is dangerous because customers' needs and competitive offerings change over time. IBM's traditional focus on large organizational customers, for instance, caused the company to devote too little effort to the much faster-growing segment of small technology start-ups. And its emphasis on computer technology and hardware made it slow to respond to the explosive growth in demand for applications software and consulting services. Thus, in environments where such changes happen frequently, the strategic planning process needs to be ongoing and adaptive. All the participants, whether from marketing or other functional departments, need to pay constant attention to what is happening with their customers and competitors.

Three Levels of Strategy: Similar Components, but Different Issues

We have argued that marketing managers have primary responsibility for the marketing strategies associated with individual product or service offerings, and that their perspectives and inputs often have a major influence on the decisions that shape corporate and business-level strategies. But we haven't said much about what those strategic decisions are. Consequently, it's time to define what strategies are and how they vary across different levels of an organization.

MARKETING STRATEGY DEFINITION

Although strategy first became a popular business buzzword during the 1960s, it continues to be the subject of widely differing definitions and interpretations. The following definition, however, captures the essence of the term:

A **strategy** is a fundamental pattern of present and planned objectives, resource deployments, and interactions of an organization with markets, competitors, and other environmental factors.

Our definition suggests that a strategy should specify (1) what (objectives to be accomplished), (2) where (on which industries and product-markets to focus), and (3) how (which resources and activities to allocate to each product-market to meet environmental opportunities and threats and to gain a competitive advantage).

COMPONENTS OF BUSINESS STRATEGY

A well-developed strategy contains five components, or sets of issues:

1. *Scope*. The scope of an organization refers to the breadth of its strategic domain—the number and types of industries, product lines, and market segments it competes in or plans to enter. Decisions about an organization's strategic scope should reflect management's view of the firm's purpose, or mission. This common thread among its various activities and product-markets defines the essential nature of what its business is and what it should be.

2. *Goals and objectives*. Strategies should also detail desired levels of accomplishment on one or more dimensions of performance—such as volume growth, profit contribution, or return on investment—over specified time periods for each of those

businesses and product-markets and for the organization as a whole.

3. *Resource deployments*. Every organization has limited financial and human resources. Formulating a strategy also involves deciding how those resources are to be obtained and allocated, across businesses, product-markets, functional departments, and activities within each business or product-market.

4. *Identification of a sustainable competitive advantage*. One important part of any strategy is a specification of how the organization will compete in each business and product-market within its domain. How can it position itself to develop and sustain a differential advantage over current and potential competitors? To answer such questions, managers must examine the market opportunities in each business and product-market and the company's distinctive competencies or strengths relative to its competitors.

5. *Synergy*. Synergy exists when the firm's businesses, product-markets, resource deployments, and competencies complement and reinforce one another. Synergy enables the total performance of the related businesses to be greater than it would otherwise be: The whole becomes greater than the sum of its parts.

HIERARCHY OF STRATEGIES

Explicitly or implicitly, these five basic dimensions are part of all strategies. However, rather than a single comprehensive strategy, most organizations have a hierarchy of inter-related strategies, each formulated at a different level of the firm. The three major levels of strategy in most large, multiproduct organizations are (1) **corporate strategy**, (2) **business-level strategy**, and (3) **functional strategies** focused on a particular product-market entry. In small, single-product-line companies or entrepreneurial start-ups, however, corporate and business-level strategic issues merge.

Our primary focus is on the development of marketing strategies and programs for individual product-market entries, but other functional departments, such as R&D and production, also have strategies and plans for each of the firm's product-markets. Throughout this book, therefore, we examine the interfunctional implications of product- market strategies, conflicts across functional areas, and the mechanisms that firms use to resolve those conflicts.

Strategies at all three levels contain the five components, but because each strategy serves a different purpose within the organization, each emphasizes a different set of issues. Exhibit 2.6 summarizes the specific focus and issues dealt with at each level of strategy; we discuss them in the next sections.

Exhibit 2.6

KEY COMPONENTS OF CORPORATE, BUSINESS, AND MARKETING STRATEGIES

Strategy components	Corporate strategy	Business strategy	Marketing strategy
Scope	• Corporate domain—"Which businesses should we be in?" • Corporate development strategy Conglomerate diversification (expansion into unrelated businesses) Vertical integration Acquisition and divestiture policies	• Business domain—"Which product-markets should we be in within this business or industry? • Business development strategy Concentric diversification (new products for existing customers or new customers for existing products)	• Target market definition • Product-line depth and breadth • Branding policies • Product-market development plan • Line extension and product elimination plans
Goals and objectives	• Overall corporate objectives aggregated across businesses Revenue growth Profitability ROI (return on investment) Earnings per share Contributions to other stakeholders	• Constrained by corporate goals • Objectives aggregated across product-market entries in the business unit Sales growth New product or market growth Profitability ROI Cash flow Strengthening bases of competitive advantage	• Constrained by corporate and business goals • Objectives for a specific product-market entry Sales Market share Contribution margin Customer satisfaction
Allocation of resources	• Allocation among businesses in the corporate portfolio • Allocation across functions shared by multiple businesses (corporate R&D, MIS)	• Allocation among product-market entries in the business unit • Allocation across functional departments within the business unit	• Allocation across components of the marketing plan (elements of the marketing mix) for a specific product-market entry
Sources of competitive advantage	• Primarily through superior corporate financial or human resources; more corporate R&D; better organizational processes or synergies relative to competitors across all industries in which the firm operates	• Primarily through competitive strategy, business unit's competencies relative to competitors in its industry	• Primarily through effective product positioning; superiority on one or more components of the marketing mix relative to competitors within a specific product-market
Sources of synergy	• Shared resources, technologies, or functional competencies across businesses within the firm	• Shared resources (including favorable customer image) or functional competencies across product-markets within an industry	• Shared marketing resources, competencies, or activities across product-market entries

CORPORATE STRATEGY

At the corporate level, managers must coordinate the activities of multiple business units and, in the case of conglomerates, even separate legal business entities. Decisions about the organization's scope and resource deployments across its divisions or businesses are the primary focus of corporate strategy. The essential questions at this level include, what business(es) are we in? What business(es) should we be in? and What portion of our total resources should we devote to each of these businesses to achieve the organization's overall goals and objectives? Thus, new CEO Palmisano and other top-level managers at IBM decided to pursue future growth primarily through the development of consulting services and software rather than computer hardware. They shifted substantial corporate resources—including R&D expenditures, marketing and advertising budgets, and vast numbers of salespeople—into the corporation's service and software businesses to support the new strategic direction.

Attempts to develop and maintain distinctive competencies at the corporate level focus on generating superior human, financial, and technological resources; designing effective organization structures and processes; and seeking synergy among the firm's various businesses. Synergy can provide a major competitive advantage for firms where related businesses share R&D investments, product or production technologies, distribution channels, a common sales force and/or promotional themes—as in the case of IBM.

BUSINESS-LEVEL STRATEGY

How a business unit competes within its industry is the critical focus of business-level strategy. A major issue in a business strategy is that of sustainable competitive advantage. What distinctive competencies can give the business unit a competitive advantage? And which of those competencies best match the needs and wants of the customers in the business's target segment(s)? For example, a business with low-cost sources of supply and efficient, modern plants might adopt a low-cost competitive strategy. One with a strong marketing department and a competent sales force may compete by offering superior customer service.

Another important issue a business-level strategy must address is appropriate scope: how many and which market segments to compete in, and the overall breadth of product offerings and marketing programs to appeal to these segments. Finally, synergy should be sought across product-markets and across functional departments within the business.

MARKETING STRATEGY

The primary focus of marketing strategy is to effectively allocate and coordinate marketing resources and activities to accomplish the firm's objectives within a specific product-market. Therefore, the critical issue concerning the scope of a marketing strategy is specifying the target market(s) for a particular product or product line. Next, firms seek competitive advantage and synergy through a well-integrated program of marketing mix elements (the 4 Ps of product, price, place, promotion) tailored to the needs and wants of potential customers in that target market.

The Marketing Implications of Corporate Strategy Decisions

To formulate a useful corporate strategy, management must address six interrelated decisions: (1) the overall scope and mission of the organization, (2) company goals and objectives, (3) a source of competitive advantage, (4) a development strategy for future growth, (5) the allocation of corporate resources across the firm's various businesses, and (6) the search for synergy via the sharing of corporate resources, intangibles, or programs across businesses or product lines. While a market orientation—and the analytical tools that marketing managers use to examine customer desires and competitors' strengths and weaknesses—can provide useful insights to guide all six of these strategic decisions, they are particularly germane for revealing the most attractive avenues for future growth and for determining which businesses or product-markets are likely to produce the greatest returns on the company's resources.

In turn, all of these corporate decisions have major implications for the strategic marketing plans of the firm's various products or services. Together, they define the general strategic direction, objectives, and resource constraints within which those marketing plans must operate. We next examine the Marketing Implications involved in both formulating and implementing these components of corporate strategy.

CORPORATE MISSION

A well-thought-out mission statement guides an organization's managers as to which market opportunities to pursue and which fall outside the firm's strategic domain. A clearly stated mission can help instill a shared sense of direction, relevance, and achievement among employees, as well as a positive image of the firm among customers, investors, and other stakeholders.

To provide a useful sense of direction, a corporate mission statement should clearly define the organization's strategic scope. It should answer such fundamental questions as the following: What is our business? Who are our customers? What kinds of value can we provide to these customers? and What should our business be in the future? For example, 20 years ago PepsiCo, the manufacturer of Pepsi-Cola, broadened its mission to focus on "marketing superior quality food and beverage products for households and consumers dining out." That clearly defined mission guided the firm's managers toward the acquisition of several related companies, such as Frito-Lay, Taco Bell, and Pizza Hut.

More recently, in response to a changing global competitive environment, PepsiCo narrowed its scope to focus primarily on package foods (particularly salty snacks) and beverages distributed through supermarket and convenience store channels. This new, narrower mission led the firm to (1) divest all of its fast-food restaurant chains; (2) acquire complementary beverage businesses, such as Tropicana juices, Lipton's iced teas, and Gatorade sports drinks; and develop new brands targeted at rapidly growing beverage segments, such as Aquafina bottled water.

PepsiCo's most recent mission continues to focus on packaged snacks and beverages sold through food retailers, but also seeks "Performance with purpose." That phrase essentially boils down to balancing the profit motive with the development of healthier, more nutritious snacks and drinks, and striving for a net-zero impact on the environment. Consequently, PepsiCo has either acquired or partnered with a Bulgarian nut packager, an Israeli hummus maker, and Naked Juice—a California company that makes nutritional beverages like smoothies.

Market Influences on the Corporate Mission

Like any other strategy component, an organization's mission should fit both its internal characteristics and the opportunities and threats in its external environment. Obviously, the firm's mission should be compatible with its established values, resources, and distinctive competencies. But it should also focus the firm's efforts on markets where those resources and competencies will generate value for customers, an advantage over competitors, and synergy across its products. Thus, PepsiCo's new mission reflects (1) the firm's package goods marketing, sales, and distribution competencies, (2) its perception that substantial synergies can be realized across snack foods and beverages within supermarket channels via shared Logistics, joint displays and sales promotions, cross-couponing, and the like, and (3) a corporate culture that believes the company should be an active player is solving some of the social problems—such as obesity and global warming—the world faces.

Criteria for Defining the Corporate Mission

Several criteria can be used to define an organization's strategic mission. Many firms specify their domain in physical terms, focusing on products or services or the technology used. The problem is that such statements can lead to slow reactions to technological or customer-demand changes. For example, Theodore Levitt once argued that Penn Central's view of its mission as being "the railroad business" helped cause the firm's failure. Penn Central did not respond to major changes in transportation technology, such as the rapid growth of air travel and the increased efficiency of long-haul trucking. Nor did it respond to consumers' growing willingness to pay higher prices for the increased speed and convenience of air travel. Levitt argued that it is better to define a firm's mission as what customer needs are to be satisfied and the functions the firm must perform to satisfy them. Products and technologies change over time, but basic customer needs tend to endure. Thus, if Penn Central had defined its mission as satisfying the transportation needs of its customers rather than simply being a railroad, it might have been more willing to expand its domain to incorporate newer technologies.

One problem with Levitt's advice, though, is that a mission statement focusing only on basic customer needs can be too broad to provide clear guidance and can fail to take into account the firm's specific competencies. If Penn Central had defined itself as a transportation company, should it have diversified into the trucking business? Started an airline? As the upper-right quadrant of Exhibit 2.7 suggests, the most useful mission statements focus on the customer need to be satisfied and the functions that must be performed to satisfy that need. They are specific as to the customer groups and the products or technologies on which to concentrate. Thus, instead of seeing itself as being in the railroad business or as satisfying the transportation needs of all potential customers, Burlington Northern Santa Fe Railroad's mission is to provide long-distance transportation for large-volume producers of low-value, low-density products, such as coal and grain.

Exhibit 2.7

CHARACTERISTICS OF EFFECTIVE CORPORATE MISSION STATEMENTS

	Broad	Specific
Functional Based on customer needs	Transportation business	Long-distance transportation for large-volume producers of low-value, low-density products
Physical Based on existing products or technology	Railroad business	Long-haul, coal-carrying railroad

CORPORATE OBJECTIVES

Confucius said, "For one who has no objective, nothing is relevant." Formal objectives provide decision criteria that guide an organization's business units and employees toward specific dimensions and performance levels. Those same objectives provide the benchmarks against which actual performance can be evaluated.

To be useful as decision criteria and evaluative benchmarks, corporate objectives must be specific and measurable. Therefore, each objective contains four components:

● A performance dimension or attribute sought.

● A measure or index for evaluating progress.

● A target or hurdle level to be achieved.

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

Exhibit 2.9 lists some common performance dimensions and measures used in specifying corporate as well as business-unit and marketing objectives. When specifying short- term business-level and marketing goals, however, two additional dimensions become important: their relevance to higher-level strategies and goals and their attainability. Thus, we find it useful to follow the SMART acronym when specifying objectives at all levels: specific, measurable, attainable, relevant, and time-bound.

Exhibit 2.9

Common Performance Criteria and Measures That Specify Corporate, Business-Unit, and Marketing Objectives

Performance criteria	Possible measures or indexes
• Growth	$ sales Unit sales Percent change in sales
• Competitive strength	Market share Brand awareness Brand preference
• Innovativeness	$ sales from new products Percentage of sales from product-market entries introduced within past five years Percentage cost savings from new processes
• Profitability	$ profits Profit as percentage of sales Contribution margin* Return on investment (ROI) Return on net assets (RONA) Return on equity (ROE)
• Utilization of resources	Percent capacity utilization Fixed assets as percentage of sales
• Contribution to owners	Earnings per share Price/earnings ratio
• Contribution to customers	Price relative to competitors Product quality Customer satisfaction Customer retention Customer loyalty Customer lifetime value
• Contribution to employees	Wage rates, benefits Personnel development, promotions Employment stability, turnover
• Contribution to society	$ contributions to charities or community institutions Growth in employment

The Marketing Implications of Corporate Objectives

Most organizations pursue multiple objectives. This is clearly demonstrated by a study of the stated objectives of 82 large corporations. The largest percentage of respondents (89 percent) had explicit profitability objectives; 82 percent reported growth objectives;

66 percent had specific market share goals. More than 60 percent mentioned social responsibility, employee welfare, and customer service objectives, and 54 percent of the companies had R&D/new product development goals. These percentages add up to more than 100 percent because most firms had several objectives.

Trying to achieve many objectives at once leads to conflicts and trade-offs. For example, the investment and expenditure necessary to pursue growth in the long term is likely to reduce profitability and ROI in the short term. Managers can reconcile conflicting goals by prioritizing them. Another approach is to state one of the conflicting goals as a constraint or **hurdle**. Thus, a firm attempts to maximize growth subject to meeting some minimum ROI hurdle.

In firms with multiple business units or product lines, however, the most common way to pursue a set of conflicting objectives is to first break them down into sub-objectives, then assign sub-objectives to different business units or products. Thus, sub-objectives often vary across business units and product offerings depending on the attractiveness and potential of their industries, the strength of their competitive positions, and the resource allocation decisions made by corporate managers. For example, PepsiCo's managers likely set relatively high volume and share-growth objectives but lower ROI goals for the firm's Aquafina brand, which is battling for prominence in the rapidly growing bottled water category, than for Lay's potato chips, which hold a commanding 40 percent share of a mature product category. Therefore, two marketing managers responsible for different products may face very different goals and expectations—requiring different marketing strategies to accomplish—even though they work for the same organization.

As firms emphasize developing and maintaining long-term customer relationships, customer-focused objectives—such as satisfaction, retention, and loyalty—are being given greater importance. Such market-oriented objectives are more likely to be consistently pursued across business units and product offerings. There are several reasons for this. First, given the huge profit implications of a customer's lifetime value, maximizing satisfaction and loyalty tends to make good sense no matter what other financial objectives are being pursued in the short term. Second, satisfied, loyal customers of one product can be leveraged to provide synergies for other company products or services. Finally, customer satisfaction and loyalty are determined by factors other than the product itself or the activities of the marketing department. A study of one industrial paper company, for example, found that about 80 percent of customers' satisfaction scores were accounted for by non-product factors, such as order processing, delivery, and post-sale services. Since such factors are influenced by many functional departments within the corporation, they are likely to have a similar impact across a firm's various businesses and products.

CORPORATE COMPETITIVE ADVANTAGE

There are many ways a company might attempt to gain an advantage within the scope of its competitive domain. In most cases, though, a sustainable competitive advantage at the corporate level is based on company resources: resources that other firms do not have, that take a long time to develop, and that are hard to acquire. Many such unique resources are marketing related. For example, some businesses have highly developed market information systems, extensive market research operations, and/or cooperative long-term relationships with customers that give them a superior ability to identify and respond to emerging customers' needs and desires. Others have a brand name that customers recognize and trust, cooperative alliances with suppliers or distributors that enhance efficiency, or a body of satisfied and loyal customers who are predisposed to buy related products or services.

But the fact that a company possesses resources that its competitors do not have is not sufficient to guarantee superior performance. The trick is to develop a competitive strategy, for each business unit within the firm, and a strategic marketing program, for each of its product lines that convert one or more of the company's unique resources into something of value to customers. Therefore, we will have more to say about converting corporate strengths into effective business-level competitive strategies later.

CORPORATE GROWTH STRATEGIES

Often, the projected future sales and profits of a corporation's business units and product- markets fall short of the firm's long-run growth and profitability objectives. There is a gap between what the firm expects to become if it continues on its present course and what it would like to become. This is not surprising because some of its high-growth markets are likely to slip into maturity over time and some of its high-profit mature businesses may decline to insignificance as they get older. Thus, to determine where future growth is coming from, management must decide on a strategy to guide corporate development.

Essentially, a firm can go in two major directions in seeking future growth: **expansion** of its current businesses and activities, or **diversification** into new businesses, either through internal business development or acquisition. Exhibit 2.10 outlines some specific options a firm might pursue while seeking growth in either of these directions.

Exhibit 2.10

ALTERNATIVE CORPORATE GROWTH STRATEGIES

	Current products	New products
Current markets	Market penetration strategies • Increase market share • Increase product usage Increase frequency of use Increase quantity used New applications	Product development strategies • Product improvements • Product-line extensions • New products for same market
New markets	Market development strategies • Expand markets for existing products Geographic expansion Target new segment	Diversification strategies • Vertical integration Forward integration Backward integration • Diversification into related businesses (concentric diversification) • Diversification into unrelated businesses (conglomerate diversification)

Expansion by Increasing Penetration of Current Product-Markets

One way for a company to expand is by increasing its share of existing markets. This typically requires actions such as making product or service improvements, cutting costs and prices, or outspending competitors on advertising or promotions. Amazon.com pursued a combination of all these actions—as well as forming alliances with Web portals, affinity groups, and the like—to expand its share of Web shoppers, even though the expense of such activities postponed the firm's ability to become profitable.

Even when a firm holds a commanding share of an existing product-market, additional growth may be possible by encouraging current customers to become more loyal and concentrate their purchases, use more of the product or service, use it more often, or use it in new ways. In addition to its promotional efforts, Amazon.com spent hundreds of millions of dollars early in its development on warehouses and order fulfillment activities, investments that earned the loyalty of its customers. As a result, by the year 2000 more than three-quarters of the firm's sales were coming from repeat customers. 29 Other examples include museums that sponsor special exhibitions to encourage patrons to make repeat visits and the recipes that Quaker Oats includes on the package to tempt buyers to include oatmeal as an ingredient in other foods, such as cookies and desserts.

Expansion by Developing New Products for Current Customers

A second avenue to future growth is through a product-development strategy emphasizing the introduction of product-line extensions or new product or service offerings aimed at existing customers. For example, Arm & Hammer successfully introduced a laundry detergent, an oven cleaner, and a carpet cleaner. Each capitalized on baking soda's image as an effective deodorizer and on a high level of recognition of the Arm & Hammer brand.

Expansion by Selling Existing Products to New Segments or Countries

Perhaps the growth strategy with the greatest potential for many companies is the development of new markets for their existing goods or services. This may involve the creation of marketing programs aimed at nonuser or occasional-user segments of existing markets. Thus, theaters, orchestras, and other performing arts organizations often sponsor touring companies to reach audiences outside major metropolitan areas and promote matinee performances with lower prices and free public transportation to attract senior citizens and students.

Expansion into new geographic markets, particularly new countries, is also a primary growth strategy for many firms. For example, the strategic plan of Degussa, the large German specialty chemicals manufacturer, calls for greatly increased resources and marketing efforts to be directed toward China over the next few years. As Utz-Hellmuth Felcht—the chairman of the firm's management board—points out, the vast number of untapped potential customers for the firm's products means China offers greater promise for future sales growth than Western Europe and North America combined.

While developing nations represent attractive growth markets for basic industrial and infrastructure goods and services, growing personal incomes and falling trade barriers are making them attractive potential market for many consumer goods and services as well. Even developed nations can represent growth opportunities for products or services based on newly emerging technologies or business models. For instance, while retail sales in the United States will likely grow slowly, if at all, over the next few years, the portion of those sales occurring online is expected to grow at a double-digit pace through 2010, reaching nearly 5 percent of total sales.

Expansion by Diversifying

Firms also seek growth by diversifying their operations. This is typically riskier than the various expansion strategies because it often involves learning new operations and dealing with unfamiliar customer groups. Nevertheless, the majority of large global firms are diversified to one degree or another.

Vertical integration is one way for companies to diversify. **Forward vertical integration** occurs when a firm moves downstream in terms of the product flow, as when a manufacturer integrates by acquiring or launching a wholesale distributor or retail outlet. For example, most of Europe's fashion houses—like Ermenegeldo Zegna and Georgio Armani—own at least some of their own retail outlets in major cities in order to gain better control over their companies' merchandising programs and more direct feedback from customers. In recent years such integrated retail outlets have also been important for establishing a foothold in developing markets such as China where independent retailers with a prestige image can be in short supply. Indeed, Zegna's 40 stores on the mainland were instrumental in growing China into the firm's fourth-largest market.

Backward integration occurs when a firm moves upstream by acquiring a supplier.

Integration can give a firm access to scarce or volatile sources of supply or tighter control over the marketing, distribution, or servicing of its products. But it increases the risks inherent in committing substantial resources to a single industry. Also, the investment required to vertically integrate often offsets the additional profitability generated by the integrated operations, resulting in little improvement in return on investment.

Related (or **concentric) diversification** occurs when a firm internally develops or acquires another business that does not have products or customers in common with its current businesses but that might contribute to internal synergy through the sharing of production facilities, brand names, R&D know-how, or marketing and distribution skills. Thus, PepsiCo acquired Cracker Jack to complement its salty snack brands and leverage its distribution strengths in grocery stores.

The motivations for **unrelated (or conglomerate) diversification** are primarily financial rather than operational. By definition, an unrelated diversification involves two businesses that have no commonalities in products, customers, production facilities, or functional areas of expertise. Such diversification mostly occurs when a disproportionate number of a firm's current businesses face decline because of decreasing demand, increased competition, or product obsolescence. The firm must seek new avenues of growth. Other, more fortunate, firms may move into unrelated businesses because they have more cash than they need in order to expand their current businesses, or because they wish to discourage takeover attempts.

Unrelated diversification tends to be the riskiest growth strategy in terms of financial outcomes. Most empirical studies report that related diversification is more conducive to capital productivity and other dimensions of performance than is unrelated diversification. This suggests that the ultimate goal of a corporation's strategy for growth should be to develop a compatible portfolio of businesses to which the firm can add value through the application of its unique core competencies. The corporation's marketing competencies can be particularly important in this regard.

Expansion by Diversifying through Organizational Relationships or Networks

Recently, firms have attempted to gain some benefits of Market Expansion or diversification while simultaneously focusing more intensely on a few core competencies. They try to accomplish this feat by forming relationships or organizational networks with other firms instead of acquiring ownership.

Perhaps the best models of such organizational networks are the Japanese keiretsu and the Korean chaebol—coalitions of financial institutions, distributors, and manufacturing firms in a variety of industries that are often grouped around a large trading company that helps coordinate the activities of the various coalition members and markets their goods and services around the world. As we have seen, many Western firms, like IBM, are also forming alliances with suppliers, resellers, and even customers to expand their product and service offerings without making major new investments or neglecting their core competencies.

CORPORATE RESOURCE ALLOCATION

Diversified organizations have several advantages over more narrowly focused firms. They have a broader range of areas in which they can knowledgeably invest, and their growth and profitability rates may be more stable because they can offset declines in one business with gains in another. To exploit the advantages of diversification, though, corporate managers must make intelligent decisions about how to allocate financial and human resources across the firm's various businesses and product-markets. Two sets of analytical tools have proven useful in making such decisions: **portfolio models** and **value-based planning**.

Portfolio Models One of the most significant developments in strategic management during the 1970s and 1980s was the widespread adoption of portfolio models to help managers allocate corporate resources across multiple businesses. These models enable managers to classify and review their current and prospective businesses by viewing them as portfolios of investment opportunities and then evaluating each business's competitive strength and the attractiveness of the markets it serves.

The Boston Consulting Group's (BCG) Growth-Share Matrix

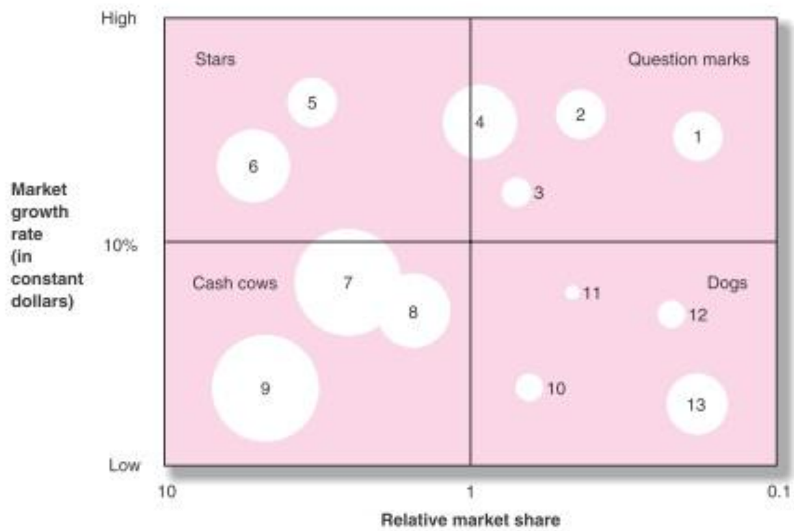
One of the first—and best known—of the portfolio models is the growth-share matrix developed by the Boston Consulting Group in the late 1960s. It analyzes the impact of investing resources in different businesses on the corporation's future earnings and cash flows. Each business is positioned within a matrix, as shown in Exhibit 2.11. The vertical axis indicates the industry's growth rate and the horizontal axis shows the business's relative market share.

The growth-share matrix assumes that a firm must generate cash from businesses with strong competitive positions in mature markets. Then it can fund investments and expenditures in industries that represent attractive future opportunities. Thus, the **market growth** rate on the vertical axis is a proxy measure for the maturity and attractiveness of an industry. This model represents businesses in rapidly growing industries as more attractive investment opportunities for future growth and profitability.

Similarly, a business's **relative market share** is a proxy for its competitive strength within its industry. It is computed by dividing the business's absolute market share in dollars or units by that of the leading competitor in the industry. Thus, in Exhibit 2.11 a business is in a strong competitive position if its share is equal to, or larger than, that of the next leading competitor (i.e., a relative share of 1.0 or larger). Finally, in the exhibit, the size of the circle representing each business is proportional to that unit's sales volume. Thus, businesses 7 and 9 are the largest-volume businesses in this hypothetical company, while business 11 is the smallest.

Exhibit 2.11

BCG's Market Growth Relative Share Matrix



Resource Allocation and Strategy Implications

Each of the four cells in the growth-share matrix represents a different type of business with different strategy and resource requirements. The implications of each are discussed below and summarized in Exhibit 2.12.

● *Question marks*. Businesses in high-growth industries with low relative market shares (those in the upper-right quadrant of Exhibit 2.12) are called question marks or problem children. Such businesses require large amounts of cash, not only for expansion to keep up with the rapidly growing market, but also for marketing activities (or reduced margins) to build market share and catch the industry leader. If management can successfully increase the share of a question mark business, it becomes a star. But if managers fail, it eventually turns into a dog as the industry matures and the market growth rate slows.

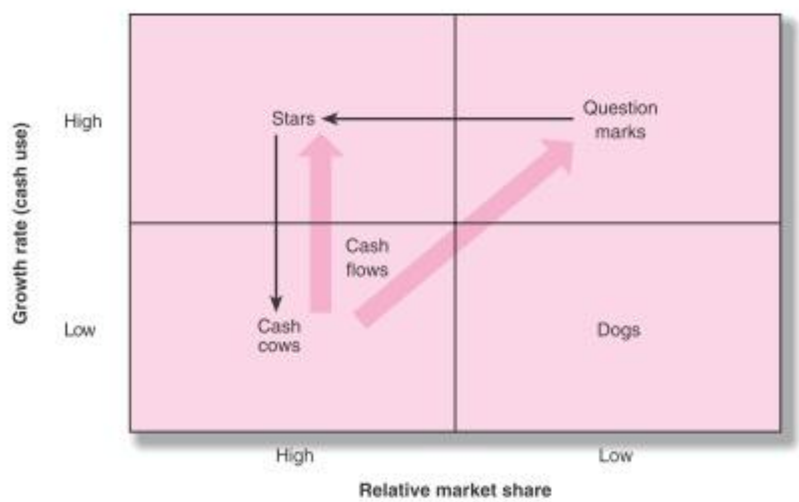
● *Stars*. A star is the market leader in a high-growth industry. Stars are critical to the continued success of the firm. As their industries mature, they move into the bottom-left quadrant and become cash cows. Paradoxically, while stars are critically important, they often are net users rather than suppliers of cash in the short run (as indicated by the possibility of a negative cash flow shown in Exhibit 2.12). This is because the firm must continue to invest in such businesses to keep up with rapid market growth and to support the R&D and marketing activities necessary to maintain a leading market share.

● *Cash cows*. Businesses with a high relative share of low-growth markets are called cash cows because they are the primary generators of profits and cash in a corporation. Such businesses do not require much additional capital investment. Their markets are stable, and their share leadership position usually means they enjoy economies of scale and relatively high profit margins. Consequently, the corporation can use the cash from these businesses to support its question marks and stars (as shown in Exhibit 2.12). However, this does not mean the firm should necessarily maximize the business's short-term cash flow by cutting R&D and marketing expenditures to the bone—particularly not in industries where the business might continue to generate substantial future sales.

● *Dogs*. Low-share businesses in low-growth markets are called dogs because although they may throw off some cash, they typically generate low profits or losses. Divestiture is one option for such businesses, although it can be difficult to find an interested buyer. Another common strategy is to harvest dog businesses. This involves maximizing short-term cash flow by paring investments and expenditures until the business is gradually phased out.

Exhibit 2.12

Cash Flows across Businesses in the BCG Portfolio Model



GROWTH-SHARE MATRIX

Because the growth-share matrix uses only two variables as a basis for categorizing and analyzing a firm's businesses, it is relatively easy to understand. But while this simplicity helps explain its popularity, it also means the model has limitations:

● Market growth rate is an inadequate descriptor of overall industry attractiveness. Market growth is not always directly related to profitability or cash flow. Some high-growth industries have never been very profitable because low entry barriers and capital intensity have enabled supply to grow even faster, resulting in intense price competition. Also, rapid growth in one year is no guarantee that growth will continue in the following year.

● Relative market share is inadequate as a description of overall competitive strength. Market share is more properly viewed as an outcome of past efforts to formulate and implement effective business-level and marketing strategies than as an indicator of enduring competitive strength. If the external environment changes, or the SBU's managers change their strategy, the business's relative market share can shift dramatically.

● The outcomes of a growth-share analysis are highly sensitive to variations in how growth and share are measured. Defining the relevant industry and served market (i.e., the target-market segments being pursued) can also present problems. For example, does Pepsi-Cola compete only for a share of the cola market, or for a share of the much larger market for nonalcoholic beverages, such as iced tea, bottled water, and fruit juices?

● While the matrix specifies appropriate investment strategies for each business, it provides little guidance on how best to implement those strategies. While the model suggests that a firm should invest cash in its question mark businesses, for instance, it does not consider whether there are any potential sources of competitive advantage that the business can exploit to successfully increase its share. Simply providing a business with more money does not guarantee that it will be able to improve its position within the matrix.

● The model implicitly assumes that all business units are independent of one another except for the flow of cash. If this assumption is inaccurate, the model can suggest some inappropriate resource allocation decisions. For instance, if other SBUs depend on a dog business as a source of supply—or if they share functional activities, such as a common plant or sales force, with that business—harvesting the dog might increase the costs or reduce the effectiveness of the other SBUs.

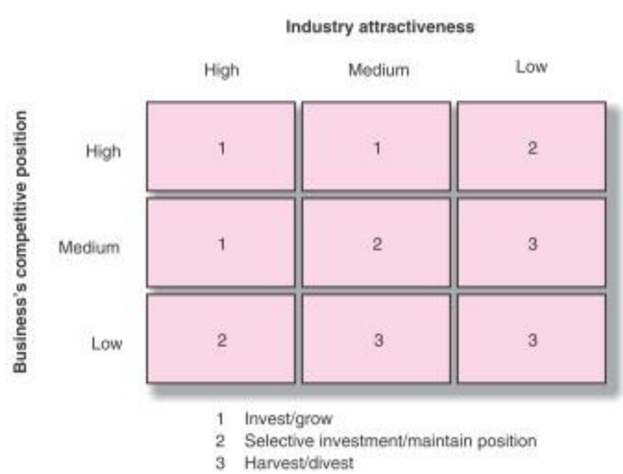
Alternative Portfolio Models

In view of the above limitations, a number of firms have attempted to improve the basic portfolio model. Such improvements have focused primarily on developing more detailed, multifactor measures of industry attractiveness and a business's competitive strength and on making the analysis more future-oriented. Exhibit 2.13 shows some factors managers might use to evaluate industry attractiveness and a business's competitive position. Corporate managers must first select factors most appropriate for their firm and weight them according to their relative importance. They then rate each business and its industry on the two sets of factors. Next, they combine the weighted evaluations into summary measures used to place each business within one of the nine boxes in the matrix. Businesses falling into boxes numbered 1 (where both industry attractiveness and the business's ability to compete are relatively high) are good candidates for further investment for future growth. Businesses in the 2 boxes should receive only selective investment with an objective of maintaining current position. Finally, businesses in the 3 boxes are candidates for harvesting or divestiture.

These multifactor models are more detailed than the simple growth-share model and consequently provide more strategic guidance concerning the appropriate allocation of resources across businesses. They are also more useful for evaluating potential new product-markets. However, the multifactor measures in these models can be subjective and ambiguous, especially when managers must evaluate different industries on the same set of factors. Also, the conclusions drawn from these models still depend on the way industries and product-markets are defined.

Exhibit 2.13

THE INDUSTRY ATTRACTIVENESS–BUSINESS POSITION MATRIX



Variables that might be used to evaluate:

Business's competitive position		Industry attractiveness	
Size	Distribution	Size	Profitability
Growth	Technology	Growth	Technological sophistication
Relative share	Marketing skills	Competitive intensity	Government regulations
Customer loyalty	Patents	Price levels	
Margins	Brand Equity		

Value-Based Planning

As mentioned, one limitation of portfolio analysis is that it specifies how firms should allocate financial resources across their businesses without considering the competitive strategies those businesses are, or should be, pursuing. Portfolio analysis provides little guidance, for instance, in deciding which of two question mark businesses—each in attractive markets but following different strategies—is worthy of the greater investment, or in choosing which of several competitive strategies a particular business unit should pursue.

Value-based planning is a resource allocation tool that attempts to address such questions by assessing the shareholder value a given strategy is likely to create. Thus, value- based planning provides a basis for comparing the economic returns to be gained from investing in different businesses pursuing different strategies or from alternative strategies that might be adopted by a given business unit.

A number of value-based Planning Methods are currently in use, but all share three basic features. First, they assess the economic value a strategy is likely to produce by examining the cash flows it will generate, rather than relying on distorted accounting measures, such as return on investment. Second, they estimate the shareholder value that a strategy will produce by discounting its forecasted cash flows by the business's risk-adjusted cost of capital. Finally, they evaluate strategies based on the likelihood that the investments required by a strategy will deliver returns greater than the cost of capital. The amount of return a strategy or operating program generates in excess of the cost of capital is commonly referred to as its **economic value added**, or **EVA**. This approach to evaluating alternative strategies is particularly appropriate for use in allocating resources across business units because most capital investments are made at the business-unit level, and different business units typically face different risks and therefore have different costs of capital.

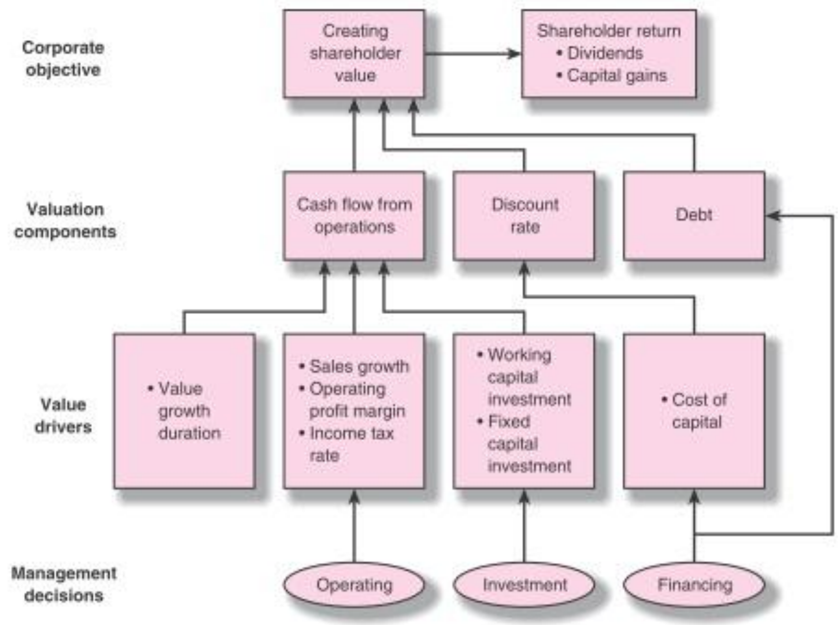
Discounted Cash Flow Model

Perhaps the best-known and most widely used approach to value-based planning is the discounted cash flow model. In this model, as Exhibit 2.14 indicates, shareholder value created by a strategy is determined by the cash flow it generates, the business's cost of capital (which is used to discount future cash flows back to their present value), and the market value of the debt assigned to the business. The future cash flows generated by the strategy are, in turn, affected by six "value drivers": the rate of sales growth the strategy will produce, the operating profit margin, the income tax rate, investment in working capital, fixed capital investment required by the strategy, and the duration of value growth.

The first five value drivers are self-explanatory, but the sixth requires some elaboration. The duration of value growth represents management's estimate of the number of years over which the strategy can be expected to produce rates of return that exceed the cost of capital. This estimate, in turn, is tied to two other management judgments. First, the manager must decide on the length of the planning period (typically three to five years); he or she must then estimate the residual value the strategy will continue to produce after the planning period is over. Such decisions are tricky, for they involve predictions of what will happen in the relatively distant future.

Exhibit 2.14

FACTORS AFFECTING THE CREATION OF SHAREHOLDER VALUE



Some Limitations of Value-Based Planning

Value-based planning is not a substitute for strategic planning; it is only one tool for evaluating strategy alternatives identified and developed through managers' judgments. It does so by relying on forecasts of many kinds to put a financial value on the hopes, fears, and expectations managers associate with each alternative. Projections of cash inflows rest on forecasts of sales volume, product mix, unit prices, and competitors' actions. Expected cash outflows depend on projections of various cost elements, working capital, and investment requirements. While good forecasts are notoriously difficult to make, they are critical to the validity of value-based planning. Unfortunately, there are natural human tendencies to overvalue the financial projections associated with some strategy alternatives and to undervalue others. For instance, managers are likely to overestimate the future returns from a currently successful strategy. Evidence of past success tends to carry more weight than qualitative assessments of future threats. Some kinds of strategy alternatives are consistently undervalued. Particularly worrisome from a marketing viewpoint is the tendency to underestimate the value of keeping current customers. Putting a figure on the damage to a firm's competitive advantage from not making a strategic investment necessary to maintain the status quo is harder than documenting potential cost savings or profit improvements that an investment might generate. And, finally, value-based planning can evaluate alternatives, but it cannot create them. The best strategy will never emerge from the evaluation process if management fails to identify it.

Using Customer Equity to Estimate the Value of Alternative Marketing Actions

A recent variation of value-based planning attempts to overcome some of the above limitations—particularly the inaccuracy of subjective forecasts and managers' tendency to over- or underestimate the value of particular actions—and is proving useful for evaluating alternative marketing strategies. This approach calculates the economic return for a prospective marketing initiative based on its likely impact on the firm's customer equity, which is the sum of the lifetime values of its current and future customers. Each customer's lifetime value is estimated from data about the frequency of their purchases in the category, the average quantity purchased, and historical brand-switching patterns, combined with the firm's contribution margin. The necessary purchase data can be gotten from the firm's sales records, while brand-switching patterns can be estimated either from longitudinal panel data or survey data similar to that collected in customer satisfaction studies. Because market and competitive conditions, and therefore customer perceptions and behaviors, change over time, however, the underlying data needs to be updated on a regular basis—perhaps once or twice a year.

The impact of a firm's or business unit's past marketing actions on customer equity can be statistically estimated from historical data. This enables managers to identify the financial impact of alternative marketing "value drivers" of customer equity, such as brand advertising, quality or service improvements, loyalty programs, and the like. And once a manager calculates the implementation costs and capital requirements involved, it is then possible to estimate the financial return for any similar marketing initiative in the near future.

SOURCES OF SYNERGY

A final strategic concern at the corporate level is to increase synergy across the firm's various businesses and product-markets. As mentioned, synergy exists when two or more businesses or product-markets, and their resources and competencies, complement and reinforce one another so that the total performance of the related businesses is greater than it would be otherwise.

Knowledge-Based Synergies

Some potential synergies at the corporate level are knowledge-based. The performance of one business can be enhanced by the transfer of competencies, knowledge, or customer-related intangibles—such as brand-name recognition and reputation—from other units within the firm. For instance, the technical knowledge concerning image processing and the quality reputation that Canon developed in the camera business helped ease the firm's entry into the office copier business.

In part, such knowledge-based synergies are a function of the corporation's scope and mission—or how its managers answer the question, what businesses should we be in? When a firm's portfolio of businesses and product-markets reflects a common mission based on well-defined customer needs, market segments, or technologies, the company is more likely to develop core competencies, customer knowledge, and strong brand franchises that can be shared across businesses. However, the firm's organizational structure and allocation of resources also may enhance knowledge-based synergy. A centralized corporate R&D department, for example, is often more efficient and effective at discovering new technologies with potential applications across multiple businesses than if each business unit bore the burden of funding its own R&D efforts. Similarly, some argue that strong corporate-level coordination and support are necessary to maximize the strength of a firm's brand franchise, and to glean full benefit from accumulated market knowledge, when the firm is competing in global markets.

Corporate Identity and the Corporate Brand as a Source of Synergy

Corporate identity—together with a strong corporate brand that embodies that identity— can help a firm stand out from its competitors and give it a sustainable advantage in the market. Corporate identity flows from the communications, impressions, and personality projected by an organization. It is shaped by the firm's mission and values, its functional competencies, the quality and design of its goods and services, its marketing communications, the actions of its personnel, the image generated by various corporate activities, and other factors.

In order to project a positive, strong, and consistent identity, firms as diverse as Caterpillar, Walt Disney, and The Body Shop have established formal policies, criteria, and guidelines to help ensure that all the messages and sensory images they communicate reflect their unique values, personality, and competencies. One rationale for such corporate identity programs is that they can generate synergies that enhance the effectiveness and efficiency of the firm's marketing efforts for its individual product offerings. By focusing on a common core of corporate values and competencies, every impression generated by each product's design, packaging, advertising, and promotional materials can help reinforce and strengthen the impact of all the other impressions the firm communicates to its customers, employees, shareholders, and other audiences, and thereby generate a bigger bang for its limited marketing bucks. For example, by consistently focusing on values and competencies associated with providing high-quality family entertainment, Disney has created an identity that helps stimulate customer demand across a wide range of product offerings— from movies to TV programs to licensed merchandise to theme parks and cruise ships.

The Marketing Implications of Business-Unit Strategy Decisions

The components of a firm engaged in multiple industries or businesses are typically called **strategic business units**, or **SBUs**. Managers within each of these business units decide which objectives, markets, and competitive strategies to pursue. Top-level corporate managers typically reserve the right to review and approve such decisions to ensure their overall consistency with the company's mission, objectives, and the allocation of resources across SBUs in its portfolio. However, SBU-level managers, particularly those in marketing and sales, bear the primary responsibility for collecting and analyzing relevant information and generating appropriate strategies for their businesses. Those managers are more familiar with a given SBU's products, customers, and competitors and are responsible for successfully implementing the strategy. The rationale for breaking larger firms into semi- autonomous SBUs usually stems from a market-oriented desire to move strategic decision making closer to the customers the business is trying to reach.

The first step in developing business-level strategies, then, is for the firm to decide how to divide itself into SBUs. The managers in each SBU must then make recommendations about (a) the unit's objectives, (b) the scope of its target customers and offerings, (c) which broad competitive strategy to pursue to build a competitive advantage in its product-markets, and (d) how resources should be allocated across its product-market entries and functional departments.